

CITY OF BAYPORT
BAYPORT, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2008

CITY OF BAYPORT, MINNESOTA
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INTRODUCTORY SECTION

CITY OF BAYPORT
BAYPORT, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

CITY OF BAYPORT, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
YEAR ENDED DECEMBER 31, 2008

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jon Nowaczek	Mayor	12/31/08
Connie Carlson	Council Member	12/31/08
Sharon Ridgway	Council Member	12/31/08
Dan Johnson	Council Member	12/31/10
Torry Kraftson	Council Member	12/31/10

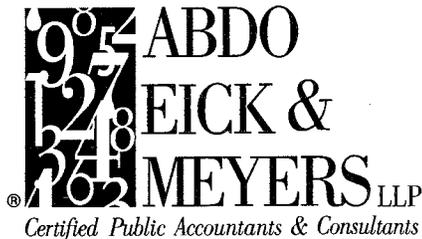
APPOINTED

<u>Name</u>	<u>Title</u>
Michael McGuire	Administrator
Wanda Madsen	Finance Officer

FINANCIAL SECTION

CITY OF BAYPORT
BAYPORT, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008



5201 Eden Avenue
Suite 370
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Bayport, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information the City of Bayport (the City), Minnesota, as of and for the year ended December 31, 2008 which collectively comprise the 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 an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2007 financial statements and, in our report dated April 7, 2008, we expressed unqualified opinions on the respective proprietary fund financial statements.

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 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, each major fund, and the aggregate remaining fund information of the City as of December 31, 2008 and the respective changes in financial position and cash flows and budgetary comparisons for the General fund and Library special revenue fund, where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages I through XII is not a required part of the financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual and fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

March 24, 2009
Minneapolis, Minnesota

Abdo, Eick & Meyers LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants

Management's Discussion and Analysis

As management of the City of Bayport (the City), Minnesota, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2008.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$33,506,635 (net assets). Of this amount, \$13,395,616 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$572,028. A majority of this increase is attributable to governmental activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,585,986, an increase of \$423,532 in comparison with the prior year.
- At the end of the current fiscal year, the unreserved fund balance for the General fund was \$2,825,196, or 154 percent of 2008 fund expenditures. The remaining fund balance of the General fund has been reserved for prepaid items and notes receivable in the amount of \$21,351 and \$33,673 respectively.
- The City Local Government Aid (LGA) of \$444,051 was unallotted by \$58,325 in 2008.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

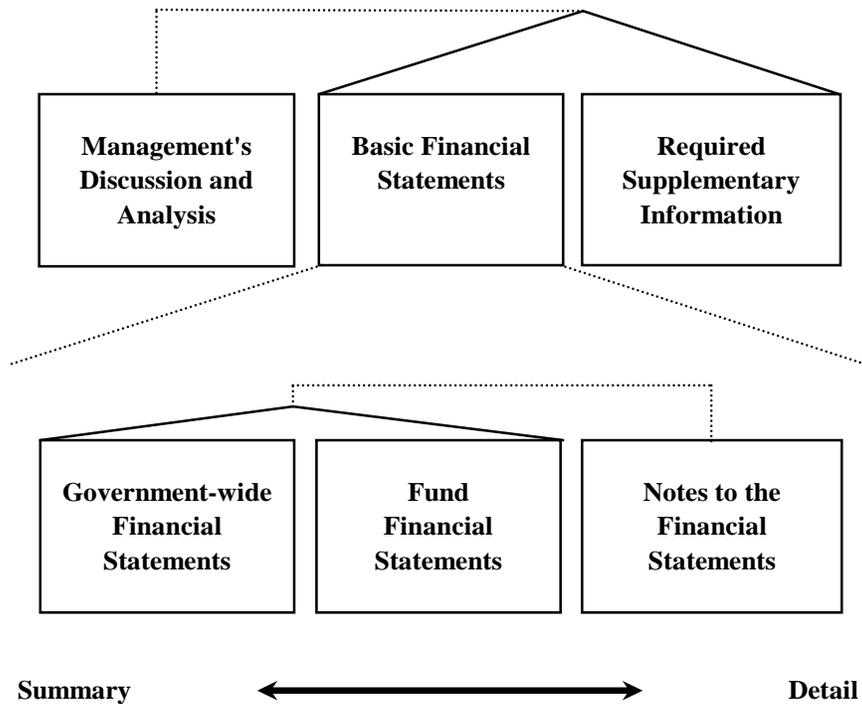


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2
 Major features of the Government-wide and Fund Financial Statements**

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statements of Net Assets • Statements of Revenues, Expenses and Changes in Fund Net Assets • Statements of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and interest on long-term debt. The business-type activities of the City include water and sewer utilities.

The government-wide financial statements can be found on pages 4 - 6 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. The funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a city's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service fund, the Library fund, the Street Reconstruction fund, the Water & Sewer Improvements fund, and the Developer Reimbursed Projects fund, all of which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund and certain special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 7 - 14 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 15 - 22 of this report.

Fiduciary fund. The Fiduciary fund is used to account for resources held for the benefit of parties outside the City. The Fiduciary fund is *not* reflected in the government-wide financial statements because the resources of this fund are not available to support the City's own programs. The accounting used for the fiduciary fund is much like that used for the proprietary fund.

The basic fiduciary fund financial statements can be found on pages 23 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 - 44 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund financial statements and schedules can be found on pages 45 - 60 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities \$33,506,635 at the close of the most recent fiscal year.

The largest portion of the City's net assets (59 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
Assets						
Current and other assets	\$ 11,145,043	\$ 10,868,224	\$ 276,819	\$ 3,052,595	\$ 2,824,716	\$ 227,879
Capital assets (net of depreciation)	13,302,545	13,233,727	68,818	7,395,576	7,552,370	(156,794)
Total assets	24,447,588	24,101,951	345,637	10,448,171	10,377,086	71,085
Liabilities						
Long-term liabilities outstanding	1,035,041	1,111,799	(76,758)	10,075	8,481	1,594
Other liabilities	293,739	382,610	(88,871)	50,269	41,540	8,729
Total liabilities	1,328,780	1,494,409	(165,629)	60,344	50,021	10,323
Net assets						
Invested in capital assets net of related debt	12,307,545	12,158,727	148,818	7,395,576	7,552,370	(156,794)
Restricted	407,898	426,610	(18,712)	-	-	-
Unrestricted	10,403,365	10,022,205	381,160	2,992,251	2,774,695	217,556
Total net assets	\$ 23,118,808	\$ 22,607,542	\$ 511,266	\$ 10,387,827	\$ 10,327,065	\$ 60,762

An additional portion of the City's net assets (407,898 or 1 percent) represents resources that are subject to external restrictions on how they may be used. These restrictions are basically obligation for future debt service. The remaining balance of *unrestricted net assets* (\$13,395,616) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased \$572,028 during the current fiscal year.

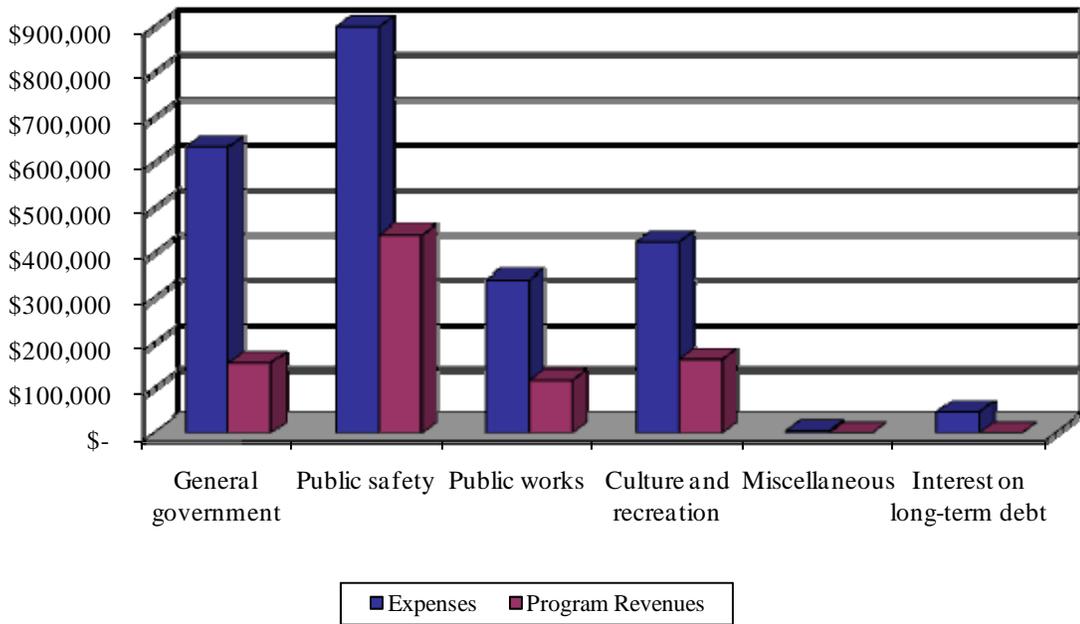
Governmental activities. Governmental activities increased the City's net assets \$511,266 thereby accounting for 89 percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

Changes in Net Assets

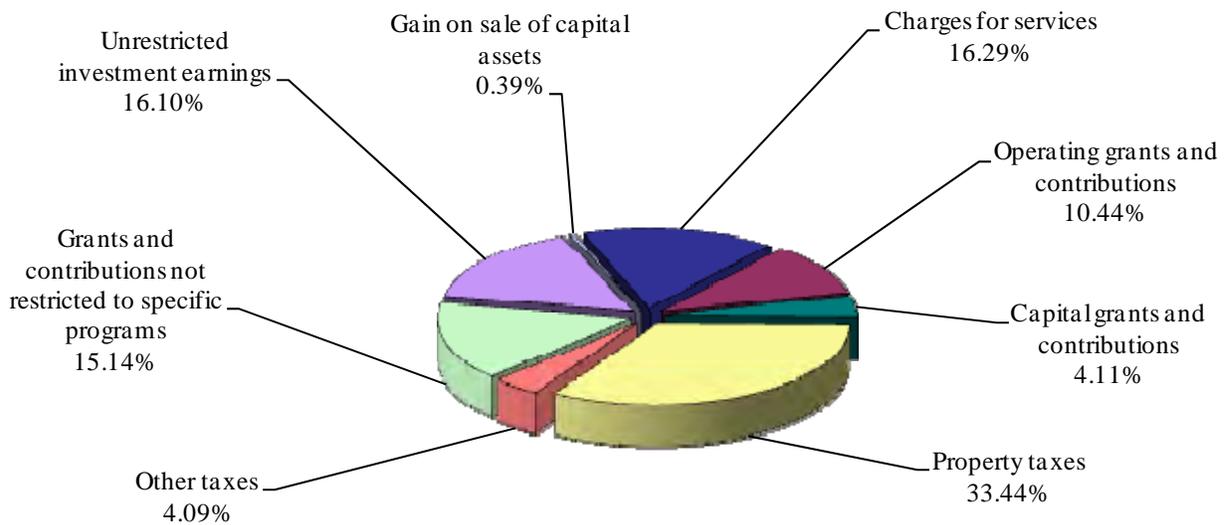
	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 461,136	\$ 497,035	\$ (35,899)	\$ 722,362	\$ 782,936	\$ (60,574)
Operating grants and contributions	295,435	446,512	(151,077)	-	-	-
Capital grants and contributions	116,217	7,529,500	(7,413,283)	275,690	1,149,918	(874,228)
General revenues						
Property taxes	946,957	890,780	56,177	-	-	-
Tax increments	115,500	118,203	(2,703)	-	-	-
Gambling taxes	389	634	(245)	-	-	-
Grants and contributions not restricted to specific programs	428,487	483,738	(55,251)	-	-	-
Unrestricted investment earnings	455,712	503,471	(47,759)	124,655	134,877	(10,222)
Gain on sale of capital assets	11,000	4,500	6,500	-	-	-
Total revenues	2,830,833	10,474,373	(7,643,540)	1,122,707	2,067,731	(945,024)
Expenses						
General government	635,717	630,096	5,621	-	-	-
Public safety	974,397	885,172	89,225	-	-	-
Public works	339,612	304,214	35,398	-	-	-
Culture and recreation	424,373	423,181	1,192	-	-	-
Miscellaneous	5,211	10,338	(5,127)	-	-	-
Interest on long-term debt	44,641	47,378	(2,737)	-	-	-
Water	-	-	-	390,680	320,885	69,795
Sewer	-	-	-	566,881	516,675	50,206
Total expenses	2,423,951	2,300,379	123,572	957,561	837,560	120,001
Increase in net assets before transfers	406,882	8,173,994	(7,767,112)	165,146	1,230,171	(1,065,025)
Capital transfers	(15,616)	(3,420,577)	3,404,961	15,616	3,420,577	(3,404,961)
Transfers	120,000	115,844	4,156	(120,000)	(115,844)	(4,156)
Change in net assets	511,266	4,869,261	(4,357,995)	60,762	4,534,904	(4,474,142)
Net assets, January 1	22,607,542	17,738,281	4,869,261	10,327,065	5,792,161	4,534,904
Net assets, December 31	\$ 23,118,808	\$ 22,607,542	\$ 511,266	\$ 10,387,827	\$ 10,327,065	\$ 60,762

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities

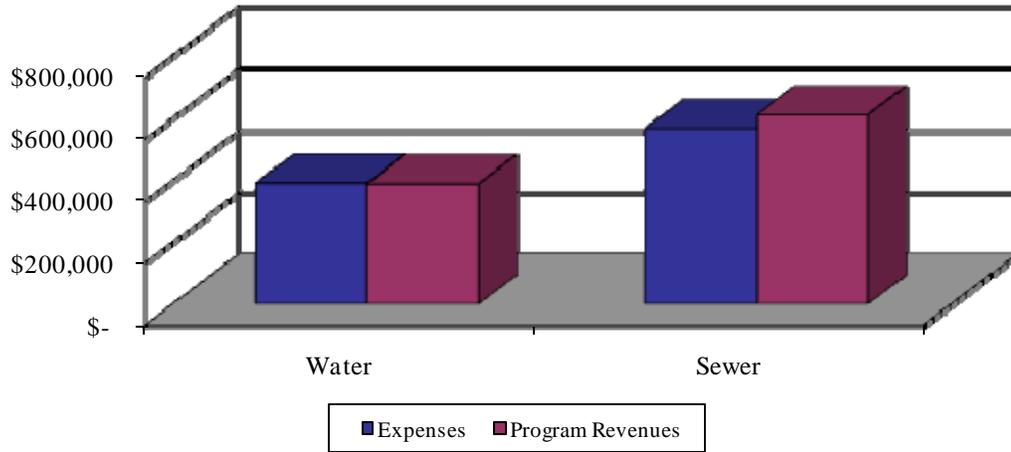


Revenues by Source - Governmental Activities

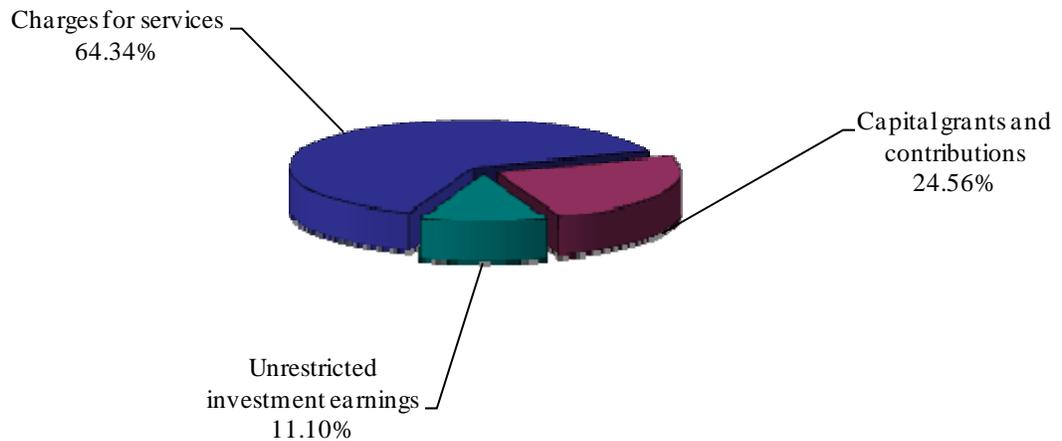


Business-type activities. Business-type activities increased the City's net assets by \$60,762, accounting for 11 percent of the total growth of the City's net assets. Key elements of this increase are as follows:

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,585,986 an increase of \$423,532 in comparison with the prior year. Approximately 91 percent of this total amount \$9,592,176 constitutes *unreserved fund balance*, however \$5,399,206 has been targeted for specific projects. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for prepaid items (\$23,742, for notes receivable (\$33,673), to pay debt service (\$411,395) and for city council restricted investments (\$525,000).

<u>Major funds</u>	<u>Fund Balance December 31,</u>		<u>Increase (Decrease)</u>
	<u>2008</u>	<u>2007</u>	
General	\$ 2,880,220	\$ 2,891,548	\$ (11,328)
The General fund had revenues that exceeded expenditures by \$157,854 during the year. This allowed the General fund to transfer \$175,500 to other funds for future capital improvements and equipment purchases.			
Debt Service	\$ 411,395	\$ 430,350	\$ (18,955)
The decrease in fund balance was the result of debt service payments exceeding revenues. All of the fund balance has been reserved for future debt service requirements.			
Library	\$ 273,444	\$ 320,078	\$ (46,634)
The fund balance decreased from the prior year due to expenditures exceeding revenues. The Library incurred significant expenditures during 2008 related to the Library Improvement project.			
Street Reconstruction	\$ 2,941,789	\$ 2,816,901	\$ 124,888
The fund balance increased significantly during the year. There were no major street projects that were conducted during the year. The fund earned \$131,124 of interest on investments during the year, the primary reason for the increase.			
Water & Sewer Improvements	\$ 758,449	\$ 617,675	\$ 140,774
The City finished the South MN Utility Improvement project during the year, and were the only expenditures for the fund during 2008. With significant revenues coming from charges for services, special assessments and interest revenues, the revenues far exceeded expenditures during the year.			
Developer Reimbursed Projects	\$ 132,041	\$ 133,396	\$ (1,355)
There was a very small amount of activity within the fund during the year. The decrease in fund balance was entirely attributable to expenditures exceeding revenues.			

Proprietary fund. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$2,992,251. The total increase in net assets for the funds was \$60,762. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

The City's General fund budget was not amended during the year. Actual change in fund balance was a decrease of \$11,328. This decrease was due to revenues falling short of budgeted figures by \$103,989. The largest revenue variances were licenses and permits and interest on investments. Those sources were under budget by \$170,495 and over budget by \$43,876 respectively.

The expenditures also provided a negative variance, and exceeded appropriations by \$54,824. The two largest variances occurred in the capital outlay and public works departments. Those departments were over budget by \$61,652 and under budget by \$49,759 respectively.

The fund however did have revenues exceeding expenditures by \$157,854, which allowed the fund to make its budgeted transfers to other funds for future capital improvements and equipment purchases.

The Library fund budget was not amended during the year. Actual change in fund balance was a decrease of \$46,634. This decrease was a combination of revenues falling short of budget as well as expenditures exceeding their budget. The primary reason for the revenue shortfall was refunds and reimbursements. The primary reason for expenditures exceeding appropriations was the improvement project within the library during the year.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2008, amounts to \$20,698,121 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, and streets. The investment in capital assets for 2008 was a decrease of \$87,976, which is the result of depreciation expense.

Major capital asset events during the current fiscal year included the following:

- The Lakeside Park improvement project was completed, with an ending cost of \$547,081.94.
- A quarter ton Chevrolet pickup truck for use by the Public Works Department was purchased totaling \$18,412.91.
- A Bobcat utility vehicle for use by the Public Works Department was purchased totaling \$56,478.36.

Additional information on the City's capital assets can be found in Note 3D on pages 35 - 36 of this report.

Capital Assets Net of Depreciation

	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
Land	\$ 6,198,024	\$ 6,198,024	\$ -	\$ -	\$ -	\$ -
Buildings and improvements	2,992,110	3,020,984	(28,874)	3,224	3,565	(341)
Machinery and equipment	2,078,798	2,093,010	(14,212)	55,341	60,763	(5,422)
Library books	52,900	36,981	15,919	-	-	-
Infrastructure	1,980,713	1,499,446	481,267	7,337,011	7,488,042	(151,031)
Construction in process	-	385,282	(385,282)	-	-	-
Total	\$ 13,302,545	\$ 13,233,727	\$ 68,818	\$ 7,395,576	\$ 7,552,370	\$ (156,794)

Outstanding Debt

	Governmental Activities			Business-type Activities		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
Compensated absences	\$ 40,041	\$ 36,799	\$ 3,242	\$ 10,075	\$ 8,481	\$ 1,594
G.O. Tax Increment bonds	995,000	1,075,000	(80,000)	-	-	-
Total	\$ 1,035,041	\$ 1,111,799	\$ (76,758)	\$ 10,075	\$ 8,481	\$ 1,594

The City's outstanding debt was reduced \$80,000 during 2008, due to debt service payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to three percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The City currently has no debt applicable to this limit.

Additional information on the City's long-term debt can be found in Note 3E on pages 38 of this report.

Economic Factors and Next Year's Budgets and Rates

- We are proposing a 3.7 percent increase in the General Fund levy and 4.0 percent increase in the Library fund levy. The total proposed levy is \$1,022,533, which is up \$37,063 or 3.8 percent from last year.
- Local Government Aid (LGA) increased 4 percent from 2008-2009. LGA from 2009 will be \$461,633, which is an increase of \$17,582.
- The transfer from the General Fund to the Fire Equipment Fund remained the same as 2007, at \$90,000. The Public Works Equipment Fund was increased by \$190,500 as a result of transfers from other funds, as follows: Water Department \$5,000, Sewer Department \$115,000, Cemetery \$5,500, and Streets \$65,000.
- The Municipal Buildings Maintenance Fund was established and funded with an initial balance of \$10,000, as a result of transfers from other funds, as follows: Mayor & Council \$500, Administration \$3,500, Police \$1,000, Fire \$2,500, Street Maintenance \$500, Water \$1,000, and Sewer \$1,000. This fund will be used to fund future repairs to the Public Works Building, City Hall, Fire Hall, and Library.
- CIP expenditures are proposed for the upcoming year. The Police Department has submitted a request to replace one squad vehicle in 2009 using Police Equipment Fund. Public Works has also submitted a request to purchase a compact pickup truck, a tank truck, and a 4 x 4 truck and snow plow using the Public Works Equipment Replacement Fund, to replace the cemetery fence using the Cemetery Capital Improvement Fund, and to correct ventilation at the Public Works building using the Municipal Buildings Maintenance Fund. The Office Automation Fund will be used to replace the city's copy machine, replace the city's computer server, and to purchase a computer for the Public Works Department.
- A water and sewer rate study will be conducted in 2009 to determine if any adjustments are needed to municipal rates.
- The unemployment rate for Washington County is currently 7.6 percent, which is up from the rate of 4.7 percent a year ago. This is consistent with the State's unemployment rate of 7.6 percent and the national average rate 8.1 percent.
- The city issued eight new single-family residential building permits in 2008, with a combined total value of \$1,999,754.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Wanda Madsen, Finance Director, City of Bayport, 294 North 3rd Street, Bayport MN, 55003.

BASIC FINANCIAL STATEMENTS

CITY OF BAYPORT
BAYPORT, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

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CITY OF BAYPORT, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 10,490,361	\$ 2,831,997	\$ 13,322,358
Receivables			
Accrued interest	51,980	-	51,980
Delinquent taxes	30,898	-	30,898
Accounts	235,784	211,895	447,679
Special assessments	245,945	5,643	251,588
Notes	33,673	-	33,673
Due from other governments	32,660	-	32,660
Prepaid items	23,742	3,060	26,802
Capital assets			
Land and construction in progress	6,198,024	-	6,198,024
Depreciable assets (net of accumulated depreciation)	7,104,521	7,395,576	14,500,097
TOTAL ASSETS	24,447,588	10,448,171	34,895,759
LIABILITIES			
Accounts payable	188,069	43,653	231,722
Accrued salaries payable	15,246	6,616	21,862
Accrued interest payable	3,497	-	3,497
Due to other governments	39,034	-	39,034
Unearned revenue	47,893	-	47,893
Noncurrent liabilities			
Due within one year			
Bonds payable	100,000	-	100,000
Compensated absences payable	9,901	2,491	12,392
Due in more than one year			
Bonds payable	895,000	-	895,000
Compensated absences payable	30,140	7,584	37,724
TOTAL LIABILITIES	1,328,780	60,344	1,389,124
NET ASSETS			
Invested in capital assets net of related debt	12,307,545	7,395,576	19,703,121
Restricted for			
Debt service	407,898	-	407,898
Unrestricted	10,403,365	2,992,251	13,395,616
TOTAL NET ASSETS	\$ 23,118,808	\$ 10,387,827	\$ 33,506,635

The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 635,717	\$ 124,646	\$ 29,256	\$ -
Public safety	974,397	277,529	148,328	13,856
Public works	339,612	15,000	-	102,361
Culture and recreation	424,373	43,961	117,851	-
Miscellaneous	5,211	-	-	-
Interest on long-term debt	44,641	-	-	-
Total governmental activities	<u>2,423,951</u>	<u>461,136</u>	<u>295,435</u>	<u>116,217</u>
Business-type activities				
Water	390,680	226,983	-	161,090
Sewer	566,881	495,379	-	114,600
Total business-type activities	<u>957,561</u>	<u>722,362</u>	<u>-</u>	<u>275,690</u>
Total	<u>\$ 3,381,512</u>	<u>\$ 1,183,498</u>	<u>\$ 295,435</u>	<u>\$ 391,907</u>

General revenues
Taxes
 Property taxes
 Gravel taxes
 Tax increments
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Gain on sale of capital assets
Transfers
Capital transfers

Total general revenues and transfers

Change in net assets

Net assets, January 1

Net assets, December 31

The notes to the financial statements are an integral part of this statement.

Net Revenues (Expenses)
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (481,815)	\$ -	\$ (481,815)
(534,684)	-	(534,684)
(222,251)	-	(222,251)
(262,561)	-	(262,561)
(5,211)	-	(5,211)
(44,641)	-	(44,641)
<u>(1,551,163)</u>	<u>-</u>	<u>(1,551,163)</u>
-	(2,607)	(2,607)
-	43,098	43,098
<u>-</u>	<u>40,491</u>	<u>40,491</u>
<u>(1,551,163)</u>	<u>40,491</u>	<u>(1,510,672)</u>
946,957	-	946,957
389	-	389
115,500	-	115,500
428,487	-	428,487
455,712	124,655	580,367
11,000	-	11,000
120,000	(120,000)	-
(15,616)	15,616	-
<u>2,062,429</u>	<u>20,271</u>	<u>2,082,700</u>
511,266	60,762	572,028
<u>22,607,542</u>	<u>10,327,065</u>	<u>32,934,607</u>
<u>\$ 23,118,808</u>	<u>\$ 10,387,827</u>	<u>\$ 33,506,635</u>

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FUND FINANCIAL STATEMENTS

CITY OF BAYPORT
BAYPORT, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

CITY OF BAYPORT, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Debt Service	Library	Street Reconstruction
ASSETS				
Cash and temporary investments	\$ 2,638,467	\$ 411,395	\$ 284,970	\$ 2,941,571
Receivables				
Accounts	-	-	-	-
Accrued interest	51,980	-	-	-
Delinquent taxes	30,898	-	-	-
Special assessments				
Delinquent	2,020	-	-	1,092
Deferred	18,566	-	-	44,683
Notes	33,673	-	-	-
Due from other funds	283,006	-	-	-
Due from other governments	32,660	-	-	-
Prepaid items	21,351	-	2,391	-
	<u>\$ 3,112,621</u>	<u>\$ 411,395</u>	<u>\$ 287,361</u>	<u>\$ 2,987,346</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 90,862	\$ -	\$ 9,609	\$ -
Accrued salaries payable	10,938	-	4,308	-
Due to other funds	-	-	-	-
Due to other governments	39,034	-	-	-
Deferred revenue	91,567	-	-	45,557
	<u>232,401</u>	<u>-</u>	<u>13,917</u>	<u>45,557</u>
FUND BALANCES				
Reserved for				
Prepaid items	21,351	-	2,391	-
Note receivable	33,673	-	-	-
Debt service	-	411,395	-	-
City Council restricted investments	-	-	-	-
Unreserved				
Designated for, reported in				
Special revenue fund	-	-	-	-
Capital projects funds	-	-	-	2,941,789
Undesignated, reported in				
General fund	2,825,196	-	-	-
Special revenue fund	-	-	271,053	-
Permanent fund	-	-	-	-
	<u>2,880,220</u>	<u>411,395</u>	<u>273,444</u>	<u>2,941,789</u>
TOTAL FUND BALANCES	<u>2,880,220</u>	<u>411,395</u>	<u>273,444</u>	<u>2,941,789</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,112,621</u>	<u>\$ 411,395</u>	<u>\$ 287,361</u>	<u>\$ 2,987,346</u>

The notes to the financial statements are an integral part of this statement.

Water & Sewer Improvements	Developer Reimbursed Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 736,686	\$ 281,902	\$ 3,195,370	\$ 10,490,361
24,859	209,829	1,096	235,784
-	-	-	51,980
-	-	-	30,898
-	-	-	3,112
179,584	-	-	242,833
-	-	-	33,673
-	-	-	283,006
-	-	-	32,660
-	-	-	23,742
<u>\$ 941,129</u>	<u>\$ 491,731</u>	<u>\$ 3,196,466</u>	<u>\$ 11,428,049</u>
\$ 3,096	\$ 76,684	\$ 7,818	\$ 188,069
-	-	-	15,246
-	283,006	-	283,006
-	-	-	39,034
179,584	-	-	316,708
<u>182,680</u>	<u>359,690</u>	<u>7,818</u>	<u>842,063</u>
-	-	-	23,742
-	-	-	33,673
-	-	-	411,395
-	-	525,000	525,000
-	-	959,652	959,652
758,449	132,041	607,275	4,439,554
-	-	-	2,825,196
-	-	1,043,330	1,314,383
-	-	53,391	53,391
<u>758,449</u>	<u>132,041</u>	<u>3,188,648</u>	<u>10,585,986</u>
<u>\$ 941,129</u>	<u>\$ 491,731</u>	<u>\$ 3,196,466</u>	<u>\$ 11,428,049</u>

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CITY OF BAYPORT, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

Total fund balances - governmental funds	\$ 10,585,986
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	17,099,152
Less: accumulated depreciation	(3,796,607)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(995,000)
Compensated absences payable	(40,041)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
Delinquent taxes	23,269
Special assessments	245,546
Governmental funds do not report a liability for accrued interest until due and payable.	
	(3,497)
Total net assets - governmental activities	\$ 23,118,808

The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Debt Service	Library	Street Reconstruction
REVENUES				
Taxes	\$ 808,012	\$ 85,272	\$ 150,130	\$ -
Licenses and permits	77,025	-	-	-
Intergovernmental	587,910	1,497	-	-
Charges for services	312,128	-	1,665	-
Fines and forfeitures	34,741	-	-	-
Special assessments	3,974	-	-	14,569
Interest on investments	118,876	19,160	14,068	131,124
Miscellaneous	55,037	-	113,828	-
TOTAL REVENUES	1,997,703	105,929	279,691	145,693
EXPENDITURES				
Current				
General government	580,688	-	-	-
Public safety	904,361	-	-	-
Public works	187,740	-	-	-
Culture and recreation	93,597	-	320,387	-
Miscellaneous	5,211	-	-	-
Capital outlay				
General government	6,484	-	-	-
Public safety	2,911	-	-	-
Public works	58,857	-	-	20,805
Culture and recreation	-	-	-	-
Debt service				
Principal	-	80,000	-	-
Interest and other	-	44,884	-	-
TOTAL EXPENDITURES	1,839,849	124,884	320,387	20,805
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	157,854	(18,955)	(40,696)	124,888
OTHER FINANCING SOURCES (USES)				
Transfers in	5,938	-	-	-
Sale of capital assets	380	-	-	-
Transfers out	(175,500)	-	(5,938)	-
TOTAL OTHER FINANCING SOURCES (USES)	(169,182)	-	(5,938)	-
NET CHANGE IN FUND BALANCES	(11,328)	(18,955)	(46,634)	124,888
FUND BALANCES, JANUARY 1	2,891,548	430,350	320,078	2,816,901
FUND BALANCES, DECEMBER 31	<u>\$ 2,880,220</u>	<u>\$ 411,395</u>	<u>\$ 273,444</u>	<u>\$ 2,941,789</u>

The notes to the financial statements are and integral part of this statement.

<u>Water & Sewer Improvements</u>	<u>Developer Reimbursed Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 35,306	\$ 1,078,720
-	-	-	77,025
-	-	-	589,407
65,681	-	8,000	387,474
-	-	3,387	38,128
65,426	-	-	83,969
30,885	-	141,599	455,712
-	-	55,442	224,307
<u>161,992</u>	<u>-</u>	<u>243,734</u>	<u>2,934,742</u>
-	-	-	580,688
-	-	16,333	920,694
-	1,355	15,823	204,918
-	-	172,557	586,541
-	-	-	5,211
-	-	-	6,484
-	-	-	2,911
21,218	-	98,911	199,791
-	-	10,468	10,468
-	-	-	80,000
-	-	-	44,884
<u>21,218</u>	<u>1,355</u>	<u>314,092</u>	<u>2,642,590</u>
<u>140,774</u>	<u>(1,355)</u>	<u>(70,358)</u>	<u>292,152</u>
-	-	726,589	732,527
-	-	11,000	11,380
-	-	(431,089)	(612,527)
<u>-</u>	<u>-</u>	<u>306,500</u>	<u>131,380</u>
140,774	(1,355)	236,142	423,532
<u>617,675</u>	<u>133,396</u>	<u>2,952,506</u>	<u>10,162,454</u>
<u>\$ 758,449</u>	<u>\$ 132,041</u>	<u>\$ 3,188,648</u>	<u>\$ 10,585,986</u>

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CITY OF BAYPORT, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS) TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Total net change in fund balances - governmental funds	\$	423,532
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>		
Capital outlays		417,524
Depreciation expense		(346,946)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amount are deferred and amortized in the statement of activities.</p>		
Principal repayments		80,000
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Capital assets contributed		13,856
<p>Some assets that were previously classified as governmental type capital assets, have now been contributed to business-type activities.</p>		
		(15,616)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		243
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>		
Property taxes		(10,796)
Special assessments		(47,289)
<p>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.</p>		
Compensated absences		(3,242)
Change in net assets - governmental activities	\$	511,266

The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 797,545	\$ 797,545	\$ 808,012	\$ 10,467
Licenses and permits	247,520	247,520	77,025	(170,495)
Intergovernmental	623,852	623,852	587,910	(35,942)
Charges for services	270,924	270,924	312,128	41,204
Fines and forfeitures	35,000	35,000	34,741	(259)
Special assessments	10,100	10,100	3,974	(6,126)
Interest on investments	75,000	75,000	118,876	43,876
Miscellaneous	41,751	41,751	55,037	13,286
TOTAL REVENUES	2,101,692	2,101,692	1,997,703	(103,989)
EXPENDITURES				
Current				
General government	537,536	537,536	580,688	(43,152)
Public safety	918,977	918,977	904,361	14,616
Public works	237,499	237,499	187,740	49,759
Culture and recreation	78,513	78,513	93,597	(15,084)
Miscellaneous	5,900	5,900	5,211	689
Capital outlay	6,600	6,600	68,252	(61,652)
TOTAL EXPENDITURES	1,785,025	1,785,025	1,839,849	(54,824)
EXCESS OF REVENUES OVER EXPENDITURES	316,667	316,667	157,854	(158,813)
OTHER FINANCING SOURCES (USES)				
Transfers in	5,938	5,938	5,938	-
Sale of capital assets	500	500	380	(120)
Transfers out	(175,500)	(175,500)	(175,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	(169,062)	(169,062)	(169,182)	(120)
NET CHANGE IN FUND BALANCES	147,605	147,605	(11,328)	(158,933)
FUND BALANCES, JANUARY 1	2,891,548	2,891,548	2,891,548	-
FUND BALANCES, DECEMBER 31	\$ 3,039,153	\$ 3,039,153	\$ 2,880,220	\$ (158,933)

The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA
LIBRARY FUND
BUDGETED SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 150,130	\$ 150,130	\$ 150,130	\$ -
Charges for services	480	480	1,665	1,185
Interest on investments	9,000	9,000	14,068	5,068
Miscellaneous				
Rents	3,000	3,000	3,055	55
Contributions and donations	102,100	102,100	110,773	8,673
Refunds and reimbursements	25,624	25,624	-	(25,624)
TOTAL REVENUES	290,334	290,334	279,691	(10,643)
EXPENDITURES				
Current				
Culture and recreation	284,396	284,396	320,387	(35,991)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,938	5,938	(40,696)	(46,634)
OTHER FINANCING USES				
Transfers out	(5,938)	(5,938)	(5,938)	-
NET CHANGE IN FUND BALANCES	-	-	(46,634)	(46,634)
FUND BALANCES, JANUARY 1	320,078	320,078	320,078	-
FUND BALANCES, DECEMBER 31	<u>\$ 320,078</u>	<u>\$ 320,078</u>	<u>\$ 273,444</u>	<u>\$ (46,634)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise Funds			
	Water		Sewer	
	2008	2007	2008	2007
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 1,566,329	\$ 1,382,213	\$ 1,265,668	\$ 1,250,475
Receivables				
Accounts	49,043	62,505	162,852	117,529
Special assessments	723	4,368	4,920	4,365
Prepaid items	1,979	2,102	1,081	1,159
TOTAL CURRENT ASSETS	<u>1,618,074</u>	<u>1,451,188</u>	<u>1,434,521</u>	<u>1,373,528</u>
NONCURRENT ASSETS				
Capital assets				
Buildings	52,408	52,408	-	-
Machinery and equipment	195,626	195,626	98,625	98,625
Improvements other than buildings	5,830,168	5,822,360	2,436,734	2,428,926
Less: accumulated depreciation	<u>(757,803)</u>	<u>(636,979)</u>	<u>(460,182)</u>	<u>(408,596)</u>
TOTAL NONCURRENT ASSETS	<u>5,320,399</u>	<u>5,433,415</u>	<u>2,075,177</u>	<u>2,118,955</u>
TOTAL ASSETS	<u>6,938,473</u>	<u>6,884,603</u>	<u>3,509,698</u>	<u>3,492,483</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	11,626	23,136	32,027	7,387
Accrued salaries payable	2,885	3,354	3,731	4,581
Due to other governments	-	2,853	-	229
Compensated absences payable - current	<u>978</u>	<u>568</u>	<u>1,513</u>	<u>1,160</u>
TOTAL CURRENT LIABILITIES	15,489	29,911	37,271	13,357
NONCURRENT LIABILITIES				
Compensated absences payable	<u>2,978</u>	<u>2,218</u>	<u>4,606</u>	<u>4,535</u>
TOTAL LIABILITIES	<u>18,467</u>	<u>32,129</u>	<u>41,877</u>	<u>17,892</u>
NET ASSETS				
Invested in capital assets	5,320,399	5,433,415	2,075,177	2,118,955
Unrestricted	<u>1,599,607</u>	<u>1,419,059</u>	<u>1,392,644</u>	<u>1,355,636</u>
TOTAL NET ASSETS	<u>\$ 6,920,006</u>	<u>\$ 6,852,474</u>	<u>\$ 3,467,821</u>	<u>\$ 3,474,591</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

Totals	
2008	2007
\$ 2,831,997	\$ 2,632,688
211,895	180,034
5,643	8,733
3,060	3,261
<u>3,052,595</u>	<u>2,824,716</u>
52,408	52,408
294,251	294,251
8,266,902	8,251,286
(1,217,985)	(1,045,575)
<u>7,395,576</u>	<u>7,552,370</u>
<u>10,448,171</u>	<u>10,377,086</u>
43,653	30,523
6,616	7,935
-	3,082
2,491	1,728
<u>52,760</u>	<u>43,268</u>
<u>7,584</u>	<u>6,753</u>
<u>60,344</u>	<u>50,021</u>
7,395,576	7,552,370
<u>2,992,251</u>	<u>2,774,695</u>
<u>\$ 10,387,827</u>	<u>\$ 10,327,065</u>

CITY OF BAYPORT, MINNESOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise Funds			
	Water		Sewer	
	2008	2007	2008	2007
OPERATING REVENUES				
Charges for services	\$ 226,983	\$ 232,204	\$ 495,379	\$ 550,732
OPERATING EXPENSES				
Personal services	108,456	98,006	145,271	127,965
Supplies	22,922	28,526	6,658	5,737
Insurance	6,029	6,168	2,394	2,520
Utilities	47,207	39,844	-	6,486
Repair and maintenance	37,854	53,675	10,023	12,388
Other services and charges	47,388	50,890	40,477	35,491
MCES charges	-	-	310,472	288,235
Depreciation	120,824	43,776	51,586	37,853
TOTAL OPERATING EXPENSES	390,680	320,885	566,881	516,675
OPERATING INCOME (LOSS)	(163,697)	(88,681)	(71,502)	34,057
NONOPERATING REVENUES				
Connection fees	161,090	30,592	114,600	15,575
Interest on investments	67,331	68,398	57,324	66,479
TOTAL NONOPERATING REVENUES	228,421	98,990	171,924	82,054
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	64,724	10,309	100,422	116,111
TRANSFERS AND CONTRIBUTIONS				
Transfers in	-	2,081	-	2,075
Capital contributions from other funds	7,808	3,376,308	7,808	44,269
Developer capital contributions	-	455,609	-	648,142
Transfers out	(5,000)	(5,000)	(115,000)	(115,000)
CHANGE IN NET ASSETS	67,532	3,839,307	(6,770)	695,597
NET ASSETS, JANUARY 1	6,852,474	3,013,167	3,474,591	2,778,994
NET ASSETS, DECEMBER 31	\$ 6,920,006	\$ 6,852,474	\$ 3,467,821	\$ 3,474,591

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

Totals	
2008	2007
\$ 722,362	\$ 782,936
253,727	225,971
29,580	34,263
8,423	8,688
47,207	46,330
47,877	66,063
87,865	86,381
310,472	288,235
172,410	81,629
957,561	837,560
(235,199)	(54,624)
275,690	46,167
124,655	134,877
400,345	181,044
165,146	126,420
-	4,156
15,616	3,420,577
-	1,103,751
(120,000)	(120,000)
60,762	4,534,904
10,327,065	5,792,161
\$ 10,387,827	\$ 10,327,065

CITY OF BAYPORT, MINNESOTA
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Business-type Activities - Enterprise Funds			
	Water		Sewer	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 244,090	\$ 237,488	\$ 449,501	\$ 477,567
Payments to suppliers	(175,640)	(174,311)	(345,535)	(330,075)
Payments to employees	(107,755)	(99,204)	(145,697)	(129,775)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(39,305)</u>	<u>(36,027)</u>	<u>(41,731)</u>	<u>17,717</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in	-	2,081	-	2,075
Intergovernmental	-	-	-	15,200
Transfers out	(5,000)	(5,000)	(115,000)	(115,000)
NET CASH USED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,000)</u>	<u>(2,919)</u>	<u>(115,000)</u>	<u>(97,725)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection fees received	161,090	30,603	114,600	15,565
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	67,331	68,398	57,324	66,479
NET INCREASE IN CASH AND CASH EQUIVALENTS	184,116	60,055	15,193	2,036
CASH AND CASH EQUIVALENTS JANUARY 1	<u>1,382,213</u>	<u>1,322,158</u>	<u>1,250,475</u>	<u>1,248,439</u>
CASH AND CASH EQUIVALENTS DECEMBER 31	<u><u>\$ 1,566,329</u></u>	<u><u>\$ 1,382,213</u></u>	<u><u>\$ 1,265,668</u></u>	<u><u>\$ 1,250,475</u></u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

Totals	
2008	2007
\$ 693,591	\$ 715,055
(521,175)	(504,386)
(253,452)	(228,979)
<u>(81,036)</u>	<u>(18,310)</u>
-	4,156
-	15,200
<u>(120,000)</u>	<u>(120,000)</u>
<u>(120,000)</u>	<u>(100,644)</u>
<u>275,690</u>	<u>46,168</u>
<u>124,655</u>	<u>134,877</u>
199,309	62,091
<u>2,632,688</u>	<u>2,570,597</u>
<u>\$ 2,831,997</u>	<u>\$ 2,632,688</u>

CITY OF BAYPORT, MINNESOTA
STATEMENTS OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-type Activities - Enterprise Funds - Continued			
	Water		Sewer	
	2008	2007	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (163,697)	\$ (88,681)	\$ (71,502)	\$ 34,057
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	120,824	43,776	51,586	37,853
(Increase) decrease in assets:				
Accounts receivable	13,462	7,380	(45,323)	(71,018)
Special assessments receivable	3,645	(2,096)	(555)	(2,147)
Prepaid items	123	(620)	78	23,526
Increase (decrease) in liabilities:				
Accounts payable	(11,510)	11,527	24,640	(2,744)
Accrued salaries payable	(469)	1,884	(850)	2,511
Due to other governments	(2,853)	(6,115)	(229)	-
Compensated absences payable	1,170	(3,082)	424	(4,321)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (39,305)</u>	<u>\$ (36,027)</u>	<u>\$ (41,731)</u>	<u>\$ 17,717</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions from developers and other funds	<u>\$ 7,808</u>	<u>\$ 3,831,917</u>	<u>\$ 7,808</u>	<u>\$ 692,411</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities -
Enterprise Funds - Continued

Totals	
2008	2007
\$ (235,199)	\$ (54,624)
172,410	81,629
(31,861)	(63,638)
3,090	(4,243)
201	22,906
13,130	8,783
(1,319)	4,395
(3,082)	(6,115)
1,594	(7,403)
<u>\$ (81,036)</u>	<u>\$ (18,310)</u>
<u>\$ 15,616</u>	<u>\$ 4,524,328</u>

CITY OF BAYPORT, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008

	Agency
	803
	Escrow
ASSETS	
Cash and temporary investments	\$ (25,068)
Accounts receivable	25,068
TOTAL ASSETS	\$ -
NET ASSETS	
Unrestricted	\$ -

The notes to the financial statements are an integral part of this statement.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bayport (the City), Minnesota, operates under “Optional Plan A” as defined in the State of Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, tax increments, intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue in the fund financial statements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

The *General fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Library fund* accounts for the accumulation of resources and payments made for the operation of the Library.

The *Street Reconstruction fund* accounts for the resources collected and the funds disbursed for portions of street improvement projects.

The *Water and Sewer Improvements fund* accounts for the resources accumulated for future improvements to the enterprise operations of the City.

The *Developer Reimbursed Projects fund* is used to keep track of expenditures and reimbursements related to development of Baytown and Inspiration subdivisions. The agreement between developers and the City provided that the City would pay for the water main improvements and developers would reimburse the City.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports the following major proprietary funds:

The *Water fund* accounts for the water service charges that are used to finance the water system operations.

The *Sewer fund* accounts for the sewer service charges that are used to finance the sanitary sewer operations.

Additionally, the City reports the following fund types:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. The agency fund is accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity. It accounts for deposits refundable to developers.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities in (1) above.
3. General obligations of the State of Minnesota or any of its municipalities.
4. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
5. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality, and maturing in 270 days or less.
6. Repurchase or reverse repurchase agreements 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.
7. Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

Investments for the City are reported at fair value. The Minnesota Municipal Money Market Fund and broker money market investment pools operate in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool share.

It is the policy of the City to invest funds in those investments authorized for Minnesota public sector entities under state statutes. There are no further restrictions outside of the statutes.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Due To/From other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Taxes

The Council annually adopts a tax levy in December and certifies it to the County for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, July and December each year.

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.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2008. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivable upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred revenue liability in the fund financial statements.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF BAYPORT, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide 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. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition on infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

Pursuant to GASB Statement #34, the City has elected to only record and depreciate general infrastructure assets acquired after the implementation date set forth in GASB Statement #34. General infrastructure acquired before January 1, 2004 is, therefore, not reported within these financial statements. General infrastructure assets include streets, street lighting, sidewalks and trails, etc. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Buildings and structures	20 - 50
Equipment and machinery	3 - 15
Distribution and collection systems	50
Library books	5

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.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

In the government-wide and proprietary fund financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net assets - Consist of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- 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".

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for the individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 the Library special revenue fund. All annual appropriations lapse at fiscal year end. The City does not use encumbrance accounting.

CITY OF BAYPORT, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15th, the proposed budget is presented to the Council for review. The Council adopts a preliminary maximum budget. Truth-in-taxation notices are mailed out to residents by Washington County. The Council holds public hearings and adopts a budget and tax levy in December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Budgeted amounts are as originally adopted, or as amended by the Council. No budget amendments were made during the year.

B. Excess of Expenditures over Appropriations

The following funds had expenditures in excess of appropriations:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
Major			
General	\$ 1,785,025	\$ 1,839,849	\$ 54,824
Library	284,396	320,387	35,991

The expenditures in excess of budget were funded by available fund balances.

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other State or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the City or in a financial institution other than that furnishing the collateral.

At year end, the City's carrying amount of deposits was \$2,295,943 and the bank balance was \$2,309,466. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was covered by collateral held in the City's name.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

The Minnesota Municipal Money Market Fund (the 4M Fund) is a customized cash management and investment program for Minnesota public funds. Sponsored and governed by the League of Minnesota Cities since 1987, the 4M Fund is a unique investment alternative designed to address the daily and long term investment needs of Minnesota cities and other municipal entities. Allowable under Minnesota statutes, the 4M Fund is comprised of top quality, rated investments.

As of December 31, 2008, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name:

Type of Investment	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled investments			
Broker Money Markets	N/A	less than 6 months	\$ 970,896
Minnesota Municipal Money Market	P-1	less than 6 months	<u>506,248</u>
Total pooled investments			<u>1,477,144</u>
Non-pooled investments			
Brokered Certificates of Deposit	N/A	less than 1 year	3,307,743
Brokered Certificates of Deposit	N/A	1 to 3 years	1,794,076
Brokered Certificates of Deposit	N/A	more than 3 years	512,574
U.S. Government Securities	AAA	more than 3 years	3,710,570
Municipal Government Securities	A1	less than 1 year	20,292
Municipal Government Securities	A	less than 1 year	60,514
Municipal Government Securities	AA1	1 to 3 years	<u>118,184</u>
Total non-pooled investments			<u>9,523,953</u>
Total investments			<u><u>\$ 11,001,097</u></u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

CITY OF BAYPORT, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows:

Carrying amount of deposits	\$ 2,295,943
Investments	11,001,097
Petty cash	<u>250</u>
Total	<u><u>\$ 13,297,290</u></u>

The following reconciles the total cash and temporary investments to the basic financial statements.

Cash and investments	
Government-wide	\$ 13,322,358
Fiduciary	<u>(25,068)</u>
Total	<u><u>\$ 13,297,290</u></u>

Concentration of credit risk/interest rate risk: In accordance with the City's investment policy, the City diversifies its investment portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The maturities selected shall provide for stability of income and reasonable liquidity.

Custodial credit risk - investments. In accordance with the City's investment policy, the investment officer shall structure all investments, deposits and repurchase agreements so that the custodial risk is categorized as either insured or register, or securities held by the City or its agent in the City's name or uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name. All investments are placed in safekeeping at financial institutions.

B. Intergovernmental Receivables

At December 31, 2008, the City had the following amounts due from other governments:

	Local	County	State	Total
General	<u>\$ 29,023</u>	<u>\$ 255</u>	<u>\$ 3,382</u>	<u>\$ 32,660</u>

The local receivable consists of \$26,020 from the Baytown Township for their 2008 Fire Contract and \$3,003 from the City of St. Paul, for reimbursement of public safety expenditures for the Republican National Convention. The County amount is due from Washington County for the second half 2008 gravel tax. The State amount is made up of court fines for the month of December 2008.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Fund	Unavailable	Unearned
General		
Delinquent taxes	\$ 23,269	\$ -
Special assessments		
Delinquent	1,839	-
Deferred	18,566	-
Fire contract fees received but unearned	-	33,293
License fees received but unearned	-	14,600
Street Reconstruction		
Special assessments		
Delinquent	874	-
Deferred	44,683	-
Water & Sewer Improvements		
Special assessments		
Deferred	179,584	-
Total	<u>\$ 268,815</u>	<u>\$ 47,893</u>

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

Capital asset activity for the governmental activities for year ended December 31, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 6,198,024	\$ -	\$ -	\$ 6,198,024
Construction in progress	385,282	161,800	(547,082)	-
Total capital assets not being depreciated	6,583,306	161,800	(547,082)	6,198,024
Capital assets, being depreciated				
Buildings	4,503,223	62,457	-	4,565,680
Machinery and equipment	3,928,409	157,837	(49,156)	4,037,090
Infrastructure	1,499,446	547,082	-	2,046,528
Library books	218,160	33,670	-	251,830
Total capital assets being depreciated	10,149,238	801,046	(49,156)	10,901,128
Less accumulated depreciation for				
Buildings	(1,482,243)	(91,327)	-	(1,573,570)
Machinery and equipment	(1,835,395)	(172,053)	49,156	(1,958,292)
Infrastructure	-	(65,815)	-	(65,815)
Library books	(181,179)	(17,751)	-	(198,930)
Total accumulated depreciation	(3,498,817)	(346,946)	49,156	(3,796,607)
Total capital assets being depreciated, net	6,650,421	454,100	-	7,104,521
Governmental activities capital assets, net	\$ 13,233,727	\$ 615,900	\$ (547,082)	\$ 13,302,545

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital asset activity for the business-type activities for year ended December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets being depreciated				
Water mains and lines	\$ 5,822,360	\$ 7,808	\$ -	\$ 5,830,168
Sewer mains and lines	2,428,926	7,808	-	2,436,734
Structures	52,408	-	-	52,408
Machinery and equipment	294,251	-	-	294,251
	<u>8,597,945</u>	<u>15,616</u>	<u>-</u>	<u>8,613,561</u>
Less accumulated depreciation for				
Water mains and lines	(402,567)	(118,788)	-	(521,355)
Sewer mains and lines	(360,692)	(47,844)	-	(408,536)
Structures	(48,844)	(340)	-	(49,184)
Machinery and equipment	(233,472)	(5,438)	-	(238,910)
	<u>(1,045,575)</u>	<u>(172,410)</u>	<u>-</u>	<u>(1,217,985)</u>
Business-type activities capital assets, net	<u>\$ 7,552,370</u>	<u>\$ (156,794)</u>	<u>\$ -</u>	<u>\$ 7,395,576</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities		
General government		\$ 48,423
Public safety		120,477
Public works		93,869
Culture and recreation		84,177
		<u>346,946</u>
Business-type activities		
Water		\$ 120,824
Sewer		51,586
		<u>172,410</u>

CITY OF BAYPORT, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Governmental activities General	Governmental activities Developer Reimbursed Projects	<u>\$ 283,006</u>

The General fund provided this amount to supplement cash flow needs of the Developer Reimbursed Projects fund.

Interfund transfers

Fund	Transfers out		
	General Fund	Library Fund	Nonmajor governmental Funds
Transfers in			
General	\$ -	\$ 5,938	\$ -
Nonmajor governmental funds	175,500	-	431,089
Total	<u>\$ 175,500</u>	<u>\$ 5,938</u>	<u>\$ 431,089</u>
Fund	Water Enterprise Fund	Sewer Enterprise Fund	Total
Transfers in			
General	\$ -	\$ -	\$ 5,938
Nonmajor governmental funds	5,000	115,000	726,589
Total	<u>\$ 5,000</u>	<u>\$ 115,000</u>	<u>\$ 732,527</u>

The City annually budgets for interfund transfers to set funds aside for future capital improvements.

The following transfers were made as a onetime interfund transfer:

- The Tax Increment District #2 has been decertified; therefore the fund transferred \$89 to the Tax Increment District #1 fund.
- The Tax Stabilization fund transferred \$131,000 to the Park Improvement fund as a funding source for the expenditures from the Lakeside Park Improvement project.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation tax increment bonds have been issued for redevelopment purposes. They will be repaid from future tax increment collections. General obligation tax increment bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Governmental Activities					
General Obligation Bonds					
Tax Increment Refunding					
Bonds of 2001	\$ 1,535,000	4.09 %	09/30/97	11/30/16	<u>\$ 995,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31,	G.O. Tax Increment Refunding Bonds		
	Principal	Interest	Total
2009	\$ 100,000	\$ 41,965	\$ 141,965
2010	100,000	38,215	138,215
2011	105,000	34,365	139,365
2012	125,000	30,165	155,165
2013	125,000	25,039	150,039
2014 - 2016	<u>440,000</u>	<u>39,567</u>	<u>479,567</u>
Total	<u>\$ 995,000</u>	<u>\$ 209,316</u>	<u>\$ 1,204,316</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
G.O. Tax Increment					
Refunding Bonds	\$ 1,075,000	\$ -	\$ (80,000)	\$ 995,000	\$ 100,000
Compensated Absences					
Payable	<u>36,799</u>	<u>9,813</u>	<u>(6,571)</u>	<u>40,041</u>	<u>9,901</u>
Total governmental	<u>\$ 1,111,799</u>	<u>\$ 9,813</u>	<u>\$ (86,571)</u>	<u>\$ 1,035,041</u>	<u>\$ 109,901</u>
activities					
Business-type activities					
Compensated absences					
Payable	<u>\$ 8,480</u>	<u>\$ 2,810</u>	<u>\$ (1,215)</u>	<u>\$ 10,075</u>	<u>\$ 2,491</u>

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

G. Tax Increment Districts

The City of Bayport is the administering authority for the following tax increment finance districts:

	Tax Increment District No. 1	Tax Increment District No. 2-1
Authorizing Law	M.S. 469	M.S. 469
Type of District	Redevelopment	Redevelopment
Year Established	1991	2003
Duration of District	25 years	25 years
Tax Capacity		
Original	\$ 29,718	\$ 76,117
Current	<u>145,906</u>	<u>116,597</u>
Captured - Retained	<u>\$ 116,188</u>	<u>\$ 40,480</u>

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

H. Reserved/Designated Fund Balance

Fund balances in the various funds have been reserved and designated for the following purposes as of December 31, 2008:

Fund	Purpose	Amount
Reserved		
General	Prepaid items	\$ 21,351
	Notes receivable	33,673
Debt Service	Debt service	411,395
Library	Prepaid items	2,391
Nonmajor governmental	Restricted investments	<u>525,000</u>
Total reserved fund balance		<u>\$ 993,810</u>
Unreserved - Designated		
Street Reconstruction	Capital expenditures	\$ 2,941,789
Water & Sewer Improvements	Capital expenditures	758,449
Developer Reimbursed Projects	Capital expenditures	132,041
Nonmajor governmental	Equipment replacement	959,652
	Capital expenditures	323,055
	Economic development	<u>284,220</u>
Total designated fund balance		<u>\$ 5,399,206</u>

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 4: DEFINED PENSION PLANS - STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356.

PERF 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 and fire-fighters who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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 the 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 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 for each year of service.

For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For PERF and PEPFF 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 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 age 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 PERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA, 60 Empire Street, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 4: DEFINED PENSION PLANS - STATEWIDE - CONTINUED

B. 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 Minnesota statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.00 percent, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.60 percent of their annual covered salary in 2008. That rate will increase to 9.40 percent in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 6.50 percent for Coordinated Plan PERF members and 12.90 percent for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75 percent and 14.10 percent, respectively, effective January 1, 2009. The City's contributions to the PERF for the years ending December 31, 2008, 2007, and 2006 were \$36,324, \$31,328, and \$30,029, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2008, 2007, and 2006 were \$47,985, \$40,773, and \$40,089, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

C. Defined Contribution Plan

One council member of the City is covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer defined compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer.

For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2008, 2007, and 2006 were \$135, \$135, and \$146 respectively.

Note 5: OTHER INFORMATION

A. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The market value of taxable property totaled \$256,558,700 for an allowable margin of \$7,696,761. As of December 31, 2008, the City has no debt applicable to this limit.

CITY OF BAYPORT, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 5: OTHER INFORMATION - CONTINUED

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal 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 (IBNRs). The City's management is not aware of any incurred but not reported claims.

C. Economic Dependency

The property owned by the Andersen Corporation represents approximately 18 percent of the net tax capacity of the City. The Corporation challenged their taxable valuation and received a reduction during 1998. Andersen Corporation had agreed to contribute an amount equal to the estimated reduced City taxes to the City of Bayport, Minnesota until 2004.

D. Pending Litigation

The City is involved in an administrative appeal with PERA, which is related to the separation of City Administrator Michael McGuire from employment of the City of Bayport. The litigation involves the question as to whether Mr. McGuire properly terminated his employment with the City before returning to serve as an independent contractor. A secondary matter is also under question as to whether Mr. McGuire actually serves in the capacity of an independent contractor or if he remains an employee of the City. The City has been informed that PERA is unwilling to mediate this case; therefore the City will be proceeding to trial unless a settlement is reached. The City intends to prosecute this matter and believes they have a strong possibility of succeeding. In the event the City is successful, the City will not be liable for anything, except legal fees. However, in the case the City is unsuccessful in this matter, fines, penalties and contributions to PERA could be up to \$50,000.

E. Conduit Debt

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 the 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 notes. Accordingly, the notes are not reported as liabilities in the accompanying financial statements.

As of December 31, 2008, the amount of conduit debt issues outstanding as follows:

Series	Amount Issued	Balance Outstanding
Senior Housing Revenue Note, Series 2003	\$ 10,000,000	\$ 8,644,670

CITY OF BAYPORT, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 5: OTHER INFORMATION – CONTINUED

F. Concentrations

The City receives a significant amount of its annual General fund revenue from the State of Minnesota from the Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) programs. The amount received in 2008 was \$385,726 and \$38,595 for LGA and MVHC, respectively. This accounted for 21 percent of General fund revenue. The State of Minnesota has proposed adjustments to these aids in the 2009 and 2010 budgets. As of the date of this report the effect of any un-allotment on the aids is not determinable.

Note 6: BAYPORT VOLUNTEER FIREFIGHTER’S RELIEF ASSOCIATION

A. Plan Description

All members of the Bayport Fire Department (Department) are covered by a defined benefit plan administered by the Bayport Firemen’s Relief Association (Association). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department’s membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter’s Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Bayport Firefighter’s Relief Association, 3800 Laverne Avenue North, Bayport, Minnesota 55042.

B. Funding Policy

The financial requirements of the Special fund are determined in accordance with Minnesota statutes, section 69.772, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The benefits are payable after age 50, 20 years of service, and 10 years of Association membership or upon death. The City’s annual pension cost for the current year and related information for the plan is as follows:

Annual pension cost	\$ 71,060
Contributions made	
State aid	\$ 71,060
Actuarial valuation date	12/31/08
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

CITY OF BAYPORT, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2008

Note 6: BAYPORT VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION - CONTINUED

Year Ending	Three Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/08	\$ 71,060	100 %	\$ -
12/31/07	85,720	100	-
12/31/06	96,303	100	-

Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Assets in Excess of (Unfunded) Accrued Liability	Funded Rate	Pension Benefit Per Year of Service
12/31/08	*	*	*	*	*
12/31/07	\$ 1,783,143	\$ 1,457,603	\$ 325,540	122.3 %	\$ 4,750
12/31/06	1,783,143	1,457,603	325,540	122.3	4,750

* Information unavailable at time of audit.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF BAYPORT
BAYPORT, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

CITY OF BAYPORT, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2008

	Special Revenue	Capital Project	Permanent Restricted Investments	Total
ASSETS				
Cash and temporary investments	\$ 2,009,704	\$ 607,275	\$ 578,391	\$ 3,195,370
Receivables				
Accounts	1,096	-	-	1,096
TOTAL ASSETS	\$ 2,010,800	\$ 607,275	\$ 578,391	\$ 3,196,466
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 7,818	\$ -	\$ -	\$ 7,818
FUND BALANCES				
Reserved for:				
City Council restricted investments	-	-	525,000	525,000
Unreserved				
Designated for equipment replacement	959,652	-	-	959,652
Designated for capital expenditures	-	323,055	-	323,055
Designated for economic development	-	284,220	-	284,220
Undesignated	1,043,330	-	53,391	1,096,721
TOTAL FUND BALANCES	2,002,982	607,275	578,391	3,188,648
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,010,800	\$ 607,275	\$ 578,391	\$ 3,196,466

CITY OF BAYPORT, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Special Revenue	Capital Project	Permanent Restricted Investments	Total
REVENUES				
Taxes				
Tax increments	\$ -	\$ 30,228	\$ -	\$ 30,228
Gambling	5,078	-	-	5,078
Charges for services	8,000	-	-	8,000
Fines and forfeitures	3,387	-	-	3,387
Interest of investments	96,590	19,839	25,170	141,599
Miscellaneous	55,442	-	-	55,442
TOTAL REVENUES	168,497	50,067	25,170	243,734
EXPENDITURES				
Current				
Public safety	16,333	-	-	16,333
Public works	-	15,823	-	15,823
Culture and recreation	172,557	-	-	172,557
Capital outlay				
Public works	98,911	-	-	98,911
Culture and recreation	10,468	-	-	10,468
TOTAL EXPENDITURES	298,269	15,823	-	314,092
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(129,772)	34,244	25,170	(70,358)
OTHER FINANCING SOURCES (USES)				
Transfers in	411,500	315,089	-	726,589
Sale of capital assets	11,000	-	-	11,000
Transfers out	(431,000)	(89)	-	(431,089)
TOTAL OTHER FINANCING SOURCES (USES)	(8,500)	315,000	-	306,500
NET CHANGE IN FUND BALANCES	(138,272)	349,244	25,170	236,142
FUND BALANCES, JANUARY 1	2,141,254	258,031	553,221	2,952,506
FUND BALANCES, DECEMBER 31	\$ 2,002,982	\$ 607,275	\$ 578,391	\$ 3,188,648

CITY OF BAYPORT, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2008

	<u>200</u>	<u>202</u>	<u>203</u>
	Fire Equipment Replacement	Drug Forfeiture	Public Works Equipment Replacement
ASSETS			
Cash and temporary investments	\$ 289,288	\$ 18,179	\$ 669,964
Accounts receivable	400	-	-
TOTAL ASSETS	\$ 289,688	\$ 18,179	\$ 669,964
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
FUND BALANCES (DEFICITS)			
Unreserved			
Designated for equipment replacement	289,688	-	669,964
Undesignated	-	18,179	-
TOTAL FUND BALANCES (DEFICITS)	289,688	18,179	669,964
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 289,688	\$ 18,179	\$ 669,964

204	205	207	210	
Recreation Capital Equipment Maintenance	Tax Stabilization	Park Improvement	K-9 Unit	Total
\$ 58,424	\$ 983,876	\$ (20,302)	\$ 10,275	\$ 2,009,704
696	-	-	-	1,096
<u>\$ 59,120</u>	<u>\$ 983,876</u>	<u>\$ (20,302)</u>	<u>\$ 10,275</u>	<u>\$ 2,010,800</u>
\$ -	\$ -	\$ 7,818	\$ -	\$ 7,818
-	-	-	-	959,652
<u>59,120</u>	<u>983,876</u>	<u>(28,120)</u>	<u>10,275</u>	<u>1,043,330</u>
<u>59,120</u>	<u>983,876</u>	<u>(28,120)</u>	<u>10,275</u>	<u>2,002,982</u>
<u>\$ 59,120</u>	<u>\$ 983,876</u>	<u>\$ (20,302)</u>	<u>\$ 10,275</u>	<u>\$ 2,010,800</u>

CITY OF BAYPORT, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED DECEMBER 31, 2008

	200	202	203
	Fire Equipment Replacement	Drug Forfeiture	Public Works Equipment Replacement
REVENUES			
Taxes			
Gambling	\$ -	\$ -	\$ -
Charges for services	-	-	-
Fines and forfeits	-	3,387	-
Interest on investments	10,039	1,064	27,517
Miscellaneous	45,400	-	-
TOTAL REVENUES	<u>55,439</u>	<u>4,451</u>	<u>27,517</u>
EXPENDITURES			
Current			
Public safety	7,524	8,809	-
Culture and recreation	-	-	-
Capital outlay			
Public works	-	-	98,911
Culture and recreation	-	-	-
TOTAL EXPENDITURES	<u>7,524</u>	<u>8,809</u>	<u>98,911</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>47,915</u>	<u>(4,358)</u>	<u>(71,394)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	90,000	-	190,500
Sale of capital assets	-	-	11,000
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>90,000</u>	<u>-</u>	<u>201,500</u>
NET CHANGE IN FUND BALANCES	137,915	(4,358)	130,106
FUND BALANCES, JANUARY 1	<u>151,773</u>	<u>22,537</u>	<u>539,858</u>
FUND BALANCES (DEFICITS), DECEMBER 31	<u>\$ 289,688</u>	<u>\$ 18,179</u>	<u>\$ 669,964</u>

204 Recreation Capital Equipment Maintenance	205 Tax Stabilization	207 Park Improvement	210 K-9 Unit	Total
\$ 5,078	\$ -	\$ -	\$ -	\$ 5,078
-	-	8,000	-	8,000
-	-	-	-	3,387
2,559	53,504	1,674	233	96,590
-	-	-	10,042	55,442
<u>7,637</u>	<u>53,504</u>	<u>9,674</u>	<u>10,275</u>	<u>168,497</u>
-	-	-	-	16,333
-	-	172,557	-	172,557
-	-	-	-	98,911
2,395	-	8,073	-	10,468
<u>2,395</u>	<u>-</u>	<u>180,630</u>	<u>-</u>	<u>298,269</u>
<u>5,242</u>	<u>53,504</u>	<u>(170,956)</u>	<u>10,275</u>	<u>(129,772)</u>
-	-	131,000	-	411,500
-	-	-	-	11,000
-	(431,000)	-	-	(431,000)
<u>-</u>	<u>(431,000)</u>	<u>131,000</u>	<u>-</u>	<u>(8,500)</u>
5,242	(377,496)	(39,956)	10,275	(138,272)
<u>53,878</u>	<u>1,361,372</u>	<u>11,836</u>	<u>-</u>	<u>2,141,254</u>
<u>\$ 59,120</u>	<u>\$ 983,876</u>	<u>\$ (28,120)</u>	<u>\$ 10,275</u>	<u>\$ 2,002,982</u>

CITY OF BAYPORT, MINNESOTA
NONMAJOR CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2008

	103	106	107
	Tax	Tax	Tax
	Increment	Increment	Increment
	District 1	District 2	District 2-1
ASSETS			
Cash and temporary investments	<u>\$ 264,184</u>	<u>\$ -</u>	<u>\$ 20,036</u>
FUND BALANCES			
Unreserved			
Designated for capital expenditures	\$ -	\$ -	\$ -
Designated for economic development	<u>264,184</u>	<u>-</u>	<u>20,036</u>
TOTAL FUND BALANCES	<u>\$ 264,184</u>	<u>\$ -</u>	<u>\$ 20,036</u>

208 Prison Sewer Project	412 Cemetery Capital Improvements	413 Police Equipment	414 Office Automation	415 Municipal Buildings Maintenance	Total
<u>\$ 890</u>	<u>\$ 51,137</u>	<u>\$ 66,479</u>	<u>\$ 51,137</u>	<u>\$ 153,412</u>	<u>\$ 607,275</u>
\$ 890	\$ 51,137	\$ 66,479	\$ 51,137	\$ 153,412	\$ 323,055
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>284,220</u>
<u>\$ 890</u>	<u>\$ 51,137</u>	<u>\$ 66,479</u>	<u>\$ 51,137</u>	<u>\$ 153,412</u>	<u>\$ 607,275</u>

CITY OF BAYPORT, MINNESOTA
NONMAJOR CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	103 Tax Increment District 1	106 Tax Increment District 2	107 Tax Increment District 2-1
REVENUES			
Tax increments	\$ -	\$ -	\$ 30,228
Interest on investments	11,811	-	824
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	11,811	-	31,052
EXPENDITURES			
Current			
Public works	2,220	-	13,603
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	9,591	-	17,449
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)			
Transfers in	89	-	-
Transfers out	-	(89)	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	89	(89)	-
NET CHANGE IN FUND BALANCES	9,680	(89)	17,449
FUND BALANCES, JANUARY 1	254,504	89	2,587
	<hr/>	<hr/>	<hr/>
FUND BALANCES, DECEMBER 31	<u>\$ 264,184</u>	<u>\$ -</u>	<u>\$ 20,036</u>

208 Prison Sewer Project	412 Cemetery Capital Improvements	413 Police Equipment	414 Office Automation	415 Municipal Buildings Maintenance	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,228
39	1,137	1,479	1,137	3,412	19,839
39	1,137	1,479	1,137	3,412	50,067
-	-	-	-	-	15,823
39	1,137	1,479	1,137	3,412	34,244
-	50,000	65,000	50,000	150,000	315,089
-	-	-	-	-	(89)
-	50,000	65,000	50,000	150,000	315,000
39	51,137	66,479	51,137	153,412	349,244
851	-	-	-	-	258,031
<u>\$ 890</u>	<u>\$ 51,137</u>	<u>\$ 66,479</u>	<u>\$ 51,137</u>	<u>\$ 153,412</u>	<u>\$ 607,275</u>

CITY OF BAYPORT, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance With Final Budget Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES					
Taxes					
Property	\$ 796,745	\$ 796,745	\$ 807,623	\$ 10,878	\$ 747,133
Gravel	800	800	389	(411)	634
Total	<u>797,545</u>	<u>797,545</u>	<u>808,012</u>	<u>10,467</u>	<u>747,767</u>
Licenses and permits					
Business	17,450	17,450	19,290	1,840	20,287
Nonbusiness	230,070	230,070	57,735	(172,335)	122,876
Total	<u>247,520</u>	<u>247,520</u>	<u>77,025</u>	<u>(170,495)</u>	<u>143,163</u>
Intergovernmental					
State					
Local government aid	444,051	444,051	385,726	(58,325)	439,726
Property tax credits	38,595	38,595	38,595	-	39,803
Fire state aid	96,000	96,000	71,060	(24,940)	85,720
Police aid	30,000	30,000	34,985	4,985	36,958
PERA aid	2,660	2,660	2,660	-	2,660
Other	1,000	1,000	6,000	5,000	1,000
County					
Compost grant	4,046	4,046	4,084	38	4,546
Local					
Other grants and aids	7,500	7,500	44,800	37,300	12,840
Total	<u>623,852</u>	<u>623,852</u>	<u>587,910</u>	<u>(35,942)</u>	<u>623,253</u>
Charges for services					
General government	3,150	3,150	3,137	(13)	3,073
Public safety	230,274	230,274	234,774	4,500	225,674
Public works	20,000	20,000	42,726	22,726	12,885
Culture and recreation	10,000	10,000	13,041	3,041	8,375
Other	7,500	7,500	18,450	10,950	3,725
Total	<u>270,924</u>	<u>270,924</u>	<u>312,128</u>	<u>41,204</u>	<u>253,732</u>
Fines and forfeitures	<u>35,000</u>	<u>35,000</u>	<u>34,741</u>	<u>(259)</u>	<u>32,991</u>
Special assessments	<u>10,100</u>	<u>10,100</u>	<u>3,974</u>	<u>(6,126)</u>	<u>3,609</u>
Interest on investments	<u>75,000</u>	<u>75,000</u>	<u>118,876</u>	<u>43,876</u>	<u>149,546</u>

CITY OF BAYPORT, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2008
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance With Final Budget Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
REVENUES - CONTINUED					
Miscellaneous					
Rental income	\$ 12,000	\$ 12,000	\$ 16,000	\$ 4,000	\$ -
Contributions and donations	15,500	15,500	22,242	6,742	4,418
Refunds and reimbursements	14,251	14,251	16,795	2,544	34,216
Total	41,751	41,751	55,037	13,286	38,634
TOTAL REVENUES	2,101,692	2,101,692	1,997,703	(103,989)	1,992,695
EXPENDITURES					
Current					
General government					
Mayor and Council					
Personal services	16,161	16,161	16,039	122	22,484
Supplies	300	300	295	5	423
Other services and charges	122,952	122,952	135,589	(12,637)	157,076
Total	139,413	139,413	151,923	(12,510)	179,983
Election					
Personal services	3,500	3,500	2,957	543	1,397
Supplies	475	475	482	(7)	242
Other services and charges	1,165	1,165	966	199	425
Total	5,140	5,140	4,405	735	2,064
Administration					
Personal services	83,726	83,726	88,230	(4,504)	73,297
Supplies	1,800	1,800	1,839	(39)	3,703
Other services and charges	56,743	56,743	67,079	(10,336)	87,607
Total	142,269	142,269	157,148	(14,879)	164,607
Building					
Supplies	750	750	1,677	(927)	577
Other services and charges	37,522	37,522	47,103	(9,581)	40,381
Total	38,272	38,272	48,780	(10,508)	40,958

CITY OF BAYPORT, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2008
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance With Final Budget Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
General government - continued					
Recycling					
Other services and charges	\$ 9,407	\$ 9,407	\$ 11,366	\$ (1,959)	\$ 6,106
Planning and zoning					
Personal services	151,752	151,752	151,296	456	128,110
Supplies	3,200	3,200	2,934	266	2,909
Other services and charges	48,083	48,083	52,836	(4,753)	55,613
Total	203,035	203,035	207,066	(4,031)	186,632
Total general government	537,536	537,536	580,688	(43,152)	580,350
Public safety					
Police					
Personal services	485,161	485,161	503,270	(18,109)	500,426
Supplies	41,250	41,250	38,480	2,770	34,109
Other services and charges	103,197	103,197	92,298	10,899	94,991
Total	629,608	629,608	634,048	(4,440)	629,526
Fire protection					
Personal services	116,358	116,358	120,409	(4,051)	100,022
Supplies	17,350	17,350	18,638	(1,288)	13,080
Other services and charges	155,661	155,661	131,266	24,395	127,995
Total	289,369	289,369	270,313	19,056	241,097
Total public safety	918,977	918,977	904,361	14,616	870,623
Public works					
Streets					
Personal services	78,419	78,419	83,804	(5,385)	77,839
Supplies	22,455	22,455	23,625	(1,170)	24,963
Other services and charges	115,625	115,625	53,316	62,309	114,903
Total	216,499	216,499	160,745	55,754	217,705
Street lighting	21,000	21,000	26,995	(5,995)	23,473
Total public works	237,499	237,499	187,740	49,759	241,178

CITY OF BAYPORT, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2008
(With comparative actual amounts for the year ended December 31, 2007)

	2008			Variance With Final Budget Positive (Negative)	2007
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Current - Continued					
Culture and recreation					
Parks					
Personal services	\$ 42,882	\$ 42,882	\$ 57,110	\$ (14,228)	\$ 43,554
Supplies	5,605	5,605	6,531	(926)	4,375
Other services and charges	30,026	30,026	29,956	70	37,359
Total culture and recreation	<u>78,513</u>	<u>78,513</u>	<u>93,597</u>	<u>(15,084)</u>	<u>85,288</u>
Miscellaneous					
Cemetery					
Supplies	550	550	2,112	(1,562)	659
Other services and charges	5,350	5,350	3,099	2,251	1,879
Total miscellaneous	<u>5,900</u>	<u>5,900</u>	<u>5,211</u>	<u>689</u>	<u>2,538</u>
Total current expenditures	<u>1,778,425</u>	<u>1,778,425</u>	<u>1,771,597</u>	<u>6,828</u>	<u>1,779,977</u>
Capital outlay					
General government	1,500	1,500	6,484	(4,984)	80
Public safety	5,100	5,100	2,911	2,189	23,151
Public works	-	-	58,857	(58,857)	887
Miscellaneous	-	-	-	-	7,800
Total capital outlay	<u>6,600</u>	<u>6,600</u>	<u>68,252</u>	<u>(61,652)</u>	<u>31,918</u>
TOTAL EXPENDITURES	<u>1,785,025</u>	<u>1,785,025</u>	<u>1,839,849</u>	<u>(54,824)</u>	<u>1,811,895</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>316,667</u>	<u>316,667</u>	<u>157,854</u>	<u>(158,813)</u>	<u>180,800</u>
OTHER FINANCING USES (SOURCES)					
Transfers in	5,938	5,938	5,938	-	4,023
Sale of capital assets	500	500	380	(120)	-
Transfers out	(175,500)	(175,500)	(175,500)	-	(214,880)
TOTAL OTHER FINANCING USES (SOURCES)	<u>(169,062)</u>	<u>(169,062)</u>	<u>(169,182)</u>	<u>(120)</u>	<u>(210,857)</u>
NET CHANGE IN FUND BALANCES	147,605	147,605	(11,328)	(158,933)	(30,057)
FUND BALANCES, JANUARY 1	<u>2,891,548</u>	<u>2,891,548</u>	<u>2,891,548</u>	<u>-</u>	<u>2,921,605</u>
FUND BALANCES, DECEMBER 31	<u>\$ 3,039,153</u>	<u>\$ 3,039,153</u>	<u>\$ 2,880,220</u>	<u>\$ (158,933)</u>	<u>\$ 2,891,548</u>

CITY OF BAYPORT, MINNESOTA
 COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 DECEMBER 31, 2007

	Balance January 1	Additions	Deductions	Balance December 31
Escrow				
ASSETS				
Cash and temporary investments (deficits)	\$ 32,572	\$ 25,259	\$ (82,899)	\$ (25,068)
Accounts receivable	-	25,068	-	25,068
TOTAL ASSETS	<u>\$ 32,572</u>	<u>\$ 50,327</u>	<u>\$ (82,899)</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	<u>\$ 32,572</u>	<u>\$ -</u>	<u>\$ (32,572)</u>	<u>\$ -</u>

CITY OF BAYPORT, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	Total		Percent Increase (Decrease)
	2008	2007	
REVENUES			
Taxes	\$ 1,078,720	\$ 995,290	8.38 %
Licenses and permits	77,025	143,163	(46.20)
Intergovernmental	589,407	1,021,368	(42.29)
Charges for services	387,474	330,167	17.36
Fines and forfeits	38,128	53,745	(29.06)
Special assessments	83,969	75,673	10.96
Interest on investments	455,712	503,471	(9.49)
Miscellaneous	224,307	414,214	(45.85)
TOTAL REVENUES	\$ 2,934,742	\$ 3,537,091	(17.03)
Per Capita	896.65	1,090.01	(17.74)
EXPENDITURES			
Current			
General government	\$ 580,688	\$ 580,350	0.06 %
Public safety	920,694	876,219	5.08
Public works	204,918	747,141	(72.57)
Culture and recreation	586,541	426,137	37.64
Miscellaneous	5,211	2,538	105.32
Capital outlay			
General government	6,484	80	8,005.00
Public safety	2,911	572,804	(99.49)
Public works	199,791	115,507	72.97
Culture and recreation	10,468	362,740	(97.11)
Miscellaneous	-	7,800	(100.00)
Debt service			
Principal	80,000	80,000	-
Interest and other charges	44,884	47,605	(5.72)
TOTAL EXPENDITURES	\$ 2,642,590	\$ 3,818,921	(30.80)
Per Capita	807.39	1,176.86	(31.39)
Total Long-term Indebtedness	\$ 995,000	\$ 1,075,000	(7.44) %
Per Capita	304.00	331.28	(8.23)
General Fund Balance - December 31	\$ 2,880,220	\$ 2,891,548	(0.39) %
Per Capita	879.99	891.08	(1.24)

The purpose of this report is to provide a summary of financial information concerning the City of Bayport to interested citizens. The complete financial statements may be examined at City Hall, 294 North Third Street, Bayport, MN 55003. Questions about this report should be directed to Wanda Madsen, Finance Officer at (651) 275-4404.

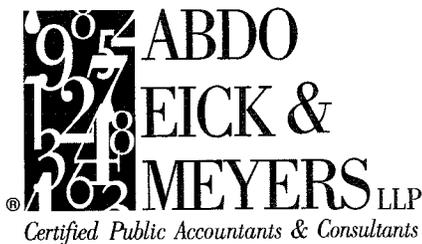
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OTHER REPORTS

CITY OF BAYPORT
BAYPORT, MINNESOTA

YEAR ENDED
DECEMBER 31, 2008

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5201 Eden Avenue
Suite 370
Edina, MN 55436

REPORT ON MINNESOTA LEGAL COMPLIANCE

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 which collectively comprises the basic financial statements as listed in the table of contents and have issued our report thereon dated March 24, 2009.

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 Local Government*, promulgated by the Minnesota Office of 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.

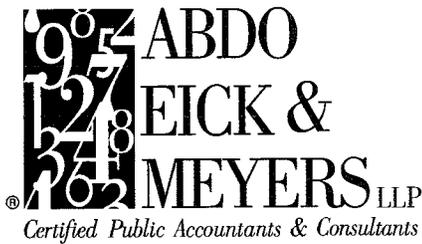
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous city provisions. 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 except as noted as finding 2008-6 in the schedule of findings and responses.

This report is intended solely for the information and use of the Council, management 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.

March 24, 2009
Minneapolis, Minnesota

Abdo, Eick & Meyers, LLP
ABDO, EICK & MEYERS, LLP
Certified Public Accountants



5201 Eden Avenue
Suite 370
Edina, MN 55436

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Honorable Mayor and City Council
City of Bayport, Minnesota

In planning and performing our audit, we considered the City of Bayport, Minnesota, (the City) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 over financial reporting that we consider to be significant deficiencies and others that we consider 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 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 City's internal control. We consider findings 2008-1, 2008-2, 2008-3, 2008-4 and 2008-5 to be significant deficiencies in internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider findings 2008-3, 2008-4 and 2008-5 to be material weaknesses in internal control over financial reporting.



We noted certain matters that we reported to management of the City, in a separate letter dated March 24, 2009.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City 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.

March 24, 2009
Minneapolis, Minnesota

Abdo, Eick & Meyers, LLP
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Certified Public Accountants

CITY OF BAYPORT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2008

<u>Finding</u>	<u>Description</u>
2008-1	<p>Limited Segregation of Duties (finding Since 2007)</p> <p><i>Condition:</i> During our audit, we found that the City has a limited segregation of duties related to many aspects of its accounting systems.</p> <p><i>Criteria:</i> 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.</p> <p><i>Cause:</i> 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.</p> <p><i>Effect:</i> 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.</p> <p><i>Recommendation:</i> 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:</p> <ul style="list-style-type: none">○ 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 <p><i>Management Response:</i> 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.</p>

CITY OF BAYPORT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

Finding

Description

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.

CITY OF BAYPORT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

<u>Finding</u>	<u>Description</u>
2008-3	Maintenance of Accounting System
<i>Condition:</i>	<p>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:</p> <p>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.</p> <p>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.</p> <p>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.</p>
<i>Criteria:</i>	Internal financial information is vital to effective operations of the City and the financial statements are the responsibility of management.
<i>Cause:</i>	Unknown.
<i>Effect:</i>	The financial information was not accurate throughout the year and many adjustments were required ant year-end.
<i>Recommendation:</i>	We recommend the City establish monthly reconciliation procedures to ensure accurate financial reporting throughout the year.
<i>Management Response:</i>	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.

CITY OF BAYPORT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

<u>Finding</u>	<u>Description</u>
2008-4	Material Errors
<i>Condition:</i>	<p>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.</p> <p>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.</p> <p>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.</p>
<i>Criteria:</i>	<p>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.</p>
<i>Cause:</i>	<p>Unknown.</p>
<i>Effect:</i>	<p>There are errors relating to utility billing, payroll and sales tax payable.</p>
<i>Recommendation:</i>	<p>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.</p>
<i>Management Response:</i>	<p>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.</p> <p>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.</p>

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CITY OF BAYPORT, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2008

<u>Finding</u>	<u>Description</u>
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.
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.