

CITY OF BARNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2009

**CITY OF BARNESVILLE, MINNESOTA
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DECEMBER 31, 2009**

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INTRODUCTORY SECTION

CITY OF BARNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2009

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

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville (the City), Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Barnesville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville, Minnesota, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the basic financial statements, the City of Barnesville adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of and for the year ended December 31, 2009. This statement results in the City reporting a liability for postemployment benefits other than pensions that the City provides to its employees.



Honorable Mayor and
Members of the City Council
City of Barnesville

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2010, on our consideration of the City of Barnesville, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in assessing the results of our audit.

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

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



LarsonAllen LLP

Brainerd, Minnesota
June 10, 2010

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

This section of the City of Barnesville's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2009. The management's discussion and analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2009 and the prior year, 2008 is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2009 include the following:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,786,070 (net assets). Of this amount, \$6,421,506 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net assets increased \$246,159 or 1.8 percent over the prior year.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$2,287,342, an increase of \$17,631 in comparison to the prior year. Approximately 37% of this amount, or \$842,477, is reserved for debt service.
- At the end of the current year, unreserved fund balance for the General Fund was \$253,673, or 17% of General Fund expenditures.
- The City's total long-term debt decreased by \$721,019 during the current fiscal year. The decrease is attributed to bond payments.

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:

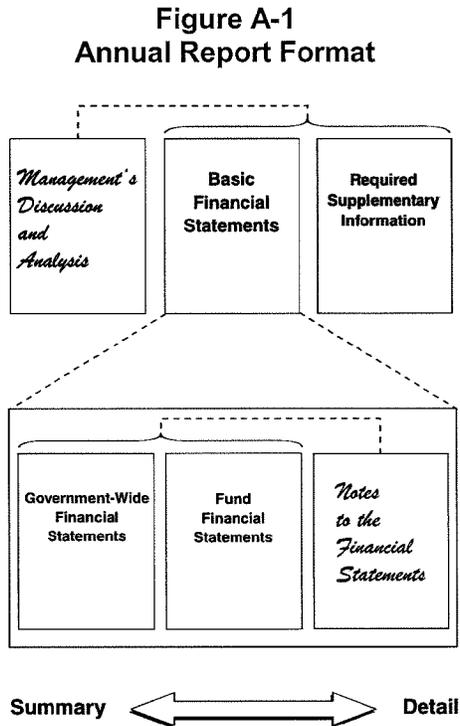
- The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more 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, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements				
Type of Statements	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City's government (except fiduciary funds).	The activities of the City that are not proprietary or fiduciary.	The activities of the City that operate similar to private businesses: water, sewer, telephone, municipal liquor as examples.	Instances in which the City is the trustee or agent for someone else's resources.
Required financial statements	Statement of net assets.	Balance sheet.	Statement of net assets.	Statement of fiduciary net assets.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses, and changes in fund net assets statement of cash flows.	Statement of changes in fiduciary net assets.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

City-Wide Statements

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

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

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

Fund Financial Statements

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

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

The City has three kinds of funds:

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

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's net assets were \$13,786,070 on December 31, 2009 (see Table A-1).

Table A-1
The City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 4,946,098	\$ 4,986,793	\$ 5,478,388	\$ 5,496,735	\$ 10,424,486	\$ 10,483,528
Capital Assets	2,867,632	2,965,512	10,720,769	10,947,120	13,588,401	13,912,632
Total Assets	<u>7,813,730</u>	<u>7,952,305</u>	<u>16,199,157</u>	<u>16,443,855</u>	<u>24,012,887</u>	<u>24,396,160</u>
Current Liabilities	478,793	458,839	991,436	884,099	1,470,229	1,342,938
Long-Term Liabilities	2,438,641	2,691,261	6,317,947	6,822,050	8,756,588	9,513,311
Total Liabilities	<u>2,917,434</u>	<u>3,150,100</u>	<u>7,309,383</u>	<u>7,706,149</u>	<u>10,226,817</u>	<u>10,856,249</u>
Net Assets						
Invested in Capital Assets						
Net of Related Debt	195,448	32,375	3,897,468	3,624,332	4,092,916	3,656,707
Restricted	3,271,648	3,465,411	-	-	3,271,648	3,465,411
Unrestricted	1,429,200	1,304,419	4,992,306	5,113,374	6,421,506	6,417,793
Total Net Assets	<u>\$ 4,896,296</u>	<u>\$ 4,802,205</u>	<u>\$ 8,889,774</u>	<u>\$ 8,737,706</u>	<u>\$ 13,786,070</u>	<u>\$ 13,539,911</u>

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City-wide total revenues were \$7,621,347 for the year ended December 31, 2009. Property taxes and intergovernmental revenues accounted for 14% of total revenue for the year, while user charges accounted for 73% of total revenue (see Table A-2).

Table A-2
Change in Net Assets

	Governmental Activities			Business-Type Activities			Total		
	2009	2008	Total % Change	2009	2008	Total % Change	2009	2008	Total % Change
REVENUES									
Program Revenues									
Charges for Services	\$ 76,458	\$ 68,059	12.3 %	\$ 5,444,866	\$ 5,236,680	4.0 %	\$ 5,521,324	\$ 5,304,739	4.1 %
Operating Grants and Contributions	585,460	234,000	150.2	45,466	34,941	30.1	630,926	268,941	134.6
Capital Grants and Contributions	150,680	244,840	(38.5)	-	-	-	150,680	244,840	(38.5)
General Revenues									
Property Taxes	363,543	325,060	11.8	-	-	-	363,543	325,060	11.8
Tax Increments	108,595	119,015	(8.8)	-	-	-	108,595	119,015	(8.8)
Unrestricted State Aid	692,129	547,685	26.4	-	-	-	692,129	547,685	26.4
Investment Earnings	51,130	49,821	2.6	8,922	41,672	(78.6)	60,052	91,493	(34.4)
Other	35,653	53,121	(32.9)	58,445	311,021	(81.2)	94,098	364,142	(74.2)
Total Revenues	2,063,648	1,641,601	25.7	5,557,699	5,624,314	(1.2)	7,621,347	7,265,915	4.9
EXPENSES									
General Government	998,651	658,071	51.8	-	-	-	998,651	658,071	51.8
Public Safety	527,301	499,041	5.7	-	-	-	527,301	499,041	5.7
Public Works	479,202	414,137	15.7	-	-	-	479,202	414,137	15.7
Culture and Recreation	291,615	254,477	14.6	-	-	-	291,615	254,477	14.6
Economic Development	425,421	318,723	33.5	-	-	-	425,421	318,723	33.5
Interest	120,722	136,682	(11.7)	-	-	-	120,722	136,682	(11.7)
Water	-	-	-	261,810	295,894	(11.5)	261,810	295,894	(11.5)
Sewer	-	-	-	294,884	330,251	(10.7)	294,884	330,251	(10.7)
Electric	-	-	-	1,818,355	1,388,490	31.0	1,818,355	1,388,490	31.0
Telephone	-	-	-	642,158	575,365	11.6	642,158	575,365	11.6
Municipal Liquor	-	-	-	390,587	363,955	7.3	390,587	363,955	7.3
Cable Television	-	-	-	364,687	335,727	8.6	364,687	335,727	8.6
Sanitation	-	-	-	177,230	160,794	10.2	177,230	160,794	10.2
Storm Sewer	-	-	-	22,849	24,568	(7.0)	22,849	24,568	(7.0)
Golf Course	-	-	-	146,935	140,792	4.4	146,935	140,792	4.4
Ambulance	-	-	-	348,146	372,525	(6.5)	348,146	372,525	(6.5)
Broadband Internet	-	-	-	64,635	68,626	(5.8)	64,635	68,626	(5.8)
Total Expenses	2,842,912	2,281,131	24.6	4,532,276	4,056,987	11.7	7,375,188	6,338,118	16.4
Transfers	873,355	917,458	(4.8)	(873,355)	(917,458)	4.8	-	-	-
CHANGE IN NET ASSETS	94,091	277,928	(66.1)	152,068	649,869	(76.6)	246,159	927,797	(73.5)
Net Assets - Beginning of Year	4,802,205	4,524,277	6.1	8,737,706	8,087,837	8.0	13,539,911	12,612,114	7.4
NET ASSETS - END OF YEAR	\$ 4,896,296	\$ 4,802,205	2.0	\$ 8,889,774	\$ 8,737,706	1.7	\$ 13,786,070	\$ 13,539,911	1.8

Total revenues surpassed expenses, increasing net assets \$246,159 over last year. The business-type activities net assets increased primarily due to greater than anticipated revenues. The governmental activities net assets increased primarily from the increase in intergovernmental revenues related to local government aid and community development block grant revenues.

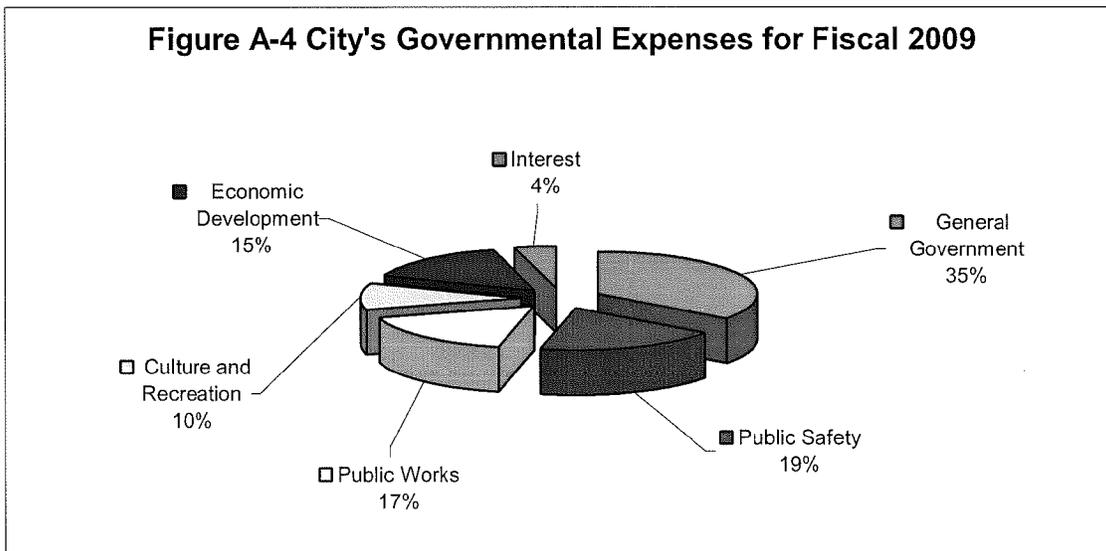
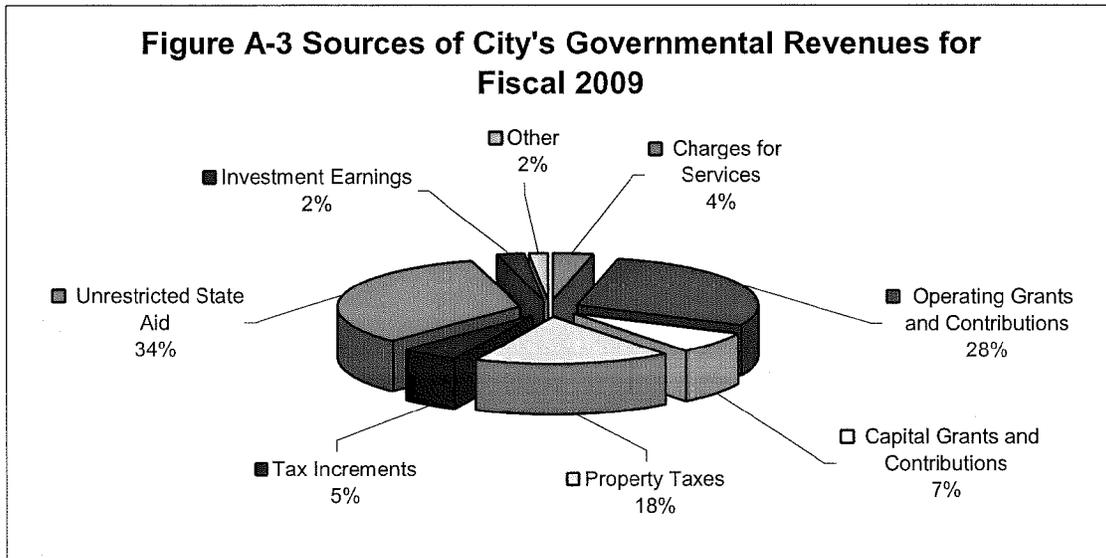
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

The City-wide cost of all governmental activities this year was \$2,842,912.

- Some of the cost was paid by the users of the City's programs (\$76,458).
- Federal and state government payments (\$736,140) subsidized certain programs.
- Ad valorem property taxes (\$363,543) and unrestricted state grants (\$692,129) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also subsidize governmental operations (\$873,355).



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**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage Change	Net Revenue (Cost of Services) After Program Revenues		Percentage Change
	2009	2008		2009	2008	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 998,651	\$ 658,071	51.8 %	\$ (491,659)	\$ (626,079)	(21.5)%
Public Safety	527,301	499,041	5.7	(378,436)	(412,161)	(8.2)
Public Works	479,202	414,137	15.7	(365,409)	(182,589)	100.1
Culture and Recreation	291,615	254,477	14.6	(248,667)	(222,779)	11.6
Economic Development	425,421	318,723	33.5	(425,421)	(153,942)	176.4
Interest and Fiscal Charges on Interest	120,722	136,682	(11.7)	(120,722)	(136,682)	(11.7)
Total	\$ 2,842,912	\$ 2,281,131	24.6	\$ (2,030,314)	\$ (1,734,232)	17.1
BUSINESS-TYPE ACTIVITIES						
Water	\$ 261,810	\$ 295,894	(11.5)%	\$ 157,770	\$ 112,737	39.9 %
Sewer	294,884	330,251	(10.7)	312,414	277,568	12.6
Electric	1,818,355	1,388,490	31.0	56,260	250,501	(77.5)
Telephone	642,158	575,365	11.6	331,884	475,036	(30.1)
Municipal Liquor	390,587	363,955	7.3	5,700	1,814	214.2
Cable Television	364,687	335,727	8.6	27,411	16,975	61.5
Sanitation	177,230	160,794	10.2	19,466	29,014	(32.9)
Storm Sewer	22,849	24,568	(7.0)	4,706	3,050	54.3
Golf Course	146,935	140,792	4.4	(25,779)	(21,948)	17.5
Ambulance	348,146	372,525	(6.5)	(66,238)	(51,210)	29.3
Broadband Internet	64,635	68,626	(5.8)	134,462	121,097	11.0
Total	\$ 4,532,276	\$ 4,056,987	11.7	\$ 958,056	\$ 1,214,634	(21.1)

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 \$2,287,342.

Revenues for the City's governmental funds were \$2,108,549, while total expenditures were \$2,964,273.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

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, 2009	December 31, 2008	Increase (Decrease)	Percent
Taxes	\$ 358,252	\$ 317,044	\$ 41,208	13.0 %
Special Assessments	5,429	8,992	(3,563)	(39.6)
Licenses and Permits	24,316	20,255	4,061	20.0
Intergovernmental	753,419	593,659	159,760	26.9
Charges for Services	1,621	2,084	(463)	(22.2)
Fines and Forfeits	7,368	14,122	(6,754)	(47.8)
Interest	4,378	365	4,013	1099.5
Miscellaneous and Other	35,492	18,767	16,725	89.1
Total General Fund Revenue	<u>\$ 1,190,275</u>	<u>\$ 975,288</u>	<u>\$ 214,987</u>	22.0

Total General Fund revenue increased by \$214,987 or 22.0 percent, from the previous year. The primary reason for the increase is increased intergovernmental revenues and tax levy increases and an increase of intergovernmental revenues with local government aid.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2009	December 31, 2008	Increase (Decrease)	Percent
General Government	\$ 583,864	\$ 636,828	\$ (52,964)	(8.3)%
Public Safety	452,679	416,151	36,528	8.8
Public Works	225,150	255,250	(30,100)	(11.8)
Airport	1,696	1,326	370	27.9
Economic Development	149,836	132,636	17,200	13.0
Capital Outlay	104,187	143,891	(39,704)	(27.6)
Debt Service	6,948	74,128	(67,180)	(90.6)
Total Expenditures	<u>\$ 1,524,360</u>	<u>\$ 1,660,210</u>	<u>\$ (135,850)</u>	(8.2)

The General Fund's expenditures decreased \$135,850 from 2008. This decrease is due largely to the City Council requesting all city departments to reduce their expenditures by 3 percent.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

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 \$3,610 more than expected. This is primarily due to greater than expected interest earnings.
- The actual expenditures were \$109,933 less than budget. This is primarily due to the City Council requesting all city departments to reduce expenditures by three percent, while not officially reducing the budget through City Council action.

Community Projects Fund

The fund balance of the Community Projects Fund decreased by \$187,950 to \$1,029,601 primarily resulting from transfers to other funds of \$201,133 as approved by the City Council.

Small Cities Grant Fund

The fund balance of the Small Cities Grant Fund remained nearly constant as a result of intergovernmental revenues and private party project contributions being nearly equal, at a level of approximately \$450,000.

Debt Service Fund

The Debt Service Fund expended approximately \$97,000 more than combined revenues plus transfers in; however, fund balance remained very stable at a balance of \$842,477.

Business Type Funds:

Water, Sewer, Liquor, and Cable Television

The operations of the Water, Sewer, Municipal Liquor, and Cable Television Funds remained essentially consistent with the prior year showing income (before transfers to other funds) of approximately \$163,000, \$215,000, \$7,000, and \$29,000; respectively, for the year ended December 31, 2009.

Electric

The Electric Fund showed an increase in sales of approximately \$235,000 (14%) up to \$1,874,000, resulting from both increased rates and increased consumption, however, purchased power costs increased by approximately \$300,000 and a loss of \$61,439 was incurred in connection with disposal of capital assets. The net result was a decrease in income (before transfers to other funds) of \$186,000 from \$269,000 last year to \$83,000 for the year ended December 31, 2009.

Telephone

The Telephone Fund showed a 6 percent decrease in sales from \$1,047,000 in 2008 to \$971,000 for 2009 as a result of decreased usage. At the same time, expenses (primarily wages, repairs and depreciation) increased by approximately \$68,000 and a loss of \$60,000 was incurred in the Fund's fiber optic Joint Venture, resulting in a net income (before transfers to other funds) of \$296,000 as compared to \$604,000 in the prior year.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2009**

CONSTRUCTION PROJECTS AND DEBT SERVICE

The City did not have any significant construction projects during 2009.

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 2009, the City had invested approximately \$13,600,000 (net of accumulated depreciation) in a broad range of capital assets, including buildings, computers, improvements, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3.A.3 to the financial statements). Total depreciation expense for the year was \$519,707 (including the enterprise funds).

Table A-6
The City's Capital Assets

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2009	2008		2009	2008		2009	2008	
Land	\$ 617,741	\$ 617,741	- %	\$ 113,908	\$ 113,908	- %	\$ 731,649	\$ 731,649	- %
Construction-in-Progress	23,479	11,613	102.2	-	-	-	23,479	11,613	102.2
Buildings	1,229,498	1,229,498	-	2,561,644	2,561,644	-	3,791,142	3,791,142	-
Infrastructure	3,227,190	3,227,190	-	9,848,794	9,848,794	-	13,075,984	13,075,984	-
Improvements	168,897	168,897	-	1,056,370	1,056,370	-	1,225,267	1,225,267	-
Machinery and Equipment	464,714	442,670	5.0	3,571,913	3,460,043	3.2	4,036,627	3,902,713	3.4
Vehicles	300,452	279,646	7.4	326,094	326,094	-	626,546	605,740	3.4
Less: Accumulated Depreciation	<u>(3,164,339)</u>	<u>(3,011,743)</u>	5.1	<u>(6,757,954)</u>	<u>(6,419,733)</u>	5.3	<u>(9,922,293)</u>	<u>(9,431,476)</u>	5.2
Total	<u>\$ 2,867,632</u>	<u>\$ 2,965,512</u>	(3.3)	<u>\$ 10,720,769</u>	<u>\$ 10,947,120</u>	(2.1)	<u>\$ 13,588,401</u>	<u>\$ 13,912,632</u>	(2.3)

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009**

LONG-TERM LIABILITIES

At year-end, the City had \$9,636,922 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities net long-term debt decreased \$721,019, due primarily to the repayment of general obligation bonds.

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

	2009	2008	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 2,677,045	\$ 2,934,471	(8.8)%
Capital Leases Payable	10,746	15,671	(31.4)
Compensated Absences Payable	92,220	92,560	(0.4)
Other Postemployment Benefits Payable	19,508	-	100.0
Less: Bond Discounts	<u>(15,607)</u>	<u>(17,005)</u>	(8.2)
Total Governmental Activities	<u>\$ 2,783,912</u>	<u>\$ 3,025,697</u>	(8.0)
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds	\$ 1,764,459	\$ 1,967,855	(10.3)%
General Obligation Revenue Notes	3,747,000	3,952,000	(5.2)
General Obligation Bonds	1,345,000	1,440,000	(6.6)
Compensated Absences Payable	23,971	9,456	153.5
Other Postemployment Benefits Payable	5,738	-	100.0
Less: Bond Discounts	<u>(33,158)</u>	<u>(37,067)</u>	(10.5)
Total Business-Type Activities	<u>6,853,010</u>	<u>7,332,244</u>	(6.5)
Total City Wide Debt	<u>\$ 9,636,922</u>	<u>\$ 10,357,941</u>	(7.0)

FACTORS BEARING ON THE CITY'S FUTURE

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Pooled Investments	\$ 2,306,749	\$ 3,031,598	\$ 5,338,347	\$ 130,045
Taxes Receivable				
Delinquent	15,246	-	15,246	-
Special Assessments Receivable				
Delinquent	53,894	-	53,894	-
Deferred	2,468,209	-	2,468,209	-
Tax Increments Receivables	4,416	-	4,416	-
Accounts Receivable - Net	3,760	913,610	917,370	4,890
Accrued Interest Receivable	3,048	-	3,048	-
Notes Receivable - Net	38,260	-	38,260	-
Due from Other Governments	8,048	-	8,048	-
Due from Component Unit	1,470	-	1,470	-
Internal Balances	22,231	(22,231)	-	-
Inventories	-	48,337	48,337	-
Land Held for Resale	-	-	-	365,420
Unamortized Bond Issue Costs	-	20,290	20,290	-
Advances to Component Unit	20,767	-	20,767	-
Advances to Primary Government	-	-	-	20,000
Investment in Joint Venture	-	1,486,784	1,486,784	-
Capital Assets not Being Depreciated				
Land	617,741	113,908	731,649	-
Construction in Progress	23,479	-	23,479	-
Capital Assets Being Depreciated				
Buildings	728,645	1,404,346	2,132,991	-
Infrastructure	1,199,971	7,421,518	8,621,489	-
Improvements	35,386	481,968	517,354	-
Machinery and Equipment	159,100	1,207,871	1,366,971	-
Vehicles	103,310	91,158	194,468	-
Total Assets	<u>7,813,730</u>	<u>16,199,157</u>	<u>24,012,887</u>	<u>520,355</u>
LIABILITIES				
Accounts Payable	36,407	256,549	292,956	6,849
Salaries and Benefits Payable	29,255	18,140	47,395	2,980
Deposits Payable	-	1,290	1,290	-
Accrued Interest Payable	47,574	77,963	125,537	-
Due to Other Governments	286	42,055	42,341	-
Due to Primary Government	-	-	-	1,470
Special Assessments Payable	-	-	-	81,350
Advances from Primary Government	-	-	-	20,767
Advances from Component Unit	20,000	-	20,000	-
Deferred Revenue	-	60,376	60,376	-
Notes Payable - Due Within One Year	-	-	-	7,217
Bonds Payable - Due Within One Year	270,578	517,084	787,662	1,991
Capital Leases Payable - Due Within One Year	5,528	-	5,528	-
Compensated Absences Payable - Due Within One Year	69,165	17,979	87,144	-
Bonds Payable - Due in More Than One Year	2,390,860	6,306,217	8,697,077	14,527
Capital Leases Payable - Due in More Than One Year	5,218	-	5,218	-
Compensated Absences Payable - Due in More Than One Year	23,055	5,992	29,047	-
Other Postemployment Benefits Payable - Due in More Than One Year	19,508	5,738	25,246	955
Total Liabilities	<u>2,917,434</u>	<u>7,309,383</u>	<u>10,226,817</u>	<u>138,106</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	195,448	3,897,468	4,092,916	-
Restricted for				
Debt Service	3,271,648	-	3,271,648	-
Unrestricted	1,429,200	4,992,306	6,421,506	382,249
Total Net Assets	<u>\$ 4,896,296</u>	<u>\$ 8,889,774</u>	<u>\$ 13,786,070</u>	<u>\$ 382,249</u>

See accompanying Notes to the Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009**

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 998,651	\$ 32,297	\$ 474,695	\$ -
Public Safety	527,301	50	105,166	43,649
Public Works	479,202	1,333	5,429	107,031
Culture and Recreation	291,615	42,778	170	-
Economic Development	425,421	-	-	-
Interest	120,722	-	-	-
Total Governmental Activities	2,842,912	76,458	585,460	150,680
Business-Type Activities				
Water	261,810	419,580	-	-
Sewer	294,884	607,298	-	-
Electric	1,818,355	1,874,615	-	-
Telephone	642,158	971,259	2,783	-
Municipal Liquor	390,587	396,287	-	-
Cable Television	364,687	392,098	-	-
Sanitation	177,230	172,857	23,839	-
Storm Sewer	22,849	27,555	-	-
Golf Course	146,935	121,006	150	-
Ambulance	348,146	263,214	18,694	-
Broadband Internet	64,635	199,097	-	-
Total Business-Type Activities	4,532,276	5,444,866	45,466	-
Total Primary Government	\$ 7,375,188	\$ 5,521,324	\$ 630,926	\$ 150,680
Component Unit				
EDA	\$ 218,629	\$ 74,956	\$ -	\$ -

General Revenues
Property Taxes
Tax Increments
Grants and Contributions not Restricted for a Particular Purpose
Investment Earnings
Miscellaneous
Gain on Sale of Capital Assets
Transfers
Total General Revenues

CHANGE IN NET ASSETS

Net Assets - Beginning of Year

NET ASSETS - END OF YEAR

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (491,659)	\$ -	\$ (491,659)	\$ -
(378,436)	-	(378,436)	-
(365,409)	-	(365,409)	-
(248,667)	-	(248,667)	-
(425,421)	-	(425,421)	-
(120,722)	-	(120,722)	-
(2,030,314)	-	(2,030,314)	-
-	157,770	157,770	-
-	312,414	312,414	-
-	56,260	56,260	-
-	331,884	331,884	-
-	5,700	5,700	-
-	27,411	27,411	-
-	19,466	19,466	-
-	4,706	4,706	-
-	(25,779)	(25,779)	-
-	(66,238)	(66,238)	-
-	134,462	134,462	-
-	958,056	958,056	-
(2,030,314)	958,056	(1,072,258)	-
-	-	-	(143,673)
363,543	-	363,543	-
108,595	-	108,595	-
692,129	-	692,129	256,551
51,130	8,922	60,052	98
35,653	55,757	91,410	209,357
-	2,688	2,688	-
873,355	(873,355)	-	-
2,124,405	(805,988)	1,318,417	466,006
94,091	152,068	246,159	322,333
4,802,205	8,737,706	13,539,911	59,916
\$ 4,896,296	\$ 8,889,774	\$ 13,786,070	\$ 382,249

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FUND FINANCIAL STATEMENTS

**CITY OF BARNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>General</u>	<u>Community Projects</u>	<u>Small Cities Grant</u>
ASSETS			
Cash and Investments	\$ 339,103	\$ 981,810	\$ 3,924
Taxes Receivable			
Delinquent	13,885	-	-
Special Assessments Receivable			
Delinquent	2,895	-	-
Deferred	44,001	-	-
Accounts Receivable	-	-	-
Tax Increments Receivables	-	-	-
Accrued Interest Receivable	3,048	-	-
Notes Receivable	7,217	-	31,043
Due From Other Governments	8,048	-	-
Due from Component Unit	1,470	-	-
Advance to Other Funds	-	38,609	-
Advance to Component Unit	20,767	-	-
Due from Other Funds	22,231	9,182	-
	<u>\$ 462,665</u>	<u>\$ 1,029,601</u>	<u>\$ 34,967</u>
Total Assets			
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 27,247	\$ -	\$ -
Salaries and Benefits Payable	24,903	-	-
Due to Other Funds	9,182	-	-
Due to Other Governments	286	-	-
Advance from Other Funds	38,609	-	-
Advance from Component Unit	20,000	-	-
Deferred Revenue	60,781	-	31,043
	<u>181,008</u>	<u>-</u>	<u>31,043</u>
Total Liabilities			
Fund Balances			
Reserved for			
Debt Service	-	-	-
Notes Receivables	7,217	-	-
Advances to Other Funds	-	38,609	-
Advances to Component Units	20,767	-	-
Unreserved, Reported In			
General Fund - Undesignated	253,673	-	-
Special Revenue - Undesignated	-	-	3,924
Special Revenue - Designated	-	990,992	-
Capital Projects - Undesignated	-	-	-
	<u>281,657</u>	<u>1,029,601</u>	<u>3,924</u>
Total Fund Balances			
Total Liabilities and Fund Balances	<u>\$ 462,665</u>	<u>\$ 1,029,601</u>	<u>\$ 34,967</u>

See accompanying Notes to Financial Statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 842,477	\$ 139,435	\$ 2,306,749
1,361	-	15,246
50,999	-	53,894
2,424,208	-	2,468,209
-	3,760	3,760
-	4,416	4,416
-	-	3,048
-	-	38,260
-	-	8,048
-	-	1,470
-	-	38,609
-	-	20,767
-	-	31,413
<u>\$ 3,319,045</u>	<u>\$ 147,611</u>	<u>\$ 4,993,889</u>
\$ -	\$ 9,160	\$ 36,407
-	4,352	29,255
-	-	9,182
-	-	286
-	-	38,609
-	-	20,000
2,476,568	4,416	2,572,808
2,476,568	17,928	2,706,547
842,477	-	842,477
-	-	7,217
-	-	38,609
-	-	20,767
-	-	253,673
-	-	3,924
-	129,707	1,120,699
-	(24)	(24)
<u>842,477</u>	<u>129,683</u>	<u>2,287,342</u>
<u>\$ 3,319,045</u>	<u>\$ 147,611</u>	<u>\$ 4,993,889</u>

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**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS **\$ 2,287,342**

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 2,867,632

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 2,572,808

Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Bonds Payable, Net of Unamortized Bond Discounts	\$ (2,661,438)	
Capital Lease Obligations	(10,746)	
Accrued Compensated Absences	(92,220)	
Other Postemployment Benefits Payable	(19,508)	
Accrued Interest Payable on General Obligation Bonds	(47,574)	(2,831,486)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 4,896,296**

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

	General Fund	Community Projects	Small Cities Grant
REVENUES			
Taxes	\$ 358,252	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	5,429	-	-
Licenses and Permits	24,316	-	-
Intergovernmental	753,419	-	372,645
Charges for Services	1,621	-	-
Fines and Forfeits	7,368	-	-
Gifts and Contributions	-	-	78,014
Interest on Investments	4,378	37,283	-
Miscellaneous	35,492	-	3,526
Total Revenues	1,190,275	37,283	454,185
EXPENDITURES			
Current			
General Government	583,864	-	456,398
Public Safety	452,679	-	-
Public Works	225,150	-	-
Airport	1,696	-	-
Parks and Recreation	-	-	-
Economic Development	149,836	24,100	-
Capital Outlay			
General Government	88,382	-	-
Public Safety	4,619	-	-
Public Works	11,186	-	-
Parks and Recreation	-	-	-
Debt Service			
Principal	4,925	-	-
Interest and Other Charges	2,023	-	-
Total Expenditures	1,524,360	24,100	456,398
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(334,085)	13,183	(2,213)
OTHER FINANCING SOURCES (USES)			
Transfers In	1,034,969	-	-
Transfers Out	(440,060)	(201,133)	-
Total Other Financing Sources (Uses)	594,909	(201,133)	-
NET CHANGE IN FUND BALANCES			
	260,824	(187,950)	(2,213)
Fund Balance - Beginning of Year	20,833	1,217,551	6,137
FUND BALANCE - END OF YEAR	\$ 281,657	\$ 1,029,601	\$ 3,924

See accompanying Notes to Financial Statements.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 366	\$ -	\$ 358,618
-	104,723	104,723
227,323	-	232,752
-	-	24,316
-	41,846	1,167,910
-	42,778	44,399
-	-	7,368
-	2,200	80,214
6,959	75	48,695
-	536	39,554
234,648	192,158	2,108,549
-	-	1,040,262
-	21,349	474,028
-	-	225,150
-	-	1,696
-	263,564	263,564
49,126	196,758	419,820
-	-	88,382
-	11,866	16,485
-	-	11,186
-	37,262	37,262
-	-	-
257,426	-	262,351
122,064	-	124,087
428,616	530,799	2,964,273
(193,968)	(338,641)	(855,724)
97,000	388,681	1,520,650
-	(6,102)	(647,295)
97,000	382,579	873,355
(96,968)	43,938	17,631
939,445	85,745	2,269,711
\$ 842,477	\$ 129,683	\$ 2,287,342

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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, 2009**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 17,631

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	\$ 62,716	
Current Year Depreciation	<u>(156,863)</u>	(94,147)

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

(3,733)

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

(71,117)

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

Principal Repayments:		
General Obligation Bonds	257,426	
Capital Lease	<u>4,925</u>	262,351

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	3,672	
Amortization of Discounts	(1,398)	
Change in Compensated Absences	340	
Change in Other Postemployment Benefits Payable	<u>(19,508)</u>	<u>(16,894)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 94,091

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2009**

ASSETS	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 299,109	\$ 838,096	\$ 359,879
Accounts Receivable - Net	88,684	112,221	412,609
Inventories	-	-	-
Total Current Assets	387,793	950,317	772,488
NONCURRENT ASSETS			
Investment in Joint Venture	-	-	-
Unamortized Bond Issue Costs	-	-	-
Capital Assets			
Land	-	100,831	-
Buildings (Net)	449,226	438,334	81,230
Infrastructure (Net)	1,590,136	4,526,048	325,595
Improvements (Net)	-	-	-
Machinery and Equipment (Net)	112,470	61,523	196,060
Vehicles (Net)	-	-	-
Total Capital Assets	2,151,832	5,126,736	602,885
Total Noncurrent Assets	2,151,832	5,126,736	602,885
Total Assets	2,539,625	6,077,053	1,375,373
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	3,500	352	96,198
Salaries and Benefits Payable	655	260	1,896
Deposits Payable	-	-	1,290
Accrued Interest Payable	20,995	28,846	5,315
Due to Other Governments	28,313	-	5,959
Due to Other Funds	-	-	-
Deferred Revenue	-	-	19,891
Compensated Absences - Due Within One Year	1,207	624	1,716
Bonds Payable - Due Within One Year	134,634	277,450	28,000
Total Current Liabilities	189,304	307,532	160,265
NONCURRENT LIABILITIES			
Compensated Absences Payable -			
Due in More than One Year	402	208	572
Other Postemployment Benefits Payable -			
Due in More than One Year	195	195	505
Bonds Payable - Due in More than One Year	1,085,410	3,907,904	239,197
Total Noncurrent Liabilities	1,086,007	3,908,307	240,274
Total Liabilities	1,275,311	4,215,839	400,539
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	931,788	941,382	335,688
Unrestricted	332,526	919,832	639,146
Total Net Assets	\$ 1,264,314	\$ 1,861,214	\$ 974,834

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 698,635	\$ 46,194	\$ 167,712	\$ 621,973	\$ 3,031,598
118,427	991	72,395	108,283	913,610
-	47,137	-	1,200	48,337
<u>817,062</u>	<u>94,322</u>	<u>240,107</u>	<u>731,456</u>	<u>3,993,545</u>
1,486,784	-	-	-	1,486,784
-	-	20,290	-	20,290
-	-	-	13,077	113,908
1,251	2,295	81,531	350,479	1,404,346
-	-	374,466	605,273	7,421,518
427,563	-	-	54,405	481,968
220,645	2,263	502,493	112,417	1,207,871
9,256	-	10,158	71,744	91,158
<u>658,715</u>	<u>4,558</u>	<u>968,648</u>	<u>1,207,395</u>	<u>10,720,769</u>
<u>2,145,499</u>	<u>4,558</u>	<u>988,938</u>	<u>1,207,395</u>	<u>12,227,843</u>
2,962,561	98,880	1,229,045	1,938,851	16,221,388
111,216	14,468	10,438	20,377	256,549
6,313	2,557	992	5,467	18,140
-	-	-	-	1,290
7,973	-	14,834	-	77,963
915	3,208	2,277	1,383	42,055
-	-	-	22,231	22,231
-	-	40,485	-	60,376
9,679	611	2,091	2,051	17,979
42,000	-	35,000	-	517,084
<u>178,096</u>	<u>20,844</u>	<u>106,117</u>	<u>51,509</u>	<u>1,013,667</u>
3,226	203	697	684	5,992
3,904	-	389	550	5,738
<u>358,795</u>	<u>-</u>	<u>714,911</u>	<u>-</u>	<u>6,306,217</u>
<u>365,925</u>	<u>203</u>	<u>715,997</u>	<u>1,234</u>	<u>6,317,947</u>
544,021	21,047	822,114	52,743	7,331,614
257,920	4,558	218,737	1,207,395	3,897,468
<u>2,160,620</u>	<u>73,275</u>	<u>188,194</u>	<u>678,713</u>	<u>4,992,306</u>
<u>\$ 2,418,540</u>	<u>\$ 77,833</u>	<u>\$ 406,931</u>	<u>\$ 1,886,108</u>	<u>\$ 8,889,774</u>

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009

	Water	Sewer	Electric
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
Charges for Services	419,580	607,298	1,874,615
OPERATING EXPENSES			
Professional Services	96,290	77,168	105,084
Wages, Salaries, and Compensation	12,309	4,402	46,365
Repairs and Maintenance	265	-	19,846
Insurance	8,272	5,066	5,421
Utilities	-	-	3,711
Depreciation	62,616	119,873	30,055
Materials and Supplies	14,381	-	514
Miscellaneous Expenses	12,715	8,853	44,616
Purchased Power	-	-	1,466,041
License Fees	630	-	-
Equipment	-	-	22,065
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	207,478	215,362	1,743,718
OPERATING INCOME (LOSS)	212,102	391,936	130,897
NONOPERATING REVENUES (EXPENSES)			
Investment Income	1,976	3,302	1,019
Joint Venture Loss	-	-	-
Intergovernmental Grants	-	-	-
Miscellaneous - Nonoperating	2,804	353	25,975
Interest Expense and Fiscal Charges	(54,332)	(79,522)	(13,198)
Gain (Loss) on Sale of Capital Assets	-	-	(61,439)
Total Nonoperating Revenues (Expenses)	(49,552)	(75,867)	(47,643)
Income (Loss) before Transfers	162,550	316,069	83,254
Transfers In	-	-	-
Transfers Out	(96,368)	(100,110)	(206,626)
CHANGE IN NET ASSETS	66,182	215,959	(123,372)
Net Assets - Beginning of Year	1,198,132	1,645,255	1,098,206
NET ASSETS - END OF YEAR	<u>\$ 1,264,314</u>	<u>\$ 1,861,214</u>	<u>\$ 974,834</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ -	\$ 396,287	\$ -	\$ -	\$ 396,287
-	312,956	-	-	312,956
-	83,331	-	-	83,331
971,259	-	392,098	783,729	5,048,579
52,535	-	122	159,355	490,554
193,056	55,786	31,335	213,068	556,321
28,169	816	10,165	31,777	91,038
4,927	6,396	6,003	19,358	55,443
-	-	-	3,709	7,420
41,814	2,676	29,686	76,124	362,844
4,443	851	1,559	54,075	75,823
297,418	9,811	11,219	93,552	478,184
-	-	-	-	1,466,041
-	-	222,898	-	223,528
-	1,295	21,351	-	44,711
-	-	-	108,777	108,777
622,362	77,631	334,338	759,795	3,960,684
348,897	5,700	57,760	23,934	1,171,226
1,700	36	557	332	8,922
(60,553)	-	-	-	(60,553)
2,783	-	-	42,683	45,466
22,895	1,121	594	62,568	116,310
(19,796)	-	(30,349)	-	(197,197)
-	-	-	2,688	(58,751)
(52,971)	1,157	(29,198)	108,271	(145,803)
295,926	6,857	28,562	132,205	1,025,423
10,723	-	26,749	68,000	105,472
(450,000)	(6,000)	(4,000)	(115,723)	(978,827)
(143,351)	857	51,311	84,482	152,068
2,561,891	76,976	355,620	1,801,626	8,737,706
\$ 2,418,540	\$ 77,833	\$ 406,931	\$ 1,886,108	\$ 8,889,774

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009**

	Water	Sewer	Electric
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 402,494	\$ 606,992	\$ 1,839,828
Payments to Suppliers	(136,341)	(99,855)	(1,596,282)
Payments to Employees	(11,401)	(3,787)	(44,388)
Net Cash Provided by Operating Activities	254,752	503,350	199,158
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers Out	(96,368)	(100,110)	(206,626)
Transfers In	-	-	-
Interfund Borrowings	-	-	-
Grant Receipts	-	-	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(96,368)	(100,110)	(206,626)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(132,071)	(276,325)	(26,000)
Interest Paid on Debt	(54,585)	(80,852)	(13,302)
Proceeds from Disposal of Capital Assets	-	-	-
Acquisition of Capital Assets	-	-	(84,900)
Receipts from Joint Venture	-	-	-
Other Miscellaneous Receipts	2,804	353	25,975
Net Cash Provided (Used) by Capital and Related Financing Activities	(183,852)	(356,824)	(98,227)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	1,976	3,302	1,019
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,492)	49,718	(104,676)
Cash and Cash Equivalents - Beginning of Year	322,601	788,378	464,555
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 299,109</u>	<u>\$ 838,096</u>	<u>\$ 359,879</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 212,102	\$ 391,936	\$ 130,897
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	62,616	119,873	30,055
(Increase) Decrease in Assets			
Accounts Receivable	(17,086)	(306)	(38,436)
Inventory	-	-	-
Increase (Decrease) in Liabilities			
Accounts Payable	(10,521)	(8,768)	78,596
Salaries and Benefits Payable	713	420	1,472
Deposits Payable	-	-	(8,501)
Other Postemployment Benefits Payable	195	195	505
Due to Other Governments	6,733	-	921
Deferred Revenue	-	-	3,649
Total Adjustments	42,650	111,414	68,261
Net Cash Provided by Operating Activities	<u>\$ 254,752</u>	<u>\$ 503,350</u>	<u>\$ 199,158</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 974,914	\$ 396,030	\$ 399,393	\$ 787,848	\$ 5,407,499
(345,078)	(337,587)	(274,854)	(492,638)	(3,282,635)
(174,449)	(53,910)	(30,443)	(210,048)	(528,426)
455,387	4,533	94,096	85,162	1,596,438
(450,000)	(6,000)	(4,000)	(115,723)	(978,827)
10,723	-	26,749	68,000	105,472
127,375	-	-	(3,365)	124,010
2,783	-	-	42,683	45,466
(309,119)	(6,000)	22,749	(8,405)	(703,879)
(39,000)	-	(30,000)	-	(503,396)
(19,953)	-	(37,712)	-	(206,404)
-	-	-	2,688	2,688
(75,232)	-	(37,800)	-	(197,932)
44,026	-	-	-	44,026
22,895	1,121	594	62,568	116,310
(67,264)	1,121	(104,918)	65,256	(744,708)
1,700	36	557	332	8,922
80,704	(310)	12,484	142,345	156,773
617,931	46,504	155,228	479,628	2,874,825
\$ 698,635	\$ 46,194	\$ 167,712	\$ 621,973	\$ 3,031,598
\$ 348,897	\$ 5,700	\$ 57,760	\$ 23,934	\$ 1,171,226
41,814	2,676	29,686	76,124	362,844
3,655	(257)	(196)	4,119	(48,507)
-	(6,230)	-	-	(6,230)
44,785	460	(1,885)	(22,078)	80,589
14,703	1,876	503	2,470	22,157
-	-	-	-	(8,501)
3,904	-	389	550	5,738
(2,371)	308	348	43	5,982
-	-	7,491	-	11,140
106,490	(1,167)	36,336	61,228	425,212
\$ 455,387	\$ 4,533	\$ 94,096	\$ 85,162	\$ 1,596,438

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIRE DEPARTMENT AGENCY FUND
DECEMBER 31, 2009**

ASSETS

Cash and Pooled Investments	<u>\$ 62,098</u>
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LIABILITIES

Accounts Payable	<u>\$ 62,098</u>
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See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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 recreation, public improvements, planning and zoning and general administrative services. The City also operates utilities, telephone, golf course, municipal liquor store, cable television, and ambulance services.

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

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

Joint Ventures and Jointly Governed Organizations

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the Primary Government and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to users of the services for support.

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

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

C. Measurement Focus and Basis of Accounting

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current -fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current-fiscal period. Only the portion of special assessments receivable due within the current-fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

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

Small Cities Grant Fund – The Small Cities Grants Fund is used to account for the revenues and expenditures of the City's Community Development Block Grant for small cities.

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.

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the City reports the following fiduciary fund types:

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments (Including Cash Equivalents)

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

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

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

2. Short-Term Interfund Receivables/Payables

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

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Accounts Receivable

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

4. Special Assessments

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

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

5. Inventory

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

6. Land Held for Resale

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

7. Prepaid Items

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

9. Compensated Absences

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Long-Term Obligations

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

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

11. Fund Balance

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

E. Revenues, Expenditures, and Expenses

1. Revenues

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

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

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

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

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

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

2. Expenditures

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

3. Expenses

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balances

The following funds had fund deficits at December 31, 2009:

Capital Projects Fund	\$	24
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The City plans to eliminate this deficit through future levies and assessments.

B. Excess of Expenditures over Appropriations

Expenditures exceeded budgeted amounts in the following fund:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Smalls Cities Grant Fund	\$ 456,398	\$ 300,000	\$ 156,398

These over expenditures were offset by greater than expected revenues and were approved by the City Council.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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, 2009, based on market prices. Pooled investment earnings for 2009 were \$48,287.

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 percent 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, 2009 the balance was fully insured and collateralized as required by *Minnesota Statutes* §118A.03.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

As of December 31, 2009, the City had the following investments in its pool:

<u>Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Repurchase Agreements	NR	\$ 3,118,700	93.6 %
Minnesota Municipal Money Market Fund (4M)	NR	14,621	0.4
Negotiable Certificates of Deposit			
Capmark Bank Midvale Utah	NR	99,011	3.0
Discover Bank Greenwood Delaware	NR	<u>99,011</u>	3.0
		<u>\$ 3,331,343</u>	

NR = Not Rated

The repurchase agreement investment as of December 31, 2009 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

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

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

2. Non-Marketable Investments/Investment in Joint Venture

The City's telephone company has entered into an agreement with Rothsay Telephone, Park Region Mutual Telephone, Red River Rural Telephone, Loretel Systems and East Ottertail Telephone to operate a fiber optic video transmission network to serve 17 area school districts. Each telephone company contributed capital and shares in the operating decisions. Barnesville's share is approximately 18.1 percent. All profits and losses are shared proportionately to each member's ownership. The City uses the equity method to account for its investments. Joint venture activity for 2009 is as follows:

Balance, January 1, 2009	\$ 1,591,363
Capital Contributions	-
Net Loss	<u>(104,579)</u>
Balance, December 31, 2009	<u>\$ 1,486,784</u>

Condensed financial information from the joint venture as of and for the year ended December 31, 2009, is presented below:

Total Assets	\$ 9,262,669
Total Liabilities	1,046,023
Total Equity	8,216,646
Total Operating Revenue	11,135,621
Total Operating Expenses	11,481,513
Nonoperating Income	27,133
Net Income (Loss)	(319,956)
Less: Cash Distribution	256,080
Net Decrease in Capital	(576,036)

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, 2009**

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, 2009, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 617,741	\$ -	\$ -	\$ 617,741
Construction in Progress	11,613	11,866	-	23,479
Total Capital Assets Not Being Depreciated	629,354	11,866	-	641,220
Capital Assets Being Depreciated				
Buildings	1,229,498	-	-	1,229,498
Infrastructure	3,227,190	-	-	3,227,190
Improvements	168,897	-	-	168,897
Machinery and Equipment	442,670	30,044	(8,000)	464,714
Vehicles	279,646	20,806	-	300,452
Total Capital Assets Being Depreciated	5,347,901	50,850	(8,000)	5,390,751
Less: Accumulated Depreciation for				
Buildings	477,851	23,002	-	500,853
Infrastructure	1,940,913	86,306	-	2,027,219
Improvements	128,298	5,213	-	133,511
Machinery and Equipment	287,708	22,173	(4,267)	305,614
Vehicles	176,973	20,169	-	197,142
Total Accumulated Depreciation	3,011,743	156,863	(4,267)	3,164,339
Total Capital Assets Being Depreciated, Net	2,336,158	(106,013)	(3,733)	2,226,412
Governmental Activities Capital Assets, Net	\$ 2,965,512	\$ (94,147)	\$ (3,733)	\$ 2,867,632

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

The following is a summary of the proprietary fund capital assets at December 31, 2009:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
BUSINESS-TYPE ACTIVITIES					
Capital Assets Not Being Depreciated					
Land	\$ 113,908	\$ -	\$ -	\$ -	\$ 113,908
Capital Assets Being Depreciated					
Buildings	2,561,644	-	-	-	2,561,644
Infrastructure	9,848,794	-	-	-	9,848,794
Improvements	1,056,370	-	-	-	1,056,370
Machinery and Equipment	3,460,043	197,932	(86,062)	-	3,571,913
Vehicles	326,094	-	-	-	326,094
Total Capital Assets Being Depreciated	<u>17,252,945</u>	<u>197,932</u>	<u>(86,062)</u>	<u>-</u>	<u>17,364,815</u>
Less: Accumulated Depreciation for					
Buildings	1,140,312	128,381	-	(111,395)	1,157,298
Infrastructure	2,753,603	96,576	-	(422,903)	2,427,276
Improvements	19,481	20,623	-	534,298	574,402
Machinery and Equipment	2,290,764	97,900	(24,622)	-	2,364,042
Vehicles	215,573	19,363	-	-	234,936
Total Accumulated Depreciation	<u>6,419,733</u>	<u>362,843</u>	<u>(24,622)</u>	<u>-</u>	<u>6,757,954</u>
Total Capital Assets Being Depreciated, Net	<u>10,833,212</u>	<u>(164,911)</u>	<u>(61,440)</u>	<u>-</u>	<u>10,606,861</u>
Business-Type Activities Capital Assets, Net	<u>\$ 10,947,120</u>	<u>\$ (164,911)</u>	<u>\$ (61,440)</u>	<u>\$ -</u>	<u>\$ 10,720,769</u>

During 2009, the City transferred \$534,928 of accumulated depreciation from infrastructure and buildings to improvements as they were misclassified in prior years.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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	\$ 8,025
Public Safety	9,226
Public Works	115,633
Culture and Recreation	23,882
Economic Development	97
Total Depreciation Expense - Governmental Activities	<u>\$ 156,863</u>

Business-Type Activities:	
Water	\$ 62,616
Sewer	119,873
Electric	30,055
Telephone	41,814
Municipal Liquor	2,676
Cable Television	29,686
Sanitation	2,632
Storm Sewer	21,903
Golf Course	16,392
Ambulance	17,944
Broadband Internet	17,253
Total Depreciation Expense - Business-Type Activities	<u>\$ 362,844</u>

B. Interfund Receivables, Payables and Transfers

The Composition of interfund transfers as of December 31, 2009 is as follows:

	Transfers In:					Total
	General	Debt Service Funds	Capital Projects Funds	Nonmajor Governmental Funds	Enterprise Funds	
Transfer Out:						
General Fund	\$ -	\$ 97,000	\$ -	\$ 275,060	\$ 68,000	\$ 440,060
Community Projects Fund	149,384	-	25,000	-	26,749	201,133
Nonmajor Governmental Funds	6,102	-	-	-	-	6,102
Enterprise Funds	879,483	-	88,621	-	10,723	978,827
Total	<u>\$ 1,034,969</u>	<u>\$ 97,000</u>	<u>\$ 113,621</u>	<u>\$ 275,060</u>	<u>\$ 105,472</u>	<u>\$ 1,626,122</u>

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

The composition of interfund balances at December 31, 2009, is as follows:

Due To/From Other Funds and Discrete Component Unit

Receivable Fund	Payable Fund	Amount
General Fund	Component Unit - EDA	\$ 1,470
General Fund	Golf Course Fund	22,231
Community Projects Fund	General Fund	9,182
		<u>\$ 32,883</u>

The interfund receivables/payables noted above are related to the elimination of negative cash balances at year-end; the current portion of the advance between the Community Projects Fund and the General Fund; and the legal costs on the repayment of TIF Loans.

Advances To/From Other Funds and Discrete Component Unit

Advance To	Advance From	Amount
General Fund	Community Projects Fund	\$ 38,609
	Component Unit - EDA	20,767
Component Unit - EDA	General Fund	20,000
		<u>\$ 79,376</u>

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

C. Liabilities

1. Long-Term Debt

General Obligation Bonds

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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 2010	
			Principal	Interest
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds, Including Refunding Bonds				
G. O. Taxable Improvement Bonds of 2002; 6.54%, Issued 09/01/02; Final Maturity 09/26/12.	\$ 438,013	\$ 162,045	\$ 50,578	\$ 9,784
G. O. Special Assessment Improvement Bonds of 2002; 3.75% to 5.00%, Issued 09/01/02; Final Maturity 02/01/23.	1,355,000	1,290,000	70,000	57,063
G.O. Bonds Improvement Bonds of 2003; 1.75% to 3.75%, Issued 08/01/03; Final Maturity 02/01/14.	205,000	105,000	20,000	3,403
G.O. Improvement Refunding Bonds of 2004; 2.59%, Issued 03/24/04; Final Maturity 02/01/11.	465,000	150,000	85,000	3,119
G.O. Bonds, Refunding Portion of 2005: 3.50% to 4.10%; Issued 11/09/05; Final Maturity 02/01/16.	460,000	335,000	45,000	12,439
G.O. Bonds of 2006; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	635,000	635,000	-	25,613
Total General Obligation Bonds, Including Refunding Bonds	3,558,013	2,677,045	270,578	111,421
Less: Unamortized Discount	-	(15,607)	-	-
Total General Obligation Bonds, Including Refunding Bonds - Net	3,558,013	2,661,438	270,578	111,421
Capital Leases	21,528	10,746	5,528	639
Total Long-Term Debt - Governmental Activities	3,611,041	2,672,184	276,106	112,769

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt (Continued)

	Authorized and Issued	Outstanding	Due in 2010	
			Principal	Interest
BUSINESS-TYPE ACTIVITIES				
<u>Revenue Bonds</u>				
Electric and Telephone Revenue Bonds of 2001; 3.25% to 5.00% Issued 10/16/01; Final Maturity 02/01/17.	\$ 1,085,000	\$ 675,000	\$ 70,000	\$ 30,350
Water Revenue Bonds of 2002 - WFC; 5.07%, Issued 09/01/02; Final Maturity 09/26/12.	125,560	44,459	14,084	2,078
G.O. Refunding Utility Revenue Bonds of 2003B; 5.40% to 6.00%, Issued 11/19/03; Final Maturity 02/01/12.	705,000	285,000	90,000	8,655
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	760,000	35,000	35,603
Total Revenue Bonds	2,705,560	1,764,459	209,084	76,686
Less: Unamortized Discount	-	(19,477)	-	-
Total Revenue Bonds - Net	2,705,560	1,744,982	209,084	76,686
<u>General Obligation Bonds</u>				
G.O. Bonds Improvement Bonds of 2003; 1.75% to 3.75%, Issued 08/01/03; Final Maturity 02/01/14.	460,000	250,000	45,000	8,146
G.O. Improvement Bonds of 2005A; 3.50% to 4.55%, Issued 11/09/05; Final Maturity 02/01/26.	970,000	875,000	40,000	36,716
G.O. Bonds of 2006A; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	245,000	220,000	15,000	8,466
G.O. Revenue Note of 2006; 1.56%, Issued 07/31/06; Final Maturity 08/20/25.	4,137,640	3,747,000	208,000	58,453
Total General Obligation Bonds	5,812,640	5,092,000	308,000	111,781
Less: Unamortized Discount	-	(13,681)	-	-
Total General Obligation Bonds - Net	5,812,640	5,078,319	308,000	111,781
Total Long-Term Debt - Business-Type Activities	8,518,200	6,823,301	517,084	188,467
Total Government-Wide Long-Term Liabilities	\$ 12,129,241	\$ 9,495,485	\$ 793,190	\$ 301,236
DISCRETELY PRESENTED COMPONENT UNIT				
<u>Revenue Bonds</u>				
Lease Revenue Bonds of 2009; 2.25%, Issued 09/15/09; Final Maturity 09/15/2022.	\$ 31,500	\$ 31,500	\$ 1,991	\$ 709

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Debt

	December 31, 2008	Additions	Retirements	December 31, 2009	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt, Including					
Refunding Bonds	\$ 2,934,471	\$ -	\$ 257,426	\$ 2,677,045	\$ 270,578
Less: Unamortized Discounts	(17,005)	-	(1,398)	(15,607)	-
Capital Lease Obligations	15,671	-	4,925	10,746	5,528
Compensated Absences Payable	92,560	67,311	67,651	92,220	69,165
Other Postemployment Benefits Payable	-	19,508	-	19,508	-
Total Governmental Activities	\$ 3,025,697	\$ 86,819	\$ 328,604	\$ 2,783,912	\$ 345,271
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 1,967,855	\$ -	\$ 203,396	\$ 1,764,459	\$ 209,084
Revenue Notes	3,952,000	-	205,000	3,747,000	208,000
General Obligation Bonds	1,440,000	-	95,000	1,345,000	100,000
Less: Unamortized Discounts	(37,067)	-	3,909	(33,158)	-
Compensated Absences Payable	9,456	32,336	17,821	23,971	17,979
Other Postemployment Benefits Payable	-	5,738	-	5,738	-
Total Business-Type Activities	\$ 7,332,244	\$ 38,074	\$ 525,126	\$ 6,853,010	\$ 535,063
DISCRETELY PRESENTED COMPONENT UNIT					
Revenue Bonds **	\$ -	\$ 16,518	\$ -	\$ 16,518	\$ 1,991
Other Postemployment Benefits Payable	-	955	-	955	-
Total Discretely Presented Component Unit	\$ -	\$ 17,473	\$ -	\$ 17,473	\$ 1,991

** 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 \$16,518 leaving an additional \$14,982 to be drawn during 2010.

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
2010	\$ 270,578	\$ 111,421	\$ 381,999	\$ 1,991	\$ 709	\$ 2,700
2011	253,941	100,903	354,843	2,036	664	2,700
2012	202,526	91,015	293,541	2,082	618	2,700
2013	205,000	81,374	286,374	2,129	571	2,700
2014	215,000	73,063	288,063	2,177	523	2,700
2015 - 2019	860,000	249,639	1,109,639	11,641	1,859	13,500
2020 - 2024	670,000	60,287	730,287	9,444	469	9,913
Total	\$ 2,677,045	\$ 767,702	\$ 3,444,746	\$ 31,500	\$ 5,413	\$ 36,913

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments (Continued)

Year	Business-Type Activities					
	Revenue Bonds			G.O. Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 209,084	\$ 76,686	\$ 285,770	\$ 100,000	\$ 53,328	\$ 153,328
2011	219,807	68,072	287,879	105,000	49,652	154,652
2012	230,568	58,732	289,300	105,000	45,780	150,780
2013	120,000	51,078	171,078	105,000	41,817	146,817
2014	125,000	45,398	170,398	115,000	37,571	152,571
2015 - 2019	510,000	249,824	759,824	325,000	144,543	469,543
2020 - 2024	285,000	65,219	350,219	355,000	68,654	423,654
2025 - 2026	65,000	3,250	68,250	135,000	6,244	141,244
Total	<u>\$ 1,764,459</u>	<u>\$ 618,259</u>	<u>\$ 2,382,718</u>	<u>\$ 1,345,000</u>	<u>\$ 447,589</u>	<u>\$ 1,792,589</u>

Year	G.O. Revenue Note			Total Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 208,000	\$ 58,453	\$ 266,453	\$ 517,084	\$ 188,467	\$ 705,551
2011	211,000	55,208	266,208	535,807	172,932	708,739
2012	215,000	51,917	266,917	550,568	156,429	706,997
2013	218,000	48,563	266,563	443,000	141,458	584,458
2014	221,000	45,162	266,162	461,000	128,131	589,131
2015 - 2019	1,159,000	172,957	1,331,957	1,994,000	567,324	2,561,324
2020 - 2024	1,253,000	79,654	1,332,654	1,893,000	213,527	2,106,527
2025 - 2026	262,000	4,087	266,087	462,000	13,581	475,581
Total	<u>\$ 3,747,000</u>	<u>\$ 516,001</u>	<u>\$ 4,263,001</u>	<u>\$ 6,856,459</u>	<u>\$ 1,581,849</u>	<u>\$ 8,438,308</u>

5. Notes Payable – Component Unit

The balance of \$7,217 represents a loan agreement to pay tax increment subsidies to various projects when increments become available. There is no set repayment schedule and payments are limited to increments received; therefore, no related liability is recognized in the financial statements.

6. Capital Lease

During 2008, the City entered into a 48 month lease with Ford Motor Company for the purchase of a police vehicle. Annual installments including interest are \$5,857. At December 31, 2009, the City has total assets under capital lease of \$21,178 with related accumulated depreciation of \$4,412. The future minimum lease payments are as follows:

Year	Minimum Payments
2010	\$ 5,857
2011	5,857
Total Minimum Lease Payments	11,714
Less: Amounts Representing Interest	(968)
Present Value of Minimum Lease Payments	<u>\$ 10,746</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

7. Risk Management

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment is estimated to be immaterial based on worker's compensation rates and salaries for the year ended December 31, 2009.

D. Net Assets and Fund Balance

Reserves and Designated Fund Balance

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

The following reserves and designations existed at December 31, 2009:

RESERVED FUND BALANCE

General Fund	
Reserved for Notes Receivable	\$ 7,217
Debt Service Fund	
Reserved for Debt Service	842,477

UNRESERVED DESIGNATED FUND BALANCES

Community Projects Fund	
Designated for Future Expenditures	\$ 990,992
Nonmajor Special Revenue Funds	
Designated for Fund Purposes	129,707

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

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

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

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 4 PENSION PLAN (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree and no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.40% of their annual covered salary in 2009. The City of Barnesville is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members and 14.10% for PEPFF members. The City's contributions to the PERF for the years ending December 31, 2009, 2008, and 2007 were as follows:

Year	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2009	\$ 51,594	\$ 35,320
2008	51,761	31,044
2007	44,802	27,258

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, 2009**

NOTE 4 PENSION PLAN (CONTINUED)

B. Barnesville Fire Department Relief Association

Plan Description

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

Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to PERS for the year ended December 31, 2009, were as follows:

Annual Required Contribution	\$ -
Interest on Net Pension Obligation	-
Adjustment to Annual Required Contribution	<u>20,512</u>
Annual Pension Cost	20,512
Less Contribution Made	<u>(20,512)</u>
Increase (Decrease) in Net Pension Obligation	-
Net Pension Obligation - Beginning of Year	<u>-</u>
Net Pension Obligation - End of Year	<u><u>\$ -</u></u>

The adjustment to annual required contribution above consists of \$13,287 of State Fire Aid and \$7,225 of voluntary contributions made by the City.

The annual required contribution for the current year was determined as part of December 31, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. The assumptions did not include post retirement benefit increases, which are funded by state statute when granted. Net assets available for benefits exceeded the pension benefit obligation at December 31, 2009, 2008, and 2007.

Three-Year Trend Information

Disclosure	2009	2008	2007
Annual Pension Cost (APC)	\$ 20,512	\$ 22,271	\$ 26,713
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, 2009**

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 2009, 2008 and 2007.

Funding Progress

As of December 31, 2008 (the most recent available information), the plan was underfunded by \$32,664. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2009, 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

In 2009, the City implemented the requirements of a new accounting statement GASB No. 45, *Accounting and Financial Reporting by Employers for 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, 2009**

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 30 years. The following table shows the components of the City's annual OPEB cost of 2009, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	City	EDA
Annual Required Contribution (ARC)	\$ 25,245	\$ 955
Interest on Net OPEB Obligation	-	-
Adjustment to ARC	-	-
Annual OPEB Cost	25,245	955
Contributions During the Year	-	-
Increase in Net OPEB Obligation	25,245	955
Net OPEB - Beginning of the Year	-	-
Net OPEB - End of the Year	\$ 25,245	\$ 955

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

Year Ended	Entity	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	City	\$ 25,245	\$ -	0.0%	\$ 25,245
December 31, 2009	EDA	955	-	0.0%	955

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)
1/1/2009	City	\$ -	\$ 139,980	\$ 139,980	0.0%	\$ 856,740	16.3%
1/1/2009	EDA	-	5,297	5,297	0.0%	32,420	16.3%

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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, 2009 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 9.00% 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.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF BARNESVILLE, MINNESOTA
 BARNESVILLE FIREMAN'S RELIEF ASSOCIATION
 SCHEDULE OF FUNDING PROGRESS
 DECEMBER 31, 2009**

Fiscal Year End	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Benefit Per Year of Services
12/31/2008	\$ 132,653	\$ 165,317	\$ 32,664	80.2 %	\$ 600
12/31/2007	295,266	334,842	39,576	88.2	1,000
12/31/2006	303,603	325,376	21,773	93.3	900

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

The December 31, 2009 report is not yet available.

**CITY OF BARNESVILLE, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2009**

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)
1/1/2009	City	\$ -	\$ 139,980	\$ 139,980	0.0%	\$ 856,740	16.3%
1/1/2009	EDA	-	5,297	5,297	0.0%	32,420	16.3%

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 366,581	\$ 366,581	\$ 358,252	\$ (8,329)
Special assessments	7,650	7,650	5,429	(2,221)
Licenses and Permits	19,250	19,250	24,316	5,066
Intergovernmental	746,847	746,847	753,419	6,572
Charges for Services	2,324	2,324	1,621	(703)
Fines and Forfeits	8,350	8,350	7,368	(982)
Interest on Investments	-	-	4,378	4,378
Miscellaneous	35,663	35,663	35,492	(171)
Total Revenues	1,186,665	1,186,665	1,190,275	3,610
EXPENDITURES				
CURRENT				
General Government	632,921	632,921	583,864	(49,057)
Public Safety	457,481	457,481	452,679	(4,802)
Public Works	297,007	297,007	225,150	(71,857)
Airport	1,651	1,651	1,696	45
Economic Development	149,836	149,836	149,836	-
Capital Outlay				
General Government	55,143	55,143	88,382	33,239
Public Safety	5,000	5,000	4,619	(381)
Public Works	19,305	19,305	11,186	(8,119)
Debt service				
Principal	15,017	15,017	4,925	(10,092)
Interest and Other Charges	932	932	2,023	1,091
Total Expenditures	1,634,293	1,634,293	1,524,360	(109,933)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(447,628)	(447,628)	(334,085)	113,543
OTHER FINANCING SOURCES (USES)				
Transfers In	930,726	930,726	1,034,969	104,243
Transfers Out	(457,593)	(457,593)	(440,060)	17,533
Total Other Financing Sources (Uses)	473,133	473,133	594,909	121,776
NET CHANGE IN FUND BALANCE	<u>\$ 25,505</u>	<u>\$ 25,505</u>	260,824	<u>\$ 235,319</u>
Fund Balance - Beginning of Year			20,833	
FUND BALANCE - END OF YEAR			<u>\$ 281,657</u>	

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

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
COMMUNITY PROJECTS SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Interest on Investments	\$ 22,343	\$ 22,343	\$ 37,283	\$ 14,940
EXPENDITURES				
CURRENT				
Economic Development	25,100	25,100	24,100	(1,000)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,757)	(2,757)	13,183	15,940
OTHER FINANCING SOURCES (USES)				
Transfers Out	(76,243)	(76,243)	(201,133)	(124,890)
NET CHANGE IN FUND BALANCE	<u>\$ (79,000)</u>	<u>\$ (79,000)</u>	(187,950)	<u>\$ (108,950)</u>
Fund Balance - Beginning of Year			1,217,551	
FUND BALANCE - END OF YEAR			<u>\$ 1,029,601</u>	

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

**CITY OF BARNESVILLE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 SMALL CITIES GRANT SPECIAL REVENUE FUND
 YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 372,645	\$ 172,645
Gifts and Contributions	100,000	100,000	78,014	(21,986)
Miscellaneous	-	-	3,526	3,526
Total Revenues	<u>300,000</u>	<u>300,000</u>	<u>454,185</u>	<u>154,185</u>
EXPENDITURES				
CURRENT				
General Government	<u>300,000</u>	<u>300,000</u>	<u>456,398</u>	<u>156,398</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(2,213)</u>	<u>\$ (2,213)</u>
Fund Balance - Beginning of Year			<u>6,137</u>	
FUND BALANCE - END OF YEAR			<u>\$ 3,924</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, 2009**

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 principals (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

II. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded budgeted amounts in the following fund:

	Expenditures	Budget	Excess
Smalls Cities Grant Fund	\$ 456,398	\$ 300,000	\$ 156,398

These over expenditures were offset by greater than expected revenues and were approved by the City Council.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2009**

	Library	Parks and Recreation	DARE
ASSETS			
Cash and Investments	\$ 6,233	\$ 91,738	\$ 8,750
Accounts Receivable	-	3,760	-
Tax Increment Receivables	-	-	-
Total Assets	\$ 6,233	\$ 95,498	\$ 8,750
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 201	\$ 1,784	\$ 240
Salaries and Benefits Payable	-	4,352	-
Deferred Revenue	-	-	-
Total Liabilities	201	6,136	240
FUND BALANCES (DEFICIT)			
Unreserved, Designated	6,032	89,362	8,510
Total Liabilities and Fund Balances	\$ 6,233	\$ 95,498	\$ 8,750

<u>TIF Districts</u>	<u>Youth Alive Early Prevention</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>
\$ 5,673	\$ 26,694	\$ 347	\$ 139,435
-	-	-	3,760
4,416	-	-	4,416
<u>\$ 10,089</u>	<u>\$ 26,694</u>	<u>\$ 347</u>	<u>\$ 147,611</u>
\$ 3,116	\$ 3,448	\$ 371	\$ 9,160
-	-	-	4,352
4,416	-	-	4,416
7,532	3,448	371	17,928
2,557	23,246	(24)	129,683
<u>\$ 10,089</u>	<u>\$ 26,694</u>	<u>\$ 347</u>	<u>\$ 147,611</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2009**

	Library	Parks and Recreation	DARE
REVENUES			
Tax Increments	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Charges for Services	-	42,778	-
Gifts and Contributions	-	170	2,030
Interest on Investments	5	49	7
Miscellaneous	-	536	-
Total Revenues	5	43,533	2,037
EXPENDITURES			
CURRENT			
Public Safety	-	-	2,297
Parks and Recreation	2,323	261,241	-
Economic Development	-	-	-
Capital Outlay			
Public Works	-	-	-
Parks and Recreation	-	37,262	-
Total Expenditures	2,323	298,503	2,297
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(2,318)	(254,970)	(260)
OTHER FINANCING SOURCES (USES)			
Transfers In	1,962	265,598	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	1,962	265,598	-
NET CHANGE IN FUND BALANCES			
	(356)	10,628	(260)
Fund Balance (Deficit) - Beginning of Year	6,388	78,734	8,770
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 6,032	\$ 89,362	\$ 8,510

TIF Districts	Youth Alive Early Prevention	Capital Projects Fund	Total Nonmajor Funds
\$ 104,723	\$ -	\$ -	\$ 104,723
12,846	29,000	-	41,846
-	-	-	42,778
-	-	-	2,200
-	14	-	75
-	-	-	536
117,569	29,014	-	192,158
-	19,052	-	21,349
-	-	-	263,564
196,758	-	-	196,758
-	-	11,866	11,866
-	-	-	37,262
196,758	19,052	11,866	530,799
(79,189)	9,962	(11,866)	(338,641)
-	7,500	113,621	388,681
(6,102)	-	-	(6,102)
(6,102)	7,500	113,621	382,579
(85,291)	17,462	101,755	43,938
87,848	5,784	(101,779)	85,745
\$ 2,557	\$ 23,246	\$ (24)	\$ 129,683

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2009**

ASSETS	<u>Sanitation</u>	<u>Storm Sewer</u>	<u>Golf Course</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 68,461	\$ 140,293	\$ -
Accounts Receivable - Net	31,501	5,334	206
Inventories	-	-	1,200
Total Current Assets	<u>99,962</u>	<u>145,627</u>	<u>1,406</u>
NONCURRENT ASSETS			
Capital Assets			
Land	-	13,077	-
Buildings (Net)	114,646	-	232,972
Infrastructure (Net)	-	605,273	-
Improvements (Net)	-	-	54,405
Machinery and Equipment (Net)	-	17,415	25,167
Vehicles (Net)	-	-	-
Net Capital Assets	<u>114,646</u>	<u>635,765</u>	<u>312,544</u>
Total Assets	<u>214,608</u>	<u>781,392</u>	<u>313,950</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	11,304	-	979
Salaries and Benefits Payable	783	-	69
Due to Other Governments	1,383	-	-
Due to Other Funds	-	-	22,231
Compensated Absences - Due Within One Year	730	-	-
Total Current Liabilities	<u>14,200</u>	<u>-</u>	<u>23,279</u>
NONCURRENT LIABILITIES			
Compensated Absences - Due in More than One Year	244	-	-
Other Postemployment Benefits Payable - Due in More than One Year	47	-	-
Total Noncurrent Liabilities	<u>291</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>14,491</u>	<u>-</u>	<u>23,279</u>
NET ASSETS (DEFICIT)			
Invested in Capital Assets	114,646	635,765	312,544
Unrestricted	85,471	145,627	(21,873)
Total Net Assets	<u>\$ 200,117</u>	<u>\$ 781,392</u>	<u>\$ 290,671</u>

<u>Ambulance</u>	<u>Broadband Internet</u>	<u>Total Nonmajor Proprietary Funds</u>
\$ 108,447	\$ 304,772	\$ 621,973
29,277	41,965	108,283
-	-	1,200
<u>137,724</u>	<u>346,737</u>	<u>731,456</u>
-	-	13,077
2,861	-	350,479
-	-	605,273
-	-	54,405
42,611	27,224	112,417
71,744	-	71,744
<u>117,216</u>	<u>27,224</u>	<u>1,207,395</u>
254,940	373,961	1,938,851
7,261	833	20,377
4,268	347	5,467
-	-	1,383
-	-	22,231
313	1,008	2,051
<u>11,842</u>	<u>2,188</u>	<u>51,509</u>
104	336	684
127	376	550
<u>231</u>	<u>712</u>	<u>1,234</u>
<u>12,073</u>	<u>2,900</u>	<u>52,743</u>
117,216	27,224	1,207,395
125,651	343,837	678,713
<u>\$ 242,867</u>	<u>\$ 371,061</u>	<u>\$ 1,886,108</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2009**

	Sanitation	Storm Sewer	Golf Course
OPERATING REVENUES			
Charges for Services	\$ 172,857	\$ 27,555	\$ 121,006
OPERATING EXPENDITURES			
Professional Services	120,939	946	22,396
Wages, Salaries, and Compensation	22,873	-	51,656
Repairs and Maintenance	912	-	17,680
Insurance	2,593	-	9,434
Utilities	-	-	3,709
Depreciation	2,632	21,903	16,392
Materials and Supplies	708	-	14,547
Miscellaneous Expenses	26,573	-	11,121
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	<u>177,230</u>	<u>22,849</u>	<u>146,935</u>
OPERATING INCOME (LOSS)	(4,373)	4,706	(25,929)
NONOPERATING REVENUES (EXPENSES)			
Investment Income	60	104	-
Intergovernmental Grants	23,839	-	150
Miscellaneous - Nonoperating	500	-	4,856
Gain on Sale of Capital Assets	-	-	2,688
Total Nonoperating Revenues (Expenses)	<u>24,399</u>	<u>104</u>	<u>7,694</u>
Income (Loss) before Transfers	20,026	4,810	(18,235)
Transfers In	-	-	8,000
Transfers Out	<u>(8,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	12,026	4,810	(10,235)
Net Assets - Beginning of Year	<u>188,091</u>	<u>776,582</u>	<u>300,906</u>
NET ASSETS - END OF YEAR	<u>\$ 200,117</u>	<u>\$ 781,392</u>	<u>\$ 290,671</u>

<u>Ambulance</u>	<u>Broadband Internet</u>	<u>Total Nonmajor Proprietary Funds</u>
\$ 263,214	\$ 199,097	\$ 783,729
14,939	135	159,355
124,135	14,404	213,068
13,185	-	31,777
7,331	-	19,358
-	-	3,709
17,944	17,253	76,124
26,239	12,581	54,075
35,596	20,262	93,552
108,777	-	108,777
<u>348,146</u>	<u>64,635</u>	<u>759,795</u>
(84,932)	134,462	23,934
59	109	332
18,694	-	42,683
57,212	-	62,568
-	-	2,688
<u>75,965</u>	<u>109</u>	<u>108,271</u>
(8,967)	134,571	132,205
60,000	-	68,000
-	(107,723)	(115,723)
51,033	26,848	84,482
191,834	344,213	1,801,626
<u>\$ 242,867</u>	<u>\$ 371,061</u>	<u>\$ 1,886,108</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2009**

	Sanitation	Storm Sewer	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 174,298	\$ 28,468	\$ 121,079
Payments to Suppliers	(160,133)	(1,018)	(81,480)
Payments to Employees	(22,182)	-	(51,928)
Net Cash Provided (Used) by Operating Activities	(8,017)	27,450	(12,329)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers In	-	-	8,000
Transfers Out	(8,000)	-	-
Interfund Borrowings	-	-	(3,365)
Grant Receipts	23,839	-	150
Net Cash Provided (Used) by Noncapital and Related Financing Activities	15,839	-	4,785
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Disposal of Capital Assets	-	-	2,688
Other Miscellaneous Receipts	500	-	4,856
Net Cash Provided (Used) by Capital and Related Financing Activities	500	-	7,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	60	104	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,382	27,554	-
Cash and Cash Equivalents - Beginning of Year	60,079	112,739	-
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 68,461</u>	<u>\$ 140,293</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (4,373)	\$ 4,706	\$ (25,929)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	2,632	21,903	16,392
(Increase) Decrease in Assets			
Accounts Receivable	1,441	913	73
Increase (Decrease) in Liabilities			
Accounts Payable	(8,451)	(72)	(2,593)
Salaries and Benefits Payable	644	-	(272)
Other Postemployment Benefits Payable	47	-	-
Due to Other Governments	43	-	-
Total Adjustments	(3,644)	22,744	13,600
Net Cash Provided (Used) by Operating Activities	<u>\$ (8,017)</u>	<u>\$ 27,450</u>	<u>\$ (12,329)</u>

Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
\$ 267,763	\$ 196,240	\$ 787,848
(208,039)	(41,968)	(492,638)
(122,249)	(13,689)	(210,048)
<u>(62,525)</u>	<u>140,583</u>	<u>85,162</u>
60,000	-	68,000
-	(107,723)	(115,723)
-	-	(3,365)
<u>18,694</u>	<u>-</u>	<u>42,683</u>
78,694	(107,723)	(8,405)
-	-	2,688
<u>57,212</u>	<u>-</u>	<u>62,568</u>
57,212	-	65,256
59	109	332
<u>73,440</u>	<u>32,969</u>	<u>142,345</u>
<u>35,007</u>	<u>271,803</u>	<u>479,628</u>
<u>\$ 108,447</u>	<u>\$ 304,772</u>	<u>\$ 621,973</u>
\$ (84,932)	\$ 134,462	\$ 23,934
17,944	17,253	76,124
4,549	(2,857)	4,119
(1,972)	(8,990)	(22,078)
1,759	339	2,470
127	376	550
-	-	43
<u>22,407</u>	<u>6,121</u>	<u>61,228</u>
<u>\$ (62,525)</u>	<u>\$ 140,583</u>	<u>\$ 85,162</u>

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OTHER COMBINING SCHEDULES

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND – BY BOND ISSUE
 DECEMBER 31, 2009**

	Stoneridge Addition	Series 2004A Refunding Bonds	G.O. Taxable Bonds
ASSETS			
Cash and Pooled Investments	\$ 424,171	\$ 213,098	\$ 99,729
Taxes Receivable			
Delinquent	1,361	-	-
Special Assessments Receivable			
Delinquent	37,668	1,681	-
Deferred	482,604	278,402	202,600
Total Assets	\$ 945,804	\$ 493,181	\$ 302,329
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred Revenue	\$ 521,633	\$ 280,083	\$ 202,600
FUND BALANCES (DEFICIT)			
Reserved for Debt Service	424,171	213,098	99,729
Total Liabilities and Fund Balances	\$ 945,804	\$ 493,181	\$ 302,329

<u>G.O. 2003 Street Bonds</u>	<u>G.O. 2005 Bond Refinance</u>	<u>G.O. 2006 Bonds</u>	<u>Total Debt Service Fund</u>
\$ 105,257	\$ (12,561)	\$ 12,783	\$ 842,477
-	-	-	1,361
-	11,650	-	50,999
-	328,527	1,132,075	2,424,208
<u>\$ 105,257</u>	<u>\$ 327,616</u>	<u>\$ 1,144,858</u>	<u>\$ 3,319,045</u>

\$ -	\$ 340,177	\$ 1,132,075	\$ 2,476,568
<u>105,257</u>	<u>(12,561)</u>	<u>12,783</u>	<u>842,477</u>
<u>\$ 105,257</u>	<u>\$ 327,616</u>	<u>\$ 1,144,858</u>	<u>\$ 3,319,045</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, 2009**

	<u>Stoneridge Addition</u>	<u>Series 2004A Refunding Bonds</u>	<u>G.O. Taxable Bonds</u>
REVENUES			
Taxes	\$ 41	\$ -	\$ -
Special assessments	44,875	80,136	45,192
Investment Earnings	<u>3,967</u>	<u>656</u>	<u>1,218</u>
Total Revenues	48,883	80,792	46,410
EXPENDITURES			
Current			
Economic Development	-	-	-
Debt Service			
Principal	65,000	80,000	47,426
Interest	<u>59,593</u>	<u>5,690</u>	<u>12,938</u>
Total Expenditures	<u>124,593</u>	<u>85,690</u>	<u>60,364</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(75,710)	(4,898)	(13,954)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
NET CHANGE IN FUND BALANCE	(75,710)	(4,898)	(13,954)
Fund Balance (Deficit) - Beginning of Year	<u>499,881</u>	<u>217,996</u>	<u>113,683</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 424,171</u>	<u>\$ 213,098</u>	<u>\$ 99,729</u>

G.O. 2003 Street Bonds	G.O. 2005 Bond Refinance	G.O. 2006 Bonds	Total Debt Service Fund
\$ 158	\$ 145	\$ 22	\$ 366
-	43,649	13,471	227,323
913	201	4	6,959
<u>1,071</u>	<u>43,995</u>	<u>13,497</u>	<u>234,648</u>
-	49,126	-	49,126
20,000	45,000	-	257,426
4,032	14,126	25,685	122,064
<u>24,032</u>	<u>108,252</u>	<u>25,685</u>	<u>428,616</u>
(22,961)	(64,257)	(12,188)	(193,968)
40,000	50,000	7,000	97,000
17,039	(14,257)	(5,188)	(96,968)
88,218	1,696	17,971	939,445
<u>\$ 105,257</u>	<u>\$ (12,561)</u>	<u>\$ 12,783</u>	<u>\$ 842,477</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND – BY PROJECT
 DECEMBER 31, 2009**

	C.S.A.H. 52 Projects	McGrath & City Center Projects	Total Capital Projects Fund
ASSETS			
Cash and Pooled Investments	\$ 7,847	\$ (7,500)	\$ 347
LIABILITIES AND FUND DEFICITS			
LIABILITIES			
Accounts Payable	\$ 371	\$ -	\$ 371
FUND BALANCES (DEFICITS)			
Unreserved, Designated	7,476	(7,500)	(24)
Total Liabilities and Fund Balances (Deficits)	\$ 7,847	\$ (7,500)	\$ 347

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUND – BY PROJECT
 YEAR ENDED DECEMBER 31, 2009**

	<u>Del Acres/ Gilbertson</u>	<u>C.S.A.H. 52 Projects</u>	<u>McGrath & City Center Projects</u>	<u>Total Capital Projects Fund</u>
EXPENDITURES				
CURRENT				
CAPITAL OUTLAY				
Public Works	\$ -	\$ 11,866	\$ -	\$ 11,866
OTHER FINANCING SOURCES (USES)				
Transfers In	88,621	25,000	-	113,621
NET CHANGE IN FUND BALANCE	88,621	13,134	-	101,755
Fund Balance (Deficit) - Beginning of Year	(88,621)	(5,658)	(7,500)	(101,779)
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ 7,476</u>	<u>\$ (7,500)</u>	<u>\$ (24)</u>

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REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Barnesville (the City), Minnesota as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 10, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2009-01, 2009-02, and 2009-03 in the accompanying schedule of findings and recommendations 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 the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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



LarsonAllen LLP

Brainerd, Minnesota
June 10, 2010

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**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2009**

MATERIAL WEAKNESSES

2009-01 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 the possible further segregation of duties within the City office until it becomes cost prohibitive.

2009-02 YEAR-END CLOSING PROCEDURES

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

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009**

MATERIAL WEAKNESSES (CONTINUED)

2009-02 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 try and obtain additional training and knowledge required to ensure all adjusting and closing entries are made prior to the audit.

2009-03 FINANCIAL STATEMENT PREPARATION

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

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

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

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

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

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 RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009

MATERIAL WEAKNESSES (CONTINUED)

PREVIOUSLY REPORTED ITEM RESOLVED

CONTROLS OVER YEAR-END LIQUOR INVENTORY PROCESS (2008-04)

The City did not take a full year-end liquor inventory at December 31, 2008 and our price testing indicated five items that had price variances greater than \$1.00 between City inventory system and the last invoice received by the City.

RESOLUTION

The City developed a process to perform cycle counts on a monthly basis and also took a full year-end inventory count. Also during our 2009 testing, we noted no additional significant pricing variances.

OTHER ITEMS FOR CONSIDERATION (LEGAL COMPLIANCE):

2009-04 **INVESTMENT COMPLIANCE**

Criteria: *Minnesota Statutes* §118A.04, subd.9 requires the City to obtain a Broker Acknowledgement Certification from each broker prior to completing an initial investment transaction.

Condition: We were not presented with documentation of the Broker Acknowledgement Certification.

Cause: Unknown.

Effect: Not in compliance with *Minnesota Statutes*.

Recommendation: We recommend the City obtain a Broker Acknowledgement Certification from each broker utilized prior to completing an investment transaction.

Management Response: City management will ensure a Broker Acknowledgment Certification is completed each year before any transactions occur with the City's investment brokers. City management resolved this finding as soon as it was brought to their attention.

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009**

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

PREVIOUSLY REPORTED ITEMS RESOLVED

CONTRACT COMPLIANCE (2008-05)

The City was not able to present us with the Form IC-134 for the City's 2006/2007 Sewer Pond project for which the City submitted final payment to the contractor.

RESOLUTION

The City now obtains the Form IC-134 before final payment is issued for construction projects.

OUT OF STATE TRAVEL POLICY FOR ELECTED OFFICIALS (2008-06)

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

RESOLUTION:

The City developed and implemented an out-of-state travel policy for its elected officials, which was formally adopted in March 2010.

REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville, Minnesota, as of and for the year ended December 31, 2009, and have issued our report thereon dated June 10, 2010.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Audit Guide for Local Government*, promulgated by the State Auditor pursuant to *Minnesota Statutes* §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except for the items noted in the above Schedule of Findings and Recommendations as items 2009-04.

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



LarsonAllen LLP

Brainerd, Minnesota
June 10, 2010

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