

CITY OF BARNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012

CITY OF BARNESVILLE, MINNESOTA
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DECEMBER 31, 2012

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INTRODUCTORY SECTION

**CITY OF BARNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2012**

ELECTED	NAME	TERM EXPIRES
Mayor	Fred Dahnke	12/31/2013
City Council	Betty Strom	12/31/2015
City Council	Dick Sylvester	12/31/2015
City Council	Cathy Enstad	12/31/2015
City Council	Larry Davis, Jr.	12/31/2013
City Council	Jason Rick	12/31/2013
City Council	Darin Allmaras	12/31/2013

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 (City), Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and
Members of the City Council
City of Barnesville

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 (City), Minnesota, as of December 31, 2012, the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

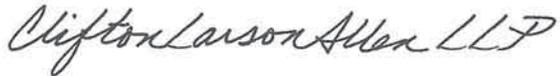
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Barnesville's basic financial statements. The combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects fund by project financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects fund by project financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the debt service fund by bond issue financial statements, and the capital projects fund by project financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and
Members of the City Council
City of Barnesville

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our reported dated May 7, 2013, on our consideration of the City's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 7, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

This section of the City of Barnesville's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2012. 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*. Certain comparative information between the current year (2012) and the prior year (2011) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2012 include the following:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$16,924,205 (net position). Of this amount, \$7,004,345 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net position increased \$820,394 or 5.09% over the prior year.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$3,046,151, an increase of \$632,929 in comparison to the prior year. Approximately 46% of this amount, or \$1,413,338, is restricted for debt service.
- At the end of the current year, unassigned fund balance for the General Fund was \$264,124, or 16% of General Fund expenditures.
- The City's total long-term debt increased by \$648,851 during the current fiscal year. The increase is attributed to issuing of the Refunding and Improvement Bonds Series 2012A.

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.

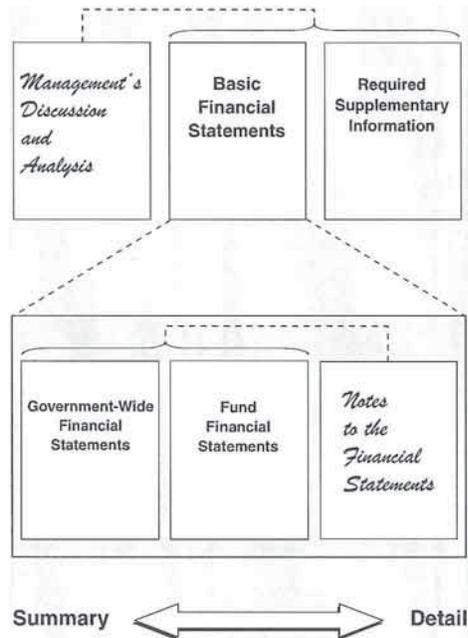
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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.

**Figure A-1
Annual Report Format**



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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 position.	Balance sheet.	Statement of net position.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses, and changes in fund net position and statement of cash flows.	Statement of changes in fiduciary net position.
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 position 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 position and how they have changed. Net position – 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 position 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, 2012**

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 position. 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, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$16,924,205 on December 31, 2012 (see Table A-1).

Table A-1
The City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 5,711,332	\$ 5,138,362	\$ 7,269,532	\$ 6,248,310	\$ 12,980,864	\$ 11,386,672
Capital Assets	3,889,086	3,665,327	10,902,188	11,246,174	14,791,274	14,911,501
Total Assets	9,600,418	8,803,689	18,171,720	17,494,484	27,772,138	26,298,173
Current Liabilities	567,936	1,225,270	1,467,433	1,971,887	2,035,369	3,197,157
Long-Term Liabilities	2,862,141	1,754,608	5,950,423	5,242,597	8,812,564	6,997,205
Total Liabilities	3,430,077	2,979,878	7,417,856	7,214,484	10,847,933	10,194,362
Net Position						
Net Investment in Capital Assets	1,502,314	1,105,754	4,655,950	4,411,551	6,158,264	5,517,305
Restricted	3,761,596	3,193,810	-	-	3,761,596	3,193,810
Unrestricted	906,431	1,524,247	6,097,914	5,868,449	7,004,345	7,392,696
Total Net Position	\$ 6,170,341	\$ 5,823,811	\$ 10,753,864	\$ 10,280,000	\$ 16,924,205	\$ 16,103,811

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$7,787,209 for the year ended December 31, 2012. Property taxes and intergovernmental revenues accounted for 17% 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 Position

	Governmental Activities		Total % Change	Business-Type Activities		Total % Change	Total		Total % Change
	2012	2011		2012	2011		2012	2011	
REVENUES									
Program Revenues									
Charges for Services	\$ 202,317	\$ 88,167	129.5 %	\$ 5,500,749	\$ 5,450,907	0.9 %	\$ 5,703,066	\$ 5,539,074	3.0 %
Operating Grants and Contributions	69,415	80,378	(13.6)	38,444	37,086	3.7	107,859	117,464	(8.2)
Capital Grants and Contributions	278,784	552,319	(49.5)	13,673	487,349	-	292,457	1,039,668	(71.9)
General Revenues									
Property Taxes	506,215	412,295	22.8	43,680	68,680	-	549,895	480,975	14.3
Tax Increments	140,187	125,371	11.8	-	-	-	140,187	125,371	11.8
Unrestricted State Aid	608,625	657,769	(7.5)	-	-	-	608,625	657,769	(7.5)
Investment Earnings	47,378	24,725	91.6	2,538	4,046	(37.3)	49,916	28,771	73.5
Other	71,016	47,306	50.1	264,188	313,742	(15.8)	335,204	361,048	(7.2)
Total Revenues	1,923,937	1,988,330	(3.2)	5,863,272	6,361,810	(7.8)	7,787,209	8,350,140	(6.7)
EXPENSES									
General Government	661,668	527,134	25.5	-	-	-	661,668	527,134	25.5
Public Safety	592,788	570,000	4.0	-	-	-	592,788	570,000	4.0
Public Works	379,258	433,592	(12.5)	-	-	-	379,258	433,592	(12.5)
Culture and Recreation	478,229	288,520	65.8	-	-	-	478,229	288,520	65.8
Economic Development	268,906	295,029	(8.9)	-	-	-	268,906	295,029	(8.9)
Interest	75,058	95,935	(21.8)	-	-	-	75,058	95,935	(21.8)
Water	-	-	-	270,419	269,453	0.4	270,419	269,453	0.4
Sewer	-	-	-	307,542	315,454	(2.5)	307,542	315,454	(2.5)
Electric	-	-	-	1,701,352	1,657,998	2.6	1,701,352	1,657,998	2.6
Telephone	-	-	-	724,735	689,456	5.1	724,735	689,456	5.1
Municipal Liquor	-	-	-	422,496	387,769	9.0	422,496	387,769	9.0
Cable Television	-	-	-	432,721	386,680	11.9	432,721	386,680	11.9
Sanitation	-	-	-	188,687	183,230	3.0	188,687	183,230	3.0
Storm Sewer	-	-	-	22,122	21,903	1.0	22,122	21,903	1.0
Golf Course	-	-	-	-	119,037	(100.0)	-	119,037	(100.0)
Ambulance	-	-	-	396,435	381,645	3.9	396,435	381,645	3.9
Broadband Internet	-	-	-	44,399	53,861	(17.6)	44,399	53,861	(17.6)
Total Expenses	2,455,907	2,210,210	11.1	4,510,908	4,466,466	1.0	6,966,815	6,676,696	4.3
Transfers	878,500	1,078,734	(18.6)	(878,500)	(1,078,734)	18.6	-	-	-
CHANGE IN NET POSITION	346,530	856,854	(59.6)	473,864	816,590	(42.0)	820,394	1,673,444	(51.0)
Net Position - Beginning of Year	5,823,811	4,966,957	17.3	10,280,000	9,463,410	8.6	16,103,811	14,430,367	11.6
NET POSITION - END OF YEAR	\$ 6,170,341	\$ 5,823,811	6.0	\$ 10,753,864	\$ 10,280,000	4.6	\$ 16,924,205	\$ 16,103,811	5.1

Total revenues surpassed expenses, increasing city-wide net position by \$820,394 as compared to an increase of \$1,673,444 in 2011. The smaller increase in net position for 2012 is primarily due to capital grants and contributions in 2011 which did not repeat in 2012.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (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
	2012	2011		2012	2011	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 661,668	\$ 527,134	25.5 %	\$ (632,568)	\$ (496,551)	27.4 %
Public Safety	592,788	570,000	4.0	(476,665)	(449,722)	6.0
Public Works	379,258	433,592	(12.5)	(145,412)	62,730	(331.8)
Culture and Recreation	478,229	288,520	65.8	(306,782)	(232,441)	32.0
Economic Development	268,906	295,029	(8.9)	(268,906)	(295,029)	(8.9)
Interest and Fiscal Charges on						
Interest	75,058	95,935	(21.8)	(75,058)	(78,333)	(4.2)
Total	<u>\$ 2,455,907</u>	<u>\$ 2,210,210</u>	11.1	<u>\$ (1,905,391)</u>	<u>\$ (1,489,346)</u>	27.9
BUSINESS-TYPE ACTIVITIES						
Water	\$ 270,419	\$ 269,453	0.4 %	\$ 161,420	\$ 421,868	(61.7)%
Sewer	307,542	315,454	(2.5)	289,898	493,695	(41.3)
Electric	1,701,352	1,657,998	2.6	257,816	246,419	4.6
Telephone	724,735	689,456	5.1	212,881	220,813	(3.6)
Municipal Liquor	422,496	387,769	9.0	26,155	24,553	6.5
Cable Television	432,721	386,680	11.9	(4,273)	18,695	(122.9)
Sanitation	188,687	183,230	3.0	25,339	23,346	8.5
Storm Sewer	22,122	21,903	1.0	9,140	7,178	27.3
Golf Course	-	119,037	(100.0)	-	(15,156)	(100.0)
Ambulance	396,435	381,645	3.9	(111,623)	(86,674)	28.8
Broadband Internet	44,399	53,861	(17.6)	175,205	154,119	13.7
Total	<u>\$ 4,510,908</u>	<u>\$ 4,466,486</u>	1.0	<u>\$ 1,041,958</u>	<u>\$ 1,508,856</u>	(30.9)

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

Governmental Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$3,046,151.

Revenues for the City's governmental funds were \$2,005,573, while total expenditures were \$2,863,757.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The City-wide cost of all governmental activities this year was \$2,455,907 .

- Some of the cost was paid by the users of the City's programs (\$202,317).
- Federal and state government payments (\$348,199) subsidized certain programs.
- Ad valorem property taxes (\$506,215) and unrestricted state grants (\$608,625) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also subsidize governmental operations (\$878,500).

Figure A-3 Sources of City's Governmental Revenues for Fiscal 2012

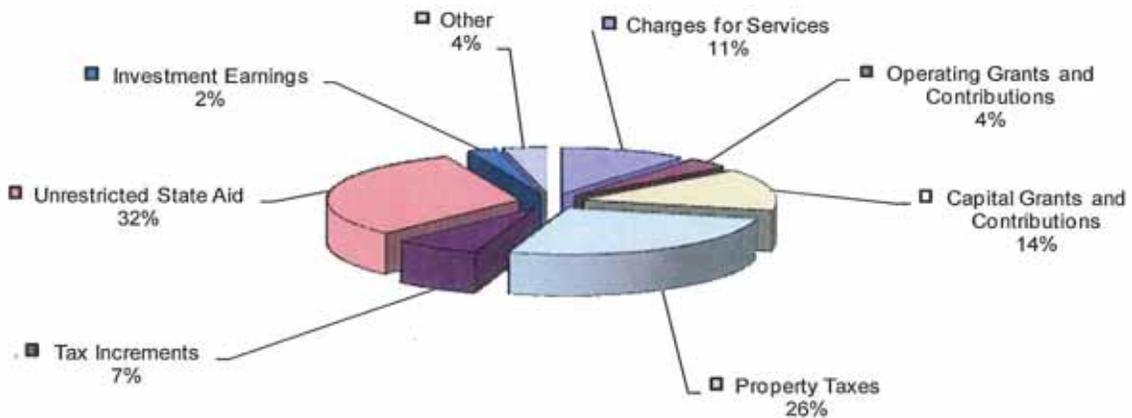
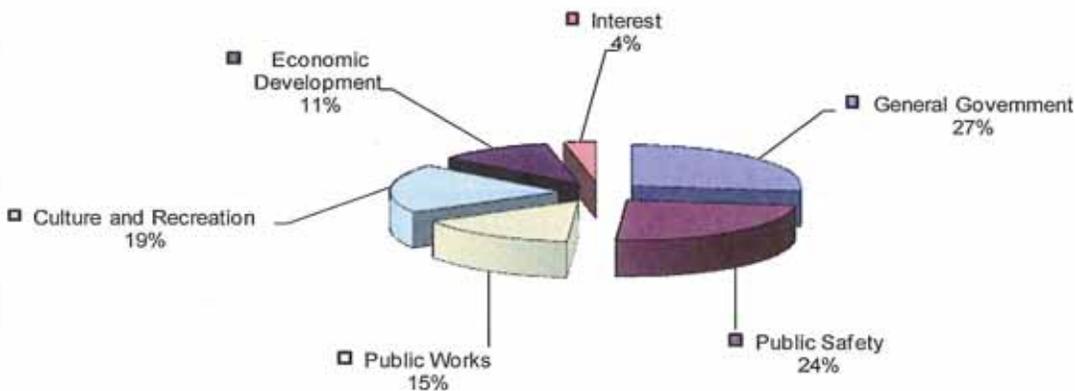


Figure A-4 City's Governmental Expenses for Fiscal 2012



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**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)

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, 2012	December 31, 2011	Increase (Decrease)	Percent
Taxes	\$ 131,132	\$ 11,152	\$ 119,980	1075.9 %
Special Assessments	5,267	11,445	(6,178)	(54.0)
Licenses and Permits	21,096	11,836	9,260	78.2
Intergovernmental	672,663	701,740	(29,077)	(4.1)
Charges for Services	886	10,950	(10,064)	(91.9)
Fines and Forfeits	7,841	13,518	(5,677)	(42.0)
Interest	40,707	20,503	20,204	98.5
Miscellaneous and Other	50,693	60,256	(9,563)	(15.9)
Total General Fund Revenues	\$ 930,285	\$ 841,400	\$ 88,885	10.6

Total General Fund revenue increased by \$88,885 or 10.6%, from the previous year. The primary reason for the increase is an increase to tax revenues and interest revenue, which offset decreases in intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous revenues.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent
General Government	\$ 622,773	\$ 550,534	\$ 72,239	13.1 %
Public Safety	537,722	455,731	81,991	18.0
Public Works	200,403	219,389	(18,986)	(8.7)
Airport	1,336	995	341	34.3
Economic Development	160,929	139,329	21,600	15.5
Capital Outlay	85,238	166,918	(81,680)	(48.9)
Debt Service	3,129	8,473	(5,344)	(63.1)
Total Expenditures	\$ 1,611,530	\$ 1,541,369	\$ 70,161	4.6

The General Fund's expenditures increased \$70,161 from 2011. This increase is due largely to increases in general government and public safety, which offset decreases in capital outlay and public works expenditures.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL (CONTINUED)

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 \$106,148 more than expected. This is primarily due to more than expected tax revenues and interest revenues.
- The actual expenditures were \$42,357 less than budget. This is primarily due to the City cutting expenditures in City departments to help offset the reductions in market value credits during 2012.

Parks and Recreation Fund

The Parks and Recreation fund for 2012 reflected a full year's activity for the City's golf course which was transferred to governmental activities at the end of 2011. Operations of the fund resulted in an increase in fund balance of \$1,988. The fund was also over budget in both revenues and expenditures during 2012 by \$29,206 and \$9,718 respectively.

Capital Projects Fund

During 2012, the City completed construction on Front Street and started an expansion in the commercial park which accounted for approximately \$322,000 in current year expenditures.

Debt Service Fund

During 2012, the City issued the 2012A General Obligation Improvement and Refunding Bonds in the amount of \$2,345,000. Of this bond issue, \$1,455,000 related to the debt service fund (governmental activities) and approximately \$681,000 remained with an escrow agent as of December 31, 2012.

Business-Type Funds

Water and Sewer

The Water and Sewer Funds showed net income (before transfers to other funds) of approximately \$165,000 and \$293,000, respectively, for the year ended December 31, 2012.

Liquor and Cable Television

The operations of the Municipal Liquor and Cable Television Funds remained essentially consistent with the prior year showing income (loss) (before transfers to other funds) of approximately \$29,000, and (\$1,400), respectively, for the year ended December 31, 2012.

Electric

The Electric Fund showed an increase in sales of approximately \$55,000 resulting from an increase in consumption; however, purchased power costs decreased by approximately \$17,000. The net result was net income (before transfers to other funds) of approximately \$277,000 for the year ended December 31, 2012.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

Business-Type Funds (Continued)

Telephone

The Telephone Fund showed an increase in sales of approximately \$27,000, or 3.0%, resulting from an increase in customers. At the same time, expenses (primarily miscellaneous) increased by approximately \$37,000. Income of approximately \$195,000 (compared to \$204,000 in the prior year) was reflected in the Telephone Fund's fiber optic Joint Venture, resulting in a net income (before transfers to other funds) of approximately \$422,000 as compared to \$437,000 in the prior year.

CONSTRUCTION PROJECTS AND DEBT SERVICE

During 2012, the City completed construction on Front Street and started an expansion in the commercial park.

During 2012, the City issued the 2012A General Obligation Improvement and Refunding Bonds in the amount of \$2,345,000 to refinance various city debt obligations.

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 2012, the City had invested approximately \$14,800,000 (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 2.A.3 to the financial statements). Total depreciation expense for the year was \$545,144 (including the enterprise funds).

Table A-6
The City's Capital Assets

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2012	2011		2012	2011		2012	2011	
Land	\$ 551,831	\$ 617,741	(10.7)%	\$ 113,908	\$ 113,908	- %	\$ 665,739	\$ 731,649	(9.0)%
Construction-in-Progress	225,144	736,683	(69.4)	-	1,049,285	(100.0)	225,144	1,785,968	(87.4)
Buildings	1,616,409	1,616,409	-	1,330,997	1,330,997	-	2,947,406	2,947,406	-
Infrastructure	4,062,567	3,227,190	25.9	11,816,883	10,767,598	9.7	15,879,450	13,994,788	13.5
Improvements	263,978	263,978	-	979,170	979,170	-	1,243,148	1,243,148	-
Machinery and Equipment	664,491	623,324	6.6	2,543,972	2,522,189	0.9	3,208,463	3,145,513	2.0
Vehicles	398,869	294,830	35.3	326,094	326,094	-	724,963	620,924	16.8
Less: Accumulated Depreciation	(3,894,203)	(3,714,828)	4.8	(6,208,836)	(5,843,067)	6.3	(10,103,039)	(9,557,895)	5.7
Total	\$ 3,889,086	\$ 3,665,327	6.1	\$ 10,902,188	\$ 11,246,174	(3.1)	\$ 14,791,274	\$ 14,911,501	(0.8)

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

LONG-TERM LIABILITIES

At year-end, the City had \$10,488,515 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities net long-term debt increased \$648,851 due primarily to issuance of the Refunding and Improvement Bonds Series 2012A.

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

	2012	2011	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 3,135,000	\$ 2,714,914	15.5 %
Capital Leases Payable	9,302	11,894	(21.8)
Compensated Absences Payable	95,280	89,120	6.9
Other Postemployment Benefits Payable	78,798	57,247	37.6
Less: Bond Discounts	(11,800)	(14,222)	(17.0)
Total Governmental Activities	<u>\$ 3,306,580</u>	<u>\$ 2,858,953</u>	15.7
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds	\$ 1,105,000	\$ 1,335,349	(17.3)%
General Obligation Revenue Notes	3,113,000	3,328,000	(6.5)
General Obligation Bonds	2,939,672	2,307,613	27.4
Compensated Absences Payable	24,683	20,202	22.2
Other Postemployment Benefits Payable	21,014	16,838	24.8
Less: Bond Discounts	(21,434)	(27,291)	(21.5)
Total Business-Type Activities	<u>7,181,935</u>	<u>6,980,711</u>	2.9
Total City-Wide Long-Term Liabilities	<u>\$ 10,488,515</u>	<u>\$ 9,839,664</u>	6.6

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 POSITION
DECEMBER 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Pooled Investments	\$ 2,388,470	\$ 3,140,935	\$ 5,529,405	\$ 142,654
Cash with Escrow Agent	681,375	874,135	1,555,510	-
Taxes Receivable				
Delinquent	38,381	-	38,381	-
Special Assessments Receivable				
Delinquent	63,194	3,597	66,791	-
Deferred	2,444,161	435,723	2,879,884	-
Accounts Receivable - Net	5,320	913,193	918,513	-
Accrued Interest Receivable	905	-	905	-
Notes Receivable - Net	20,595	-	20,595	-
Due from Other Governments	9,697	-	9,697	-
Inventories	1,200	57,436	58,636	-
Land Held for Resale	-	-	-	384,638
Unamortized Bond Issue Costs	45,426	34,300	79,726	-
Advances to Component Unit	12,608	-	12,608	-
Advances to Primary Government	-	-	-	4,854
Investment in Joint Venture	-	1,810,213	1,810,213	-
Capital Assets not Being Depreciated				
Land	551,831	113,908	665,739	-
Construction-in-Progress	225,144	-	225,144	-
Capital Assets Being Depreciated				
Buildings	899,654	719,409	1,619,063	-
Infrastructure	1,776,432	8,330,234	10,106,666	-
Improvements	87,225	377,862	465,087	-
Machinery and Equipment	188,970	1,319,375	1,508,345	-
Vehicles	159,830	41,400	201,230	-
Total Assets	9,600,418	18,171,720	27,772,138	532,146
LIABILITIES				
Accounts Payable	21,007	45,624	66,631	5,928
Salaries and Benefits Payable	54,241	29,721	83,962	4,116
Deposits Payable	-	1,290	1,290	-
Accrued Interest Payable	43,395	72,894	116,289	-
Due to Other Governments	-	13,348	13,348	-
Due to Primary Government	-	-	-	70,009
Advances from Primary Government	-	-	-	12,608
Advances from Component Unit	4,854	-	4,854	-
Deferred Revenue	-	73,044	73,044	-
Special Assessments Payable - Due Within One Year	-	-	-	6,000
Notes Payable - Due Within One Year	-	-	-	2,706
Bonds Payable - Due Within One Year	370,000	1,213,000	1,583,000	2,265
Capital Leases Payable - Due Within One Year	2,979	-	2,979	-
Compensated Absences Payable - Due Within One Year	71,460	18,512	89,972	-
Special Assessments Payable - Due in More Than One Year	-	-	-	213,999
Bonds Payable - Due in More Than One Year	2,753,200	5,923,238	8,676,438	10,288
Capital Leases Payable - Due in More Than One Year	6,323	-	6,323	-
Compensated Absences Payable - Due in More Than One Year	23,820	6,171	29,991	-
Other Postemployment Benefits Payable - Due in More Than One Year	78,798	21,014	99,812	3,959
Total Liabilities	3,430,077	7,417,856	10,847,933	331,878
NET POSITION				
Net Investment in Capital Assets	1,502,314	4,655,950	6,158,264	-
Restricted for				
Debt Service	3,699,723	-	3,699,723	-
Public Safety	6,906	-	6,906	-
Economic Development	54,967	-	54,967	-
Unrestricted	906,431	6,097,914	7,004,345	200,268
Total Net Position	\$ 6,170,341	\$ 10,753,864	\$ 16,924,205	\$ 200,268

See accompanying Notes to the Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 661,668	\$ 29,100	\$ -	\$ -
Public Safety	592,788	1,047	54,451	60,625
Public Works	379,258	723	14,964	218,159
Culture and Recreation	478,229	171,447	-	-
Economic Development	268,906	-	-	-
Interest	75,058	-	-	-
Total Governmental Activities	2,455,907	202,317	69,415	278,784
Business-Type Activities				
Water	270,419	424,563	-	7,276
Sewer	307,542	591,043	-	6,397
Electric	1,701,352	1,959,168	-	-
Telephone	724,735	934,833	2,783	-
Municipal Liquor	422,496	448,651	-	-
Cable Television	432,721	428,448	-	-
Sanitation	188,687	185,115	28,911	-
Storm Sewer	22,122	31,262	-	-
Ambulance	396,435	278,062	6,750	-
Broadband Internet	44,399	219,604	-	-
Total Business-Type Activities	4,510,908	5,500,749	38,444	13,673
Total Primary Government	<u>\$ 6,966,815</u>	<u>\$ 5,703,066</u>	<u>\$ 107,859</u>	<u>\$ 292,457</u>
Component Unit				
EDA	<u>\$ 338,001</u>	<u>\$ 59,935</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 POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (632,568)	\$ -	\$ (632,568)	\$ -
(476,665)	-	(476,665)	-
(145,412)	-	(145,412)	-
(306,782)	-	(306,782)	-
(268,906)	-	(268,906)	-
(75,058)	-	(75,058)	-
(1,905,391)	-	(1,905,391)	-
-	161,420	161,420	-
-	289,898	289,898	-
-	257,816	257,816	-
-	212,881	212,881	-
-	26,155	26,155	-
-	(4,273)	(4,273)	-
-	25,339	25,339	-
-	9,140	9,140	-
-	(111,623)	(111,623)	-
-	175,205	175,205	-
-	1,041,958	1,041,958	-
(1,905,391)	1,041,958	(863,433)	-
-	-	-	(278,066)
506,215	43,680	549,895	-
140,187	-	140,187	-
608,625	-	608,625	140,329
47,378	2,538	49,916	39
71,016	264,188	335,204	25,595
878,500	(878,500)	-	-
2,251,921	(568,094)	1,683,827	165,963
346,530	473,864	820,394	(112,103)
5,823,811	10,280,000	16,103,811	312,371
\$ 6,170,341	\$ 10,753,864	\$ 16,924,205	\$ 200,268

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FUND FINANCIAL STATEMENTS

**CITY OF BARNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Parks and Recreation Fund	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,391,116	\$ 187,846	\$ 714,452	\$ 50,731	\$ 44,326	\$ 2,388,471
Cash with Escrow Agent	-	-	681,375	-	-	681,375
Taxes Receivable						
Delinquent	33,932	-	4,449	-	-	38,381
Special Assessments Receivable						
Delinquent	34,141	-	29,053	-	-	63,194
Deferred	38,625	-	2,313,789	91,747	-	2,444,161
Accounts Receivable	-	5,320	-	-	-	5,320
Accrued Interest Receivable	905	-	-	-	-	905
Notes Receivable	2,706	-	-	-	17,889	20,595
Inventory	-	1,200	-	-	-	1,200
Due from Other Governments	9,697	-	-	-	-	9,697
Advance to Component Unit	12,608	-	-	-	-	12,608
Due from Other Funds	124,378	-	-	-	-	124,378
Total Assets	\$ 1,648,108	\$ 194,366	\$ 3,743,118	\$ 142,478	\$ 62,215	\$ 5,790,285
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 15,240	\$ 1,332	\$ -	\$ 4,093	\$ 342	\$ 21,007
Salaries and Benefits Payable	47,512	6,729	-	-	-	54,241
Due to Other Funds	-	-	-	124,378	-	124,378
Advance from Component Unit	4,854	-	-	-	-	4,854
Deferred Revenue	100,238	-	2,329,780	91,747	17,889	2,539,654
Total Liabilities	167,844	8,061	2,329,780	220,218	18,231	2,744,134
Fund Balances						
Nonspendable Inventory	-	1,200	-	-	-	1,200
Nonspendable Advances	12,608	-	-	-	-	12,608
Restricted for Debt Repayment	-	-	1,413,338	-	-	1,413,338
Restricted for Other Governmental Funds	-	-	-	-	43,984	43,984
Committed for Capital Outlay	55,000	-	-	-	-	55,000
Committed for Community Projects	1,042,314	-	-	-	-	1,042,314
Committed for Park Operations	-	158,013	-	-	-	158,013
Assigned for the Library	1,218	-	-	-	-	1,218
Assigned for Capital Outlay	105,000	27,092	-	-	-	132,092
Unassigned	264,124	-	-	(77,740)	-	186,384
Total Fund Balances	1,480,264	186,305	1,413,338	(77,740)	43,984	3,046,151
Total Liabilities and Fund Balances	\$ 1,648,108	\$ 194,366	\$ 3,743,118	\$ 142,478	\$ 62,215	\$ 5,790,285

See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS		\$ 3,046,151
Amounts reported for governmental activities in the statement of net position 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.		3,889,086
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		2,539,654
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	\$ (3,123,200)	
Unamortized Bond Issue Costs	45,426	
Capital Lease Obligations	(9,302)	
Accrued Compensated Absences	(95,280)	
Other Postemployment Benefits Payable	(78,798)	
Accrued Interest Payable on General Obligation Bonds	(43,396)	
	(3,304,550)	(3,304,550)
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 6,170,341</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, 2012

	General Fund	Parks and Recreation Fund	Debt Service Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 131,132	\$ 322,682	\$ 47,153	\$ -	\$ -	\$ 500,967
Tax Increments	-	-	-	-	140,187	140,187
Special Assessments	5,267	-	227,299	-	-	232,566
Licenses and Permits	21,096	-	-	-	-	21,096
Intergovernmental	672,663	-	-	137,832	-	810,495
Charges for Services	886	171,447	-	-	-	172,333
Fines and Forfeits	7,841	-	-	-	-	7,841
Gifts and Contributions	-	-	-	-	110	110
Interest on Investments	40,707	35	1,433	70	3	42,248
Miscellaneous	50,693	11,474	-	-	15,563	77,730
Total Revenues	930,285	505,638	275,885	137,902	155,863	2,005,573
EXPENDITURES						
Current						
General Government	622,773	-	-	-	-	622,773
Public Safety	537,722	-	-	-	9,781	547,503
Public Works	200,403	-	-	-	-	200,403
Airport	1,336	-	-	-	-	1,336
Parks and Recreation	-	412,484	-	-	-	412,484
Economic Development	160,929	-	-	-	128,011	288,940
Capital Outlay						
General Government	3,065	-	-	-	-	3,065
Public Safety	29,312	-	-	-	-	29,312
Public Works	51,229	-	-	322,610	-	373,839
Parks and Recreation	1,632	91,166	-	-	-	92,798
Debt Service						
Principal	2,592	-	192,527	-	-	195,119
Interest and Other Charges	537	-	69,763	-	-	70,300
Bond Issue Costs	-	-	25,885	-	-	25,885
Total Expenditures	1,611,530	503,650	288,175	322,610	137,792	2,863,757
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(681,245)	1,988	(12,290)	(184,708)	18,071	(858,184)
OTHER FINANCING SOURCES (USES)						
Transfers In	778,500	-	160,000	-	7,500	946,000
Transfers Out	(7,500)	-	(60,000)	-	-	(67,500)
Bond Proceeds	-	-	1,455,000	-	-	1,455,000
Payment to Refunded Bond Escrow Agent	-	-	(842,387)	-	-	(842,387)
Total Other Financing Sources (Uses)	771,000	-	712,613	-	7,500	1,491,113
NET CHANGE IN FUND BALANCES	89,755	1,988	700,323	(184,708)	25,571	632,929
Fund Balance (Deficit) - Beginning of Year	1,390,509	184,317	713,015	106,968	18,413	2,413,222
FUND BALANCE - END OF YEAR	<u>\$ 1,480,264</u>	<u>\$ 186,305</u>	<u>\$ 1,413,338</u>	<u>\$ (77,740)</u>	<u>\$ 43,984</u>	<u>\$ 3,046,151</u>

See accompanying Notes to Financial Statements.

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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, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 632,929
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	\$ 403,134	
Current Year Depreciation	<u>(179,375)</u>	223,759
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
		(85,542)
Bond and lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The proceeds, net of issuance costs, for debt issuance are:		
Gross Bond Proceeds	(1,455,000)	
Bond Issue Costs	<u>25,885</u>	(1,429,115)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal Repayments:		
General Obligation Bonds	1,034,914	
Capital Lease	<u>2,592</u>	1,037,506
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	(1,096)	
Amortization of Bond Issue Costs	(1,778)	
Amortization of Discounts	(2,422)	
Change in Compensated Absences	(6,160)	
Change in Other Postemployment Benefits Payable	<u>(21,551)</u>	<u>(33,007)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 346,530</u>

See accompanying Notes to Financial Statements.

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

ASSETS	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 450,040	\$ 952,397	\$ 417,406
Cash with Escrow Agent	726,807	147,328	-
Accounts Receivable - Net	79,838	118,046	398,369
Special Assessments Receivable			
Delinquent	1,911	1,686	-
Noncurrent	231,478	204,245	-
Inventories	-	-	-
Total Current Assets	<u>1,490,074</u>	<u>1,423,702</u>	<u>815,775</u>
NONCURRENT ASSETS			
Investment in Joint Venture	-	-	-
Unamortized Bond Issue Costs	14,246	3,568	-
Capital Assets			
Land	-	100,831	-
Buildings (Net)	410,653	2,662	73,328
Infrastructure (Net)	2,003,884	5,149,427	279,891
Improvements (Net)	-	-	-
Machinery and Equipment (Net)	97,737	34,103	185,589
Vehicles (Net)	-	-	-
Total Capital Assets	<u>2,512,274</u>	<u>5,287,023</u>	<u>538,808</u>
Total Noncurrent Assets	<u>2,526,520</u>	<u>5,290,591</u>	<u>538,808</u>
Total Assets	<u>4,016,594</u>	<u>6,714,293</u>	<u>1,354,583</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	250	860	10,569
Salaries and Benefits Payable	722	455	2,840
Deposits Payable	-	-	1,290
Accrued Interest Payable	25,803	25,042	3,638
Due to Other Governments	257	-	5,650
Deferred Revenue	-	-	27,890
Compensated Absences - Due Within One Year	211	211	1,616
Bonds Payable - Due Within One Year	811,000	282,000	32,000
Total Current Liabilities	<u>838,243</u>	<u>308,568</u>	<u>85,493</u>
NONCURRENT LIABILITIES			
Compensated Absences Payable -			
Due in More than One Year	70	70	539
Other Postemployment Benefits Payable -			
Due in More than One Year	705	649	1,956
Bonds Payable - Due in More than One Year	1,251,627	3,699,189	146,248
Total Noncurrent Liabilities	<u>1,252,402</u>	<u>3,699,908</u>	<u>148,743</u>
Total Liabilities	<u>2,090,645</u>	<u>4,008,476</u>	<u>234,236</u>
NET POSITION			
Net Investment in Capital Assets	1,189,647	1,455,834	360,560
Unrestricted	736,302	1,249,983	759,787
Total Net Position	<u>\$ 1,925,949</u>	<u>\$ 2,705,817</u>	<u>\$ 1,120,347</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 425,521	\$ 18,934	\$ 54,155	\$ 822,482	\$ 3,140,935
-	-	-	-	874,135
104,923	4,499	90,538	116,980	913,193
-	-	-	-	3,597
-	-	-	-	435,723
-	57,436	-	-	57,436
530,444	80,869	144,693	939,462	5,425,019
1,810,213	-	-	-	1,810,213
-	-	16,486	-	34,300
-	-	-	13,077	113,908
1,251	46,222	75,683	109,610	719,409
-	-	355,930	541,102	8,330,234
377,862	-	-	-	377,862
357,819	-	576,892	67,235	1,319,375
925	-	1,015	39,460	41,400
737,857	46,222	1,009,520	770,484	10,902,188
2,548,070	46,222	1,026,006	770,484	12,746,701
3,078,514	127,091	1,170,699	1,709,946	18,171,720
13,724	588	4,163	15,470	45,624
10,534	4,235	934	10,001	29,721
-	-	-	-	1,290
5,458	-	12,953	-	72,894
1,015	2,524	2,424	1,478	13,348
-	-	45,154	-	73,044
9,558	1,600	1,235	4,081	18,512
48,000	-	40,000	-	1,213,000
88,289	8,947	106,863	31,030	1,467,433
3,186	533	412	1,361	6,171
13,170	-	1,387	3,147	21,014
219,372	-	606,802	-	5,923,238
235,728	533	608,601	4,508	5,950,423
324,017	9,480	715,464	35,538	7,417,856
470,485	46,222	362,718	770,484	4,655,950
2,284,012	71,389	92,517	903,924	6,097,914
\$ 2,754,497	\$ 117,611	\$ 455,235	\$ 1,674,408	\$ 10,753,864

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Water	Sewer	Electric
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
Charges for Services	424,563	591,043	1,959,168
OPERATING EXPENSES			
Professional Services	104,185	102,304	107,105
Wages, Salaries, and Compensation	18,261	11,460	65,167
Repairs and Maintenance	6,105	3,493	28,827
Insurance	6,914	4,216	4,742
Utilities	-	-	3,792
Depreciation	61,345	120,265	30,152
Materials and Supplies	23,785	-	776
Miscellaneous Expenses	6,168	8,410	41,701
Purchased Power	-	-	1,336,437
License Fees	816	-	-
Equipment	-	-	73,449
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	227,579	250,148	1,692,148
OPERATING INCOME (LOSS)	196,984	340,895	267,020
NONOPERATING REVENUES (EXPENSES)			
Taxes	-	-	-
Investment Income	658	1,052	298
Joint Venture Income	-	-	-
Special Assessments	7,276	6,397	-
Intergovernmental Grants	-	-	-
Miscellaneous - Nonoperating	3,099	1,583	18,821
Interest Expense and Fiscal Charges	(42,840)	(57,394)	(9,204)
Total Nonoperating Revenues (Expenses)	(31,807)	(48,362)	9,915
Income (Loss) before Transfers	165,177	292,533	276,935
Transfers In	-	-	-
Transfers Out	(50,000)	(103,000)	(242,500)
CHANGE IN NET POSITION	115,177	189,533	34,435
Net Position - Beginning of Year	1,810,772	2,516,284	1,085,912
NET POSITION - END OF YEAR	<u>\$ 1,925,949</u>	<u>\$ 2,705,817</u>	<u>\$ 1,120,347</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ -	\$ 448,651	\$ -	\$ -	\$ 448,651
-	339,121	-	-	339,121
-	109,530	-	-	109,530
934,833	-	428,448	714,043	5,052,098
40,272	-	-	152,993	506,859
231,076	63,589	33,492	202,635	625,680
23,801	965	9,886	9,492	82,569
3,967	7,276	5,052	8,034	40,201
-	-	-	-	3,792
74,127	912	32,110	46,858	365,769
5,924	666	1,609	36,392	69,152
331,760	12,084	10,648	80,794	491,565
-	-	-	-	1,336,437
-	-	270,415	-	271,231
-	(2,117)	35,822	-	107,154
-	-	-	114,445	114,445
710,927	83,375	399,034	651,643	4,014,854
223,906	26,155	29,414	62,400	1,146,774
-	-	-	43,680	43,680
414	6	8	102	2,538
195,387	-	-	-	195,387
-	-	-	-	13,673
2,783	-	-	35,661	38,444
12,852	2,956	2,906	26,584	68,801
(13,808)	-	(33,687)	-	(156,933)
197,628	2,962	(30,773)	106,027	205,590
421,534	29,117	(1,359)	168,427	1,352,364
5,582	-	-	-	5,582
(328,500)	(12,000)	-	(148,082)	(884,082)
98,616	17,117	(1,359)	20,345	473,864
2,655,881	100,494	456,594	1,654,063	10,280,000
\$ 2,754,497	\$ 117,611	\$ 455,235	\$ 1,674,408	\$ 10,753,864

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Water	Sewer	Electric
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 419,253	\$ 581,855	\$ 1,952,817
Payments to Suppliers	(147,831)	(117,688)	(1,595,163)
Payments to Employees	(18,467)	(11,215)	(63,998)
Net Cash Provided by Operating Activities	252,955	452,952	293,656
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(50,000)	(103,000)	(242,500)
Transfers In	-	-	-
Other Miscellaneous Receipts	3,099	1,583	18,821
Grant Receipts	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(46,901)	(101,417)	(223,679)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(782,537)	(850,687)	(31,650)
Interest Paid on Debt	(57,871)	(69,814)	(9,818)
Bond Proceeds	1,277,082	662,203	-
Special Assessments	16,155	14,232	-
Taxes	-	-	-
Acquisition of Capital Assets	(7,275)	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	445,554	(244,066)	(41,468)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from Joint Venture	-	-	-
Interest and Dividends Received	658	1,052	298
Net Cash Provided (Used) by Investing Activities	658	1,052	298
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	652,266	108,521	28,807
Cash and Cash Equivalents - Beginning of Year	524,581	991,204	388,599
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,176,847</u>	<u>\$ 1,099,725</u>	<u>\$ 417,406</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 196,984	\$ 340,895	\$ 267,020
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	61,345	120,265	30,152
(Increase) Decrease in Assets			
Accounts Receivable	(5,310)	(9,188)	(16,966)
Inventory	-	-	-
Increase (Decrease) in Liabilities			
Accounts Payable	125	735	2,915
Salaries and Benefits Payable	(376)	131	67
Other Postemployment Benefits Payable	134	78	474
Due to Other Governments	17	-	(1,249)
Compensated Absences Payable	36	36	628
Deferred Revenue	-	-	10,615
Total Adjustments	55,971	112,057	26,636
Net Cash Provided by Operating Activities	<u>\$ 252,955</u>	<u>\$ 452,952</u>	<u>\$ 293,656</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 932,452	\$ 447,090	\$ 426,579	\$ 720,186	\$ 5,480,232
(406,690)	(368,000)	(333,426)	(399,878)	(3,368,676)
(224,154)	(61,131)	(34,534)	(197,139)	(610,638)
301,608	17,959	58,619	123,169	1,500,918
(328,500)	(12,000)	-	(148,082)	(884,082)
5,582	-	-	-	5,582
12,852	2,956	2,906	26,584	68,801
2,783	-	-	35,661	38,444
(307,283)	(9,044)	2,906	(85,837)	(771,255)
(47,474)	-	(34,370)	-	(1,746,718)
(14,728)	-	(33,673)	-	(185,904)
-	-	-	-	1,939,285
-	-	-	-	30,387
-	-	-	43,680	43,680
(14,508)	-	-	-	(21,783)
(76,710)	-	(68,043)	43,680	58,947
83,934	-	-	-	83,934
414	6	8	102	2,538
84,348	6	8	102	86,472
1,963	8,921	(6,510)	81,114	875,082
423,558	10,013	60,665	741,368	3,139,988
\$ 425,521	\$ 18,934	\$ 54,155	\$ 822,482	\$ 4,015,070
\$ 223,906	\$ 26,155	\$ 29,414	\$ 62,400	\$ 1,146,774
74,127	912	32,110	46,858	365,769
(2,381)	(1,561)	(5,173)	6,143	(34,436)
-	(3,344)	-	-	(3,344)
(894)	(6,914)	(12)	2,243	(1,802)
2,064	2,042	(386)	2,843	6,385
1,713	-	245	1,532	4,176
(72)	253	18	29	(1,004)
3,145	416	(901)	1,121	4,481
-	-	3,304	-	13,919
77,702	(8,196)	29,205	60,769	354,144
\$ 301,608	\$ 17,959	\$ 58,619	\$ 123,169	\$ 1,500,918

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIRE DEPARTMENT AGENCY FUND
DECEMBER 31, 2012**

ASSETS

Cash and Pooled Investments	<u>\$ 123,096</u>
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LIABILITIES

Due to Fire Department	<u>\$ 123,096</u>
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**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Barnesville (the City) 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 and 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Jointly Governed Organization

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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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.

Parks and Receptions Special Revenue Fund - The Parks and Receptions Special Revenue Fund is used to account for the operations of the City's parks and golf course. The revenues of this fund are committed by the City Council to only be used within the parks system.

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.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The City reports the following major proprietary funds (Continued):

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.

As a general rule, the effect of inter-fund 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 Position 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.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 is for redevelopment purposes and for 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 considered nonspendable.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position 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 position.

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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position 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 position. 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 and Net Position

In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that are legally or contractually required to be maintained intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. When restricted and unrestricted fund balance is available for use, it is the City's policy to first use restricted fund balance. When committed, assigned, and unassigned fund balance is available for use, it is the City's policy to use committed, assigned, and finally unassigned fund balance.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Fund Balance and Net Position (Continued)

In the financial statements, proprietary funds and government wide statement of net position equity is presented in three components. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitation imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is presented as unrestricted.

E. Revenues, Expenditures, and Expense

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.

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar (Continued)

Within 30 days after the May settlement, the County Treasurer is required to pay 70% 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% 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.

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 position.

3. Expenses

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Expenditures in Excess of Appropriations

At December 31, 2012 the Parks and Recreations Special Revenue Fund had expenditures of \$503,650 and appropriations of \$493,932, resulting in the fund being over budget on expenditures by \$9,718. These over expenditures were funded by greater than anticipated revenues.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

The cash balances of substantially all funds are pooled by the City Administrator for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pooled investment earnings for 2012 were \$40,707.

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, 2012, the balance was fully insured and collateralized as required by *Minnesota Statutes* §118A.03.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 Statutes* §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.

As of December 31, 2012, the City had the following investments in its pool:

Type	Maturity Date	Credit Rating	Fair Value	Percent of Total
Repurchase Agreements	Daily	NR	\$ 2,151,228	55.5 %
Federal Home Loan Bank	9/16/2021	AA	200,196	5.2
Minnesota Municipal Money Market Fund (4M)	N/A	NR	26,555	0.7
Bank of Baroda (NY) CD	5/30/2013	NR	247,673	6.4
Mizhuno Bank CD	11/30/2013	NR	248,082	6.4
Apple Bank CD	11/30/2014	NR	253,400	6.5
Goldman Sachs Bank CD	12/2/2015	NR	251,431	6.5
FNMA- Callable Agency	6/6/2018	AA	247,487	6.4
FHLB- Callable Agency	12/5/2022	AA	247,819	6.4
			<u>\$ 3,873,870</u>	

NR = Not Rated

N/A = Not applicable, investment in the 4M Fund is liquid.

Daily = This investment matures each business day.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

The repurchase agreement investment as of December 31, 2012 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 Trust Fund (4M) 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 Trust Fund (4M) 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.

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

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.

The City's total cash and investments are reported as follows:

Deposits	\$ 3,476,796
Investments	3,873,870
Total Cash and Investments	<u>\$ 7,350,666</u>
Governmental Funds	
Cash and Investments	\$ 2,388,471
Cash with Escrow Agent	681,375
Enterprise Funds	
Cash and Investments	3,140,935
Cash with Escrow Agent	874,135
Component Unit	142,654
Fiduciary Funds	123,096
Total Cash and Investments	<u>\$ 7,350,666</u>

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%. 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 2012 is as follows:

Balance, January 1, 2012	\$ 1,698,760
Cash Distributions	(83,934)
Net Income	<u>195,387</u>
Balance, December 31, 2012	<u>\$ 1,810,213</u>

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, 2012**

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, 2012, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 617,741	\$ -	\$ (65,910)	\$ 551,831
Construction in Progress	736,683	323,878	(835,417)	225,144
Total Capital Assets Not Being Depreciated	<u>1,354,424</u>	<u>323,878</u>	<u>(901,327)</u>	<u>776,975</u>
Capital Assets Being Depreciated				
Buildings	1,616,409	-	-	1,616,409
Infrastructure	3,227,190	835,377	-	4,062,567
Improvements	263,978	-	-	263,978
Machinery and Equipment	623,324	41,167	-	664,491
Vehicles	294,830	104,039	-	398,869
Total Capital Assets Being Depreciated	<u>6,025,731</u>	<u>980,583</u>	<u>-</u>	<u>7,006,314</u>
Less: Accumulated Depreciation for				
Buildings	688,145	28,610	-	716,755
Infrastructure	2,199,829	86,306	-	2,286,135
Improvements	169,506	7,247	-	176,753
Machinery and Equipment	446,125	29,396	-	475,521
Vehicles	211,223	27,816	-	239,039
Total Accumulated Depreciation	<u>3,714,828</u>	<u>179,375</u>	<u>-</u>	<u>3,894,203</u>
Total Capital Assets Being Depreciated, Net	<u>2,310,903</u>	<u>801,208</u>	<u>-</u>	<u>3,112,111</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,665,327</u>	<u>\$ 1,125,086</u>	<u>\$ (901,327)</u>	<u>\$ 3,889,086</u>

The following is a summary of the proprietary fund capital assets at December 31, 2012:

	Beginning Balance	Additions	Disposals	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 113,908	\$ -	\$ -	\$ 113,908
Construction in Progress	1,049,285	-	(1,049,285)	-
Total Capital Assets Not Being Depreciated	<u>1,163,193</u>	<u>-</u>	<u>(1,049,285)</u>	<u>113,908</u>
Capital Assets Being Depreciated				
Buildings	1,330,997	-	-	1,330,997
Infrastructure	10,767,598	1,049,285	-	11,816,883
Improvements	979,170	-	-	979,170
Machinery and Equipment	2,522,189	21,783	-	2,543,972
Vehicles	326,094	-	-	326,094
Total Capital Assets Being Depreciated	<u>15,926,048</u>	<u>1,071,068</u>	<u>-</u>	<u>16,997,116</u>
Less: Accumulated Depreciation for				
Buildings	590,524	21,064	-	611,588
Infrastructure	3,291,688	194,961	-	3,486,649
Improvements	584,741	16,567	-	601,308
Machinery and Equipment	1,108,006	116,591	-	1,224,597
Vehicles	268,108	16,586	-	284,694
Total Accumulated Depreciation	<u>5,843,067</u>	<u>365,769</u>	<u>-</u>	<u>6,208,836</u>
Total Capital Assets Being Depreciated, Net	<u>10,082,981</u>	<u>705,299</u>	<u>-</u>	<u>10,788,280</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,246,174</u>	<u>\$ 705,299</u>	<u>\$ (1,049,285)</u>	<u>\$ 10,902,188</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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	\$ 13,936
Public Safety	11,833
Public Works	116,695
Culture and Recreation	36,911
Total Depreciation Expense - Governmental Activities	\$ 179,375

Business-Type Activities:

Water	\$ 61,345
Sewer	120,265
Electric	30,152
Telephone	74,127
Municipal Liquor	912
Cable Television	32,110
Sanitation	2,632
Storm Sewer	21,902
Ambulance	19,883
Broadband Internet	2,441
Total Depreciation Expense - Business-Type Activities	\$ 365,769

B. Interfund Receivables, Payables and Transfers

The Composition of interfund transfers as of December 31, 2012 is as follows:

	Transfers In:							Total
	General	Debt Service Funds	Capital Projects Funds	Nonmajor Governmental Funds	Telephone Enterprise Funds	Nonmajor Governmental Funds	Government Wide	
Transfer Out:								
General Fund	\$ -	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ -	\$ 7,500
Debt Service Funds	-	60,000	-	-	-	-	-	60,000
Water Enterprise Fund	-	50,000	-	-	-	-	-	50,000
Sewer Enterprise Fund	53,000	50,000	-	-	-	-	-	103,000
Electric Enterprise Fund	242,500	-	-	-	-	-	-	242,500
Telephone Enterprise Fund	328,500	-	-	-	-	-	-	328,500
Municipal Liquor Enterprise Fund	12,000	-	-	-	-	-	-	12,000
Nonmajor Enterprise Funds	142,500	-	-	-	5,582	-	-	148,082
Total	\$ 778,500	\$ 160,000	\$ -	\$ 7,500	\$ 5,582	\$ -	\$ -	\$ 951,582

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, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

The composition of interfund balances at December 31, 2012, is as follows:

Due To/From Other Funds and Discrete Component Unit

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 124,378

The interfund receivables/payables noted above are related to the elimination of negative cash balances at year-end.

Advances To/From Other Funds and Discrete Component Unit

<u>Advance To</u>	<u>Advance From</u>	<u>Amount</u>
General Fund	Component Unit - EDA	\$ 12,608
Component Unit - EDA	General Fund	4,854
		<u>\$ 17,462</u>

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, 2012**

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 2013	
			Principal	Interest
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds, Including Refunding Bonds				
G.O. Bonds, Refunding Portion of 2005: 3.50% to 4.10%; Issued 11/09/05; Final Maturity 02/01/16.	\$ 460,000	\$ 195,000	\$ 195,000	\$ 3,945
G.O. Improvement and Refunding Bonds Series 2012A, 0.65% to 0.90%, Issued 04/12/12, Final Maturity 02/01/16.	150,000	150,000	-	1,492
G.O. Bonds of 2006; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	635,000	635,000	55,000	24,554
G.O. Improvement and Refunding Bonds Series 2012A, 0.80% to 2.20%, Issued 04/12/12, Final Maturity 02/01/22.	545,000	545,000	-	2,970
G.O. Refunding Bonds Series 2010A, 1.00% to 4.00%, Issued 01/07/10, Final Maturity 02/01/23.	1,020,000	850,000	85,000	25,160
G.O. Improvement and Refunding Bonds Series 2012A, 0.55% to 3.30%, Issued 04/12/12, Final Maturity 02/01/32.	760,000	760,000	35,000	21,279
Total General Obligation Bonds, Including Refunding Bonds	3,570,000	3,135,000	370,000	79,400
Less: Unamortized Discount	-	(11,800)	-	-
Total General Obligation Bonds, Including Refunding Bonds - Net	3,570,000	3,123,200	370,000	79,400
Capital Leases	15,000	9,302	2,979	1,116
Total Long-Term Debt - Governmental Activities	3,585,000	3,132,502	372,979	80,516

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt (Continued)

	Authorized and Issued	Outstanding	Due in 2013	
			Principal	Interest
BUSINESS-TYPE ACTIVITIES				
Revenue Bonds				
Electric and Telephone Revenue Bonds of 2001; 3.25% to 5.00% Issued 10/16/01; Final Maturity 02/01/17.	\$ 1,085,000	\$ 450,000	\$ 80,000	\$ 19,990
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	655,000	40,000	31,088
Total Revenue Bonds	1,875,000	1,105,000	120,000	51,078
Less: Unamortized Discount	-	(12,578)	-	-
Total Revenue Bonds - Net	1,875,000	1,092,422	120,000	51,078
General Obligation Bonds				
G.O. Improvement Bonds of 2005A; 3.50% to 4.55%, Issued 11/09/05; Final Maturity 02/01/26.	970,000	755,000	755,000	20,368
G.O. Improvement and Refunding Bonds Series 2012AA; 0.65% to 2.70%, Issued 04/12/12; Final Maturity 2/01/26.	740,000	740,000	-	17,109
G.O. Bonds of 2006A; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	245,000	175,000	15,000	6,771
G.O. Improvement and Refunding Bonds Series 2012A; 0.80% to 2.20%, Issued 04/12/12; Final Maturity 2/01/22.	150,000	150,000	-	2,970
G.O. Revenue Note of 2006; 1.56%, Issued 07/31/06; Final Maturity 08/20/25.	4,137,640	3,113,000	218,000	48,563
G.O. Refunding Bonds Series 2010A, 1.00% to 2.20%, Issued 01/7/10; Final Maturity 02/01/14.	200,000	100,000	50,000	1,550
G.O. Revenue Bonds of 2011, 1.000% to 1.143%, Issued 2/29/12, Final Maturity 8/20/31.	1,049,285	1,019,672	55,000	11,248
Total General Obligation Bonds	7,491,925	6,052,672	1,093,000	108,579
Less: Unamortized Discount	-	(8,856)	-	-
Total General Obligation Bonds - Net	7,491,925	6,043,816	1,093,000	108,579
Total Long-Term Debt - Business-Type Activities	9,366,925	7,136,238	1,213,000	159,657
Total Government-Wide Long-Term Liabilities	<u>\$ 12,951,925</u>	<u>\$ 10,268,740</u>	<u>\$ 1,585,979</u>	<u>\$ 240,173</u>
DISCRETELY PRESENTED COMPONENT UNIT				
Revenue Bonds				
Lease Revenue Bonds of 2009; 2.25%, Issued 09/15/09; Final Maturity 09/15/2022.	\$ 31,500	\$ 12,553	\$ 2,265	\$ 435

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Debt

	December 31, 2011	Additions	Retirements	December 31, 2012	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt, Including					
Refunding Bonds	\$ 2,714,914	\$ 1,455,000	\$ 1,034,914	\$ 3,135,000	\$ 370,000
Less: Unamortized Discounts	(14,222)	-	(2,422)	(11,800)	-
Capital Lease Obligations	11,894	-	2,592	9,302	2,979
Compensated Absences Payable	89,120	64,440	58,280	95,280	71,460
Other Postemployment Benefits Payable	57,247	21,551	-	78,798	-
Total Governmental Activities	<u>\$ 2,858,953</u>	<u>\$ 1,540,991</u>	<u>\$ 1,093,364</u>	<u>\$ 3,306,580</u>	<u>\$ 444,439</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 1,335,349	\$ -	\$ 230,349	\$ 1,105,000	\$ 120,000
Revenue Notes	3,328,000	-	215,000	3,113,000	218,000
General Obligation Bonds	2,307,613	1,939,285	1,307,226	2,939,672	875,000
Less: Unamortized Discounts	(27,291)	-	(5,857)	(21,434)	-
Compensated Absences Payable	20,202	31,581	27,100	24,683	18,512
Other Postemployment Benefits Payable	16,838	4,176	-	21,014	-
Total Business-Type Activities	<u>\$ 6,980,711</u>	<u>\$ 1,975,042</u>	<u>\$ 1,773,818</u>	<u>\$ 7,181,935</u>	<u>\$ 1,231,512</u>
DISCRETELY PRESENTED COMPONENT UNIT					
Revenue Bonds **	\$ 20,691	\$ -	\$ 8,138	\$ 12,553	\$ 2,265
Other Postemployment Benefits Payable	2,803	1,156	-	3,959	-
Special Assessments Payable	140,507	91,747	12,255	219,999	-
Total Discretely Presented Component Unit	<u>\$ 164,001</u>	<u>\$ 92,903</u>	<u>\$ 20,393</u>	<u>\$ 236,511</u>	<u>\$ 2,265</u>

** The total amount of the revenue bonds issued by the EDA during 2009 was \$31,500; however during 2009, the EDA had only received advances of \$24,718 leaving an additional \$6,782 to be drawn during 2013.

4. Minimum Debt Payments

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

Year	Governmental Activities			Discretely Presented Component Unit		
	G.O. Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 370,000	\$ 79,400	\$ 449,400	\$ 2,265	\$ 435	\$ 2,700
2014	230,000	65,243	295,243	2,316	384	2,700
2015	280,000	60,556	340,556	2,368	332	2,700
2016	265,000	55,643	320,643	2,421	279	2,700
2017	235,000	50,567	285,567	2,476	224	2,700
2018 - 2022	1,255,000	163,168	1,418,168	707	386	1,093
2023 - 2027	280,000	49,142	329,142	-	-	-
2028 - 2032	220,000	17,817	237,817	-	-	-
Total	<u>\$ 3,135,000</u>	<u>\$ 541,536</u>	<u>\$ 3,676,536</u>	<u>\$ 12,553</u>	<u>\$ 2,040</u>	<u>\$ 14,593</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments (Continued)

Year	Business-Type Activities					
	Revenue Bonds			G.O. Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 120,000	\$ 51,078	\$ 171,078	\$ 218,000	\$ 48,563	\$ 266,563
2014	125,000	45,398	170,398	221,000	45,162	266,162
2015	130,000	39,398	169,398	225,000	41,714	266,714
2016	140,000	33,063	173,063	228,000	38,204	266,204
2017	145,000	26,163	171,163	232,000	34,648	266,648
2018 - 2022	255,000	85,600	340,600	1,215,000	117,858	1,332,858
2023 - 2027	190,000	19,250	209,250	774,000	24,274	798,274
Total	<u>\$ 1,105,000</u>	<u>\$ 299,950</u>	<u>\$ 1,404,950</u>	<u>\$ 3,113,000</u>	<u>\$ 350,423</u>	<u>\$ 3,463,423</u>

Year	G.O. Bonds			Total Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 875,000	\$ 60,016	\$ 935,016	\$ 1,213,000	\$ 159,657	\$ 1,372,657
2014	320,000	30,734	350,734	666,000	121,294	787,294
2015	131,000	25,874	156,874	486,000	106,986	592,986
2016	121,000	24,679	145,679	489,000	95,946	584,946
2017	127,000	23,396	150,396	504,000	84,207	588,207
2018 - 2022	675,000	90,130	765,130	2,145,000	293,588	2,438,588
2023 - 2027	554,000	36,975	590,975	1,518,000	80,499	1,598,499
2028 - 2032	136,672	7,025	143,697	136,672	7,025	143,697
Total	<u>\$ 2,939,672</u>	<u>\$ 298,829</u>	<u>\$ 3,238,501</u>	<u>\$ 7,157,672</u>	<u>\$ 949,202</u>	<u>\$ 8,106,874</u>

5. Refunding Bonds Issued

During 2012, the City of Barnesville issued General Obligation Improvement and Refunding Bonds Series 2012A in the amount of \$2,345,000 with an interest rates of 0.55-3.30%. This bond was used to refinance the Series 2011A Temporary Improvement Bonds and also refinance outstanding portions of the Series 2005A General Obligation Improvement Refunding Bonds and the Series 2006A General Obligation Improvement Bonds. This refunding results in a debt service savings of \$155,553 and a net present value of savings of \$134,881 over the remaining lives of the bonds that were refunded.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

6. Water and Sewer Revenue Note

During 2011, the City of Barnesville issued General Obligation Water Revenue Note of 2011 in the amount of \$624,655 with an interest rate of 1.14%. The note is disbursed under the Public Facilities Authority. The City completed its draw for funds on this note during 2012 in the amount of \$537,082. The City does not anticipate any further draw down of funds and the unused portion will be reallocated to other municipalities by the Public Facilities Authority.

During 2011, the City of Barnesville issued General Obligation Sewer Revenue Note of 2011 in the amount of \$547,958 with an interest rate of 1.00%. The note is disbursed under the Public Facilities Authority. As of December 31, 2012 the City completed its draw of funds on this note in the amount of \$512,203. The City does not anticipate any further draw down of funds and the unused portion will be reallocated to other municipalities by the Public Facilities Authority.

7. Notes Payable – Component Unit

The balance of \$2,706 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.

8. Capital Leases

During 2010, the City entered into a 63-month lease with Konica Minolta for the purchase of a copier. Monthly installments including interest are \$341. At December 31, 2012, the City has assets under this capital lease of \$15,000 with related accumulated depreciation of \$7,500.

The future minimum lease payments are as follows:

Capital Leases	
Year	Minimum Payments
2013	\$ 4,095
2014	4,095
2015	3,071
Total Minimum Lease Payments	11,261
Less: Amounts Representing Interest	(1,959)
Present Value of Minimum Lease Payments	\$ 9,302

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

9. Operating Lease

During 2010, the City entered into a lease with Konica Minolta for the lease of a copier. Monthly installments are \$102. The future minimum lease payments are as follows:

Operating Lease	
Year	Minimum Payments
2013	\$ 1,228
2014	1,228
2015	921
Total Minimum Lease Payments	\$ 3,377

10. 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, 2012.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF 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, 2012**

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 GERF 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 Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.40% of their annual covered salary in 2012. The City of Barnesville is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members and 14.4% for PEPFF members. The City's contributions to the GERF for the years ending December 31, 2012, 2011, and 2010 were as follows:

Year	General Employees Retirement Fund	Public Employees Police and Fire Fund
2012	\$ 64,167	\$ 39,841
2011	61,209	37,103
2010	51,594	35,320

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, 2012**

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 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, 2012, were as follows:

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		27,436
Annual Pension Cost		<u>27,436</u>
Less Contribution Made		<u>(27,436)</u>
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	<u>\$</u>	<u>-</u>

The adjustment to annual required contribution above consists of \$15,454 of State Fire Aid and \$11,982 of voluntary contributions made by the City.

The annual required contribution for the current year was determined as part of December 31, 2012, 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 position available for benefits exceeded the pension benefit obligation at December 31, 2012, 2011, and 2010.

Three-Year Trend Information

Disclosure	2012	2011	2010
Annual Pension Cost (APC)	\$ 27,436	\$ 24,497	\$ 21,839
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, 2012**

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 2012, 2011 and 2010.

Funding Progress

As of December 31, 2011(the most recent available information), the plan was over-funded by \$12,504. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2012, and for the year then ended, the Association held no securities issued by the City or other related-parties.

NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The City provides benefits for retirees as required by Minnesota Statutes §471.61 subdivision 2b. Active employees who retire from the City when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their spouse/partner under the City's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay the full amount of the total premium cost and therefore the only liability reflected in the City's financial statements represents "implicit rate subsidy" liability. As of January 1, there were no retirees receiving health benefits from the City's health plan.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Account Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost of 2012, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	City	EDA
Annual Required Contribution (ARC)	\$ 26,911	\$ 1,209
Interest on Net OPEB Obligation	3,310	149
Adjustment to ARC	(4,494)	(202)
Annual OPEB Cost	25,727	1,156
Contributions During the Year	-	-
Increase in Net OPEB Obligation	25,727	1,156
Net OPEB - Beginning of the Year	74,085	2,803
Net OPEB - End of the Year	\$ 99,812	\$ 3,959

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011, 2010, and 2009 were as follows:

Year Ended	Entity	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	City	\$ 25,727	\$ -	- %	\$ 99,812
December 31, 2011	City	24,468	335	1.4	74,084
December 31, 2010	City	24,865	159	0.6	49,951
December 31, 2012	EDA	1,156	-	-	3,959
December 31, 2011	EDA	926	13	1.4	2,803
December 31, 2010	EDA	941	6	0.6	1,890

Funding Status

The City currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Actuarial Valuation Date	Entity	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	City	\$ -	\$ 158,126	\$ 158,126	- %	\$ 923,174	17.1 %
1/1/2012	EDA	-	7,106	7,106	-	41,486	17.1

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the January 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the City. The annual healthcare cost trend rate is 8.00% initially, reduced incrementally to an ultimate rate of 5.00% after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open thirty-year period.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Purchased Power

The City is obligated to purchase all of its wholesale power requirements from Missouri River Energy Services and Western Area Power Association through January 1, 2046.

Contingencies

The City may be involved in various claims. Although the outcome of any claim is not presently determinable, in the opinion of the City attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF BARNESVILLE, MINNESOTA
 BARNESVILLE FIREMAN'S RELIEF ASSOCIATION
 SCHEDULE OF FUNDING PROGRESS
 DECEMBER 31, 2012**

Fiscal Year End	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Benefit Per Year of Services
12/31/2011	\$ 200,950	\$ 188,446	\$ (12,504)	106.6 %	\$ 700
12/31/2010	230,722	198,022	(32,700)	116.5	700
12/31/2009	179,802	181,244	1,442	99.2	600

Additional information relating to the pension plan is provided in Note 3.B.
 The December 31, 2012 report is not yet available.

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**CITY OF BARNESVILLE, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2012**

Actuarial Valuation Date	Entity	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2012	City	\$ -	\$ 158,126	\$ 158,126	-	\$ 923,174	17.1 %
1/1/2009	City	-	139,980	139,980	-	856,740	16.3
1/1/2012	EDA	-	7,106	7,106	-	41,486	17.1
1/1/2009	EDA	-	5,297	5,297	-	32,420	16.3

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**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 82,134	\$ 82,134	\$ 131,132	\$ 48,998
Special assessments	7,700	7,700	5,267	(2,433)
Licenses and Permits	15,900	15,900	21,096	5,196
Intergovernmental	654,195	654,195	672,663	18,468
Charges for Services	500	500	886	386
Fines and Forfeits	6,600	6,600	7,841	1,241
Interest on Investments	20,637	20,637	40,707	20,070
Miscellaneous	36,471	36,471	50,693	14,222
Total Revenues	<u>824,137</u>	<u>824,137</u>	<u>930,285</u>	<u>106,148</u>
EXPENDITURES				
CURRENT				
General Government	624,590	624,590	622,773	(1,817)
Public Safety	514,892	514,892	537,722	22,830
Public Works	289,023	289,023	200,403	(88,620)
Parks and Recreation	1,740	1,740	1,632	(108)
Airport	1,476	1,476	1,336	(140)
Economic Development	139,329	139,329	160,929	21,600
Capital Outlay				
General Government	3,600	3,600	3,065	(535)
Public Safety	31,200	31,200	29,312	(1,888)
Debt service				
Principal	-	-	2,592	2,592
Interest and Other Charges	537	537	537	-
Total Expenditures	<u>1,653,887</u>	<u>1,653,887</u>	<u>1,611,530</u>	<u>(42,357)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(829,750)</u>	<u>(829,750)</u>	<u>(681,245)</u>	<u>148,505</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	778,500	778,500	778,500	-
Transfers Out	(60,014)	(60,014)	(7,500)	52,514
Total Other Financing Sources (Uses)	<u>718,486</u>	<u>718,486</u>	<u>771,000</u>	<u>52,514</u>
NET CHANGE IN FUND BALANCE	<u>\$ (111,264)</u>	<u>\$ (111,264)</u>	<u>89,755</u>	<u>\$ 201,019</u>
Fund Balance - Beginning of Year			<u>1,390,509</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,480,264</u>	

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

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
PARKS AND RECREATION SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 322,682	\$ 322,682	\$ 322,682	\$ -
Charges for Services	153,150	153,150	171,447	18,297
Interest on Investments	50	50	35	(15)
Miscellaneous	550	550	11,474	10,924
Total Revenues	<u>476,432</u>	<u>476,432</u>	<u>505,638</u>	<u>29,206</u>
EXPENDITURES				
CURRENT				
Parks and Recreation	431,432	431,432	412,484	(18,948)
Capital Outlay				
Parks and Recreation	62,500	62,500	91,166	28,666
Total Expenditures	<u>493,932</u>	<u>493,932</u>	<u>503,650</u>	<u>9,718</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (17,500)</u>	<u>\$ (17,500)</u>	1,988	<u>\$ 19,488</u>
Fund Balance - Beginning of Year			<u>184,317</u>	
FUND BALANCE - END OF YEAR			<u>\$ 186,305</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, 2012

I. BUDGETARY INFORMATION

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

- a. Prior to September 1, the City Administrator 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 certain Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

II. EXPENDITURES IN EXCESS OF APPRRIATIONS

For the year ended December 31, 2012, the Parks and Receptions Special Revenue Fund had expenditures of \$503,650 and appropriations of \$493,932, resulting in the fund being over budget on expenditures by \$9,718. These over expenditures were funded by greater than anticipated revenues.

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SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

ASSETS	<u>DARE</u>	<u>Small Cities</u>	<u>TIF Districts</u>	<u>Youth Alive Early Prevention</u>	<u>Total Nonmajor Funds</u>
Cash and Investments	\$ 4,779	\$ 16,053	\$ 21,025	\$ 2,469	\$ 44,326
Notes Receivable	-	17,889	-	-	17,889
Total Assets	<u>\$ 4,779</u>	<u>\$ 33,942</u>	<u>\$ 21,025</u>	<u>\$ 2,469</u>	<u>\$ 62,215</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 342	\$ -	\$ -	\$ -	\$ 342
Deferred Revenue	-	17,889	-	-	17,889
Total Liabilities	342	17,889	-	-	18,231
FUND BALANCES (DEFICIT)					
Restricted for Dare Program	4,437	-	-	-	4,437
Restricted for Economic Development	-	-	21,025	-	21,025
Restricted for Program Income	-	16,053	-	-	16,053
Restricted for Contracted Services	-	-	-	2,469	2,469
Total Fund Balances	<u>4,437</u>	<u>16,053</u>	<u>21,025</u>	<u>2,469</u>	<u>43,984</u>
Total Liabilities and Fund Balances	<u>\$ 4,779</u>	<u>\$ 33,942</u>	<u>\$ 21,025</u>	<u>\$ 2,469</u>	<u>\$ 62,215</u>

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	DARE	Small Cities	TIF Districts	Youth Alive Early Prevention	Total Nonmajor Funds
REVENUES					
Tax Increments	\$ -	\$ -	\$ 140,187	\$ -	\$ 140,187
Gifts and Contributions	110	-	-	-	110
Interest on Investments	1	2	-	-	3
Miscellaneous	-	5,667	8,849	1,047	15,563
Total Revenues	111	5,669	149,036	1,047	155,863
EXPENDITURES					
CURRENT					
Public Safety	1,566	-	-	8,215	9,781
Economic Development	-	-	128,011	-	128,011
Total Expenditures	1,566	-	128,011	8,215	137,792
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,455)	5,669	21,025	(7,168)	18,071
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	7,500	7,500
Total Other Financing Sources (Uses)	-	-	-	7,500	7,500
NET CHANGE IN FUND BALANCES	(1,455)	5,669	21,025	332	25,571
Fund Balance (Deficit) - Beginning of Year	5,892	10,384	-	2,137	18,413
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 4,437</u>	<u>\$ 16,053</u>	<u>\$ 21,025</u>	<u>\$ 2,469</u>	<u>\$ 43,984</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2012**

	Sanitation	Storm Sewer	Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 98,989	\$ 217,176	\$ 93,646	\$ 412,671	\$ 822,482
Accounts Receivable - Net	41,036	7,718	29,814	38,412	116,980
Total Current Assets	140,025	224,894	123,460	451,083	939,462
NONCURRENT ASSETS					
Capital Assets					
Land	-	13,077	-	-	13,077
Buildings (Net)	106,749	-	2,861	-	109,610
Infrastructure (Net)	-	541,102	-	-	541,102
Machinery and Equipment (Net)	-	15,879	46,268	5,088	67,235
Vehicles (Net)	-	-	39,460	-	39,460
Net Capital Assets	106,749	570,058	88,589	5,088	770,484
Total Assets	246,774	794,952	212,049	456,171	1,709,946
LIABILITIES					
CURRENT LIABILITIES					
Accounts Payable	12,145	-	1,448	1,877	15,470
Salaries and Benefits Payable	1,099	-	7,851	1,051	10,001
Due to Other Governments	1,478	-	-	-	1,478
Compensated Absences - Due Within One Year	605	-	2,679	797	4,081
Total Current Liabilities	15,327	-	11,978	3,725	31,030
NONCURRENT LIABILITIES					
Compensated Absences - Due in More than One Year	202	-	893	266	1,361
Other Postemployment Benefits Payable - Due in More than One Year	352	-	1,610	1,185	3,147
Total Noncurrent Liabilities	554	-	2,503	1,451	4,508
Total Liabilities	15,881	-	14,481	5,176	35,538
NET POSITION					
Net Investment in Capital Assets	106,749	570,058	88,589	5,088	770,484
Unrestricted	124,144	224,894	108,979	445,907	903,924
Total Net Position	\$ 230,893	\$ 794,952	\$ 197,568	\$ 450,995	\$ 1,674,408

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Sanitation	Storm Sewer	Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
OPERATING REVENUES					
Charges for Services	\$ 185,115	\$ 31,262	\$ 278,062	\$ 219,604	\$ 714,043
OPERATING EXPENSES					
Professional Services	132,412	-	20,581	-	152,993
Wages, Salaries, and Compensation	25,918	-	165,869	10,848	202,635
Repairs and Maintenance	67	220	9,205	-	9,492
Insurance	2,133	-	5,901	-	8,034
Depreciation	2,632	21,902	19,883	2,441	46,858
Materials and Supplies	918	-	31,805	3,669	36,392
Miscellaneous Expenses	24,607	-	28,746	27,441	80,794
Medicare/Medicaid Fee Reductions	-	-	114,445	-	114,445
Total Operating Expenses	<u>188,687</u>	<u>22,122</u>	<u>396,435</u>	<u>44,399</u>	<u>651,643</u>
OPERATING INCOME (LOSS)	(3,572)	9,140	(118,373)	175,205	62,400
NONOPERATING REVENUES (EXPENSES)					
Taxes	-	-	43,680	-	43,680
Investment Income	17	34	15	36	102
Intergovernmental Grants	28,911	-	6,750	-	35,661
Miscellaneous - Nonoperating	-	-	26,584	-	26,584
Total Nonoperating Revenues (Expenses)	<u>28,928</u>	<u>34</u>	<u>77,029</u>	<u>36</u>	<u>106,027</u>
Income (Loss) before Transfers	25,356	9,174	(41,344)	175,241	168,427
Transfers Out	(15,000)	(7,500)	-	(125,582)	(148,082)
CHANGE IN NET POSITION	10,356	1,674	(41,344)	49,659	20,345
Net Position - Beginning of Year	<u>220,537</u>	<u>793,278</u>	<u>238,912</u>	<u>401,336</u>	<u>1,654,063</u>
NET POSITION - END OF YEAR	<u>\$ 230,893</u>	<u>\$ 794,952</u>	<u>\$ 197,568</u>	<u>\$ 450,995</u>	<u>\$ 1,674,408</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Sanitation	Storm Sewer	Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 181,636	\$ 29,906	\$ 290,445	\$ 218,199	\$ 720,186
Payments to Suppliers	(159,767)	(220)	(210,615)	(29,276)	(399,878)
Payments to Employees	(25,787)	-	(161,516)	(9,836)	(197,139)
Net Cash Provided (Used) by Operating Activities	(3,918)	29,686	(81,686)	179,087	123,169
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers Out	(15,000)	(7,500)	-	(125,582)	(148,082)
Taxes	-	-	43,680	-	43,680
Other Miscellaneous Receipts	-	-	26,584	-	26,584
Grant Receipts	28,911	-	6,750	-	35,661
Net Cash Provided (Used) by Noncapital Financing Activities	13,911	(7,500)	77,014	(125,582)	(42,157)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and Dividends Received	17	34	15	36	102
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,010	22,220	(4,657)	53,541	81,114
Cash and Cash Equivalents - Beginning of Year	88,979	194,956	98,303	359,130	741,368
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 98,989</u>	<u>\$ 217,176</u>	<u>\$ 93,646</u>	<u>\$ 412,671</u>	<u>\$ 822,482</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (3,572)	\$ 9,140	\$ (118,373)	\$ 175,205	\$ 62,400
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	2,632	21,902	19,883	2,441	46,858
(Increase) Decrease in Assets					
Accounts Receivable	(3,479)	(1,356)	12,383	(1,405)	6,143
Increase (Decrease) in Liabilities					
Accounts Payable	341	-	68	1,834	2,243
Salaries and Benefits Payable	154	-	1,904	785	2,843
Other Postemployment Benefits Payable	215	-	1,236	81	1,532
Due to Other Governments	29	-	-	-	29
Compensated Absences Payable	(238)	-	1,213	146	1,121
Total Adjustments	(346)	20,546	36,687	3,882	60,769
Net Cash Provided (Used) by Operating Activities	<u>\$ (3,918)</u>	<u>\$ 29,686</u>	<u>\$ (81,686)</u>	<u>\$ 179,087</u>	<u>\$ 123,169</u>

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OTHER COMBINING SCHEDULES

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND – BY BOND ISSUE
 DECEMBER 31, 2012**

ASSETS	<u>Series 2004A Refunding Bonds</u>	<u>G.O. Taxable Bonds</u>	<u>G.O. 2005 Bond Refinance</u>	<u>G.O. 2006 Bonds</u>
Cash and Pooled Investments	\$ 180,379	\$ 49,228	\$ 221,222	\$ 42,951
Cash with Escrow Agent	-	-	147,328	534,047
Taxes Receivable				
Delinquent	-	-	-	199
Special Assessments Receivable				
Delinquent	-	1,326	14,936	-
Deferred	170,202	117,461	258,856	1,171,500
Total Assets	<u>\$ 350,581</u>	<u>\$ 168,015</u>	<u>\$ 642,342</u>	<u>\$ 1,748,697</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Deferred Revenue	\$ 170,202	\$ 117,461	\$ 273,117	\$ 1,171,500
FUND BALANCES (DEFICIT)				
Restricted for Debt Repayment	180,379	50,554	369,225	577,197
Total Liabilities and Fund Balances	<u>\$ 350,581</u>	<u>\$ 168,015</u>	<u>\$ 642,342</u>	<u>\$ 1,748,697</u>

G.O. 2010A Refunding Bonds	G.O. 2011A Improvement Bonds	Total Debt Service Fund
\$ 154,558	\$ 66,114	\$ 714,452
-	-	681,375
4,250	-	4,449
10,768	2,023	29,053
349,686	246,084	2,313,789
<u>\$ 519,262</u>	<u>\$ 314,221</u>	<u>\$ 3,743,118</u>

\$ 349,689	\$ 247,811	\$ 2,329,780
169,573	66,410	1,413,338
<u>\$ 519,262</u>	<u>\$ 314,221</u>	<u>\$ 3,743,118</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, 2012

	Series 2004A Refunding Bonds	G.O. Taxable Bonds	G.O. 2005 Bond Refinance	G.O. 2006 Bonds
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 15,313
Special assessments	53,355	53,861	60,625	19,556
Investment Earnings	207	397	92	5
Total Revenues	<u>53,562</u>	<u>54,258</u>	<u>60,717</u>	<u>34,874</u>
EXPENDITURES				
Debt Service				
Principal	-	57,527	50,000	-
Interest	-	2,836	9,117	27,204
Bond Issue Costs	-	-	2,672	9,686
Total Expenditures	<u>-</u>	<u>60,363</u>	<u>61,789</u>	<u>36,890</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	53,562	(6,105)	(1,072)	(2,016)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	30,000	-
Transfers Out	(60,000)	-	-	-
Bond Proceeds	-	-	150,000	545,000
Payment to Refunded Bond Escrow Agent	-	-	-	-
Total Other Financing Sources (Uses)	<u>(60,000)</u>	<u>-</u>	<u>180,000</u>	<u>545,000</u>
NET CHANGE IN FUND BALANCE	(6,438)	(6,105)	178,928	542,984
Fund Balance (Deficit) - Beginning of Year	<u>186,817</u>	<u>56,659</u>	<u>190,297</u>	<u>34,213</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 180,379</u>	<u>\$ 50,554</u>	<u>\$ 369,225</u>	<u>\$ 577,197</u>

G.O. 2010A Refunding Bonds	G.O. 2011A Improvement Bonds	Total Debt Service Fund
\$ 414	\$ 31,426	\$ 47,153
22,528	17,374	227,299
724	8	1,433
<u>23,666</u>	<u>48,808</u>	<u>275,885</u>
85,000	-	192,527
26,520	4,086	69,763
-	13,527	25,885
<u>111,520</u>	<u>17,613</u>	<u>288,175</u>
(87,854)	31,195	(12,290)
30,000	100,000	160,000
-	-	(60,000)
-	760,000	1,455,000
-	(842,387)	(842,387)
<u>30,000</u>	<u>17,613</u>	<u>712,613</u>
(57,854)	48,808	700,323
227,427	17,602	713,015
<u>\$ 169,573</u>	<u>\$ 66,410</u>	<u>\$ 1,413,338</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUND – BY PROJECT
DECEMBER 31, 2012**

	Heartland Addition	C.S.A.H. 52 Projects	McGrath & City Center Projects	Commercial Park Extension	Total Capital Projects Fund
ASSETS					
Cash and Pooled Investments	\$ -	\$ 50,731	\$ -	\$ -	\$ 50,731
Special Assessments - Deferred	-	-	-	91,747	91,747
Total Assets	<u>\$ -</u>	<u>\$ 50,731</u>	<u>\$ -</u>	<u>\$ 91,747</u>	<u>\$ 142,478</u>
LIABILITIES AND FUND DEFICITS					
LIABILITIES					
Due to Other Funds	\$ 29,566	\$ -	\$ 7,500	\$ 87,312	\$ 124,378
Accounts Payable	-	4,093	-	-	4,093
Deferred Revenues	-	-	-	91,747	91,747
Total Liabilities	29,566	4,093	7,500	179,059	220,218
FUND BALANCES (DEFICITS)					
Restricted for Front Street Project	-	46,638	-	-	46,638
Unassigned	(29,566)	-	(7,500)	(87,312)	(124,378)
Total Fund Balances	<u>(29,566)</u>	<u>46,638</u>	<u>(7,500)</u>	<u>(87,312)</u>	<u>(77,740)</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 50,731</u>	<u>\$ -</u>	<u>\$ 91,747</u>	<u>\$ 142,478</u>

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2012

	Heartland Addition	C.S.A.H. 52 Projects	McGrath & City Center Projects	Commercial Park Extension	Total Capital Projects Fund
REVENUES					
Intergovernmental Revenues	\$ -	\$ -	\$ -	\$ 137,832	\$ 137,832
Investment Earnings	-	70	-	-	70
Total Revenues	-	70	-	137,832	137,902
EXPENDITURES					
CURRENT					
CAPITAL OUTLAY					
Public Works	-	97,466	-	225,144	322,610
Total Expenditures	-	97,466	-	225,144	322,610
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(97,396)	-	(87,312)	(184,708)
Fund Balance (Deficit) - Beginning of Year	(29,566)	144,034	(7,500)	-	106,968
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (29,566)</u>	<u>\$ 46,638</u>	<u>\$ (7,500)</u>	<u>\$ (87,312)</u>	<u>\$ (77,740)</u>

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OTHER REPORTS SECTION



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**INDEPENDENT AUDITORS' 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, in accordance with the 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, the 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 City of Barnesville, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Barnesville's basic financial statements, and have issued our report thereon dated May 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Barnesville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Barnesville's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Barnesville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2012-01 through 2012-04 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Barnesville

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Barnesville's financial statements are free from 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Barnesville's Response to Findings

City of Barnesville's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. City of Barnesville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
May 7, 2013

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**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

MATERIAL WEAKNESSES

2012-01 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.

Management Response: The City will continue to explore further segregation of duties within the City office while weighing the related costs against the benefits of improved controls.

2012-02 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 position, 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.

CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

MATERIAL WEAKNESSES (CONTINUED)

2012-02 YEAR-END CLOSING PROCEDURES (CONTINUED)

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.

Management Response: The City will continue to pursue additional training and knowledge with a long-term goal of recording all adjusting and closing entries prior to the audit.

2012-03 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 Generally Accepted Accounting Principles (GAAP).

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 its 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 GAAP. 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.

Management Response: The City will explore the options and cost-effective feasibility of training existing personnel, or hiring/contracting additional personnel, to adequately prepare financial statements for the prevention or detection of a material misstatement in the annual financial statements of the City.

CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012

MATERIAL WEAKNESSES (CONTINUED)

2012-04 BANK ACCOUNT SIGNATURE AUTHORITY

Criteria: Controls over the City's various bank accounts should be in place to limit the signature authority on those accounts to individuals who are needed for basic operations.

Condition: During the confirmation process it was identified that former City officials had signature authority on some of the City's various financial accounts.

Cause: Unknown.

Effect: The failure to limit the number of individuals who have signature authority on the City's various bank accounts exposes the City to additional risks related to improper disbursement of City funds.

Recommendation: We recommend that the City review the signature cards for all of the City's bank accounts and financial instruments periodically and updated as necessary.

Management Response: City management is currently working on verifying and updating as necessary the signature cards for all banks and financial instruments the City currently has.

OTHER ITEMS FOR CONSIDERATION - MINNESOTA LEGAL COMPLIANCE

NONE

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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 December 31, 2012 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated May 7, 2013.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
May 7, 2013

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