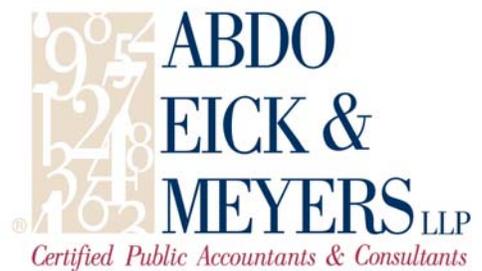




CITY OF BAYPORT
BAYPORT, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
DECEMBER 31, 2008



5201 Eden Avenue
Suite 370
Edina, MN 55436

Management, Honorable Mayor and Council
City of Bayport, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information the City of Bayport (the City), Minnesota, as of and for the year ended December 31, 2008 and have issued our report thereon dated March 24, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

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 an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other significant deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies listed on the following pages to be significant deficiencies in internal control over financial reporting.



2008-1: Limited Segregation of Duties (finding Since 2007)

- Condition:* During our audit, we found that the City has a limited segregation of duties related to many aspects of its accounting systems.
- Criteria:* There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
- Cause:* Specific situations include: cash receipts, cash disbursements, payroll and utility billing. The Finance Officer has responsibility over all areas of authorization, custody of assets, recording and reconciling activity. While there is some review of transactions by the Council and City Administrator, there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential could go undetected.
- Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in segregation of duties and internal controls can result in undetected errors or misappropriation of assets of the City.
- Recommendation:* Under these circumstances the most effective controls lie in 1) managements knowledge of the City's financial operations and 2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. We recommend the City evaluate its controls and make any changes considered necessary. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. The following are some general ideas to help remedy this deficiency:
- Claims approval is an important control and should be at the front of the meeting to ensure that council reviews the claims closely.
 - A thorough review of budget versus actual reporting and narrative at least quarterly.
 - Monitor progress over the development of documented policies and procedures.
 - The check sequence should be reported in each set of approved minutes. The council should review the order the checks approved to ensure that they move in sequence and any gaps in number are explained.
 - Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended
- Management Response:* There is no disagreement with the audit finding. The City reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas with the limits of the staff available. However, the City does not consider it cost beneficial at this time to increase the size of its staff in order to further segregate accounting functions.



2008-2: Preparation of Financial Statements (finding Since 2007)

- Condition:* We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
- Criteria:* Internal controls should be in place to provide reasonable assurance over financial reporting.
- Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.
- Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
- Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.
- Management Response:* No disagreement with the audit finding. We completed more financial statements this year than last and will strive to complete additional statements in 2009.



A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following significant deficiencies constitute material weaknesses.

2008-3: Maintenance of Accounting System

Condition: During our audit, it was evident that the City has not developed or practiced appropriate financial reconciliation processes and procedures. All balance sheet accounts should be reconciled on a monthly basis including cash, investments, utility receivable, payroll withholding accounts, and accounts payable. Some specifics follow:

When reviewing payroll withholding accounts, we noted several instances of amounts being coded to incorrect accounts. It was noted that many of these errors were due to the improper set-up of the payroll software.

During our procedures for cash, it was noted that the December 2008 bank reconciliation had been completed, but did not effectively reconcile the bank balance to the book balance of the City. The difference of \$10,899 was the effect of a payroll journal entry that was improperly posted into the accounting software.

During our procedures for utility billing, it was noted that the City has fund accounting and utility billing integrated, but no reconciliation between the two was done. The receivable balances needed adjustments at year-end.

Criteria: Internal financial information is vital to effective operations of the City and the financial statements are the responsibility of management.

Cause: Unknown.

Effect: The financial information was not accurate throughout the year and many adjustments were required ant year-end.

Recommendation: We recommend the City establish monthly reconciliation procedures to ensure accurate financial reporting throughout the year.

Management Response: No disagreement with the audit findings. Staff will work with the auditor to correct payroll coding errors and ensure journal entries and reconciliations are completed accurately at year end.



2008-4: Material Errors

Condition: During our audit, we noted a number of errors involved with transactions for utility billing, payroll and sales tax. During review of utility revenues, it was discovered that a local commercial utility customer was under billed approximately \$102,000 for second and third quarter utility charges.

We discovered multiple errors relating to payroll as follows: the IRS forms 941 including the first payroll of 2009, multiple W-2's had incorrect Medicare/Social Security wages and the tax shelter amounts were not treated consistently on the W-2's.

Nonresidential water use is applicable to sales tax. We were informed by the City that it did not owe any fourth quarter 2008 sales tax. We believe there were nonresidential water sales and therefore there would be sales tax owed. There may be other sales tax owed too.

Criteria: Internal financial information is vital to effective operations of the City. Accurate and reliable information is also necessary for outside parties as well. The City is required to submit reports and many times submit payment for payroll and sales taxes.

Cause: Unknown.

Effect: There are errors relating to utility billing, payroll and sales tax payable.

Recommendation: We recommend the City review and correct the errors noted and implement procedures to ensure accuracy in the future. The City has already recalculated the utility bills and sent out.

Management Response: No disagreement with the audit findings. The city acknowledges the utility billing error was made and it was corrected promptly. Staff will work on internal controls to prevent these types of errors in the future.

The city has been handling payroll withholdings in the same manner for the past several years. However, the city is currently in the process of researching and addressing the discrepancies relating to payroll withholdings and sales tax, to ensure accurate reporting in the future.



2008-5: Material Audit Adjustments (finding Since 2007)

<i>Condition:</i>	During our audit, many audit adjustments were needed to correct coding, reclassifying transactions to the appropriate funds, and adjust accounts to the appropriate year-end balances.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	The City has not prepared a year end trial balance reflecting all necessary accounting entries.
<i>Effect:</i>	This indicates that it would be likely that a material misstatement may occur and not be detected by the City's system of internal control over financial reporting. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management Response:</i>	No disagreement with the audit findings. The city acknowledges additional staff training is needed in this area and will work with the auditor to receive training and complete adjustments.



Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of Minnesota statutes. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted the following instance of noncompliance with Minnesota statutes as follows:

2008-6: Out of State Travel

<i>Condition:</i>	During our audit, we noted that the City had not developed or approved an out of state travel policy.
<i>Criteria:</i>	Minnesota statute §471.661 requires that the City develop a policy that controls travel outside the state of Minnesota for elected officials of the City. The policy needs to be approved by a recorded vote, and should include: 1) when travel outside the state is appropriate; 2) applicable expense limits; and 3) procedures for approval of the travel. The policy must be made available for public inspection and should be reviewed annually.
<i>Cause:</i>	The City has not developed or approved an appropriate out of state travel policy.
<i>Effect:</i>	The City is out of compliance with Minnesota statute.
<i>Recommendation:</i>	We recommend the City review the statute and develop and approve an appropriate policy.
<i>Management Response:</i>	No disagreement with the audit findings. A state statute was recently passed that requires cities to adopt a policy delineating conditions under which out of state travel is reimbursable for elected officials. The city is unaware of any out of state travel by elected officials since this statute was passed. The city has developed a draft policy for consideration at the April City Council meeting, which will be implemented in April or May of this year.



Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset basis and depreciation.

Management’s estimate of these accounting estimates is based on estimated or actual historical cost and the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In total we prepared 44 journal entries as noted in the table below. These entries are necessary to adjust balances to the proper year end amount. It is important that the City understand these entries and prepare to make them in the future. Internal preparation enhances the quality of internal information.

Audit entries	24
Accounting entries	20
	<hr/>
Total	44
	<hr/> <hr/>

The journal entries have been included as an attachment in the back of this document.



Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 24, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



Financial Position and Results of Operations

Our principal observations and recommendations are summarized below. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended December 31, 2008.

General Fund

The General fund is used to account for resources traditionally associated with government, which are not required legally or by sound principal management to be accounted for in another fund. The General fund balance decreased \$11,328 from 2007. The fund balance of \$2,880,220 is 138 percent of the 2009 budgeted expenditures. We recommend the fund balance be maintained at a level sufficient to fund operations until the major revenue sources are received in June. We feel a reserve of approximately 50 percent of planned expenditures and transfers out is adequate to meet working capital and small emergency needs.

The Office of the State Auditor (the OSA) has issued a *Statement of Position* relating to fund balance stating "a local government should identify fund balance separately between reserved and unreserved fund balance. The local government may assign and report some or all of the fund balance as designated and undesignated." The OSA also recommends local governments adopt a formal policy on the level of unreserved fund balance that should be maintained in the general and special revenue funds. This helps address citizen concerns as to the use of fund balance and tax levels.

The purposes and benefits of a strong fund balance are as follows:

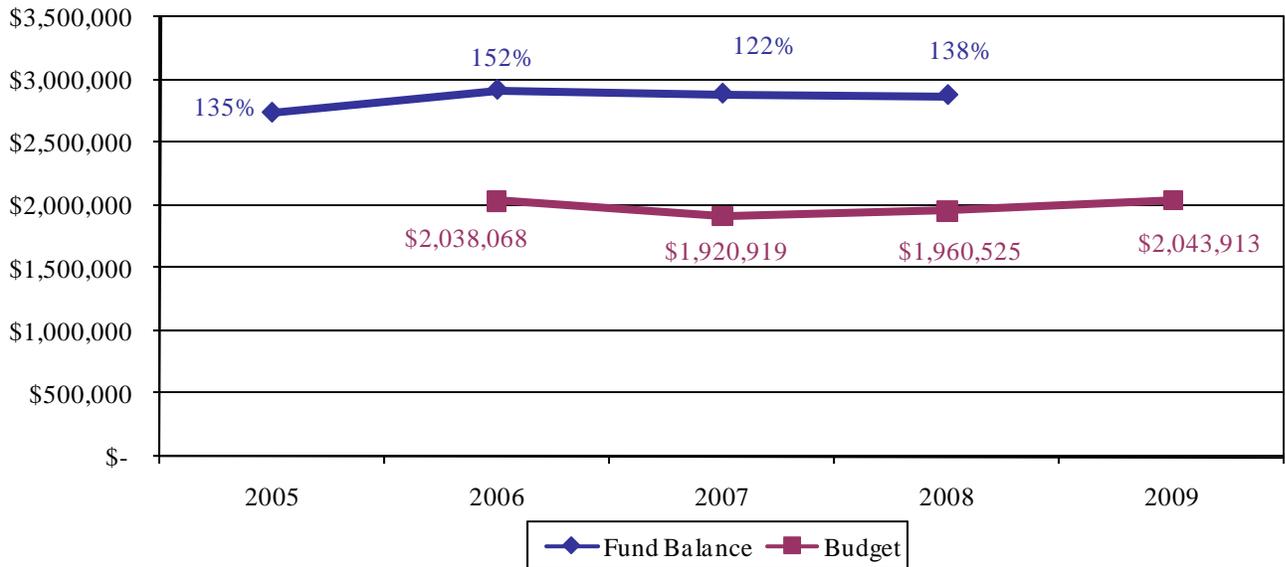
- Expenditures are incurred somewhat evenly throughout the year. However, property tax and state aid revenues are not received until the second half of the year. An adequate fund balance will provide the cash flow required to finance the governmental fund expenditures.
- The City is vulnerable to legislative actions at the State and Federal level. The State imposed reductions of market value credit aid and local government aid for some cities and townships at the end of 2008 and more reductions are anticipated for 2009. Levy limits have also been implemented for municipalities in past legislative sessions. An adequate fund balance will provide a temporary buffer against those aid adjustments or levy limits.
- Expenditures not anticipated at the time the annual budget was adopted may need immediate Council action. These would include capital outlay, replacement, lawsuits and other items. An adequate fund balance will provide the financing needed for such expenditures.
- A strong fund balance will assist the City in maintaining, improving or obtaining its bond rating. The result will be better interest rates in future bond sales.



A table summarizing the General fund balance in relation to budget follows:

Year	Total Fund Balance December 31	Unreserved - Designated Fund Balance December 31	Budget Year	General Fund Budget	Percent of Unreserved Fund Balance to Budget
2005	\$ 2,741,495	\$ 2,741,495	2006	\$ 2,038,068	135 %
2006	2,921,605	2,921,605	2007	1,920,919	152
2007	2,891,548	2,389,848	2008	1,960,525	122
2008	2,880,220	2,825,196	2009	2,043,913	138

Unreserved Fund Balance as a Percent of Next Year's Budget





A summary of the 2008 operations is as follows:

	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues	\$ 2,101,692	\$ 1,997,703	\$ (103,989)
Expenditures	<u>1,785,025</u>	<u>1,839,849</u>	<u>(54,824)</u>
Excess of revenues over expenditures	<u>316,667</u>	<u>157,854</u>	<u>(158,813)</u>
Other financing sources (uses)			
Transfers in	5,938	5,938	-
Sale of capital assets	500	380	(120)
Transfers out	<u>(175,500)</u>	<u>(175,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(169,062)</u>	<u>(169,182)</u>	<u>(120)</u>
Net change in fund balance	147,605	(11,328)	(158,933)
Fund balance, January 1	<u>2,891,548</u>	<u>2,891,548</u>	<u>-</u>
Fund balance, December 31	<u>\$ 3,039,153</u>	<u>\$ 2,880,220</u>	<u>\$ (158,933)</u>

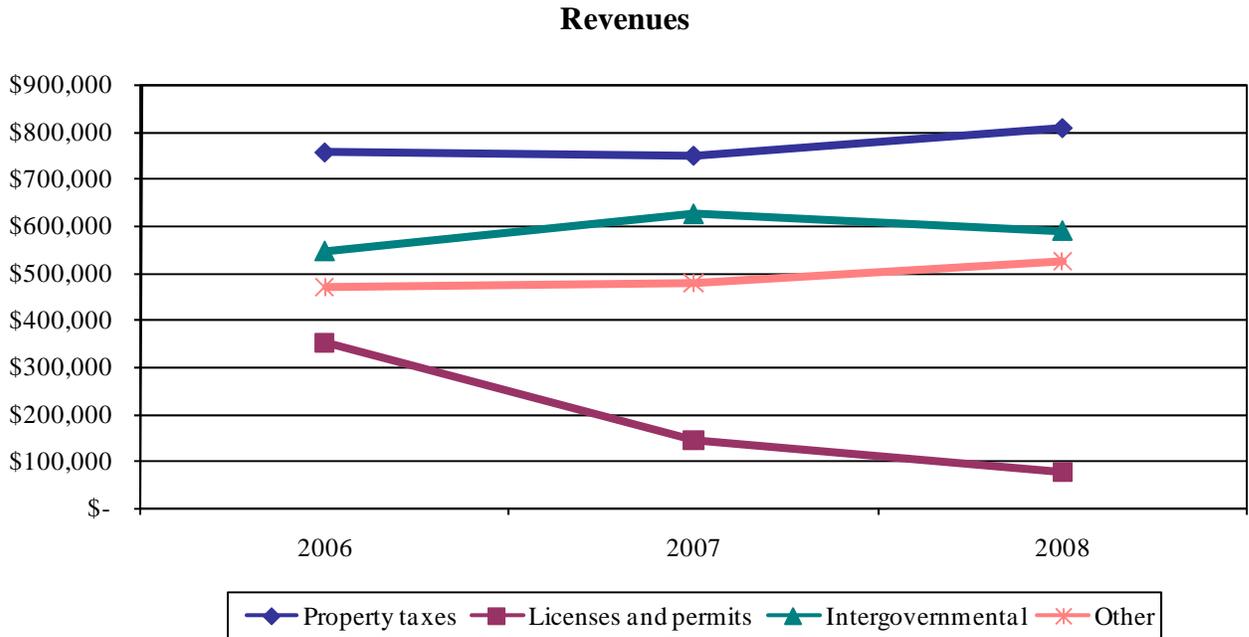
- The negative revenue variance was due mainly to licenses and permits being \$170,495 under budget. Interest on investments and charges for services had positive variances of \$43,876 and \$41,204 respectively.
- The negative expenditure variance was due to capital outlay, general government and culture and recreation functions. These functions were over budget by \$61,652, \$43,152 and \$15,084 respectively. The largest positive expenditure variance of \$49,759 was in the public works function.
- The General fund transferred \$175,500 for funding of capital purchases.



A more detailed comparison of general fund revenues for the past three years is as follows:

Source	2006	2007	2008	Percent of Total
Property taxes	\$ 754,915	\$ 747,767	\$ 808,012	40.4 %
Licenses and permits	351,667	143,163	77,025	3.9
Intergovernmental	544,882	623,253	587,910	29.4
Charges for services	244,863	253,732	312,128	15.6
Fines and forfeits	44,377	32,991	34,741	1.7
Special assessments	3,895	3,609	3,974	0.2
Interest on investments	102,669	149,546	118,876	6.0
Miscellaneous	73,104	38,634	55,037	2.8
Total revenues	\$ 2,120,372	\$ 1,992,695	\$ 1,997,703	100.0 %

The sources of revenue summarized above are presented graphically as follows:



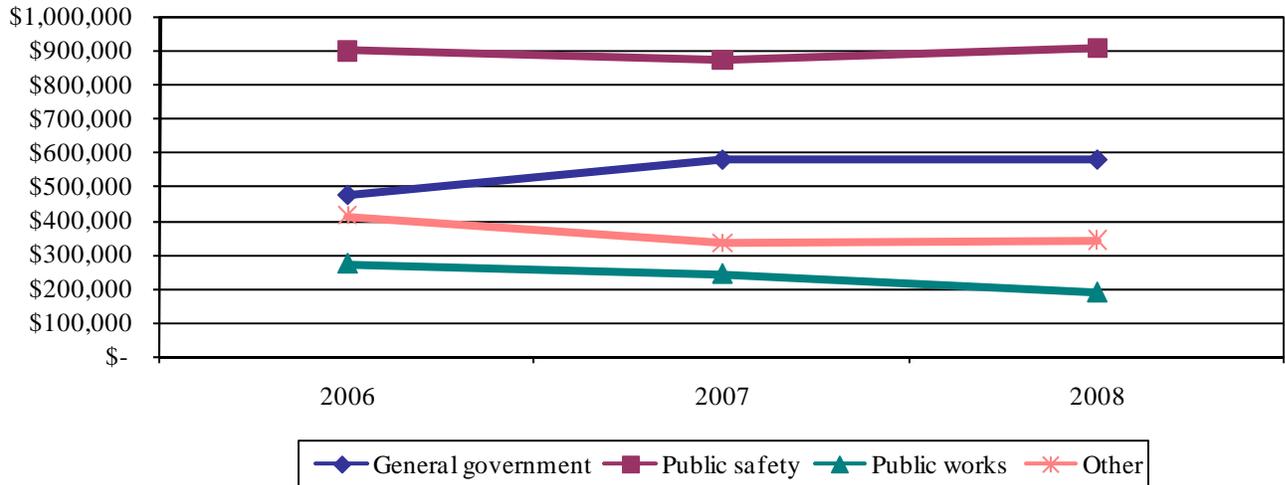


A more detailed comparison of general fund expenditures and transfers is as follows:

Program	2006	2007	2008	Percent of Total
General government	\$ 475,343	\$ 580,350	\$ 580,688	28.8 %
Public safety	896,696	870,623	904,361	44.9
Public works	271,017	241,178	187,740	9.3
Culture and recreation	68,615	85,288	93,597	4.6
Miscellaneous	5,608	2,538	5,211	0.3
Unallocated	31,820	-	-	-
Capital outlay	72,663	31,918	68,252	3.4
Transfers out	233,500	214,880	175,500	8.7
Total expenditures and transfers	\$ 2,055,262	\$ 2,026,775	\$ 2,015,349	100.0 %

The expenditures and transfers summarized above are presented graphically as follows:

Expenditures and Transfers





Special Revenue Funds

Special revenue funds include funds used to account for revenue derived from specific revenue sources that are restricted to expenditures for specified purposes. The fund balances (deficits) of each fund in this group are as follows:

Fund	Fund Balances (Deficits)		Increase (Decrease)
	December 31,		
	2008	2007	
Major			
Library	\$ 273,444	\$ 320,078	\$ (46,634)
Nonmajor			
Fire Equipment Replacement	289,688	151,773	137,915
Drug Forfeiture	18,179	22,537	(4,358)
Public Works Equipment Replacement	669,964	539,858	130,106
Recreation Capital Equipment Maintenance	59,120	53,878	5,242
Tax Stabilization	983,876	1,361,372	(377,496)
Park Improvement	(28,120)	11,836	(39,956)
K-9 Unit	10,275	-	10,275
Total	<u>\$ 2,276,426</u>	<u>\$ 2,461,332</u>	<u>\$ (184,906)</u>

The significant decrease in the tax stabilization fund is due to transfers made to other funds for future capital and equipment purchases. Large decreases in the Library and the Park Improvement fund are the result of capital improvement projects conducted during 2008. The City should put a plan in place to eliminate the deficit in the Park Improvement fund. The significant increases in the Fire Equipment Replacement and the Public Works Equipment Replacement funds were the results of the aforementioned transfers from the Tax Stabilization fund.



Debt Service Funds

Debt service funds are a type of governmental fund to account for the accumulation of resources for the payment of interest and principal on debt (other than enterprise fund debt).

Debt service funds may have one or a combination of the following revenue sources pledged to retire debt as follows:

- Property taxes - Primarily for general City benefit projects such as parks and municipal buildings. Property taxes may also be used to fund special assessment bonds which are not fully assessed.
- Tax increments - Pledged exclusively for tax increment/economic development districts.
- Capitalized interest portion of bond proceeds - After the sale of bonds, the project may not produce revenue (tax increments or special assessments) for a period of one to two years. Bonds are issued with this timing difference considered in the form of capitalized interest.
- Special assessments - Charges to benefited properties for various improvements.

In addition to the above pledged assets, other funding sources may be received by Debt Service funds as follows:

- Residual project proceeds from the related capital projects fund
- Investment earnings
- State or federal grants
- Transfers from other funds

The following is a summary of the assets accumulated in each debt service fund and the related long-term debt at year end.

Debt Description	December 31, 2008			Final Maturity Date
	Total Cash	Total Assets	Bonds Outstanding	
G.O. Tax Increment Bonds:				
Tax Increment Refunding, Series 2001	\$ 411,395	\$ 411,395	\$ 995,000	11/30/2016



Capital Projects Funds

These funds accumulate resources to finance major capital acquisition and construction projects. A recap of each fund and fund balances follows:

Fund	Fund Balances		Increase (Decrease)
	December 31,		
	2008	2007	
Major			
Street Reconstruction	\$ 2,941,789	\$ 2,816,901	\$ 124,888
Water & Sewer Improvements	758,449	617,675	140,774
Developer Reimbursed Projects	132,041	133,396	(1,355)
Nonmajor			
Tax Increment District 1	264,184	254,504	9,680
Tax Increment District 2	-	89	(89)
Tax Increment District 2-1	20,036	2,587	17,449
Prison Sewer Project	890	851	39
Cemetery Capital Improvements	51,137	-	51,137
Police Equipment	66,479	-	66,479
Office Automation	51,137	-	51,137
Municipal Buildings Maintenance	153,412	-	153,412
Total	<u>\$ 4,439,554</u>	<u>\$ 3,826,003</u>	<u>\$ 613,551</u>

As projects are completed the City should transfer the remaining resources to the original funding source or to a fund the Council approves. The Developer Reimbursed Project fund owes the General fund \$209,829 and now has cash available to pay a portion back. The City should consider making payments on the internal loan as cash is available.

Restricted Investments Fund

This fund has an ending fund balance of \$578,391 with an unreserved balance of \$53,391 available for the City to transfer out to other funds. The remaining \$525,000 is reserved and should remain in the fund.

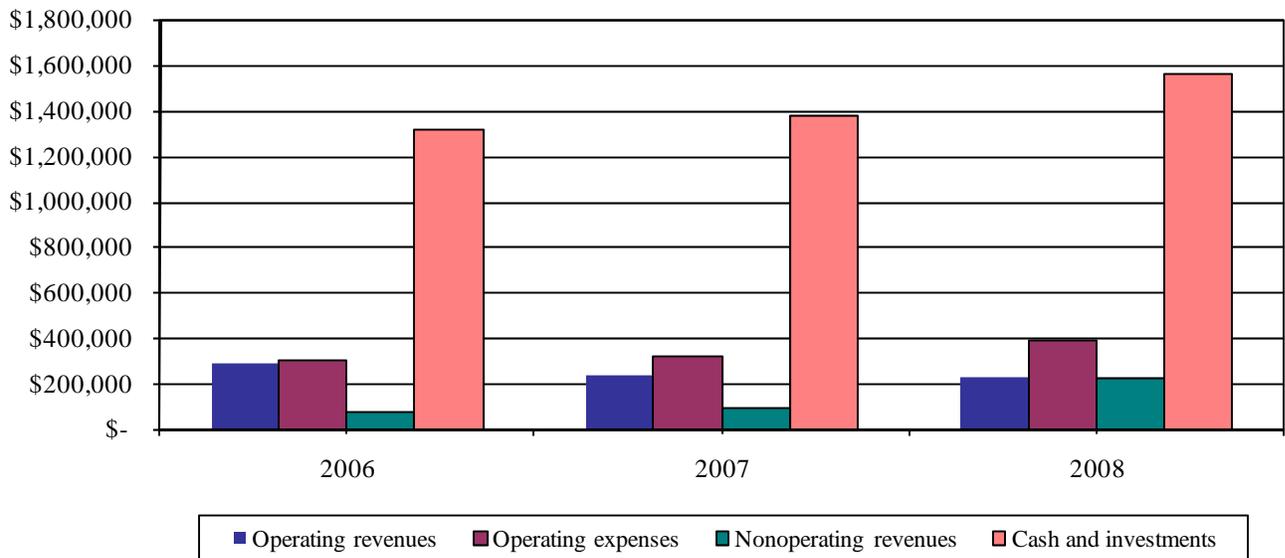


Enterprise Funds

The Water Utility and Sewer Utility make up this fund type. A comparison of the Water Utility Fund follows:

	2006	Percent of Revenues	2007	Percent of Revenues	2008	Percent of Revenues
Operating revenues	\$ 286,167	100.0 %	\$ 232,204	100.0 %	\$ 226,983	100.0 %
Operating expenses	307,509	107.5	320,885	138.2	390,680	172.1
Loss from operations	(21,342)	(7.5)	(88,681)	(38.2)	(163,697)	(72.1)
Nonoperating revenues	78,081	27.3	98,990	42.6	228,421	100.6
Net transfers	(5,000)	(1.7)	(2,919)	(1.3)	(5,000)	(2.2)
Capital contributions	1,010,047	353.0	3,831,917	1,650.2	7,808	3.4
Change in net assets	<u>\$ 1,061,786</u>	<u>371.1 %</u>	<u>\$ 3,839,307</u>	<u>1,653.3 %</u>	<u>\$ 67,532</u>	<u>29.7 %</u>
Cash and investments	<u>\$ 1,322,158</u>		<u>\$ 1,382,213</u>		<u>\$ 1,566,329</u>	

Water Utility Fund



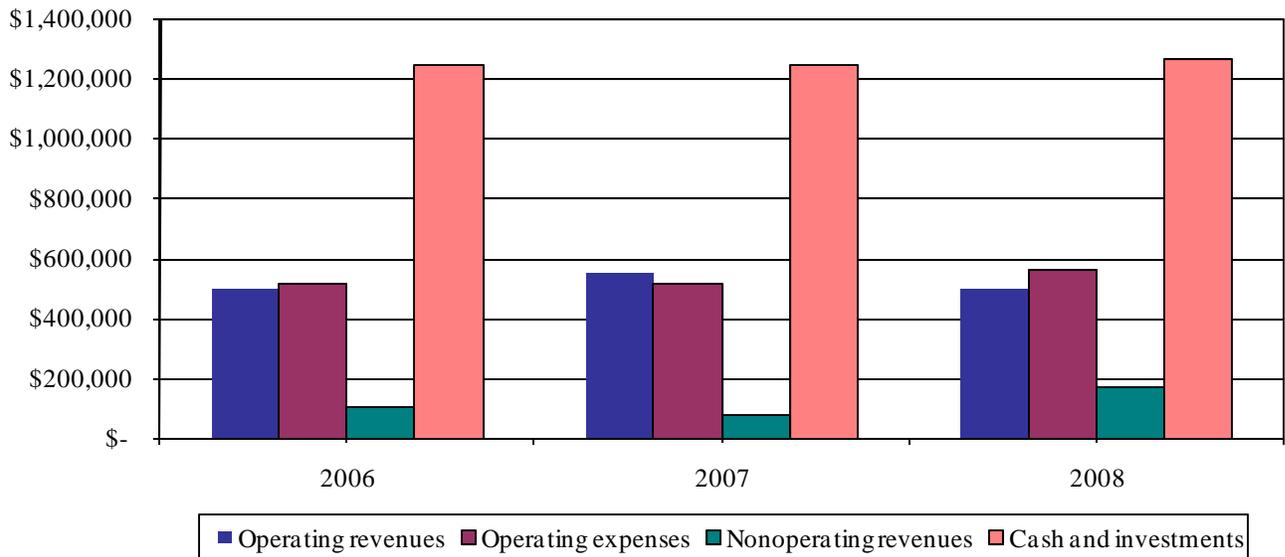
The Water fund has shown a decrease in operating revenues and an increase in operating expenses for the third straight year. As a result, the operating margin has approached a loss of \$200,000. The City needs to consider evaluating their rate structure to ensure that operations are self supporting. Nonoperating revenues increased, which consist of both interest earned on investments and connection charges. Despite incurring operating losses, the Water fund has been able to sustain a sufficient cash balance mainly due to connection fees and interest earned.



A comparison for the Sewer Utility fund follows:

	2006	Percent of Revenues	2007	Percent of Revenues	2008	Percent of Revenues
Operating revenues	\$ 496,132	100.0 %	\$ 550,732	100.0 %	\$ 495,379	100.0 %
Operating expenses	520,025	104.8	516,675	93.8	566,881	114.4
Income (loss) from operations	(23,893)	(4.8)	34,057	6.2	(71,502)	(14.4)
Nonoperating revenues	103,798	20.9	82,054	14.9	171,924	34.7
Net transfers	(115,000)	(23.2)	(112,925)	(20.5)	(115,000)	(23.2)
Capital contributions	685,132	138.1	692,411	125.7	7,808	1.6
Change in net assets	<u>\$ 650,037</u>	<u>131.0 %</u>	<u>\$ 695,597</u>	<u>126.3 %</u>	<u>\$ (6,770)</u>	<u>(1.3) %</u>
Cash and investments	<u>\$ 1,248,439</u>		<u>\$ 1,250,475</u>		<u>\$ 1,265,668</u>	

Sewer Utility Fund



The Sewer fund has had operating losses in 2008 and 2006. The City should consider conducting a rate study and cash flow projection to ensure the stability of operating activities in the future. Nonoperating revenues continue to be significant, consisting of interest earned on investments and connection charges. The Sewer fund has been able to sustain a sufficient cash balance.



Ratio Analysis

The following captures a few ratios from the City's financial statements that give some additional information for trend and peer group analysis. The peer group average is derived from information available on the website of the Office of the State Auditor for Cities of the 4th class (under 10,000). The majority of these ratios facilitate the use of economic resources focus and accrual basis of accounting at the government-wide level. A combination of liquidity (ability to pay its most immediate obligations), solvency (ability to pay its long-term obligations), funding (comparison of financial amounts and economic indicators to measure changes in financial capacity over time) and common-size (comparison of financial data with other cities) ratios are shown below.

Ratio	Calculation	Source	2005	2006	2007	2008
Debt to assets	Total liabilities/total assets	Government-wide	8% 36%	8% 35%	4% 36%	4% N/A
Debt per capita	Bonded debt/population	Government-wide	\$ 389 \$ 2,681	\$ 364 \$ 2,548	\$ 331 \$ 2,750	\$ 304 N/A
Taxes per capita	Tax revenues/population	Government-wide	\$ 347 \$ 331	\$ 299 \$ 350	\$ 311 \$ 381	\$ 325 N/A
Capital assets % left to depreciate - Governmental	Net capital assets/ gross capital assets	Government-wide	67% 67%	71% 69%	79% 69%	78% N/A
Capital assets % left to depreciate - Business-type	Net capital assets/ gross capital assets	Government-wide	62% 68%	76% 67%	87% 67%	86% N/A

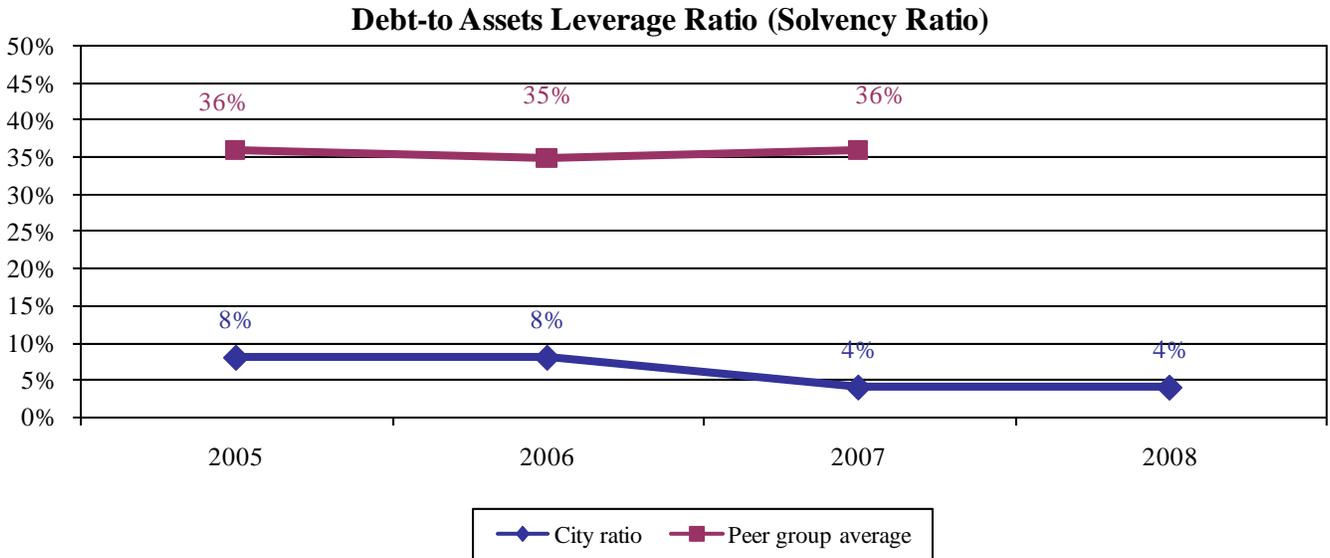
Represents the City of Bayport

Represents the Peer Group Average



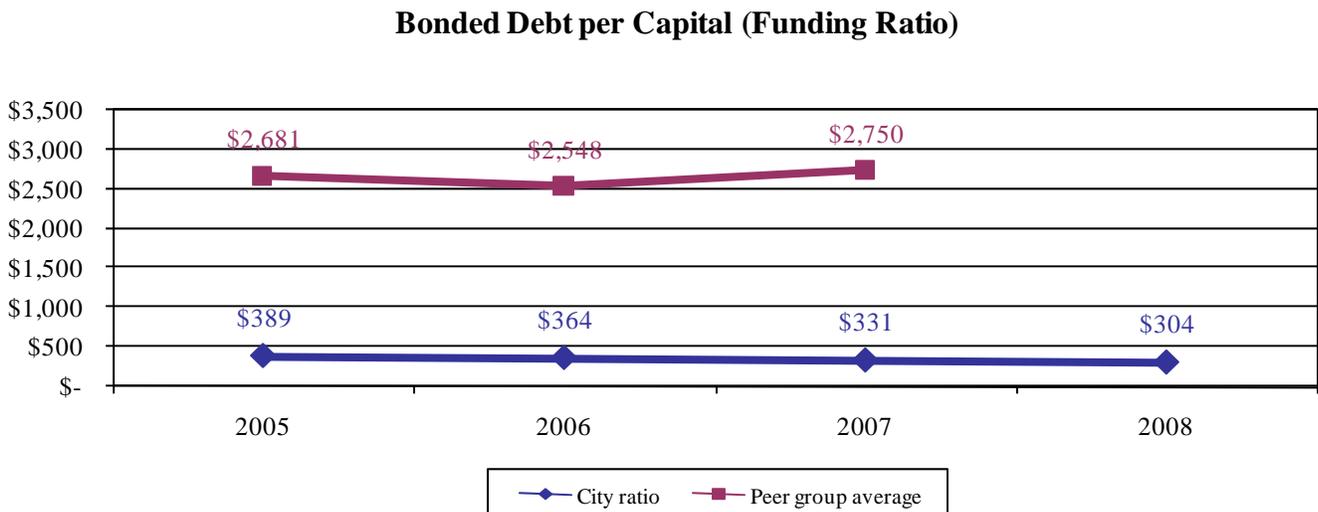
Debt-to-Assets Leverage Ratio (Solvency Ratio)

The debt-to-assets leverage ratio is a comparison of a city's total liabilities to its total assets or the percentage of total assets that are provided by creditors. It indicates the degree to which the City's assets are financed through borrowings and other long-term obligations (i.e. a ratio of 50 percent would indicate half of the assets are financing with outstanding debt).



Bonded Debt per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total bonded debt by the population of the city and represents the amount of bonded debt obligation for each citizen of the city at the end of the year. The higher the amount, the more resources are needed in the future to retire these obligations through taxes, assessments or user fees.

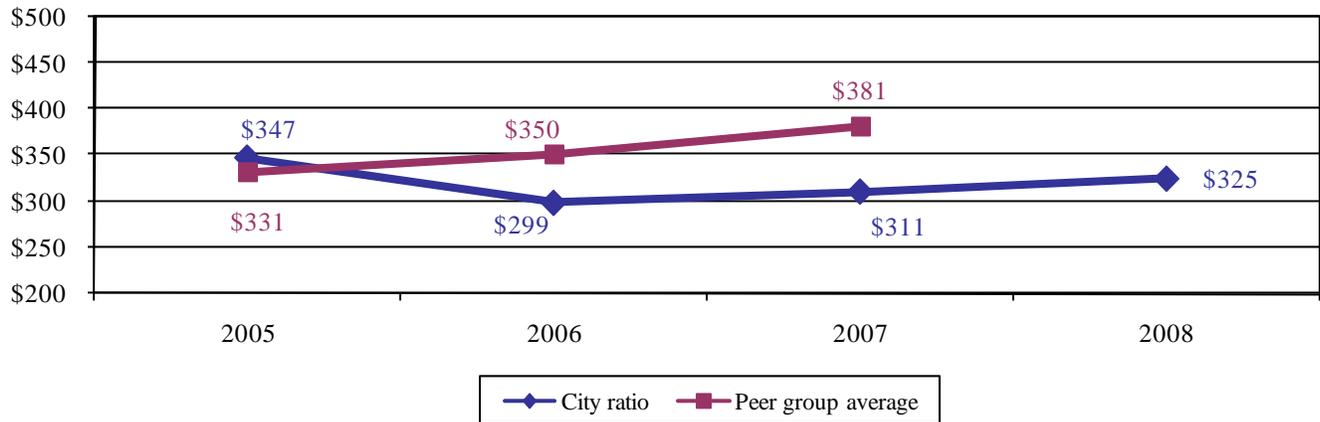




Taxes per Capita (Funding Ratio)

This dollar amount is arrived at by dividing the total tax revenues by the population of the city and represents the amount of taxes for each citizen of the city for the year. The higher this amount is, the more reliant the city is on taxes to fund its operations.

Taxes per Capita (Funding Ratio)

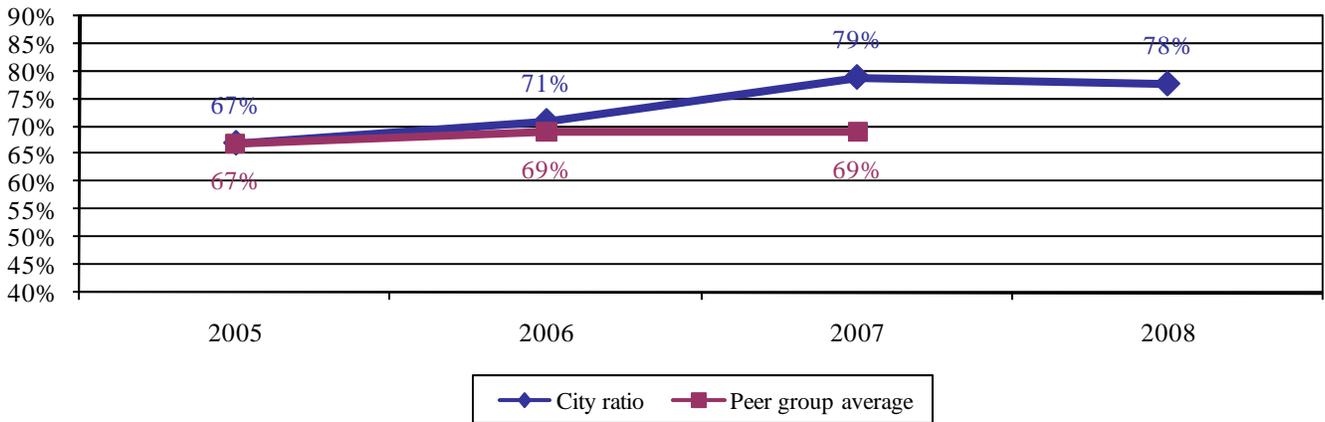




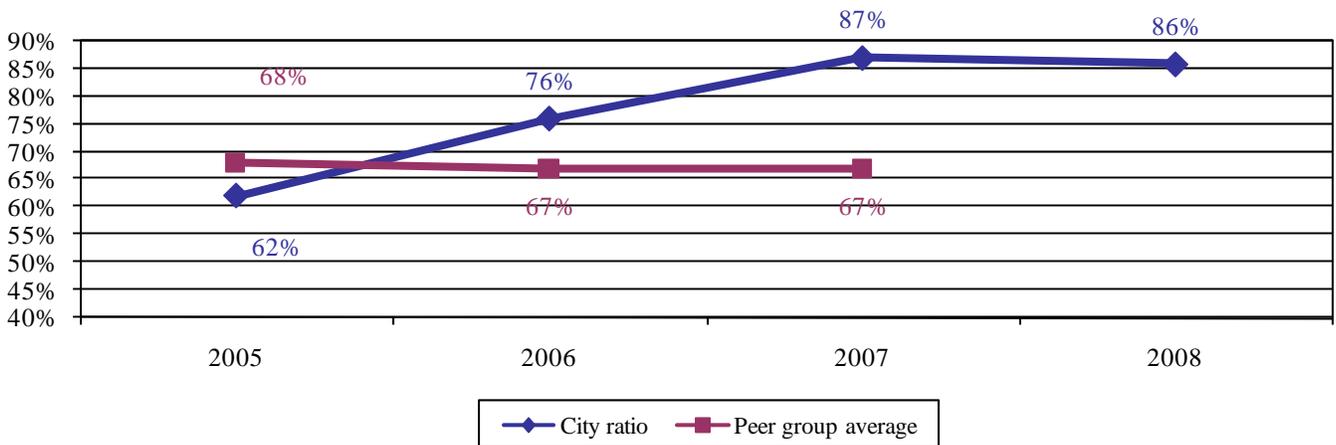
Capital Assets Percentage (Common-size Ratio)

This percentage represents the percent of governmental or business-type capital assets that are left to be depreciated. The lower this percentage, the older the city's capital assets are and may need major repairs or replacements in the near future. A higher percentage may indicate newer assets being constructed or purchased and may coincide with higher debt ratios or bonded debt per capita.

Capital Assets Percentage (Common-size Ratio) - Governmental Activities



Capital Assets Percentage (Common-size Ratio) - Business-type Activities





Other Items

Fire Department Relief Association

The Bayport Firemen's Relief Association (the Association) accepted donations in the amount of \$13,856 for the purchase of equipment during 2008. This was accounted for in the Association's accounting system, but should have been processed through the City's accounting system since it is actually a fire department activity and not fire relief activity. The City ultimately has the responsibility to insure and maintain any equipment. As a result, any time the Association wants to purchase equipment for the department, funds should be donated to the City and the purchase should be approved by the Council.

Tax Increment Financing Payable

The City has a \$30,000 payable to the County from a tax increment settlement previous to 2007 which has not been paid to the County. We recommend the City pay or have the County deduct from the tax settlements during 2009.

2009 Levy Limits

During the 2008 legislative session, Minnesota legislators amended Statutes section 275.71 to enact levy limits for cities over 2,500 in population. This bill is in effect for taxes levied in 2008 through 2010. Annually the levy limit is multiplied by:

1. One plus the lesser of 3.9 percent or the percentage growth in the implicit price deflator.
2. One plus a percentage equal to 50 percent of the percentage increase in the number of households, if any, for the most recent 12-month period for which data is available, and
3. One plus a percentage equal to 50 percent of the percentage increase in the taxable market value of the jurisdiction due to new construction of class 3 property, as defined in section 273.13, subdivision 4, except for state-assessed utility and railroad property, for the most recent year for which data is available.

In addition there are special levies that are currently allowed outside any levy limit. They are listed below:

- Debt levies – includes bonds, most certificates of indebtedness and levies to pay the local share of bonds issued by another political subdivision
- Voter approved levy increases
- To pay federal or state matching fund requirements for programs instituted after 2001
- For costs to prepare for, or recovery from, natural disasters – upon approval by the commission of revenue
- To pay amounts related to errors in levy certification in the previous year
- To pay for property tax abatements
- To pay increases in the employer share of PERA pension costs since 2001
- To pay operating and maintenance costs of county jails to the extent that the cost is required by the Department of Corrections Rules and Standards.



- To pay for a lake improvement district
- To repay a federal or state loan issued to help a local government pay the required local share of a federal or state transportation or other capital project
- To pay court administration costs during the period in which court costs were being transferred from the counties to the state
- To fund required police and firefighters relief funds, to the extent that the costs exceed costs in 2001
- To fund a storm sewer improvement district
- To fund an animal protection society
- For counties, to pay for the increase in their share of health and human service costs caused by reductions in federal health and human service grants effective after September 30, 2007
- To fund increased costs of securing, maintaining, and demolishing foreclosed and abandoned housing in cities that have a 2007 foreclosure rate over a certain percent
- To lost traffic citation revenue and unreimbursed costs of redeployed traffic control agents due to the collapse of the Interstate 35W bridge
- To fund certain cost increases in police and firefighter costs
- To recoup losses due to any unallotment of city and county general purpose aids and credits

We recommend that the City review all of the options presented when calculating future years levies. There is further guidance provided by League of Minnesota Cities on how to estimate the 2009 levy limit on their website: www.lmc.org.



Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements:

GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

This statement is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Governments that were phase 1 governments for the purpose of implementation of Statement No. 34 - those with annual revenues of \$100 million or more - are required to implement this Statement in financial statements for periods beginning after December 15, 2006.
- Governments that were phase 2 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of \$10 million or more but less than \$100 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2007.
- Governments that were phase 3 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of less than \$10 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2008. The City qualifies under this phase, and therefore would have to implement in the 2009 financial statements.

Statement No. 45 gives the following summary, "In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*

This statement was issued in June 2007 and is effective for periods beginning after June 15, 2009.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

This statement requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. The statement provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable
- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)
- Providing guidance on recognizing internally generated computer software
- Establishing specific guidance for the amortization of intangible assets.



GASB Statement No. 54 – Fund Balance

This statement was issued in March of 2009 and is effective for periods beginning after June 15, 2010. This new standard is intended to improve the usefulness of information provided to financial report uses about fund balance by providing clearer, more structured fund balance classifications, and clarifying the definitions of existing governmental fund types.

GASB No. 54 distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The following classifications and definitions will be used:

- *Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation
- *Committed* - amounts constrained by a government using its highest level of decision-making authority
- *Assigned* - amounts a government intends to use for a particular purpose
- *Unassigned* - amounts that are not constrained at all will be reported in the general fund.

In addition to the classifications of fund balance, the standard clarified the definitions of individual governmental fund types, for example, special revenue funds, debt service funds, and capital project funds.

* * * * *

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

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

March 24, 2009
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
Workpaper:

Attachment

<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 1		AUDIT		
to close revenue account from last year into fund balance				
601-36231	DONATIONS DEVELOPER		\$ 455,609	
602-36231	DONATIONS DEVELOPER		648,142	
601-34101	REVENUE SUMMARY			\$ 455,609
602-34101	REVENUE SUMMARY			648,142
Total			\$ 1,103,751	\$ 1,103,751
Adjusting Journal Entries JE # 2		ACCT		
To reverse/reclass prior year accounts receivable				
101-15101	REC FROM OTHER		\$ 410	
206-41603-36247	REFUND-		1,500	
206-41603-37303	STATE		4,040	
211-15101	REC FROM OTHER		137	
101-12103	A/R GEN BILLINGS			\$ 410
206-15102	ACCTS REC MISC			5,540
211-45500-36230	DONATIONS			137
Total			\$ 6,087	\$ 6,087
Adjusting Journal Entries JE # 3		AUDIT		
To reclass January checks out of cash into accounts payable.				
101-10100	CASH		\$ 36,049	
206-10100	CASH		3,096	
207-10100	CASH		5,458	
211-10100	CASH		6,321	
601-10100	CASH		2,833	
602-10100	CASH		28,983	
803-10100	CASH		32,568	
101-20101	A/P GEN			\$ 36,049
206-20101	A/P GEN			3,096
207-20101	A/P GEN			5,458
211-20101	A/P GEN			6,321
601-20101	A/P GEN			2,833
602-20101	A/P GEN			28,983
803-20101	A/P GEN			32,568
Total			\$ 115,308	\$ 115,308
Adjusting Journal Entries JE # 4		AUDIT		
To reclass January checks out of cash into accounts payable. 12-				
101-10100	CASH		\$ 25,434	
211-10100	CASH		1,914	
601-10100	CASH		6,817	
602-10100	CASH		1,113	
101-20101	A/P GEN			\$ 25,434
211-20101	A/P GEN			1,914
601-20101	A/P GEN			6,817
602-20101	A/P GEN			1,113
Total			\$ 35,278	\$ 35,278

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
Workpaper:

Attachment

<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 5			AUDIT	
To reclass January checks out of cash into accrued salaries				
101-10100	CASH		\$ 10,938	
211-10100	CASH		4,308	
601-10100	CASH		2,885	
602-10100	CASH		3,731	
101-22101	ACCRUED PAYROLL			\$ 10,938
211-22211	ACCRUED PAYROLL			4,308
601-22605	ACCRUED PAYROLL			2,885
602-22605	ACCRUED PAYROLL			3,731
Total			\$ 21,862	\$ 21,862

Adjusting Journal Entries JE # 6			AUDIT	
To reconcile accounts payable balances.				
101-20101	A/P GEN		\$ 862	
101-26101	DEPOSITS ON ACCOUNT		500	
107-20101	A/P GEN		13,997	
206-20101	A/P GEN		25,787	
207-20101	A/P GEN		19,389	
601-20101	A/P GEN		996	
602-46990-434	STATE FEES FOR		23,685	
101-43160-380	ELECTRIC			\$ 1,362
107-00000-306	PROF SER-OTHER			13,997
206-41603-305	PROF SER-			25,787
207-44100-530	CAPITAL OUTLAY			4,059
207-44100-530	CAPITAL OUTLAY			15,330
601-46120-302	CONTRACT			996
602-20101	A/P GEN			22,689
602-46200-302	CONTRACT			996
Total			\$ 85,216	\$ 85,216

Adjusting Journal Entries JE # 7			ACCT	
To record 2008 accounts payable				
101-00000-36101	SPECIAL ASSM'T		\$ 7,150	
101-20101	A/P GEN		12,404	
101-41200-201	OFFICE SUPPLIES		3	
101-41200-300	PROF SER-LEGAL		834	
101-41200-301	PROF SER-		598	
101-41200-306	PROF SER-OTHER		438	
101-41200-350	PRINTING &		1	
101-41240-302	CONTRACT		172	
101-41400-201	OFFICE SUPPLIES		16	
101-41400-302	CONTRACT		1,601	
101-41400-402	CONFERENCES &		23	
101-41910-201	OFFICE SUPPLIES		13	
101-41910-212	MOTOR FUELS &		99	
101-41910-302	CONTRACT		1,429	
101-42100-201	OFFICE SUPPLIES		13	
101-42100-201	OFFICE SUPPLIES		53	
101-42100-202	UNIFORMS - MISC		19	
101-42100-212	MOTOR FUELS &		248	
101-42100-212	MOTOR FUELS &		907	
101-42100-300	PROF SER-LEGAL		543	
101-42100-300	PROF SER-LEGAL		2,080	
101-42100-403	POLICE TRAINING		595	
101-42100-403	POLICE TRAINING		3,825	

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
Workpaper:

Attachment

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 7 - Continued				
To record 2008 accounts payable				
101-42100-444	COMMUNITY		249	
101-42200-140	UNEMPLOYMENT		935	
101-42200-202	UNIFORMS - MISC		110	
101-42200-220	OPERATING		279	
101-42200-306	PROF SER-OTHER		27	
101-42200-323	RADIOS-REPAIR &		13	
101-42200-33421	FIRE STATE AID		2,000	
101-42200-412	REP & MAINT VEH		106	
101-43100-201	OFFICE SUPPLIES		3	
101-43100-212	MOTOR FUELS &		268	
101-43100-212	MOTOR FUELS &		1,131	
101-43100-225	SALT & SAND		57	
101-43100-225	SALT & SAND		1,754	
101-43100-240	SMALL TOOLS-		175	
101-43100-412	REP & MAINT VEH		108	
101-43160-419	REPAIR & MAINT		332	
101-43200-212	MOTOR FUELS &		20	
101-43200-412	REP & MAINT VEH		965	
101-43200-420	R & M BLDGS,		119	
101-43300-212	MOTOR FUELS &		68	
207-44100-306	PROF SER-OTHER		2,360	
209-41912-300	PROF SER-LEGAL		33	
211-45500-217	MATERIALS &		999	
211-45500-391	SHARED		61	
211-45500-420	R & M BLDGS,		314	
601-46120-201	OFFICE SUPPLIES		3	
601-46120-212	MOTOR FUELS &		94	
601-46120-216	CHEMICALS AND		30	
601-46120-302	CONTRACT		1,258	
601-46120-307	GOPHER STATE		19	
601-46120-419	REPAIR & MAINT		572	
602-46200-201	OFFICE SUPPLIES		3	
602-46200-212	MOTOR FUELS &		138	
602-46200-302	CONTRACT		1,258	
602-46200-419	REPAIR & MAINT		532	
803-80012-300	PROF SER-LEGAL		4	
803-80018-300	PROF SER-LEGAL		306	
803-80018-301	PROF SER-		50,623	
803-80019-301	PROF SER-		352	
803-80019-350	PRINTING &		92	
803-80020-350	Printing & Publishing		36	
101-20101	A/P GEN			\$ 7,700
101-20101	A/P GEN			34,083
207-20101	A/P GEN			2,360
209-20101	A/P GEN			33
211-20101	A/P GEN			1,374
601-20101	A/P GEN			1,976
602-20101	A/P GEN			1,931
803-20101	A/P GEN			51,413
Total			\$ 100,870	\$ 100,870

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
Workpaper:

Attachment

<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 8		ACCT		
To reclass 2008 escrow activity to escrow liability account				
803-26101	DEPOSITS ON ACCOUNT		\$ 62	
803-26101	DEPOSITS ON ACCOUNT		4,719	
803-26101	DEPOSITS ON ACCOUNT		135,249	
803-80003-34100	P & Z PERMITS		10,000	
803-80013-34100	P & Z PERMITS		2,500	
803-80014-34100	P & Z PERMITS		500	
803-80015-34100	P & Z PERMITS		300	
803-80016-37110	WATER REVENUE		2,000	
803-80017-34100	P & Z PERMITS		500	
803-80019-34100	P & Z PERMITS		300	
803-80020-34100	P & Z PERMITS		500	
803-41910-300	PROF SER-LEGAL			\$ 816
803-41910-301	PROF SER-			4,719
803-80006-301	PROF SER-			164
803-80011-815	ESCROW			62
803-80012-300	PROF SER-LEGAL			258
803-80012-301	PROF SER-			13,749
803-80013-300	PROF SER-LEGAL			650
803-80014-300	PROF SER-LEGAL			676
803-80014-350	PRINTING &			79
803-80015-300	PROF SER-LEGAL			33
803-80015-350	PRINTING &			76
803-80016-300	PROF SER-LEGAL			144
803-80016-301	PROF SER-			1,827
803-80017-300	PROF SER-LEGAL			65
803-80017-350	PRINTING &			77
803-80018-300	PROF SER-LEGAL			456
803-80018-301	PROF SER-			131,252
803-80019-300	PROF SER-LEGAL			124
803-80019-301	PROF SER-			1,189
803-80019-350	PRINTING &			178
803-80020-350	Printing & Publishing			36
Total			\$ 156,630	\$ 156,630
Adjusting Journal Entries JE # 9		AUDIT		
to reverse January 2008 settlement				
101-00000-31000	GENERAL		\$ 11,363	
211-12212	DEFERRAL OF DEL TAXES		1,985	
101-12101	A/C REC PROP TAX GEN			\$ 9,378
101-12102	DEFERRAL OF			1,985
211-12211	A/C REC PROP TAX LIBRARY			1,985
Total			\$ 13,348	\$ 13,348
Adjusting Journal Entries JE # 10		AUDIT		
to reclass July tax settlement				
106-00000-31000	GENERAL		\$ 15,114	
107-10100	CASH		15,114	
106-10100	CASH			\$ 15,114
107-00000-31000	GENERAL			15,114
Total			\$ 30,228	\$ 30,228

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
Workpaper:

Attachment

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 11		AUDIT		
to reclass December tax settlement				
106-00000-31000	GENERAL		\$ 15,114	
107-00000-31000	GENERAL		42,630	
107-10100	CASH		15,114	
303-10100	CASH		42,630	
106-10100	CASH			\$ 15,114
107-00000-31000	GENERAL			15,114
107-10100	CASH			42,630
303-00000-31000	GENERAL			42,630
Total			\$ 115,488	\$ 115,488

Adjusting Journal Entries JE # 12		ACCT		
to adjust taxes receivable and record january 09 settlement				
101-10100	CASH		\$ 225	
101-12101	A/C REC PROP TAX GEN		7,629	
101-12102	DEFERRAL OF		10,796	
106-00000-31000	GENERAL		225	
999-31000	TAXES		10,796	
101-00000-31000	GENERAL			\$ 225
101-00000-31000	GENERAL			7,629
101-12101	A/C REC PROP TAX GEN			10,796
106-10100	CASH			225
999-22000	DEFERRED REVENUE -			10,796
Total			\$ 29,671	\$ 29,671

Adjusting Journal Entries JE # 13		AUDIT		
to correct and reverse january 2008 assessments				
101-00000-36101	SPECIAL ASSM'T		\$ 86	
101-00000-36101	SPECIAL ASSM'T		269	
102-00000-36101	SPECIAL ASSM'T		163	
102-10100	CASH		86	
101-10100	CASH			\$ 86
101-13102	SP ASSESSMENT R-			269
102-00000-36101	SPECIAL ASSM'T			86
102-13102	SP ASSESSMENT R-			163
Total			\$ 604	\$ 604

Adjusting Journal Entries JE # 14		AUDIT		
to correct july 2008 assessments				
101-10100	CASH		\$ 4,741	
102-10100	CASH		1,897	
206-10100	CASH		13,193	
601-10100	CASH		1,938	
602-00000-36102	SPECIAL ASSM'T		21,769	
101-00000-36101	SPECIAL ASSM'T			\$ 4,741
102-00000-36101	SPECIAL ASSM'T			1,897
206-41603-36102	SPECIAL ASSM'T			13,193
601-00000-36102	SPECIAL ASSM'T COLL'D CTY			1,938
602-10100	CASH			21,769
Total			\$ 43,538	\$ 43,538

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
Workpaper:

Attachment

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 15		AUDIT		
to correct december 2008 assessments				
101-0000-31000	GENERAL		\$ 26,956	
102-10100	CASH		6,269	
206-10100	CASH		13,193	
601-10100	CASH		2,273	
602-10100	CASH		2,273	
101-0000-36101	SPECIAL ASSM'T			\$ 2,948
101-10100	CASH			24,008
102-0000-36101	SPECIAL ASSM'T			6,269
206-41603-36102	SPECIAL ASSM'T			13,193
601-0000-36102	SPECIAL ASSM'T COLL'D CTY			2,273
602-0000-36102	SPECIAL ASSM'T			2,273
Total			\$ 50,964	\$ 50,964

Adjusting Journal Entries JE # 16		ACCT		
to adjust assessments receivable and record january 09 settlement				
101-13101	SPECIAL ASSESSMENT		\$ 7,423	
101-13102	SP ASSESSMENT R-		181	
101-13102	SP ASSESSMENT R-		1,819	
102-13102	SP ASSESSMENT R-		218	
102-13102	SP ASSESSMENT R-		719	
102-22102	DEFERRED REVENUE		2,533	
206-22102	DEFERRED REVENUE		54,716	
601-00000-36102	SPECIAL ASSM'T COLL'D CTY		3,645	
602-14604	CERTIFIED BILLS		555	
999-36100	ASSESSMENT REVENUE		47,289	
101-00000-36101	SPECIAL ASSM'T			\$ 181
101-22102	DEFERRED REVENUE			1,819
101-22102	DEFERRED REVENUE			7,423
102-00000-36101	SPECIAL ASSM'T			218
102-13101	SPECIAL ASSESSMENT			2,533
102-22102	DEFERRED REVENUE			719
206-13101	SPECIAL ASSESSMENT			54,716
601-14604	CERTIFIED BILLS			3,645
602-00000-36102	SPECIAL ASSM'T			555
999-22001	DEFERRED REVENUE -			47,289
Total			\$ 119,098	\$ 119,098

Adjusting Journal Entries JE # 17		ACCT		
To adjust accrued payroll				
101-22101	ACCRUED PAYROLL		\$ 26,582	
211-22211	ACCRUED PAYROLL		4,208	
601-22601	ACCRUED PAY		3,354	
601-22605	ACCRUED PAYROLL		2,885	
602-22605	ACCRUED PAYROLL		4,581	
101-42100-101	WAGES AND			\$ 26,582
211-45500-101	WAGES AND			4,208
601-22601	ACCRUED PAY			2,885
601-46120-101	WAGES AND			3,354
602-46200-101	WAGES AND			4,581
Total			\$ 41,610	\$ 41,610

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 18		ACCT		
To adjust compensated absences				
601-46120-101	WAGES AND		\$ 1,170	
602-46200-101	WAGES AND		424	
999-41000-100	Wage Exp - Gen Gov		122	
999-42000-100	Wages - PS		1,375	
999-43100-100	Wages - PW		631	
999-43200-100	Wages - CR		1,114	
601-22602	ACCRUED VACATION PAY			\$ 760
601-22605	ACCRUED PAYROLL			410
602-22606	ACCRUED VAC			71
602-22607	ACCRUED SEV			353
999-21610	COMP ABS - CURRENT			2,406
999-21620	COMP ABS - NONCURRENT			836
Total			\$ 4,836	\$ 4,836
Adjusting Journal Entries JE # 19		ACCT		
to adjust debt				
999-21500	ACCRUED INT PAYABLE		\$ 243	
999-23100	BONDS PAYABLE -		20,000	
999-23100	BONDS PAYABLE -		80,000	
999-22500	Bonds Payable - Current			\$ 20,000
999-47000-601	Principal			80,000
999-47000-610	Interest Exp			243
Total			\$ 100,243	\$ 100,243
Adjusting Journal Entries JE # 20		AUDIT		
to reclass payments/receipt from internal transfer accounts.				
101-10100	CASH		\$ 2,812	
101-41400-433	DUES &		110	
101-43100-301	PROF SER-		1,172	
200-42200-419	repair and maintenance equip		2,812	
200-42200-419	repair and maintenance equip		4,712	
203-41900-37301	TRANSFER IN		11,000	
101-41400-438	TRANSFER			\$ 110
101-42200-437	TRANSFER			2,812
101-43100-437	TRANSFER			1,172
200-10100	CASH			2,812
200-42200-437	TRANSFER			80
200-42200-437	TRANSFER			1,823
200-42200-437	TRANSFER			2,809
203-41900-37300	sale of fixed asset			11,000
Total			\$ 22,618	\$ 22,618

Client: *City of Bayport*
Engagement: **CITY OF BAYPORT**
Period Ending: *12/31/2008*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 21		AUDIT		
to reverse PP26LD journal entry for client payroll				
101-10100	CASH		\$ 10,789	
101-27101	FICA/FWH		7,220	
101-27102	MINN STATE WITHHOLDING		1,226	
101-27103	WISC STATE WITHHOLDING		314	
101-27104	P E R A		5,677	
101-27106	AMERITAS		100	
101-27107	DELTA DENTAL		169	
101-27109	MEDICA		96	
101-27113	ICMA RETIREMENT - H S A		1,544	
101-27114	ICMA RETIREMENT TRUST-		708	
101-27117	FLEX PLAN		94	
101-27120	ROTH IRA		150	
101-27121	UNITED WAY CONTRIBUTIONS		17	
101-27122	H S A		1,402	
211-10100	CASH		5,941	
601-10100	CASH		3,661	
602-10100	CASH		4,755	
101-41400-101	WAGES AND			\$ 2,200
101-41400-121	P E R A			143
101-41400-122	CONT TO RET.,			135
101-41400-126	H S A			186
101-41400-170	MEDICARE			32
101-41910-101	WAGES AND			4,125
101-41910-121	P E R A			268
101-41910-122	CONT TO RET.,			254
101-41910-126	H S A			354
101-41910-170	MEDICARE			59
101-42100-050	SEASONAL/PART			2,577
101-42100-101	WAGES AND			11,689
101-42100-102	OVERTIME			810
101-42100-121	P E R A			1,796
101-42100-122	CONT TO RET.,			76
101-42100-126	H S A			717
101-42100-170	MEDICARE			175
101-43100-050	SEASONAL/PART			100
101-43100-101	WAGES AND			1,691
101-43100-102	OVERTIME			544
101-43100-121	P E R A			145
101-43100-122	CONT TO RET.,			144
101-43100-126	H S A			106
101-43100-170	MEDICARE			34
101-43200-050	SEASONAL/PART			48
101-43200-101	WAGES AND			927
101-43200-121	P E R A			60
101-43200-122	CONT TO RET.,			58
101-43200-126	H S A			39
101-43200-170	MEDICARE			14
211-45500-050	SEASONAL/PART			2,523
211-45500-101	WAGES AND			2,626
211-45500-121	P E R A			318
211-45500-122	CONT TO RET.,			313
211-45500-126	H S A			88
211-45500-170	MEDICARE			73
601-46120-101	WAGES AND			3,072
601-46120-121	P E R A			200

Client: *City of Bayport*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 21 - Continued		AUDIT		
to reverse PP26LD journal entry for client payroll				
601-46120-122	CONT TO RET.,			146
601-46120-126	H S A			209
601-46120-170	MEDICARE			34
602-46200-101	WAGES AND			3,999
602-46200-121	P E R A			260
602-46200-122	CONT TO RET.,			201
602-46200-126	H S A			248
602-46200-170	MEDICARE			47
Total			\$ 43,863	\$ 43,863
Adjusting Journal Entries JE # 22		AUDIT		
to record proper journal entry for fire department payroll #4				
101-42200-101	WAGES AND		\$ 1,662	
101-42200-105	FIRE RUNS,DRILLS		14,412	
101-42200-122	CONT TO RET.,		797	
101-42200-170	MEDICARE		233	
101-10100	CASH			\$ 14,247
101-27101	FICA/FWH			2,165
101-27102	MINN STATE WITHHOLDING			282
101-27112	VOL FIRE DEPT-DEFERRED			410
Total			\$ 17,104	\$ 17,104
Adjusting Journal Entries JE # 23		ACCT		
to record interest revenue on 1st state bank certificates of deposit				
101-10100	CASH		\$ 18,555	
800-11101	INVESTMENTS GENERAL		\$ 18,555	
101-00000-36210	INVESTMENT			\$ 18,555
800-10100	CASH			\$ 18,555
Total			\$ 37,110	\$ 37,110
Adjusting Journal Entries JE # 24		ACCT		
to reclass interest from close tif fund				
101-10100	CASH		\$ 578	
106-00000-36210	INVESTMENT		578	
101-00000-36210	INVESTMENT			\$ 578
106-10100	CASH			578
Total			\$ 1,156	\$ 1,156
Adjusting Journal Entries JE # 25		AUDIT		
to close tif fund per 2006 tif reports				
103-10100	CASH		\$ 89	
106-00000-437	transfer out		89	
103-00000-37301	Transfer In			\$ 89
106-10100	CASH			89
Total			\$ 178	\$ 178
Adjusting Journal Entries JE # 26		AUDIT		
to record additional utility billing due to incorrect calculations				
206-12103	A/R GEN BILLINGS		\$ 11,002	
602-14602	SEWER BILLINGS REC		91,686	
206-00000-37106	TRUNK WATER-			\$ 11,002
602-46200-37240	ANDERSEN			91,686
Total			\$ 102,688	\$ 102,688

Client: *City of Bayport*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 27		ACCT		
to adjust utility receivable				
206-12103	A/R GEN BILLINGS		\$ 20,217	
601-14601	WATER BILLINGS		101,598	
602-14602	SEWER BILLINGS REC		76,378	
602-46200-37240	ANDERSEN		23,323	
206-41900-37106	TRUNK WATER-			\$ 10,217
206-41900-37206	TRUNK SEWER-			10,000
601-12103	A/R GEN BILLINGS			23,091
601-46120-37110	WATER REVENUE			78,507
602-12103	A/R GEN BILLINGS			500
602-46200-37210	SEWER			99,201
Total			\$ 221,516	\$ 221,516

Adjusting Journal Entries JE # 28		ACCT		
to reclass mvc and interest receivable to investments account				
101-10100	CASH		\$ 54,489	
800-11101	INVESTMENTS GENERAL		54,489	
101-15110	INTEREST REC			\$ 54,489
800-10100	CASH			54,489
Total			\$ 108,978	\$ 108,978

Adjusting Journal Entries JE # 29		ACCT		
to reallocate interest revenue				
101-00000-36210	INVESTMENT		\$ 17,119	
102-00000-36210	INVESTMENT		5,687	
103-00000-36210	INVESTMENT		514	
107-10100	CASH		387	
200-00000-36210	INVESTMENT		235	
202-10100	CASH		73	
203-10100	CASH		221	
204-00000-36210	INVESTMENT		177	
205-00000-36210	INVESTMENT		6,720	
206-00000-36210	INVESTMENT		1,032	
207-10100	CASH		1,114	
208-10100	CASH		39	
210-10100	CASH		12	
211-10100	CASH		3,261	
303-00000-36210	INVESTMENT		509	
412-10100	CASH		1,137	
413-10100	CASH		1,479	
414-10100	CASH		1,137	
415-10100	CASH		3,412	
601-00000-36210	INVESTMENT		1,713	
602-00000-36210	INVESTMENT		3,736	
851-10100	CASH		25,170	

Client: *City of Bayport*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 29 - Continued		ACCT		
to reallocate interest revenue				
101-10100	CASH			\$ 17,119
102-10100	CASH			5,687
103-10100	CASH			514
107-00000-36210	INVESTMENT			387
200-10100	CASH			235
202-00000-36210	INVESTMENT			73
203-00000-36210	INVESTMENT			221
204-10100	CASH			177
205-10100	CASH			6,720
206-10100	CASH			1,032
207-00000-36210	INVESTMENT			1,114
208-00000-36210	interest			39
210-00000-36210	INVESTMENT			12
211-45500-36210	INVESTMENT			3,261
303-10100	CASH			509
412-00000-36210	Interest			1,137
413-00000-36210	Interest			1,479
414-00000-36210	Interest			1,137
415-00000-36210	Interest			3,412
601-10100	CASH			1,713
602-10100	CASH			3,736
851-00000-36210	INVESTMENT INCOME			25,170
Total			\$ 74,884	\$ 74,884
Adjusting Journal Entries JE # 30		ACCT		
to adjust sewer revenue to billing registers				
602-46200-37210	SEWER		\$ 54,981	
602-46200-37220	PRISON SEWER		14,921	
602-46200-37210	SEWER			\$ 14,921
602-46200-37240	ANDERSEN			54,981
Total			\$ 69,902	\$ 69,902
Adjusting Journal Entries JE # 31		ACCT		
to record accounts receivable and due from other governments				
101-15101	REC FROM OTHER		\$ 32,660	
200-12103	A/R Gen Billings		400	
204-12103	A/R GEN BILLINGS		696	
101-00000-31701	GRAVEL TAX			\$ 254
101-42100-101	WAGES AND			3,003
101-42100-35101	COURT FINES			3,383
101-42200-34202	FIRE			26,020
200-41600-36232	DONATIONS -			400
204-00000-32204	GAMBLING TAX			696
Total			\$ 33,756	\$ 33,756

Client: *City of Bayport*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 32		AUDIT		
to reverse prior year deferred revenues				
101-22102	DEFERRED REVENUE		\$ 12,400	
101-22102	DEFERRED REVENUE		17,137	
101-22102	DEFERRED REVENUE		36,949	
101-00000-32100	BUSINESS			\$ 12,400
101-41910-36233	GRANTS			17,137
101-42200-34202	FIRE			36,949
Total			\$ 66,486	\$ 66,486
Adjusting Journal Entries JE # 33		ACCT		
to record/adjust current year deferred revenues				
101-42200-34202	FIRE		\$ 33,294	
101-22102	DEFERRED REVENUE			\$ 33,294
Total			\$ 33,294	\$ 33,294
Adjusting Journal Entries JE # 34		ACCT		
to record capital asset sale				
999-16350	ACC DEPR MACHINERY		\$ 49,156	
999-16300	MACHINERY AND			\$ 49,156
Total			\$ 49,156	\$ 49,156
Adjusting Journal Entries JE # 35		ACCT		
to record capital asset additions				
601-16603	WATER IMPROVEMENTS		\$ 7,808	
602-16607	SEWER IMPROVEMENTS		7,808	
999-16100	CIP		161,800	
999-16200	Buildings		62,457	
999-16300	MACHINERY AND		4,568	
999-16300	MACHINERY AND		13,856	
999-16300	MACHINERY AND		18,413	
999-16300	MACHINERY AND		19,452	
999-16300	MACHINERY AND		42,691	
999-16300	MACHINERY AND		58,857	
999-16400	Library Books		33,670	
999-16500	INTRASTRUCTURE		547,082	
999-43100-700	capital transfer to enterprise		15,616	
601-00000-36230	donations - capital contributions			\$ 7,808
602-00000-36230	donations capital			7,808
999-16100	CIP			547,082
999-36230	DONATIONS			13,856
999-43100-530	streets capital outlay			4,568
999-43100-530	streets capital outlay			15,616
999-43100-530	streets capital outlay			18,413
999-43100-530	streets capital outlay			19,452
999-43100-530	streets capital outlay			42,691
999-43100-530	streets capital outlay			58,857
999-43200-530	parks capital outlay			33,670
999-43200-530	parks capital outlay			62,457
999-43200-530	parks capital outlay			161,800
Total			\$ 994,078	\$ 994,078

Client: *City of Bayport*
Engagement: *CITY OF BAYPORT*
Period Ending: *12/31/2008*
Workpaper:

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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 36		ACCT		
to record depreciation				
601-46120-820	DEPRECIATION		\$ 120,824	
602-46200-820	DEPRECIATION		51,586	
999-41000-820	Depreciation Exp - Gen Gov		48,423	
999-42000-820	Depreciation Exp - Public Safety		120,477	
999-43000-820	Depreciation Exp - Public Works		93,869	
999-45000-820	Depreciation Exp - Parks		84,177	
601-16602	WATER BLDGS ACC DEPR			\$ 340
601-16604	WATER IMP DEPR			118,788
601-16606	WATER EQUIP ACC DEPR			1,696
602-16608	SEWER IMP ACC DEPR			47,844
602-16610	SEWER EQUIP ACC DEPR			3,742
999-16250	ACC DEPR BUILDINGS			91,327
999-16350	ACC DEPR MACHINERY			172,053
999-16450	ACC DEPR LIBRARY			17,751
999-16550	Accumulated - Infrastructure			65,815
Total			\$ 519,356	\$ 519,356
Adjusting Journal Entries JE # 37		AUDIT		
to setup developer fee from St Croix Academy, eventually paid to				
209-41914-36240	REFUNDS &		\$ 76,651	
209-20101	A/P GEN			\$ 76,651
Total			\$ 76,651	\$ 76,651
Adjusting Journal Entries JE # 38		ACCT		
to adjust prepaid items				
101-41200-150	WORKER'S		\$ 413	
101-42200-360	INSURANCE/P&L		414	
211-45500-360	INSURANCE/P&L		47	
601-46120-360	INSURANCE/P&L		123	
602-46200-360	INSURANCE/P&L		78	
101-15211	PREPAID EXP OTHER GOV			\$ 827
211-15211	PREPAID EXP OTHER GOV			47
601-15211	PREPAID EXP OTHER GOV			123
602-15211	PREPAID EXP OTHER GOV			78
Total			\$ 1,075	\$ 1,075

Client: *City of Bayport*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 39		AUDIT		
to reclass workers compensation insurance out of general liability				
101-41200-150	WORKER'S		\$ 372	
101-42100-150	WORKER'S		1,201	
101-42100-150	WORKER'S		8,972	
101-42200-150	WORKER'S		8,252	
101-43100-150	WORKER'S		3,491	
101-43200-150	WORKER'S		983	
211-45500-150	WORKER'S		953	
601-46120-150	WORKER'S		1,446	
602-46200-150	WORKER'S		1,446	
101-41200-360	INSURANCE/P&L			\$ 372
101-42100-360	INSURANCE/P&L			1,201
101-42100-360	INSURANCE/P&L			8,972
101-42200-360	INSURANCE/P&L			8,252
101-43100-360	INSURANCE/P&L			3,491
101-43200-360	INSURANCE/P&L			983
211-45500-360	INSURANCE/P&L			953
601-46120-360	INSURANCE/P&L			1,446
602-46200-360	INSURANCE/P&L			1,446
Total			\$ 27,116	\$ 27,116
Adjusting Journal Entries JE # 40		AUDIT		
to gross up fire state aid for remittance to relief association and to				
101-42200-33421	FIRE STATE AID		\$ 5,000	
101-42200-810	REFUNDS AND		71,060	
101-42200-33421	FIRE STATE AID			\$ 71,060
101-42200-36233	GRANTS			5,000
Total			\$ 76,060	\$ 76,060
Adjusting Journal Entries JE # 41		AUDIT		
to record budgeted transfer				
101-10100	CASH		\$ 5,938	
211-45500-308	ADMINISTRATIVE		5,938	
101-00000-37301	TRANSFER IN			\$ 5,938
211-10100	CASH			5,938
Total			\$ 11,876	\$ 11,876
Adjusting Journal Entries JE # 42		AUDIT		
To adjust payroll withholding accounts				
101-27109	MEDICA		\$ 7,183	
101-27111	PERA DEFINED COMP		293	
101-27112	VOL FIRE DEPT-DEFERRED		610	
101-27113	ICMA RETIREMENT - H S A		2,603	
101-27114	ICMA RETIREMENT TRUST-		18,402	
101-27115	UNITED WISCONSIN		640	
101-27118	LINCOLN LIFE		232	
101-27120	ROTH IRA		10	
101-41400-126	H S A		1,641	
101-41910-126	H S A		3,125	
101-42100-126	H S A		6,329	
101-43100-126	H S A		819	
101-43200-126	H S A		382	
602-27101	FICA/FWH		229	

Client: *City of Bayport*
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<u>Account</u>	<u>Description</u>	<u>W/P Ref</u>	<u>Debit</u>	<u>Credit</u>
Adjusting Journal Entries JE # 42 - Continued			AUDIT	
To adjust payroll withholding accounts				
101-27101	FICA/FWH			\$ 2
101-27102	MINN STATE WITHHOLDING			5,065
101-27103	WISC STATE WITHHOLDING			1,005
101-27104	P E R A			205
101-27106	AMERITAS			413
101-27107	DELTA DENTAL			1,242
101-27108	MINN TEAMSTERS-UNION			142
101-27110	NCPERS			16
101-27117	FLEX PLAN			452
101-27121	UNITED WAY CONTRIBUTIONS			17
101-27122	H S A			30,698
101-41200-170	MEDICARE			59
101-41400-170	MEDICARE			247
101-41910-170	MEDICARE			462
101-42100-170	MEDICARE			1,379
101-42200-170	MEDICARE			423
101-43100-170	MEDICARE			251
101-43200-170	MEDICARE			191
602-46200-170	MEDICARE			229
Total			\$ 42,498	\$ 42,498
Adjusting Journal Entries JE # 43			AUDIT	
To adjust due to other government accounts				
101-10100	CASH		\$ 9,512	
101-41200-302	CONTRACT		6,294	
601-14605	SALES TAX RECEIVABLE		4,471	
601-20603	SALES TAX PAYABLE		4,399	
601-46120-37110	WATER REVENUE		642	
101-20102	S A C CHARGES PAYABLE			\$ 3,354
101-20104	STATE SURCHARGE-			2,940
101-20603	SALES TAX PAYABLE			9,512
601-10100	CASH			9,512
Total			\$ 25,318	\$ 25,318
Adjusting Journal Entries JE # 44			AUDIT	
To void outstanding cash reconciling item				
101-10100	CASH		\$ 5,531	
101-41200-302	CONTRACT			\$ 5,531
Total			\$ 5,531	\$ 5,531