

CITY OF BARNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2008

CITY OF BARNESVILLE, MINNESOTA
TABLE OF CONTENTS
DECEMBER 31, 2008

INTRODUCTORY SECTION	
PRINCIPAL CITY OFFICIALS	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	15
STATEMENT OF ACTIVITIES	16
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	18
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES	20
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	23
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS	24
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS	26
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	28
STATEMENT OF FIDUCIARY NET ASSETS – FIRE DEPARTMENT FUND	30
NOTES TO FINANCIAL STATEMENTS	31
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	
BARNESVILLE FIREMAN'S RELIEF ASSOCIATION – SCHEDULE OF FUNDING PROGRESS	57
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	58
BUDGETARY COMPARISON SCHEDULE – COMMUNITY PROJECTS SPECIAL REVENUE FUND	59
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	60

CITY OF BARNESVILLE, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
DECEMBER 31, 2008

FINANCIAL SECTION (CONTINUED)

OTHER SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS 61

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL
FUNDS 63

COMBINING STATEMENT OF NET ASSETS – NONMAJOR
PROPRIETARY FUNDS 65

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS – NONMAJOR PROPRIETARY FUNDS 67

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR
PROPRIETARY FUNDS 69

OTHER COMBINING SCHEDULES

COMBINING BALANCE SHEET – DEBT SERVICE FUND – BY BOND ISSUE 71

COMBINING STATEMENT REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – DEBT SERVICE FUND – BY BOND ISSUE 73

COMBINING BALANCE SHEET – CAPITAL PROJECTS FUND – BY PROJECT 75

COMBINING STATEMENT REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – CAPITAL PROJECTS FUND – BY PROJECT 76

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS* 77

SCHEDULE OF FINDINGS AND RECOMMENDATIONS 79

REPORT ON MINNESOTA LEGAL COMPLIANCE 83

INTRODUCTORY SECTION

**CITY OF BARNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2008**

ELECTED	NAME	TERM EXPIRES
Mayor	Fred Dahnke	12/31/2009
City Council	Del Ellefson	12/31/2011
	Merlin Strom	12/31/2011
	Jeremy Krause	12/31/2011
	Larry Davis, Jr.	12/31/2009
	Roger Cooper	12/31/2009
	Chad Hagen	12/31/2009

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Barnesville
Barnesville, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Barnesville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville, Minnesota, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2009, on our consideration of the City of Barnesville, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in assessing the results of our audit.

Honorable Mayor and
Members of the City Council
City of Barnesville

The management's discussion and analysis, schedule of funding progress, and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Barnesville, Minnesota's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "James Allen LLP".

LarsonAllen LLP

Brainerd, Minnesota
June 5, 2009

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

This section of the City of Barnesville's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2008. The management's discussion and analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2008 and the prior year, 2007 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2008 include the following:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,539,911 (net assets). Of this amount, \$6,417,793 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net assets increased \$927,797 or 7.4 percent over the prior year.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$2,269,711, an increase of \$181,885 in comparison to the prior year. Approximately 41% of this amount, or \$939,445, is reserved for debt service.
- At the end of the current year, unreserved fund balance for the General Fund was \$20,833, or 1.3% of General Fund expenditures.
- The City's total debt decreased by \$174,686 during the current fiscal year. The decrease is attributed to the pay off of bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

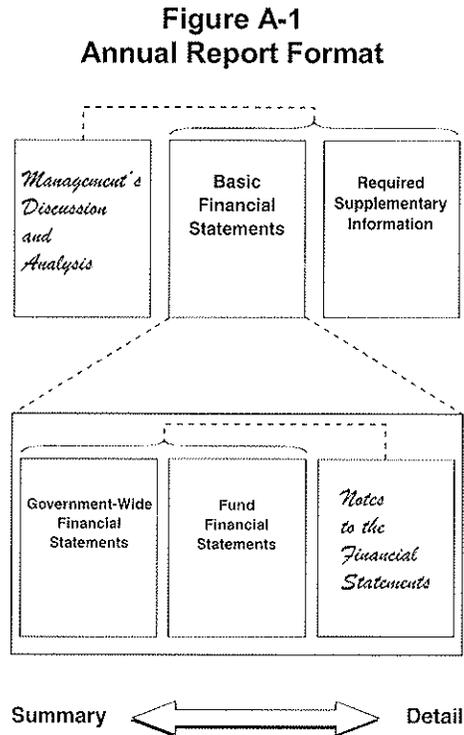
- The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more detail than the City-wide statements.
 - The governmental funds statements tell how basic services such as general government, public safety, and public works were financed in the short-term as well as what remains for future spending.
 - The proprietary funds statements tell how the City's various business-type activities such as water, sewer, electric, telephone, municipal liquor, cable television, sanitation, storm sewer, golf course, ambulance, and broadband internet activities are operating as well as what remains for future spending.
 - Fiduciary funds statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others to whom the resources belong.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements				
Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City's government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	The activities of the City that operate similar to private businesses: water, sewer, telephone, municipal liquor as examples.	Instances in which the City is the trustee or agent for someone else's resources.
Required financial statements	Statement of net assets.	Balance sheet.	Statement of net assets.	Statement of fiduciary net assets.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses, and changes in fund net assets statement of cash flows.	Statement of changes in fiduciary net assets.
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.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, 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.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow 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.	All revenues and expenses during year, regardless of when cash is received or paid.

City-Wide Statements

The City-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two City-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of City buildings and other facilities.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-wide Statements (Continued)

In the City-wide financial statements the City's activities are shown in two categories:

- *Governmental Activities* – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- *Business-Type Activities* – The City's enterprise fund operations are included here. Charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The City has three kinds of funds:

- *Governmental Funds* – The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary Funds* – The City reports eleven proprietary funds. 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, sewer, electric, telephone, municipal liquor, cable television, sanitation, storm sewer, golf course, ambulance, and broadband internet services. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
- *Fiduciary Funds* – The City is the fiscal agent, or fiduciary, for assets that belong to others. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's net assets were \$13,539,911 on December 31, 2008 (see Table A-1).

Table A-1
The City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 4,986,793	\$ 4,947,034	\$ 5,496,735	\$ 5,396,997	\$ 10,483,528	\$ 10,344,031
Capital Assets	2,965,512	2,982,711	10,947,120	10,432,475	13,912,632	13,415,186
Total Assets	<u>7,952,305</u>	<u>7,929,745</u>	<u>16,443,855</u>	<u>15,829,472</u>	<u>24,396,160</u>	<u>23,759,217</u>
Current Liabilities	458,839	411,249	884,099	964,956	1,342,938	1,376,205
Long-Term Liabilities	2,691,261	2,994,219	6,822,050	6,776,679	9,513,311	9,770,898
Total Liabilities	<u>3,150,100</u>	<u>3,405,468</u>	<u>7,706,149</u>	<u>7,741,635</u>	<u>10,856,249</u>	<u>11,147,103</u>
Net Assets						
Invested in Capital Assets						
Net of Related Debt	32,375	(187,222)	3,624,332	3,178,739	3,656,707	2,991,517
Restricted	3,465,411	3,415,058	-	-	3,465,411	3,415,058
Unrestricted	1,304,419	1,296,441	5,113,374	4,909,098	6,417,793	6,205,539
Total Net Assets	<u>\$ 4,802,205</u>	<u>\$ 4,524,277</u>	<u>\$ 8,737,706</u>	<u>\$ 8,087,837</u>	<u>\$ 13,539,911</u>	<u>\$ 12,612,114</u>

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City-wide total revenues were \$7,265,915 for the year ended December 31, 2008. Property taxes and intergovernmental revenues accounted for 14% of total revenue for the year, while user charges accounted for 73% of total revenue (see Table A-2).

Table A-2
Change in Net Assets

	Governmental Activities			Business-Type Activities			Total		Total % Change
	2008	2007	Total % Change	2008	2007	Change	2008	2007	
REVENUES									
Program Revenues									
Charges for Services	\$ 68,059	\$ 72,478	(6.1)%	\$ 5,236,680	\$ 4,850,115	8.0 %	\$ 5,304,739	\$ 4,922,593	7.8 %
Operating Grants and Contributions	234,000	74,596	213.7	34,941	34,427	1.5	268,941	109,023	146.7
Capital Grants and Contributions	244,840	105,475	132.1	-	-	-	244,840	105,475	132.1
General Revenues									
Property Taxes	325,060	293,118	10.9	-	-	-	325,060	293,118	10.9
Tax Increments	119,015	109,664	8.5	-	-	-	119,015	109,664	8.5
Unrestricted State Aid	547,685	542,953	0.9	-	-	-	547,685	542,953	0.9
Investment Earnings	49,821	91,502	(45.6)	41,672	93,859	(55.6)	91,493	185,361	(50.6)
Other	53,121	36,066	47.3	311,021	33,994	814.9	364,142	70,060	419.8
Total Revenues	<u>1,641,601</u>	<u>1,325,852</u>	23.8	<u>5,624,314</u>	<u>5,012,395</u>	12.2	<u>7,265,915</u>	<u>6,338,247</u>	14.6
EXPENSES									
General Government	658,071	597,035	10.2	-	-	-	658,071	597,035	10.2
Public Safety	499,041	468,163	6.6	-	-	-	499,041	468,163	6.6
Public Works	414,137	396,043	4.6	-	-	-	414,137	396,043	4.6
Culture and Recreation	254,477	195,565	30.1	-	-	-	254,477	195,565	30.1
Economic Development	318,723	273,233	16.6	-	-	-	318,723	273,233	16.6
Interest	136,682	133,114	2.7	-	-	-	136,682	133,114	2.7
Water	-	-	-	295,894	305,835	(3.3)	295,894	305,835	(3.3)
Sewer	-	-	-	330,251	146,147	126.0	330,251	146,147	126.0
Electric	-	-	-	1,388,490	1,226,740	13.2	1,388,490	1,226,740	13.2
Telephone	-	-	-	575,365	607,902	(5.4)	575,365	607,902	(5.4)
Municipal Liquor	-	-	-	363,955	332,771	9.4	363,955	332,771	9.4
Cable Television	-	-	-	335,727	305,494	9.9	335,727	305,494	9.9
Sanitation	-	-	-	160,794	157,111	2.3	160,794	157,111	2.3
Storm Sewer	-	-	-	24,568	29,057	(15.4)	24,568	29,057	(15.4)
Golf Course	-	-	-	140,792	148,323	(5.1)	140,792	148,323	(5.1)
Ambulance	-	-	-	372,525	350,408	6.3	372,525	350,408	6.3
Broadband Internet	-	-	-	68,626	85,773	-	68,626	85,773	(20.0)
Total Expenses	<u>2,281,131</u>	<u>2,063,153</u>	10.6	<u>4,056,987</u>	<u>3,695,561</u>	9.8	<u>6,338,118</u>	<u>5,758,714</u>	10.1
Transfers	<u>917,458</u>	<u>868,299</u>	5.7	<u>(917,458)</u>	<u>(868,299)</u>	5.7	<u>-</u>	<u>-</u>	-
CHANGE IN NET ASSETS	<u>277,928</u>	<u>130,998</u>	112.2	<u>649,869</u>	<u>448,535</u>	44.9	<u>927,797</u>	<u>579,533</u>	60.1
Net Assets - Beginning of Year	4,524,277	3,764,283	20.2	8,087,837	8,268,298	(2.2)	12,612,114	12,032,581	4.8
Prior Period Adjustment	-	628,996	-	-	(628,996)	-	-	-	-
NET ASSETS - END OF YEAR	<u>\$ 4,802,205</u>	<u>\$ 4,524,277</u>	6.1	<u>\$ 8,737,706</u>	<u>\$ 8,087,837</u>	8.0	<u>\$ 13,539,911</u>	<u>\$ 12,612,114</u>	7.4

Total revenues surpassed expenses, increasing net assets \$927,797 over last year. The business-type activities net assets increased primarily due to greater than anticipated revenues. The governmental activities net assets increased primarily from the increase in intergovernmental revenues.

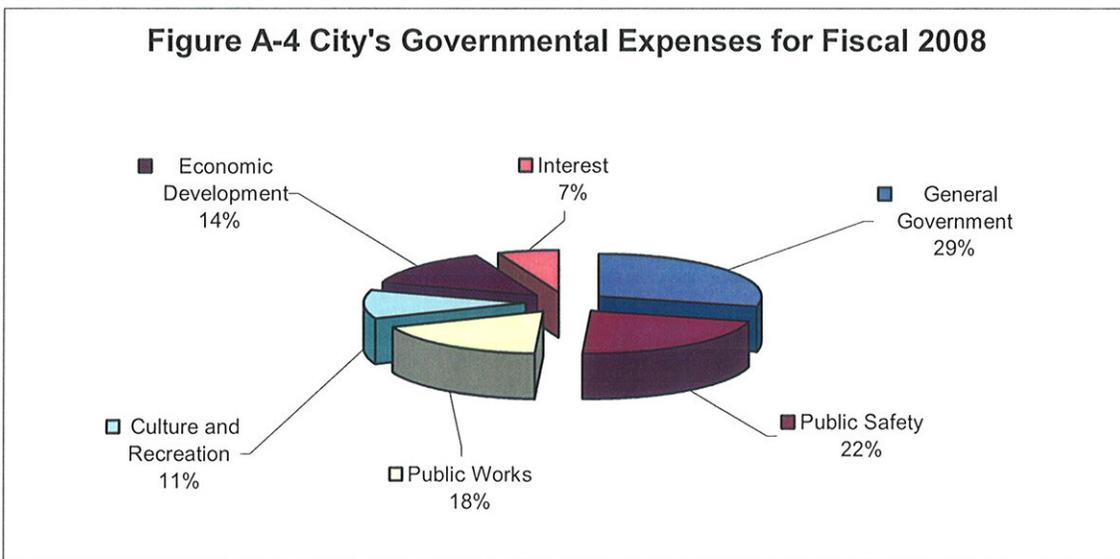
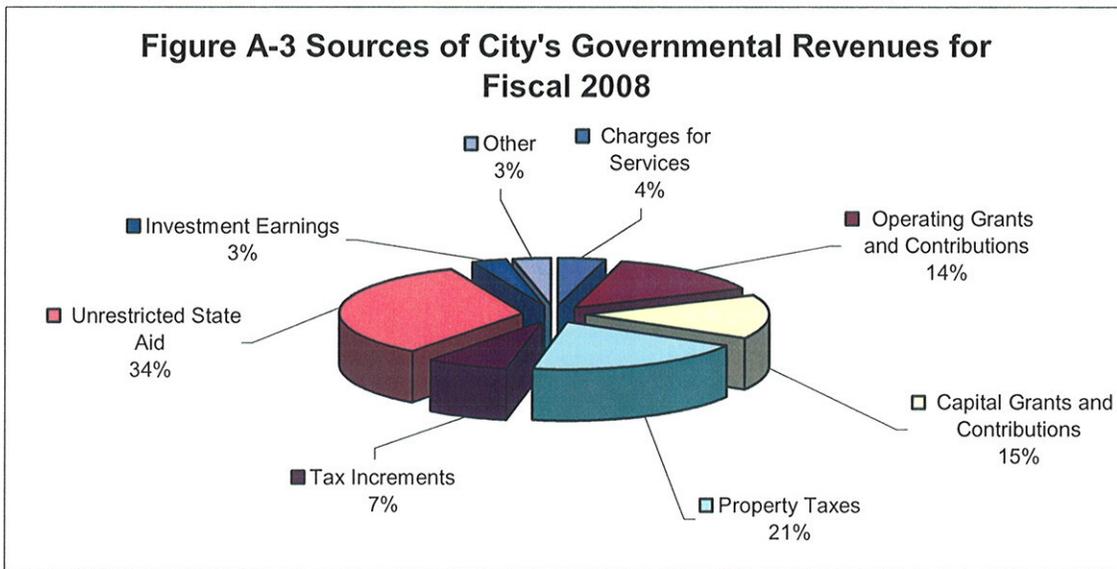
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

The City-wide cost of all governmental activities this year was \$2,281,131.

- Some of the cost was paid by the users of the City's programs (\$68,059).
- Property taxes and the federal and state governments subsidized certain programs with grants and contributions (\$1,351,585).
- Transfers from the City's business-type operations also subsidize governmental operations (\$917,458).



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage Change	Net Revenue (Cost of Services) After Program Revenues		Percentage Change
	2008	2007		2008	2007	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 658,071	\$ 597,035	10.2 %	\$ (626,079)	\$ (564,922)	10.8 %
Public Safety	499,041	468,163	6.6	(412,161)	(397,176)	3.8
Public Works	414,137	396,043	4.6	(182,589)	(305,140)	(40.2)
Culture and Recreation	254,477	195,565	30.1	(222,779)	(156,134)	42.7
Economic Development	318,723	273,233	16.6	(153,942)	(254,118)	(39.4)
Interest and Fiscal Charges on Interest	136,682	133,114	2.7	(136,682)	(133,114)	2.7
Total	\$ 2,281,131	\$ 2,063,153	10.6	\$ (1,734,232)	\$ (1,810,604)	(4.2)
BUSINESS-TYPE ACTIVITIES						
Water	\$ 295,894	\$ 305,835	(3.3)%	\$ 112,737	\$ 80,059	40.8 %
Sewer	330,251	146,147	126.0	277,568	394,902	(29.7)
Electric	1,388,490	1,226,740	13.2	250,501	265,817	(5.8)
Telephone	575,365	607,902	(5.4)	475,036	438,725	8.3
Municipal Liquor	363,955	332,771	9.4	1,814	11,893	(84.7)
Cable Television	335,727	305,494	9.9	16,975	6,537	159.7
Sanitation	160,794	157,111	2.3	29,014	10,920	165.7
Storm Sewer	24,568	29,057	(15.4)	3,050	(2,945)	(203.6)
Golf Course	140,792	148,323	(5.1)	(21,948)	(37,713)	(41.8)
Ambulance	372,525	350,408	6.3	(51,210)	(73,872)	(30.7)
Broadband Internet	68,626	85,773	(20.0)	121,097	94,658	27.9
Total	\$ 4,056,987	\$ 3,695,561	9.8	\$ 1,214,634	\$ 1,188,981	2.2

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

The financial performance of the City as a whole is reflected in its governmental funds as well. As the City completed the year, its governmental funds reported a combined fund balance of \$2,269,711.

Revenues for the City's governmental funds were \$1,757,448, while total expenditures were \$2,538,699.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

GENERAL FUND

The General Fund includes the primary operations of the City in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

Table A-4
General Fund Revenues

Fund	Year Ended		Change	
	December 31, 2008	December 31, 2007	Increase (Decrease)	Percent
Taxes	\$ 317,044	\$ 293,874	\$ 23,170	7.9 %
Special Assessments	8,992	10,683	(1,691)	(15.8)
Licenses and Permits	20,255	21,817	(1,562)	(7.2)
Intergovernmental	593,659	569,991	23,668	4.2
Charges for Services	2,084	2,241	(157)	(7.0)
Fines and Forfeits	14,122	9,059	5,063	55.9
Interest	365	286	79	27.6
Miscellaneous and Other	18,767	37,066	(18,299)	(49.4)
Total General Fund Revenue	<u>\$ 975,288</u>	<u>\$ 945,017</u>	<u>\$ 30,271</u>	3.2

Total General Fund revenue increased by \$30,271 or 3.2%, from the previous year. The primary reason for the increase is increased intergovernmental revenues and tax levy increases. Also during 2008 the Governor through a process of unallotment decreased local government aid by \$36,533 to the City.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2008	December 31, 2007	Increase (Decrease)	Percent
General Government	\$ 636,828	\$ 618,412	\$ 18,416	3.0 %
Public Safety	416,151	402,989	13,162	3.3
Public Works	255,250	237,247	18,003	7.6
Airport	1,326	784	542	69.1
Economic Development	132,636	127,285	5,351	4.2
Capital Outlay	143,891	99,457	44,434	44.7
Debt Service	74,128	12,037	62,091	515.8
Total Expenditures	<u>\$ 1,660,210</u>	<u>\$ 1,498,211</u>	<u>\$ 161,999</u>	10.8

The General Fund's expenditures increased \$161,999 from 2007. This increase is primarily due to a significant increase in debt service (the City paid off its capital lease during 2008 for \$64,395) and increases in wages and capital outlay.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2008**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

Over the course of the year, the City did not revise the annual operating budget. Historically, the City has not made budget amendments during the year.

- Actual revenues were \$26,753 less than expected. This is primarily due to less than anticipated tax revenues and miscellaneous revenues.
- The actual expenditures were \$98,109 more than budget. This is primarily due to the City completely paying off a capital lease for land early in the amount of \$64,395.

CONSTRUCTION PROJECTS AND DEBT SERVICE

The City finalized construction of its sewer retention ponds in 2008 drawing down \$134,877 from the Minnesota Public Facility Administration to complete the project.

An annual levy is made to fund the bond payments for all previous bond issues. Other improvement projects have special assessments to fund the bond payments.

CAPITAL ASSETS

By the end of 2008, the City had invested approximately \$13,900,000 (net of accumulated depreciation) in a broad range of capital assets, including buildings, computers, improvements, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3.A.3 to the financial statements). Total depreciation expense for the year was \$504,187 (including the enterprise funds).

Table A-6
The City's Capital Assets

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2008	2007		2008	2007		2008	2007	
Land	\$ 617,741	\$ 644,891	(4.2)%	\$ 113,908	\$ 100,831	- %	\$ 731,649	\$ 745,722	(1.9)%
Construction-in-Progress	11,613	101,944	(88.6)	-	-	-	11,613	101,944	(88.6)
Buildings	1,229,498	1,229,498	-	2,561,644	2,420,194	5.8	3,791,142	3,649,692	3.9
Infrastructure	3,227,190	3,033,704	6.4	9,848,794	9,853,189	(0.0)	13,075,984	12,886,893	1.5
Improvements	168,897	168,897	-	1,056,370	1,056,370	-	1,225,267	1,225,267	-
Machinery and Equipment	442,670	427,866	3.5	3,460,043	2,832,836	22.1	3,902,713	3,260,702	19.7
Vehicles	279,646	246,173	13.6	326,094	318,436	2.4	605,740	564,609	7.3
Less: Accumulated Depreciation	<u>(3,011,743)</u>	<u>(2,870,262)</u>	4.9	<u>(6,419,733)</u>	<u>(6,149,381)</u>	4.4	<u>(9,431,476)</u>	<u>(9,019,643)</u>	4.6
Total	<u>\$ 2,965,512</u>	<u>\$ 2,982,711</u>	(0.6)	<u>\$ 10,947,120</u>	<u>\$ 10,432,475</u>	4.9	<u>\$ 13,912,632</u>	<u>\$ 13,415,186</u>	3.7

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

LONG-TERM LIABILITIES

At year-end, the City had \$10,357,941 in long-term liabilities outstanding.

- The City's governmental activities net long-term debt decreased \$229,749, due primarily to the repayment of general obligation bonds. The City's business-type activities net long-term debt increased \$55,063 due primarily to the draw down of PFA loan money in 2008.

Table A-7
The City's Long-Term Liabilities

	2008	2007	Percenta ge Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 2,934,471	\$ 3,123,941	(6.1)%
Capital Leases Payable	15,671	64,395	(75.7)
Compensated Absences Payable	92,560	85,513	8.2
Less: Bond Discounts	<u>(17,005)</u>	<u>(18,403)</u>	(7.6)
Total Governmental Activities	<u>\$ 3,025,697</u>	<u>\$ 3,255,446</u>	(7.1)
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds	\$ 1,967,855	\$ 1,750,597	12.4 %
General Obligation Revenue Notes	3,952,000	4,002,763	(1.3)
General Obligation Bonds	1,440,000	1,530,000	(5.9)
Compensated Absences Payable	9,456	23,445	(59.7)
Less: Bond Discounts	<u>(37,067)</u>	<u>(29,624)</u>	25.1
Total Business-Type Activities	<u>7,332,244</u>	<u>7,277,181</u>	0.8
Total City Wide Debt	<u>\$ 10,357,941</u>	<u>\$ 10,532,627</u>	(1.7)

FACTORS BEARING ON THE CITY'S FUTURE

The City is dependent on the state of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the legislature may decrease revenues again. Also the City depends heavily in the general fund on operational transfers, in lieu of a higher tax levy, from the City's business-type activities which are based on profitability of the business-type funds.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration and Finance Department, City of Barnesville, 102 Front Street, Barnesville, Minnesota, 56514.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Pooled Investments	\$ 2,330,705	\$ 2,874,825	\$ 5,205,530	\$ 122,950
Taxes Receivable				
Delinquent	10,321	-	10,321	-
Special Assessments Receivable				
Delinquent	572	-	572	-
Deferred	2,625,481	-	2,625,481	-
Tax Increments Receivables	544	-	544	-
Accounts Receivable - Net	3,911	865,103	869,014	-
Accrued Interest Receivable	3,048	-	3,048	-
Notes Receivable - Net	21,304	-	21,304	-
Due from Other Governments	18,484	-	18,484	-
Internal Balances	(101,779)	101,779	-	-
Inventories	-	42,107	42,107	-
Land Held for Resale	-	-	-	131,583
Unamortized Bond Issue Costs	-	21,558	21,558	-
Advances to Component Unit	74,202	-	74,202	-
Advances to Primary Government	-	-	-	20,000
Investment in Joint Venture	-	1,591,363	1,591,363	-
Capital Assets not Being Depreciated				
Land	617,741	113,908	731,649	-
Construction in Progress	11,613	-	11,613	-
Capital Assets Being Depreciated				
Buildings	751,647	1,421,332	2,172,979	-
Infrastructure	1,286,277	7,629,489	8,915,766	-
Improvements	40,599	502,591	543,190	-
Machinery and Equipment	154,962	1,169,279	1,324,241	-
Vehicles	102,673	110,521	213,194	-
Total Assets	7,952,305	16,443,855	24,396,160	274,533
LIABILITIES				
Accounts Payable	33,585	175,960	209,545	8,568
Salaries and Benefits Payable	19,572	10,498	30,070	2,170
Deposits Payable	-	9,791	9,791	-
Accrued Interest Payable	51,246	92,347	143,593	-
Due to Other Governments	-	36,073	36,073	-
Special Assessments Payable	-	-	-	110,816
Advances from Primary Government	-	-	-	74,202
Advances from Component Unit	20,000	-	20,000	-
Deferred Revenue	-	49,236	49,236	-
Notes Payable - Due Within One Year	-	-	-	14,297
Bonds Payable - Due Within One Year	257,426	503,396	760,822	-
Capital Leases Payable - Due Within One Year	4,925	-	4,925	-
Compensated Absences Payable - Due Within One Year	72,085	6,798	78,883	3,984
Bonds Payable - Due in More Than One Year	2,660,040	6,819,392	9,479,432	-
Capital Leases Payable - Due in More Than One Year	10,746	-	10,746	-
Compensated Absences Payable - Due in More Than One Year	20,475	2,658	23,133	1,329
Total Liabilities	3,150,100	7,706,149	10,856,249	215,366
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	32,375	3,624,332	3,656,707	-
Restricted for				
Debt Service	3,465,411	-	3,465,411	-
Unrestricted	1,304,419	5,113,374	6,417,793	59,167
Total Net Assets	\$ 4,802,205	\$ 8,737,706	\$ 13,539,911	\$ 59,167

See accompanying Notes to the Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008**

Functions/Programs	Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 658,071	\$ 31,992	\$ -	\$ -
Public Safety	499,041	3,441	35,990	47,449
Public Works	414,137	1,028	33,129	197,391
Culture and Recreation	254,477	31,598	100	-
Economic Development	318,723	-	164,781	-
Interest	136,682	-	-	-
Total Governmental Activities	2,281,131	68,059	234,000	244,840
Business-Type Activities				
Water	295,894	408,631	-	-
Sewer	330,251	607,819	-	-
Electric	1,388,490	1,638,991	-	-
Telephone	575,365	1,047,386	3,015	-
Municipal Liquor	363,955	365,769	-	-
Cable Television	335,727	352,702	-	-
Sanitation	160,794	165,969	23,839	-
Storm Sewer	24,568	27,618	-	-
Golf Course	140,792	118,701	143	-
Ambulance	372,525	313,371	7,944	-
Broadband Internet	68,626	189,723	-	-
Total Business-Type Activities	4,056,987	5,236,680	34,941	-
Total Primary Government	<u>\$ 6,338,118</u>	<u>\$ 5,304,739</u>	<u>\$ 268,941</u>	<u>\$ 244,840</u>
Component Unit				
EDA	<u>\$ 183,766</u>	<u>\$ 74,057</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues
 Property Taxes
 Tax Increments
 Grants and Contributions not Restricted for a Particular Purpose
 Investment Earnings
 Miscellaneous
 Transfers
 Total General Revenues

CHANGE IN NET ASSETS

Net Assets - Beginning of Year

NET ASSETS - END OF YEAR

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (626,079)	\$ -	\$ (626,079)	\$ -
(412,161)	-	(412,161)	-
(182,589)	-	(182,589)	-
(222,779)	-	(222,779)	-
(153,942)	-	(153,942)	-
(136,682)	-	(136,682)	-
(1,734,232)	-	(1,734,232)	-
-	112,737	112,737	-
-	277,568	277,568	-
-	250,501	250,501	-
-	475,036	475,036	-
-	1,814	1,814	-
-	16,975	16,975	-
-	29,014	29,014	-
-	3,050	3,050	-
-	(21,948)	(21,948)	-
-	(51,210)	(51,210)	-
-	121,097	121,097	-
-	1,214,634	1,214,634	-
(1,734,232)	1,214,634	(519,598)	-
-	-	-	(109,709)
325,060	-	325,060	-
119,015	-	119,015	-
547,685	-	547,685	2,005
49,821	41,672	91,493	1,818
53,121	311,021	364,142	151,736
917,458	(917,458)	-	-
2,012,160	(564,765)	1,447,395	155,559
277,928	649,869	927,797	45,850
4,524,277	8,087,837	12,612,114	13,317
\$ 4,802,205	\$ 8,737,706	\$ 13,539,911	\$ 59,167

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FUND FINANCIAL STATEMENTS

**CITY OF BARNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	General	Community Projects	Debt Service Fund
ASSETS			
Cash and Investments	\$ 41,426	\$ 1,155,019	\$ 939,445
Taxes Receivable			
Delinquent	10,321	-	-
Special Assessments Receivable			
Delinquent	45	-	527
Deferred	50,046	-	2,575,435
Accounts Receivable	-	-	-
Tax Increments Receivables	-	-	-
Accrued Interest Receivable	3,048	-	-
Notes Receivable	14,297	-	-
Due From Other Governments	18,484	-	-
Advance to Other Funds	-	47,792	-
Advance to Component Unit	74,202	-	-
Due from Other Funds		14,740	-
	<u>\$ 211,869</u>	<u>\$ 1,217,551</u>	<u>\$ 3,515,407</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 30,922	\$ -	\$ -
Salaries and Benefits Payable	17,170	-	-
Due to Other Funds	14,740	-	-
Advance from Other Funds	47,792	-	-
Advance from Component Unit	20,000	-	-
Deferred Revenue	60,412	-	2,575,962
	<u>191,036</u>	<u>-</u>	<u>2,575,962</u>
Fund Balances			
Reserved for			
Debt service	-	-	939,445
Notes Receivables	14,297	-	-
Unreserved, Reported In			
General Fund - Undesignated	6,536	-	-
Special Revenue - Designated	-	1,217,551	-
Capital Projects - Undesignated	-	-	-
	<u>20,833</u>	<u>1,217,551</u>	<u>939,445</u>
Total Fund Balances	<u>20,833</u>	<u>1,217,551</u>	<u>939,445</u>
Total Liabilities and Fund Balances	<u>\$ 211,869</u>	<u>\$ 1,217,551</u>	<u>\$ 3,515,407</u>

See accompanying Notes to Financial Statements.

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 194,815	\$ 2,330,705
-	-	10,321
-	-	572
-	-	2,625,481
-	3,911	3,911
-	544	544
-	-	3,048
-	7,007	21,304
-	-	18,484
-	-	47,792
-	-	74,202
-	-	14,740
<u>\$ -</u>	<u>\$ 206,277</u>	<u>\$ 5,151,104</u>

\$ -	\$ 2,663	\$ 33,585
-	2,402	19,572
101,779	-	116,519
-	-	47,792
-	-	20,000
-	7,551	2,643,925
<u>101,779</u>	<u>12,616</u>	<u>2,881,393</u>
-	-	939,445
-	-	14,297
-	-	6,536
-	193,661	1,411,212
<u>(101,779)</u>	<u>-</u>	<u>(101,779)</u>
<u>(101,779)</u>	<u>193,661</u>	<u>2,269,711</u>
<u>\$ -</u>	<u>\$ 206,277</u>	<u>\$ 5,151,104</u>

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**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	\$ 2,269,711
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,965,512
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	2,643,925
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds Payable, Net of Unamortized Bond Discounts	\$ (2,917,466)
Capital Lease Obligations	(15,671)
Accrued Compensated Absences	(92,560)
Accrued Interest Payable on General Obligation Bonds	(51,246)
	<u>(3,076,943)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,802,205</u>

See accompanying Notes to Financial Statements.

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

	General Fund	Community Projects	Debt Service Fund
REVENUES			
Taxes	\$ 317,044	\$ -	\$ 4,277
Tax Increments	-	-	-
Special Assessments	8,992	-	278,515
Licenses and Permits	20,255	-	-
Intergovernmental	593,659	-	93,462
Charges for Services	2,084	-	-
Fines and Forfeits	14,122	-	-
Gifts and Contributions	-	-	-
Interest on Investments	365	33,370	14,913
Miscellaneous	18,767	-	-
Total Revenues	975,288	33,370	391,167
EXPENDITURES			
Current			
General Government	636,828	-	-
Public Safety	416,151	-	-
Public Works	255,250	-	-
Airport	1,326	-	-
Parks and Recreation	-	-	-
Economic Development	132,636	20,000	-
Capital Outlay			
General Government	1,754	-	-
Public Safety	26,074	-	-
Public Works	116,063	-	-
Parks and Recreation	-	-	-
Debt Service			
Principal	70,252	-	189,470
Interest and Other Charges	3,876	-	130,748
Total Expenditures	1,660,210	20,000	320,218
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(684,922)	13,370	70,949
OTHER FINANCING SOURCES (USES)			
Transfers In	954,458	-	96,314
Transfers Out	(358,967)	(2,500)	-
Capital Lease Proceeds	21,528	-	-
Proceeds from Sale of Capital Assets	24,150	-	-
Total Other Financing Sources (Uses)	641,169	(2,500)	96,314
NET CHANGE IN FUND BALANCE	(43,753)	10,870	167,263
Fund Balance - Beginning of Year	64,586	1,206,681	772,182
FUND BALANCE - END OF YEAR	\$ 20,833	\$ 1,217,551	\$ 939,445

See accompanying Notes to Financial Statements.

Capital Project Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 321,321
-	118,471	118,471
-	-	287,507
-	-	20,255
-	176,284	863,405
-	31,598	33,682
-	-	14,122
-	26,301	26,301
-	913	49,561
-	4,056	22,823
-	357,623	1,757,448
-	180,606	817,434
-	22,507	438,658
-	-	255,250
-	-	1,326
-	213,583	213,583
-	51,069	203,705
-	-	1,754
-	-	26,074
27,334	-	143,397
-	43,172	43,172
-	-	259,722
-	-	134,624
27,334	510,937	2,538,699
(27,334)	(153,314)	(781,251)
-	228,153	1,278,925
-	-	(361,467)
-	-	21,528
-	-	24,150
-	228,153	963,136
(27,334)	74,839	181,885
(74,445)	118,822	2,087,826
\$ (101,779)	\$ 193,661	\$ 2,269,711

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**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2008**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 181,885**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 168,832	
Current Year Depreciation	<u>(155,401)</u>	13,431

In the statement of activities, only the gain or loss on the disposal of capital assets are reported whereas in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net cost of the capital assets disposed of. (30,630)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (115,847)

Capital lease purchases. (21,528)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal Repayments:		
General Obligation Bonds	189,470	
Capital Lease	<u>70,252</u>	259,722

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Accrued Interest Payable	(660)	
Amortization of Discounts	(1,398)	
Change in Compensated Absences	<u>(7,047)</u>	<u>(9,105)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 277,928**

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

ASSETS	Water	Sewer	Electric
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 322,601	\$ 788,378	\$ 464,555
Accounts Receivable - Net	71,598	111,915	374,173
Inventories	-	-	-
Due from Other Funds	-	-	-
Total Current Assets	394,199	900,293	838,728
NONCURRENT ASSETS			
Investment in Joint Venture	-	-	-
Unamortized Bond Issue Costs	-	-	-
Capital Assets			
Land	-	100,831	-
Buildings (Net)	462,084	426,784	84,821
Infrastructure (Net)	1,631,247	4,648,331	342,602
Improvements (Net)	-	-	-
Machinery and Equipment (Net)	121,117	70,663	182,056
Vehicles (Net)	-	-	-
Total Capital Assets	2,214,448	5,246,609	609,479
Total Noncurrent Assets	2,214,448	5,246,609	609,479
Total Assets	2,608,647	6,146,902	1,448,207
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	14,021	9,120	17,602
Salaries and Benefits Payable	193	-	1,016
Deposits Payable	-	-	9,791
Accrued Interest Payable	22,829	30,997	5,770
Due to Other Governments	21,580	-	5,038
Due to Other Funds	-	-	-
Deferred Revenue	-	-	16,242
Compensated Absences - Due Within One Year	1,018	504	1,272
Bonds Payable - Due Within One Year	132,071	276,325	26,000
Total Current Liabilities	191,712	316,946	82,731
NONCURRENT LIABILITIES			
Compensated Absences Payable -			
Due in More than One Year	340	168	424
Bonds Payable - Due in More than One Year	1,218,463	4,184,533	266,846
Total Noncurrent Liabilities	1,218,803	4,184,701	267,270
Total Liabilities	1,410,515	4,501,647	350,001
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	863,914	785,751	316,633
Unrestricted	334,218	859,504	781,573
Total Net Assets	\$ 1,198,132	\$ 1,645,255	\$ 1,098,206

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 617,931	\$ 46,504	\$ 155,228	\$ 479,628	\$ 2,874,825
122,082	734	72,199	112,402	865,103
-	40,907	-	1,200	42,107
127,375	-	-	-	127,375
<u>867,388</u>	<u>88,145</u>	<u>227,427</u>	<u>593,230</u>	<u>3,909,410</u>
1,591,363	-	-	-	1,591,363
-	-	21,558	-	21,558
-	-	-	13,077	113,908
1,251	2,708	83,480	360,204	1,421,332
-	-	380,645	626,664	7,629,489
444,872	-	-	57,719	502,591
164,364	4,526	483,203	143,350	1,169,279
14,810	-	13,206	82,505	110,521
<u>625,297</u>	<u>7,234</u>	<u>960,534</u>	<u>1,283,519</u>	<u>10,947,120</u>
<u>2,216,660</u>	<u>7,234</u>	<u>982,092</u>	<u>1,283,519</u>	<u>12,560,041</u>
3,084,048	95,379	1,209,519	1,876,749	16,469,451
66,431	14,008	12,323	42,455	175,960
4,271	1,034	694	3,290	10,498
-	-	-	-	9,791
8,655	-	24,096	-	92,347
3,286	2,900	1,929	1,340	36,073
-	-	-	25,596	25,596
-	-	32,994	-	49,236
183	346	1,937	1,538	6,798
39,000	-	30,000	-	503,396
<u>121,826</u>	<u>18,288</u>	<u>103,973</u>	<u>74,219</u>	<u>909,695</u>
61	115	646	904	2,658
400,270	-	749,280	-	6,819,392
<u>400,331</u>	<u>115</u>	<u>749,926</u>	<u>904</u>	<u>6,822,050</u>
<u>522,157</u>	<u>18,403</u>	<u>853,899</u>	<u>75,123</u>	<u>7,731,745</u>
186,027	7,234	181,254	1,283,519	3,624,332
2,375,864	69,742	174,366	518,107	5,113,374
<u>\$ 2,561,891</u>	<u>\$ 76,976</u>	<u>\$ 355,620</u>	<u>\$ 1,801,626</u>	<u>\$ 8,737,706</u>

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2008

	Water	Sewer	Electric
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
Charges for Services	408,631	607,819	1,638,991
OPERATING EXPENSES			
Professional Services	109,716	84,983	92,260
Wages, Salaries, and Compensation	7,313	628	32,862
Repairs and Maintenance	5,209	6,317	30,474
Insurance	6,145	2,169	3,840
Utilities	-	-	2,729
Depreciation	61,832	119,712	29,955
Materials and Supplies	29,898	175	1,740
Miscellaneous Expenses	21,836	14,837	46,656
Purchased Power	-	-	1,067,185
License Fees	7,265	-	-
Equipment	-	-	66,500
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	249,214	228,821	1,374,201
OPERATING INCOME (LOSS)	159,417	378,998	264,790
NONOPERATING REVENUES (EXPENSES)			
Investment Income	6,108	10,242	5,040
Joint Venture Income	-	-	-
Intergovernmental Grants	-	-	-
Miscellaneous - Nonoperating	19,574	491	13,774
Interest Expense and Fiscal Charges	(46,680)	(101,430)	(14,289)
Total Nonoperating Revenues (Expenses)	(20,998)	(90,697)	4,525
Income (Loss) before Transfers	138,419	288,301	269,315
Transfers In	-	-	-
Transfers Out	(78,452)	(87,000)	(105,000)
CHANGE IN NET ASSETS	59,967	201,301	164,315
Net Assets - Beginning of Year	1,138,165	1,443,954	933,891
NET ASSETS - END OF YEAR	\$ 1,198,132	\$ 1,645,255	\$ 1,098,206

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ -	\$ 365,769	\$ -	\$ -	\$ 365,769
-	285,632	-	-	285,632
-	80,137	-	-	80,137
1,047,386	-	352,702	815,382	4,870,911
42,307	-	2,293	147,979	479,538
163,675	56,056	33,855	202,203	496,592
18,868	526	7,591	21,866	90,851
3,788	7,196	4,501	14,313	41,952
-	-	-	5,249	7,978
28,743	2,677	26,950	78,917	348,786
4,936	1,001	1,974	62,774	102,498
291,614	8,793	11,715	94,985	490,436
-	-	-	-	1,067,185
-	-	199,443	-	206,708
-	2,074	10,599	-	79,173
-	-	-	139,019	139,019
553,931	78,323	298,921	767,305	3,550,716
493,455	1,814	53,781	48,077	1,400,332
11,871	795	3,415	4,201	41,672
106,230	-	-	-	106,230
3,015	-	-	31,926	34,941
10,426	1,051	418	159,057	204,791
(21,434)	-	(36,806)	-	(220,639)
110,108	1,846	(32,973)	195,184	166,995
603,563	3,660	20,808	243,261	1,567,327
10,535	-	-	34,500	45,035
(533,450)	(22,202)	(24,000)	(112,389)	(962,493)
80,648	(18,542)	(3,192)	165,372	649,869
2,481,243	95,518	358,812	1,636,254	8,087,837
\$ 2,561,891	\$ 76,976	\$ 355,620	\$ 1,801,626	\$ 8,737,706

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2008**

	Water	Sewer	Electric
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 406,474	\$ 594,363	\$ 1,604,492
Payments to Suppliers	(173,355)	(109,030)	(1,337,117)
Payments to Employees	(8,006)	(108)	(37,850)
Net Cash Provided (Used) by Operating Activities	225,113	485,225	229,525
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers Out	(78,452)	(87,000)	(105,000)
Transfers In	-	-	-
Interfund Borrowings	-	-	-
Grant Receipts	-	-	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(78,452)	(87,000)	(105,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(128,292)	(250,090)	(26,000)
Interest Paid on Debt	(58,447)	(82,452)	(14,394)
Bond Proceeds	-	134,877	-
Acquisition of Capital Assets	(87,055)	(155,792)	-
Receipts from Joint Venture	-	-	-
Other Miscellaneous Receipts	19,574	491	13,774
Net Cash Provided (Used) by Capital and Related Financing Activities	(254,220)	(352,966)	(26,620)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	6,108	10,242	5,040
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(101,451)	55,501	102,945
Cash and Cash Equivalents - Beginning of Year	424,052	732,877	361,610
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 322,601</u>	<u>\$ 788,378</u>	<u>\$ 464,555</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 159,417	\$ 378,998	\$ 264,790
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	61,832	119,712	29,955
(Increase) Decrease in Assets			
Accounts Receivable	(2,157)	(13,456)	(39,213)
Inventory	-	-	(2,224)
Increase (Decrease) in Liabilities			
Accounts Payable	994	(549)	(23,459)
Salaries and Benefits Payable	(693)	520	(4,988)
Deposits Payable	-	-	(50)
Due to Other Governments	5,720	-	-
Deferred Revenue	-	-	4,714
Total Adjustments	65,696	106,227	(35,265)
Net Cash Provided (Used) by Operating Activities	<u>\$ 225,113</u>	<u>\$ 485,225</u>	<u>\$ 229,525</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 1,040,461	\$ 369,324	\$ 346,411	\$ 808,475	\$ 5,170,000
(358,372)	(298,872)	(233,950)	(480,941)	(2,991,637)
(174,261)	(60,064)	(34,414)	(204,829)	(519,532)
507,828	10,388	78,047	122,705	1,658,831
(533,450)	(22,202)	(24,000)	(112,389)	(962,493)
10,535	-	-	34,500	45,035
(19,894)	-	-	(7,440)	(27,334)
3,015	-	-	31,926	34,941
(539,794)	(22,202)	(24,000)	(53,403)	(909,851)
(39,000)	-	(405,000)	-	(848,382)
(21,591)	-	(54,326)	-	(231,210)
-	-	790,000	-	924,877
(120,281)	-	(474,737)	(131,358)	(969,223)
48,246	-	-	-	48,246
10,426	1,051	418	159,057	204,791
(122,200)	1,051	(143,645)	27,699	(870,901)
11,871	795	3,415	4,201	41,672
(142,295)	(9,968)	(86,183)	101,202	(80,249)
760,226	56,472	241,411	378,426	2,955,074
\$ 617,931	\$ 46,504	\$ 155,228	\$ 479,628	\$ 2,874,825
\$ 493,455	\$ 1,814	\$ 53,781	\$ 48,077	\$ 1,400,332
28,743	2,677	26,950	78,917	348,786
(6,925)	3,555	(12,490)	(6,907)	(77,593)
-	4,482	-	-	2,258
4,366	3,295	3,954	5,260	(6,139)
(10,586)	(4,008)	(559)	(2,626)	(22,940)
-	-	-	-	(50)
(1,225)	(1,427)	212	(16)	3,264
-	-	6,199	-	10,913
14,373	8,574	24,266	74,628	258,499
\$ 507,828	\$ 10,388	\$ 78,047	\$ 122,705	\$ 1,658,831

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIRE DEPARTMENT FUND
DECEMBER 31, 2008**

ASSETS

Cash and Pooled Investments	<u>\$ 60,674</u>
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LIABILITIES

Accounts Payable	<u>\$ 60,674</u>
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See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Barnesville was incorporated as a home-rule city, under the provisions of the State of Minnesota. The City operates under a Mayor-Council form of government with a full-time City Chief Operating Officer and provides the following services as authorized by its charter: public safety, streets, sanitation, culture recreation, public improvements, planning and zoning and general administrative services. The City also operates utilities, telephone, golf course, municipal liquor store, cable television, and ambulance services.

The financial statements of the City of Barnesville have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of the City (primary government) and the component unit (legally separate organization) for which the primary government is financially accountable. There is financial accountability if the primary government appoints a voting majority of an organization's governing body and has the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burdens on the primary government.

Discretely Presented Component Unit

While part of the reporting entity, a discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The Economic Development Authority of Barnesville (EDA) meets the criteria to be included as a discrete presentation. The EDA was created under the provision of *Minnesota Statutes* §458C. The EDA is governed by seven commissioners appointed among the residents and business owners of the City. Two of the commissioners must be members of the City Council. The EDA's primary operations include those activities necessary to encourage the promotion and development of the City, which is reported in its General Fund. The EDA has a Debt Service Fund, which has been established for the retirement of its lease revenue bonds. The EDA did not issue separate audited financial statements. Copies of EDA financial information may be obtained from the City's general accounting office located at Barnesville City Hall.

Joint Ventures and Jointly Governed Organizations

The City entered into a formal joint powers agreement with eight townships located in the area during 1999. The agreement set up the Barnesville Area Joint Fire Board, which is composed of two members from the City Council of the City and one member appointed by each of the eight township boards. The Fire Chief serves on the board as a nonvoting, advisory member. The cost of running the Barnesville Area Joint Fire Department is allocated to each participating government proportionally based on population and the market valuation of buildings within each jurisdiction. The Barnesville Area Joint Fire Department did not issue separate audited financial statements. Copies of the Barnesville Area Joint Fire Department financial information may be obtained from the City's general accounting office at Barnesville City Hall.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the primary government and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. 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 to users of the services for support.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in 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 government.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Community Projects Fund – The Community Projects Fund accounts for resources and payments made for construction of public improvements.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

Capital Project Fund – The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the City's water utility.

Sewer Fund – The Sewer Fund accounts for the activities of the City's sanitary sewer system.

Electric Utility Fund – The Electric Utility Fund accounts for the operations of the City's electric utility.

Telephone Fund – The Telephone Fund accounts for the operations of the City's telephone utility.

Municipal Liquor Fund – The Municipal Liquor Fund accounts for the operations of the City's liquor store.

Cable Television Fund – The Cable Television Fund accounts for the operations of the City's cable television utility.

Additionally, the City reports the following fiduciary fund types:

Fire Department Agency Fund – The Fire Department Fund accounts for the fire department activity held by the City in a strictly custodial capacity.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 revenue of the City's enterprise funds are charges to customers for sales of goods 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, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

For the purposes of the statement of cash flows of the proprietary fund types, the City considers all cash and investments under the classification current assets to be cash and cash equivalents. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Accounts Receivable

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary. Write-offs are done on a case-by-case basis.

4. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with *Minnesota Statutes*. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Special assessments receivable represents the past six years of uncollected special assessments. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred revenue at the time of the levy. Deferred revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

5. Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

6. Land Held for Resale

Land held of resale by the EDA for redevelopment purposes and subsequent resale. Land held for resale is reported as an asset at the lower of cost or estimated fair value. Fair value estimates have been based on estimated realizable sales proceeds net of selling expenses.

7. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. That portion of the relevant funds' balances equal to the prepaid items is reserved if the amounts are considered to be material, and if sufficient fund balance exists.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) is reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	25-75
Infrastructure	15-75
Machinery, Furniture, and Equipment	3-15

9. Compensated Absences

City and component unit employees are granted annual leave and sick leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for accumulated annual leave, compensatory time and 15% of any accrued sick leave.

Sick leave payments are reported as expenditures for governmental fund types when the payments are made to employees. Appropriations lapse at year-end and accordingly, there are no available expendable financial resources. However, the estimated commitment for sick leave (compensated absences) for governmental activities is reported in the statement of net assets.

In the City's proprietary funds, amounts for earned but unused vacation leave and that portion of earned but unused sick leave estimated to be payable upon retirement are reflected under the accrual basis of accounting.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. 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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

11. Fund Balance

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.

E. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within 60 days after year-end. Portions paid by the state in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the fund financial statements by deferred revenues.

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues when measurable and available.

Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Clay County is the collecting agency for the levy and then remits the collection to the City. All taxes not collected as of December 31 are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain payments paid directly to the City.

The County Auditor provides a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balances by October 15.

Within 30 days after the May settlement, the County Treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City Treasurer. The County Treasurer must pay the balance to the City Treasurer within 60 days after the settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the County Treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

Any adjustments or abatements to either the current or any prior year levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred revenue in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

2. Expenditures

Expenditures recognition for governmental fund types includes only amounts represented by current liabilities. Since noncurrent liabilities do not affect net current assets, they are not recognized as governmental fund expenditures or liabilities. They are reported as liabilities on the statement of net assets.

3. Expenses

Proprietary funds recognize expenses, including compensated absences, when they are incurred.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balances

The following funds had fund deficits at December 31, 2008:

Capital Projects Fund	\$ 101,779
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The City plans to eliminate these deficits through future levies and assessments.

B. Excess of Expenditures over Appropriations

The General Fund had expenditures in excess of appropriations at the fund level for the year ended December 31, 2008:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
General Fund	\$ 1,660,210	\$ 1,562,101	\$ 98,109

The above overages in the General Fund were considered by City Management to be the result of necessary expenditures critical to the operations and were approved by the Council.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

The cash balances of substantially all funds are pooled by the Chief Operating Officer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, based on market prices. Pooled investment earnings for 2008 were \$91,233.

Deposits

In accordance with applicable Minnesota State Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; issued of the U.S. government agency; general obligations of local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits.

At December 31, 2008 the balance was fully insured and collateralized as required by *Minnesota Statute* §118A.03.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments

Minnesota Statutes §§118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

- a) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by *Minnesota Statute* §118A.04 subd. 6;
- b) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- c) general obligations of the state of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- d) bankers' acceptances of United States banks;
- e) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- f) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

As of December 31, 2008, the City had the following investments in its pool:

Type	Credit Rating	Fair Value	Percent of Total
Repurchase Agreements	NR	\$ 2,842,909	93.3%
Minnesota Municipal Money Market Fund (4M)	NR	111	0.0%
Negotiable Certificates of Deposit			
Capmark Bank Midvale Utah	NR	98,872	3.2%
Citizen's Bank Flint Michigan	NR	6,079	0.2%
Discover Bank Greenwood Delaware	NR	98,872	3.2%
		\$ 3,046,843	

NR = Not Rated

The City has funds held within a repurchase agreement. The repurchase agreement investment as of December 31, 2008 represents an ongoing overnight repurchase agreement arrangement at applicable daily quoted rates. Funds are re-deposited to the City's bank account at 8:00 a.m. on the ensuing business day and the agreement is collateralized by federal or federal agency securities.

The Minnesota Municipal Money Market (4M) Trust Fund does not have its own credit rating. MBIA, Inc., who administers the Minnesota Municipal Money Market Fund Trust holds an organization credit rating of AA by Standard & Poor's.

The Minnesota Municipal Money Market Fund Trust (4M Fund) is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under *Minnesota Statutes* as described on the previous page. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

Interest Rate Risk – This is the risk that arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – *Minnesota Statutes* restrict the types of investments in which the City may invest. The City has no investment policy that would further limit its investment choices.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

Concentration Credit Risk – The City places no limits on the amount the City may invest in any one issuer.

Custodial Credit Risk – For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy regarding custodial credit risks for investments.

2. Non-Marketable Investments/Investment in Joint Venture

The City's telephone company has entered into an agreement with Rothsay Telephone, Park Region Mutual Telephone, Red River Rural Telephone, Loretel Systems and East Ottertail Telephone to operate a fiber optic video transmission network to serve 17 area school districts. Each telephone company contributed capital and shares in the operating decisions. Barnesville's share is approximately 18.1 percent. All profits and losses are shared proportionately to each member's ownership. The City uses the equity method to account for its investments. Joint venture activity for 2008 is as follows:

Balance, January 1, 2008	\$ 1,533,379
Capital Contributions	-
Net Income	<u>57,984</u>
 Balance, December 31, 2008	 <u><u>\$ 1,591,363</u></u>

Condensed financial information from the joint venture as of and for the year ended December 31, 2008, is presented below:

Total Assets	\$ 9,854,714
Total Liabilities	1,062,032
Total Equity	8,792,682
Total Operating Revenue	10,840,904
Total Operating Expenses	10,271,934
Nonoperating Income	12,183
Net Income	580,442
Less: Cash Distribution	260,000
Net Increase in Capital	320,442

Audited financial statements for Val-Ed Joint Venture, LLP, can be obtained through its main office at 702 Main Avenue, Moorhead, Minnesota, 56560 or by calling (218) 236-3297.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2008, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 644,891	\$ -	\$ 27,150	\$ 617,741
Construction in Progress	101,944	27,334	117,665	11,613
Total Capital Assets Not Being Depreciated	746,835	27,334	144,815	629,354
Capital Assets Being Depreciated				
Buildings	1,229,498	-	-	1,229,498
Infrastructure	3,033,704	193,486	-	3,227,190
Improvements	168,897	-	-	168,897
Machinery and Equipment	427,866	14,804	-	442,670
Vehicles	246,173	50,873	17,400	279,646
Total Capital Assets Being Depreciated	5,106,138	259,163	17,400	5,347,901
Less: Accumulated Depreciation for				
Buildings	454,848	23,003	-	477,851
Infrastructure	1,858,805	82,108	-	1,940,913
Improvements	123,086	5,212	-	128,298
Machinery and Equipment	266,472	21,236	-	287,708
Vehicles	167,051	23,842	13,920	176,973
Total Accumulated Depreciation	2,870,262	155,401	13,920	3,011,743
Total Capital Assets Being Depreciated, Net	2,235,876	103,762	3,480	2,336,158
Governmental Activities Capital Assets, Net	\$ 2,982,711	\$ 131,096	\$ 148,295	\$ 2,965,512

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

The following is a summary of the proprietary fund capital assets at December 31, 2008:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
BUSINESS-TYPE ACTIVITIES					
Capital Assets Not Being Depreciated					
Land	\$ 100,831	\$ 13,077	\$ -	\$ -	\$ 113,908
Capital Assets Being Depreciated					
Buildings	2,420,194	87,055	-	54,395	2,561,644
Infrastructure	9,853,189	50,000	-	(54,395)	9,848,794
Improvements	1,056,370	-	-	-	1,056,370
Machinery and Equipment	2,832,836	627,207	-	-	3,460,043
Vehicles	318,436	86,092	78,434	-	326,094
Total Capital Assets Being Depreciated	16,481,025	850,354	78,434	-	17,252,945
Less: Accumulated Depreciation for					
Buildings	884,644	38,519	-	217,149	1,140,312
Infrastructure	2,767,951	202,801	-	(217,149)	2,753,603
Improvements	16,167	3,314	-	-	19,481
Machinery and Equipment	2,205,093	85,671	-	-	2,290,764
Vehicles	275,526	18,481	78,434	-	215,573
Total Accumulated Depreciation	6,149,381	348,786	78,434	-	6,419,733
Total Capital Assets Being Depreciated, Net	10,331,644	501,568	-	-	10,833,212
Business-Type Activities Capital Assets, Net	<u>\$ 10,432,475</u>	<u>\$ 514,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,947,120</u>

During 2008, the City transferred \$54,395 of asset historical cost and \$217,149 of accumulated depreciation from infrastructure to buildings as they were misclassified in prior years.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

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

Governmental Activities:	
General Government	\$ 11,605
Public Safety	10,953
Public Works	110,260
Culture and Recreation	22,486
Economic Development	97
Total Depreciation Expense - Governmental Activities	<u>\$ 155,401</u>

Business-Type Activities:	
Water	\$ 61,832
Sewer	119,712
Electric	29,955
Telephone	28,743
Municipal Liquor	2,677
Cable Television	26,950
Sanitation	2,632
Storm Sewer	21,902
Golf Course	16,392
Ambulance	20,738
Broadband Internet	17,253
Total Depreciation Expense - Business-Type Activities	<u>\$ 348,786</u>

B. Interfund Receivables, Payables and Transfers

The Composition of interfund transfers as of December 31, 2008 is as follows:

	Transfers In:				Total
	General	Debt Service Funds	Nonmajor Governmental Funds	Enterprise Funds	
Transfer Out:					
General Fund	\$ -	\$ 96,314	\$ 228,153	\$ 34,500	\$ 358,967
Community Projects Fund	2,500	-	-	-	2,500
Nonmajor Governmental Funds	-	-	-	-	-
Enterprise Funds	951,958	-	-	10,535	962,493
Total	<u>\$ 954,458</u>	<u>\$ 96,314</u>	<u>\$ 228,153</u>	<u>\$ 45,035</u>	<u>\$ 1,323,960</u>

The purpose of the above transfers were to provide funding for operating purposes, maintain balances of unspent budget dollars and other miscellaneous items.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

The composition of interfund balances at December 31, 2008, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Community Projects Fund	General Fund	\$ 14,740
Telephone Fund	Capital Projects Fund	101,779
	Golf Course Fund	25,596
		<u>\$ 142,115</u>

The interfund receivable/payable noted above was to eliminate negative cash balances at year end and the current portion of the advance between the Community Projects Fund and the General Fund

Advances To/From Other Funds

Advance To	Advance From	Amount
General Fund	Community Projects Fund	\$ 47,792
	Component Unit - EDA	74,202
Component Unit - EDA	General Fund	20,000
		<u>\$ 141,994</u>

The advance between the Community Projects Fund and the General Fund, was to purchase land for the City. The General Fund will be making semi-annual payments of \$5,046 including interest at 2 percent. The advances between the General fund and EDA were to provide for the purchase of land and land improvements on lots that are considered land held for resale in the EDA. These advances do not have set repayment schedules and repayment only occurs when lots are sold by the EDA.

C. Liabilities

1. Long-Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, tax increments and special assessments, are dedicated for the retirement of these bonds.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

1. Long-Term Debt (Continued)

Capital Lease Obligations

The City has used lease purchase agreements to acquire equipment and land in the governmental funds. These lease agreements qualify as capital leases, and have been recorded at the present value of the future minimum lease payments.

2. Components of Long-Term Debt

	Authorized and Issued	Outstanding	Due in 2009	
			Principal	Interest
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds, Including Refunding Bonds				
G. O. Taxable Improvement Bonds of 2002; 6.54%, Issued 09/01/02; Final Maturity 09/26/12.	\$ 438,013	\$ 209,471	\$ 47,426	\$ 12,936
G. O. Special Assessment Improvement Bonds of 2002; 3.75% to 5.00% Issued 09/01/02; Final Maturity 02/01/23.	1,355,000	1,355,000	65,000	59,593
G.O. Bonds Improvement Bonds of 2003; 1.75% to 3.75%, Issued 08/01/03; Final Maturity 02/01/14.	205,000	125,000	20,000	4,033
G.O. Improvement Refunding Bonds of 2004; 2.59%, Issued 03/24/04; Final Maturity 02/01/11.	465,000	230,000	80,000	5,288
G.O. Bonds, Refunding Portion of 2005: 3.50% to 4.10%; Issued 11/09/05; Final Maturity 02/01/16.	460,000	380,000	45,000	14,126
G.O. Bonds of 2006; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	635,000	635,000	-	25,613
Total General Obligation Bonds, including Refunding Bonds	3,558,013	2,934,471	257,426	121,589
Less: Unamortized Discount	-	(17,005)	-	-
Total General Obligation Bonds, including Refunding Bonds - Net	3,558,013	2,917,466	257,426	121,589
Capital Leases	21,528	15,671	4,925	932
Total Long-Term Debt - Governmental Activities	3,579,541	2,933,137	262,351	122,521

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt (Continued)

	Authorized and Issued	Outstanding	Due in 2009	
			Principal	Interest
BUSINESS-TYPE ACTIVITIES				
<u>Revenue Bonds</u>				
Electric and Telephone Revenue Bonds of 2001; 3.25% to 5.00% Issued 10/16/01; Final Maturity 02/01/17.	\$ 1,085,000	\$ 740,000	\$ 65,000	\$ 33,255
Water Revenue Bonds of 2002 - WFC; 5.07%, Issued 09/01/02; Final Maturity 09/26/12.	125,560	57,855	13,396	2,766
G.O. Refunding Utility Revenue Bonds of 2003B; 5.40% to 6.00%, Issued 11/19/03; Final Maturity 02/01/12.	705,000	380,000	95,000	11,565
G.O. Lease Revenue and Refunding Bonds of 2008A; 4.30% to 5.00%; Issued 07/23/08; Final Maturity 08/1/25	790,000	790,000	30,000	37,712
Total Revenue Bonds	3,400,560	1,967,855	203,396	85,298
Less: Unamortized Discount	-	(21,777)	-	-
Total Revenue Bonds - Net	3,400,560	1,946,078	203,396	85,298
<u>General Obligation Bonds</u>				
G.O. Bonds Improvement Bonds of 2003; 1.75% to 3.75%, Issued 08/01/03; Final Maturity 02/01/14.	460,000	295,000	45,000	9,564
G.O. Improvement Bonds of 2005A; 3.50% to 4.55%, Issued 11/09/05; Final Maturity 02/01/26.	970,000	910,000	35,000	38,122
G.O. Bonds of 2006A; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	245,000	235,000	15,000	9,029
G.O. Revenue Note of 2006; 1.56%, Issued 07/31/06; Final Maturity 08/20/25.	4,137,640	3,952,000	205,000	61,651
Total General Obligation Bonds	5,812,640	5,392,000	300,000	118,366
Less: Unamortized Discount	-	(15,290)	-	-
Total General Obligation Bonds - Net	5,812,640	5,376,710	300,000	118,366
Total Long-Term Debt - Business-Type Activities	9,213,200	7,322,788	503,396	203,664
Total Government-Wide Long-Term Liabilities	<u>\$ 12,792,741</u>	<u>\$ 10,255,925</u>	<u>\$ 765,747</u>	<u>\$ 326,185</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Debt

	December 31, 2007	Additions	Retirements	December 31, 2008	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt, Including					
Refunding Bonds	\$ 3,123,941	\$ -	\$ 189,470	\$ 2,934,471	\$ 257,426
Less: Unamortized Discounts	(18,403)	-	(1,398)	(17,005)	-
Capital Lease Obligations	64,395	21,528	70,252	15,671	4,925
Compensated Absences Payable	85,513	62,014	54,967	92,560	72,085
Total Governmental Activities	<u>\$ 3,255,446</u>	<u>\$ 83,542</u>	<u>\$ 313,291</u>	<u>\$ 3,025,697</u>	<u>\$ 334,436</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 1,750,597	\$ 790,000	\$ 572,742	\$ 1,967,855	\$ 203,396
Revenue Notes	4,002,763	134,877	185,640	3,952,000	205,000
General Obligation Bonds	1,530,000	-	90,000	1,440,000	95,000
Less: Unamortized Discounts	(29,624)	(10,720)	(3,277)	(37,067)	-
Compensated Absences Payable	23,445	23,228	37,217	9,456	6,798
Total Business-Type Activities	<u>\$ 7,277,181</u>	<u>\$ 937,385</u>	<u>\$ 882,322</u>	<u>\$ 7,332,244</u>	<u>\$ 510,194</u>

4. Minimum Debt Payments

The annual requirements to amortize general obligation debt outstanding are as follows:

Year	Governmental Activities		
	G.O. Bonds		
	Principal	Interest	Total
2009	\$ 257,426	\$ 121,589	\$ 379,015
2010	270,578	111,420	381,998
2011	253,940	100,903	354,843
2012	202,527	91,015	293,542
2013	205,000	81,374	286,374
2013 - 2017	910,000	287,199	1,197,199
2018 - 2022	835,000	95,790	930,790
Total	<u>\$ 2,934,471</u>	<u>\$ 889,290</u>	<u>\$ 3,823,761</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments (Continued)

Year	Business-Type Activities					
	Revenue Bonds			G.O. Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 203,396	\$ 85,298	\$ 288,694	\$ 95,000	\$ 56,715	\$ 151,715
2010	209,084	76,685	285,769	100,000	53,329	153,329
2011	219,807	68,072	287,879	105,000	49,652	154,652
2012	230,568	58,732	289,300	105,000	45,780	150,780
2013	120,000	51,078	171,078	105,000	41,817	146,817
2013 - 2017	585,000	218,199	803,199	370,000	158,798	528,798
2018 - 2022	270,000	135,741	405,741	360,000	84,365	444,365
2023 - 2026	130,000	9,750	139,750	200,000	13,849	213,849
Total	<u>\$ 1,967,855</u>	<u>\$ 703,555</u>	<u>\$ 2,671,410</u>	<u>\$ 1,440,000</u>	<u>\$ 504,305</u>	<u>\$ 1,944,305</u>

Year	G.O. Revenue Note			Total Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 205,000	\$ 61,651	\$ 266,651	\$ 503,396	\$ 203,664	\$ 707,060
2010	208,000	58,453	266,453	517,084	188,467	705,551
2011	211,000	55,208	266,208	535,807	172,932	708,739
2012	215,000	51,917	266,917	550,568	156,429	706,997
2013	218,000	48,563	266,563	443,000	141,458	584,458
2013 - 2017	1,141,000	190,757	1,331,757	2,096,000	567,754	2,663,754
2018 - 2022	1,234,000	98,904	1,332,904	1,864,000	319,010	2,183,010
2023 - 2026	520,000	12,199	532,199	850,000	35,798	885,798
Total	<u>\$ 3,952,000</u>	<u>\$ 577,652</u>	<u>\$ 4,529,652</u>	<u>\$ 7,359,855</u>	<u>\$ 1,785,512</u>	<u>\$ 9,145,367</u>

5. Notes Payable – Component Unit

The balance of \$14,297 represents a loan agreement to pay tax increment subsidies to various projects when increments become available. There is no set repayment schedule and payments are limited to increments received; therefore, no related liability is recognized in the financial statements.

6. Capital Lease

During 2008 the City entered into a 48 month lease with Ford Motor Company for the purchase of a police vehicle. Annual installments including interest are \$5,857. At December 31, 2008, the City has total assets under capital lease of \$21,178 with related accumulated depreciation of \$1,765. The future minimum lease payments are as follows:

Year	Minimum Payments
2009	\$ 5,857
2010	5,857
2011	5,857
Total Minimum Lease Payments	17,571
Less: Amounts Representing Interest	(1,900)
Present Value of Minimum Lease Payments	<u>\$ 15,671</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

7. Risk Management

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City (primary government) has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment is estimated to be immaterial based on worker's compensation rates and salaries for the year ended December 31, 2008.

D. Net Assets and Fund Balance

Reserves and Designated Fund Balance

Reserves represent those portions of fund balance appropriated for expenditure or legally segregated for a specific use. Designated fund balances represent tentative plans for future use of financial resources.

The following reserves and designations existed at December 31, 2008:

RESERVED FUND BALANCE

Debt Service Fund	
Reserved for Debt Service	\$ 939,445

UNRESERVED DESIGNATED FUND BALANCES

Community Projects Fund	
Designated for Future Expenditures	\$ 1,217,551
Nonmajor Special Revenue Funds	
Designated for Fund Purposes	193,661

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

All full-time and certain part-time employees of the City of Barnesville 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* Chapter 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, fire-fighters and peace officers 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 state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF 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 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 4 PENSION PLAN (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

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 and 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 web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statute Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.6% of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. The City of Barnesville is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members and 11.7% for PEPFF members. The City's contributions to the PERF for the years ending December 31, 2008, 2007, and 2006 were as follows:

Year	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2008	\$ 51,761	\$ 31,044
2007	44,802	27,258
2006	37,965	23,777

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 4 PENSION PLAN (CONTINUED)

B. Barnesville Fire Department Relief Association

Plan Description

The Public Employee Retirement System (PERS) Plan is a single-employer defined benefit pension plan administered by the Barnesville Fire Department Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Barnesville Fire Department Relief Association issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the Barnesville Area Joint Fire Board.

Funding Policy

The funding policy provides for periodic City contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. City contribution rates are determined using the entry age normal actuarial funding method.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to PERS for the year ended December 31, 2008, were as follows:

Annual Required Contribution	\$ -
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	<u>22,271</u>
Annual Pension Cost	22,271
Less Contribution Made	<u>(15,046)</u>
Increase (Decrease) in Net Pension Obligation	7,225
Net Pension Obligation - Beginning of Year	-
Net Pension Obligation - End of Year	<u><u>\$ 7,225</u></u>

The adjustment to annual required contribution above consists of \$15,046 of State Fire Aid and \$7,225 of voluntary contributions made by the City.

The annual required contribution for the current year was determined as part of December 31, 2008, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. The assumptions did not include post retirement benefit increases, which are funded by state statute when granted. Net assets available for benefits exceeded the pension benefit obligation at December 31, 2008, 2007, and 2006.

Three-Year Trend Information

Disclosure	2008	2007	2006
Annual Pension Cost (APC)	\$ 22,271	\$ 26,713	\$ 28,205
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	N/A	N/A	N/A

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 4 PENSION PLAN (CONTINUED)

B. Barnesville Fire Department Relief Association (Continued)

Three-Year Trend Information (Continued)

Contributions Required and Made

The City makes contributions to the Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was not required to make any contributions in excess of fire aid for 2008, 2007 and 2006.

Funding Progress

As of December 31, 2007 (the most recent available information), the plan was underfunded by \$39,576. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2008, and for the year then ended, the Association held no securities issued by the City or other related-parties.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF BARNESVILLE, MINNESOTA
 BARNESVILLE FIREMAN'S RELIEF ASSOCIATION
 SCHEDULE OF FUNDING PROGRESS
 DECEMBER 31, 2008**

Fiscal Year End	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Benefit Per Year of Services
12/31/2007	\$ 295,266	\$ 334,842	\$ 39,576	88.2 %	\$ 1,000
12/31/2006	303,603	325,376	21,773	93.3	900
12/31/2005	279,712	327,058	47,346	85.5	900

Additional information relating to the pension plan is provided in Note 4.B.

The December 31, 2008 report is not yet available.

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 329,632	\$ 329,632	\$ 317,044	\$ (12,588)
Special assessments	7,630	7,630	8,992	1,362
Licenses and Permits	23,700	23,700	20,255	(3,445)
Intergovernmental	600,720	600,720	593,659	(7,061)
Charges for Services	2,765	2,765	2,084	(681)
Fines and Forfeits	6,850	6,850	14,122	7,272
Interest on Investments	-	-	365	365
Miscellaneous	30,744	30,744	18,767	(11,977)
Total Revenues	1,002,041	1,002,041	975,288	(26,753)
EXPENDITURES				
CURRENT				
General Government	635,750	635,750	636,828	1,078
Public Safety	429,683	429,683	416,151	(13,532)
Public Works	228,200	228,200	255,250	27,050
Airport	1,650	1,650	1,326	(324)
Economic Development	132,636	132,636	132,636	-
Capital Outlay				
General Government	2,000	2,000	1,754	(246)
Public Safety	4,000	4,000	26,074	22,074
Public Works	110,000	110,000	116,063	6,063
Debt service				
Principal	16,670	16,670	70,252	53,582
Interest and Other Charges	1,512	1,512	3,876	2,364
Total Expenditures	1,562,101	1,562,101	1,660,210	98,109
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(560,060)	(560,060)	(684,922)	(124,862)
OTHER FINANCING SOURCES (USES)				
Transfers In	968,756	968,756	954,458	(14,298)
Transfers Out	(413,265)	(413,265)	(358,967)	54,298
Capital Lease Proceeds	-	-	21,528	21,528
Proceeds of Sale of Capital Assets	-	-	24,150	24,150
Total Other Financing Sources (Uses)	555,491	555,491	641,169	85,678
NET CHANGE IN FUND BALANCE				
	\$ (4,569)	\$ (4,569)	(43,753)	\$ (39,184)
Fund Balance - Beginning of Year			64,586	
FUND BALANCE - END OF YEAR			<u>\$ 20,833</u>	

The Notes to the Required Supplementary Information are an integral part of this schedule.

**CITY OF BARNESVILLE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 COMMUNITY PROJECTS SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on Investments	\$ 43,500	\$ 43,500	\$ 33,370	\$ (10,130)
EXPENDITURES				
CURRENT				
Economic Development	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,500	23,500	13,370	(10,130)
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(2,500)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 21,000</u>	<u>\$ 21,000</u>	10,870	<u>\$ (10,130)</u>
Fund Balance - Beginning of Year			<u>1,206,681</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,217,551</u>	

The Notes to the Required Supplementary Information are an integral part of this schedule.

**CITY OF BARNESVILLE, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
 DECEMBER 31, 2008**

I. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the Chief Operating Officer submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City Council adopts the proposed budget as amended and adjusted by the Council and certifies the proposed property tax levy to the County Auditor according to *Minnesota Statutes*.
- b. Public hearings are conducted at the Council's chambers in the Municipal Building.
- c. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy certified to the County Auditor.
- d. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- e. The City has legally adopted budgets for the General Fund and Special Revenue Funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, charges for services, and capital outlay) within each program. All amounts over budget have been approved by the City Council through the disbursement process. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. The City is not legally required to adopt an annual budget for the capital projects. Project-length financial plans are adopted for the Capital Projects Funds.
- f. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principals (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year end.

II. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded budgeted amounts in the following funds:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Expenditures Over Appropriations</u>
General Fund	\$ 1,660,210	\$ 1,562,101	\$ 98,109

The above overages in the General Fund were considered by City management to be the result of necessary expenditures critical to operations and were approved by the Council.

OTHER SUPPLEMENTARY INFORMATION

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

ASSETS	<u>Library</u>	<u>Parks and Recreation</u>	<u>DARE</u>	<u>Small Cities</u>
Cash and Investments	\$ 6,480	\$ 78,216	\$ 9,047	\$ 6,137
Accounts Receivable	-	3,911	-	-
Tax Increment Receivables	-	-	-	-
Notes Receivable	-	-	-	7,007
Total Assets	<u>\$ 6,480</u>	<u>\$ 82,127</u>	<u>\$ 9,047</u>	<u>\$ 13,144</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 92	\$ 991	\$ 277	\$ -
Salaries and Benefits Payable	-	2,402	-	-
Deferred Revenue	-	-	-	7,007
Total Liabilities	92	3,393	277	7,007
FUND BALANCES				
Unreserved, Designated	<u>6,388</u>	<u>78,734</u>	<u>8,770</u>	<u>6,137</u>
Total Liabilities and Fund Balances	<u>\$ 6,480</u>	<u>\$ 82,127</u>	<u>\$ 9,047</u>	<u>\$ 13,144</u>

<u>TIF Districts</u>	<u>Youth Alive Early Prevention</u>	<u>Total Nonmajor Funds</u>
\$ 87,848	\$ 7,087	\$ 194,815
-	-	3,911
544	-	544
-	-	7,007
<u>\$ 88,392</u>	<u>\$ 7,087</u>	<u>\$ 206,277</u>
\$ -	\$ 1,303	\$ 2,663
-	-	2,402
544	-	7,551
<u>544</u>	<u>1,303</u>	<u>12,616</u>
87,848	5,784	193,661
<u>\$ 88,392</u>	<u>\$ 7,087</u>	<u>\$ 206,277</u>

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

	Library	Parks and Recreation	DARE	Small Cities
REVENUES				
Tax Increments	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	164,781
Charges for Services	-	31,598	-	-
Gifts and Contributions	-	100	2,650	23,551
Interest on Investments	53	578	119	-
Miscellaneous	-	3,796	-	260
Total Revenues	53	36,072	2,769	188,592
EXPENDITURES				
CURRENT				
General Government	-	-	-	180,606
Public Safety	-	-	2,554	-
Parks and Recreation	781	212,802	-	-
Economic Development	-	-	-	-
Capital Outlay				
Parks and Recreation	5,300	37,872	-	-
Total Expenditures	6,081	250,674	2,554	180,606
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,028)	(214,602)	215	7,986
OTHER FINANCING SOURCES (USES)				
Transfers In	7,262	213,391	-	-
NET CHANGE IN FUND BALANCE	1,234	(1,211)	215	7,986
Fund Balance (Deficit) - Beginning of Year	5,154	79,945	8,555	(1,849)
FUND BALANCE - END OF YEAR	<u>\$ 6,388</u>	<u>\$ 78,734</u>	<u>\$ 8,770</u>	<u>\$ 6,137</u>

TIF Districts	Youth Alive Early Prevention	Total Nonmajor Funds
\$ 118,471	\$ -	\$ 118,471
11,503	-	176,284
-	-	31,598
-	-	26,301
9	154	913
-	-	4,056
<u>129,983</u>	<u>154</u>	<u>357,623</u>
-	-	180,606
-	19,953	22,507
-	-	213,583
51,069	-	51,069
-	-	43,172
<u>51,069</u>	<u>19,953</u>	<u>510,937</u>
78,914	(19,799)	(153,314)
-	7,500	228,153
<u>78,914</u>	<u>(12,299)</u>	<u>74,839</u>
8,934	18,083	118,822
<u>\$ 87,848</u>	<u>\$ 5,784</u>	<u>\$ 193,661</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 DECEMBER 31, 2008**

ASSETS	<u>Sanitation</u>	<u>Storm Sewer</u>	<u>Golf Course</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 60,079	\$ 112,739	\$ -
Accounts Receivable - Net	32,942	6,247	279
Inventories	-	-	1,200
Total Current Assets	<u>93,021</u>	<u>118,986</u>	<u>1,479</u>
NONCURRENT ASSETS			
Capital Assets			
Land	-	13,077	-
Buildings (Net)	117,278	-	239,550
Infrastructure (Net)	-	626,664	-
Improvements (Net)	-	-	57,719
Machinery and Equipment (Net)	-	17,927	31,667
Vehicles (Net)	-	-	-
Net Capital Assets	<u>117,278</u>	<u>657,668</u>	<u>328,936</u>
Total Assets	<u>210,299</u>	<u>776,654</u>	<u>330,415</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	19,755	72	3,572
Salaries and Benefits Payable	429	-	341
Due to Other Governments	1,340	-	-
Due to Other Funds	-	-	25,596
Compensated Absences - Due Within One Year	513	-	-
Total Current Liabilities	<u>22,037</u>	<u>72</u>	<u>29,509</u>
NONCURRENT LIABILITIES			
Compensated Absences - Due in More than One Year	<u>171</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>22,208</u>	<u>72</u>	<u>29,509</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	117,278	657,668	328,936
Unrestricted	<u>70,813</u>	<u>118,914</u>	<u>(28,030)</u>
Total Net Assets	<u>\$ 188,091</u>	<u>\$ 776,582</u>	<u>\$ 300,906</u>

Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
\$ 35,007	\$ 271,803	\$ 479,628
33,826	39,108	112,402
-	-	1,200
<u>68,833</u>	<u>310,911</u>	<u>593,230</u>
-	-	13,077
3,376	-	360,204
-	-	626,664
-	-	57,719
49,279	44,477	143,350
82,505	-	82,505
<u>135,160</u>	<u>44,477</u>	<u>1,283,519</u>
203,993	355,388	1,876,749
9,233	9,823	42,455
2,339	181	3,290
-	-	1,340
-	-	25,596
147	878	1,538
<u>11,719</u>	<u>10,882</u>	<u>74,219</u>
440	293	904
<u>12,159</u>	<u>11,175</u>	<u>75,123</u>
135,160	44,477	1,283,519
56,674	299,736	518,107
<u>\$ 191,834</u>	<u>\$ 344,213</u>	<u>\$ 1,801,626</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2008**

	<u>Sanitation</u>	<u>Storm Sewer</u>	<u>Golf Course</u>
OPERATING REVENUES			
Charges for Services	\$ 165,969	\$ 27,618	\$ 118,701
OPERATING EXPENDITURES			
Professional Services	102,386	2,266	23,043
Wages, Salaries, and Compensation	26,772	-	57,633
Repairs and Maintenance	523	-	10,511
Insurance	1,933	-	6,528
Utilities	-	-	5,249
Depreciation	2,632	21,902	16,392
Materials and Supplies	1,196	-	12,427
Miscellaneous Expenses	25,352	400	9,009
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	<u>160,794</u>	<u>24,568</u>	<u>140,792</u>
OPERATING INCOME (LOSS)	5,175	3,050	(22,091)
NONOPERATING REVENUES (EXPENSES)			
Investment Income	774	1,420	-
Intergovernmental Grants	23,839	-	143
Miscellaneous - Nonoperating	-	3,077	11,615
Total Nonoperating Revenues (Expenses)	<u>24,613</u>	<u>4,497</u>	<u>11,758</u>
Income (Loss) before Transfers	29,788	7,547	(10,333)
Transfers In	-	-	-
Transfers Out	<u>(9,048)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	20,740	7,547	(10,333)
Net Assets - Beginning of Year	<u>167,351</u>	<u>769,035</u>	<u>311,239</u>
NET ASSETS - END OF YEAR	<u>\$ 188,091</u>	<u>\$ 776,582</u>	<u>\$ 300,906</u>

<u>Ambulance</u>	<u>Broadband Internet</u>	<u>Total Nonmajor Proprietary Funds</u>
\$ 313,371	\$ 189,723	\$ 815,382
20,284	-	147,979
116,446	1,352	202,203
10,832	-	21,866
5,852	-	14,313
-	-	5,249
20,738	17,253	78,917
23,059	26,092	62,774
36,295	23,929	94,985
139,019	-	139,019
<u>372,525</u>	<u>68,626</u>	<u>767,305</u>
(59,154)	121,097	48,077
651	1,356	4,201
7,944	-	31,926
144,365	-	159,057
<u>152,960</u>	<u>1,356</u>	<u>195,184</u>
93,806	122,453	243,261
34,500	-	34,500
-	(103,341)	(112,389)
128,306	19,112	165,372
63,528	325,101	1,636,254
<u>\$ 191,834</u>	<u>\$ 344,213</u>	<u>\$ 1,801,626</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2008**

	Sanitation	Storm Sewer	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 161,485	\$ 26,142	\$ 118,642
Payments to Suppliers	(130,789)	(6,110)	(64,826)
Payments to Employees	(29,271)	-	(58,134)
Net Cash Provided (Used) by Operating Activities	1,425	20,032	(4,318)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers In	-	-	-
Transfers Out	(9,048)	-	-
Interfund Borrowings	-	-	(7,440)
Grant Receipts	23,839	-	143
Net Cash Provided (Used) by Noncapital and Related Financing Activities	14,791	-	(7,297)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Capital Assets	-	(13,077)	-
Other Miscellaneous Receipts	-	3,077	11,615
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(10,000)	11,615
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	774	1,420	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,990	11,452	-
Cash and Cash Equivalents - Beginning of Year	43,089	101,287	-
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 60,079</u>	<u>\$ 112,739</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 5,175	\$ 3,050	\$ (22,091)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	2,632	21,902	16,392
(Increase) Decrease in Assets			
Accounts Receivable	(4,484)	(1,476)	(59)
Increase (Decrease) in Liabilities			
Accounts Payable	617	(3,444)	1,941
Salaries and Benefits Payable	(2,499)	-	(501)
Due to Other Governments	(16)	-	-
Total Adjustments	(3,750)	16,982	17,773
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,425</u>	<u>\$ 20,032</u>	<u>\$ (4,318)</u>

<u>Ambulance</u>	<u>Broadband Internet</u>	<u>Total Nonmajor Proprietary Funds</u>
\$ 315,800	\$ 186,406	\$ 808,475
(235,187)	(44,029)	(480,941)
<u>(117,424)</u>	<u>-</u>	<u>(204,829)</u>
(36,811)	142,377	122,705
34,500	-	34,500
-	(103,341)	(112,389)
-	-	(7,440)
<u>7,944</u>	<u>-</u>	<u>31,926</u>
42,444	(103,341)	(53,403)
(118,281)	-	(131,358)
<u>144,365</u>	<u>-</u>	<u>159,057</u>
26,084	-	27,699
<u>651</u>	<u>1,356</u>	<u>4,201</u>
32,368	40,392	101,202
<u>2,639</u>	<u>231,411</u>	<u>378,426</u>
<u>\$ 35,007</u>	<u>\$ 271,803</u>	<u>\$ 479,628</u>
\$ (59,154)	\$ 121,097	\$ 48,077
20,738	17,253	78,917
2,429	(3,317)	(6,907)
154	5,992	5,260
(978)	1,352	(2,626)
<u>-</u>	<u>-</u>	<u>(16)</u>
<u>22,343</u>	<u>21,280</u>	<u>74,628</u>
<u>\$ (36,811)</u>	<u>\$ 142,377</u>	<u>\$ 122,705</u>

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OTHER COMBINING SCHEDULES

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND – BY BOND ISSUE
 DECEMBER 31, 2008**

	Stoneridge Addition	Series 2004A Refunding Bonds	G.O. Taxable Bonds
ASSETS			
Cash and Pooled Investments	\$ 499,881	\$ 217,996	\$ 113,683
Special Assessments Receivable			
Delinquent	527	-	-
Deferred	508,447	332,427	238,211
Total Assets	\$ 1,008,855	\$ 550,423	\$ 351,894
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred Revenue	\$ 508,974	\$ 332,427	\$ 238,211
FUND BALANCES			
Reserved for Debt Service	499,881	217,996	113,683
Total Liabilities and Fund Balances	\$ 1,008,855	\$ 550,423	\$ 351,894

<u>G.O. 2003 Street Bonds</u>	<u>G.O. 2005 Bond Refinance</u>	<u>G.O. 2006 Bonds</u>	<u>Total Debt Service Funds</u>
\$ 88,218	\$ 1,696	\$ 17,971	\$ 939,445
-	-	-	527
-	326,975	1,169,375	2,575,435
<u>\$ 88,218</u>	<u>\$ 328,671</u>	<u>\$ 1,187,346</u>	<u>\$ 3,515,407</u>
\$ -	\$ 326,975	\$ 1,169,375	\$ 2,575,962
88,218	1,696	17,971	939,445
<u>\$ 88,218</u>	<u>\$ 328,671</u>	<u>\$ 1,187,346</u>	<u>\$ 3,515,407</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUND – BY BOND ISSUE
 YEAR ENDED DECEMBER 31, 2008**

	Stoneridge Addition	Series 2004A Refunding Bonds	G.O. Taxable Bonds
REVENUES			
Taxes	\$ 2,894	\$ -	\$ -
Special assessments	44,042	99,797	50,053
Intergovernmental Revenues	-	-	-
Investment Earnings	7,959	1,738	2,273
Total Revenues	54,895	101,535	52,326
EXPENDITURES			
DEBT SERVICE			
Principal	-	80,000	44,470
Interest	61,245	7,571	15,891
Total Debt Services	61,245	87,571	60,361
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,350)	13,964	(8,035)
OTHER FINANCING SOURCES (USES)			
Transfers In	64,000	-	-
NET CHANGE IN FUND BALANCE	57,650	13,964	(8,035)
Fund Balance (Deficit) - Beginning of Year	442,231	204,032	121,718
FUND BALANCE - END OF YEAR	\$ 499,881	\$ 217,996	\$ 113,683

G.O. 2003 Street Bonds	G.O. 2005 Bond Refinance	G.O. 2006 Bonds	Total Debt Service Funds
\$ 1,156	\$ 227	\$ -	\$ 4,277
509	47,449	36,665	278,515
93,462	-	-	93,462
2,235	708	-	14,913
<u>97,362</u>	<u>48,384</u>	<u>36,665</u>	<u>391,167</u>
20,000	45,000	-	189,470
4,598	15,759	25,684	130,748
<u>24,598</u>	<u>60,759</u>	<u>25,684</u>	<u>320,218</u>
72,764	(12,375)	10,981	70,949
25,564	6,750	-	96,314
98,328	(5,625)	10,981	167,263
(10,110)	7,321	6,990	772,182
<u>\$ 88,218</u>	<u>\$ 1,696</u>	<u>\$ 17,971</u>	<u>\$ 939,445</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND – BY PROJECT
 DECEMBER 31, 2008**

LIABILITIES AND FUND DEFICITS	<u>Del Acres/ Gilbertson</u>	<u>C.S.A.H. 52 Projects</u>	<u>McGrath & City Center Projects</u>	<u>Total Capital Projects Funds</u>
LIABILITIES				
Due to Other Funds	\$ 88,621	\$ 5,658	\$ 7,500	\$ 101,779
FUND DEFICITS				
Unreserved, Designated	<u>(88,621)</u>	<u>(5,658)</u>	<u>(7,500)</u>	<u>(101,779)</u>
Total Liabilities and Fund Deficits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUND – BY PROJECT
 YEAR ENDED DECEMBER 31, 2008**

	<u>Del Acres/ Gilbertson</u>	<u>C.S.A.H. 52 Projects</u>	<u>McGrath & City Center Projects</u>	<u>Total Capital Projects Funds</u>
EXPENDITURES				
CURRENT				
CAPITAL OUTLAY				
Public Works	\$ 15,721	\$ 4,113	\$ 7,500	\$ 27,334
Fund Balance (Deficit) - Beginning of Year	<u>(72,900)</u>	<u>(1,545)</u>	<u>-</u>	<u>(74,445)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u><u>\$ (88,621)</u></u>	<u><u>\$ (5,658)</u></u>	<u><u>\$ (7,500)</u></u>	<u><u>\$ (101,779)</u></u>

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REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and
Members of the City Council
City of Barnesville
Barnesville, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Barnesville, Minnesota as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Barnesville's 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 of Barnesville'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 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 City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

Honorable Mayor and
Members of the City Council
City of Barnesville

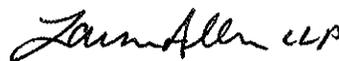
Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We consider the deficiencies 2008-01 to 2008-04, described in the accompanying schedule of findings and recommendations, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, and state and federal grantor agencies; and is not intended to be and should not be used by anyone other than these specified parties.



LarsonAllen LLP

Brainerd, Minnesota
June 5, 2009

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**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2008**

MATERIAL WEAKNESSES

2008-01 LACK OF SEGREGATION OF DUTIES

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: There is some lack of sufficient segregation of duties within the city as the senior accountant has access to the general ledger, access to physical assets, signature authority on bank accounts, utility billing adjustments, and authority to record transactions.

Cause: Size and budget constraints limiting the number of personnel within the accounting department.

Effect: The design of the internal control over financial reporting that could adversely affect the ability to initiate, authorize, record, process, summarize and report financial data consistent with the assertion of management in the financial statements. This could include the lack of the ability to prevent or detect fraud or misappropriation of assets in a timely manner.

Recommendation: The areas should be reviewed periodically and consideration given to improving the segregation of duties.

2008-02 YEAR-END CLOSING PROCEDURES

Criteria: The City of Barnesville's management is responsible for establishing and maintaining internal controls for the proper recording of all the City's accounting transactions, including account coding, reporting of accruals and net assets, and cash flow reporting.

Condition: As part of the audit we proposed material adjustments for closing the City's books at year-end, recording of accruals, reclassifications to the proper accounts, and note disclosure preparation.

Cause: The City has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over recording transactions and year-end accruals limits the ability of the City to provide accurate accrual basis financial information.

Recommendation: We recommend City management be consistently aware of all procedures and processes involved in recording transactions, accruals, and reclassifications and develop internal control policies to ensure proper recording of these items.

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2008**

MATERIAL WEAKNESSES (CONTINUED)

2008-03 FINANCIAL STATEMENT PREPARATION

Criteria: City management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34.

Condition: As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to the financial statements.

Cause: The City has a limited number of personnel with limited financial reporting experience.

Effect: The design of the controls over the financial reporting process would affect the ability of the City to report their financial data consistently with the assertions of management in the financial statements.

Recommendation: We recommend that the City be aware of the requirements for fair presentation of the financial statements in accordance with the Governmental Accounting Standards Board Statement No. 34. Should the City elect, based upon an analysis of costs and benefits, to establish the full oversight of the financial statement preparation at an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2008**

MATERIAL WEAKNESSES (CONTINUED)

2008-04 CONTROLS OVER YEAR END LIQUOR INVENTORY PROCESS

Criteria: As part of sound internal controls over liquor inventory balances the City should be taking a full physical inventory at each year end. The City should also be monitoring the inventory costing through the year.

Condition: The City did not take a full physical inventory of its liquor store inventory at year end. Also we noted five items during our test count and inventory cost testing process that had a variance greater than \$1.00 between cost within the City's inventory system and the last invoice the City received.

Cause: New liquor inventory software and management policy.

Effect: The design of controls over the year-end inventory process limits the ability of the City to provide an accurate inventory listing at the end of the year. The design of controls over the costing of liquor inventory also may limit the ability of the City to ensure its inventory has a proper retail mark-up.

Recommendation: We recommend City management continue to assess the procedures and processes involved in counting and valuing the year-end inventory for the municipal liquor store and develop internal control policies and processes to provide proper counting and valuing of year-end inventory.

OTHER ITEMS FOR CONSIDERATION (LEGAL COMPLIANCE):

2008-05 CONTRACT COMPLIANCE

Criteria: *Minnesota Statute* §240C.66 requires the City to obtain a Form IC-134 withholding affidavit on construction contracts prior to submitting final payment to the contractor.

Condition: We were not presented with documentation of Form IC-134 for the City's 2006/2007 Sewer Pond project for which the City submitted final payment during 2008.

Cause: Unknown.

Effect: Not in compliance with *Minnesota Statutes*.

Recommendation: We recommend the City obtain Form IC-134 form for all construction projects prior to submitting final payment to the contractor.

CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2008

OTHER ITEMS FOR CONSIDERATION (LEGAL COMPLIANCE) (CONTINUED):

2008-06 OUT OF STATE TRAVEL POLICY FOR ELECTED OFFICIALS

Criteria: *Minnesota Statute* §471.661 requires all municipalities to adopt and update at least annually an out of state travel policy for elected officials.

Condition: We were not presented with an out of state travel policy for the City's elected officials.

Cause: Unknown

Effect: Not in compliance with *Minnesota Statutes*.

Recommendation: We recommend the City develop and adopt an out of state travel policy for its elected officials which defines: when travel outside of the state is appropriate; applicable expense limits; and procedures for approval of the travel.

REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
Members of the City Council
City of Barnesville
Barnesville, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville, Minnesota, as of and for the year ended December 31, 2008, and have issued our report thereon dated June 5, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Audit Guide for Local Government*, promulgated by the State Auditor pursuant to *Minnesota Statute* §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 districts, and miscellaneous 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 for the items noted in the above Schedule of Findings and Recommendations.

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



LarsonAllen LLP

Brainerd, Minnesota
June 5, 2009

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