

CITY OF BARNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2010

**CITY OF BARNESVILLE, MINNESOTA
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DECEMBER 31, 2010**

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INTRODUCTORY SECTION

**CITY OF BARNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2010**

ELECTED	NAME	TERM EXPIRES
Mayor	Fred Dahnke	12/31/2011
City Council	Del Ellefson	12/31/2011
City Council	Merlin Strom	12/31/2011
City Council	Jeremy Krause	12/31/2011
City Council	Larry Davis, Jr.	12/31/2013
City Council	Jason Rick	12/31/2013
City Council	Darin Allmaras	12/31/2013

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville (the City), Minnesota, as of and for the year ended December 31, 2010, 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, 2010, 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 Note 6 to the basic financial statements, an error resulting in an understatement of payables and overstatement of fund balance as of December 31, 2009 was discovered by management.

Honorable Mayor and
Members of the City Council
City of Barnesville

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2011, 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.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
April 25, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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, 2010. 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 (2010) and the prior year (2009) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 include the following:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$14,430,367 (net assets). Of this amount, \$6,546,267 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net assets increased \$644,297 or 4.7 percent over the prior year.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$1,969,762, a decrease of \$317,580 in comparison to the prior year. Approximately 27% of this amount, or \$530,179, is reserved for debt service.
- At the end of the current year, unreserved fund balance for the General Fund was \$242,425, or 16% of General Fund expenditures.
- The City's total long-term debt decreased by \$1,100,682 during the current fiscal year. The decrease is attributed to bond payments and the refunding of two bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

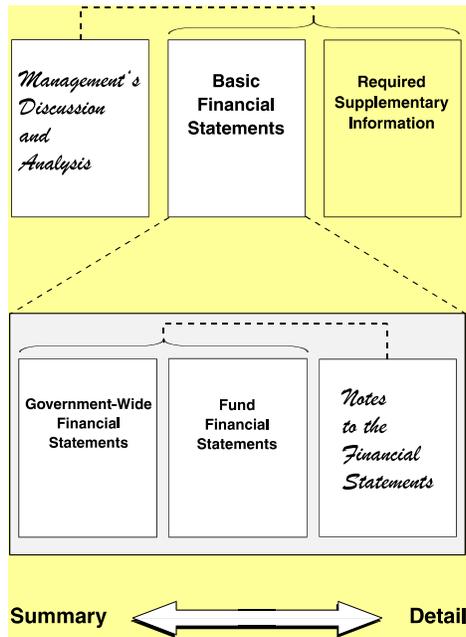
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

**Figure A-1
Annual Report Format**



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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, 2010**

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, 2010**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's net assets were \$14,430,367 on December 31, 2010 (see Table A-1).

Table A-1
The City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 4,451,460	\$ 4,946,098	\$ 5,708,693	\$ 5,478,388	\$ 10,160,153	\$ 10,424,486
Capital Assets	2,798,913	2,867,632	10,689,517	10,720,769	13,488,430	13,588,401
Total Assets	7,250,373	7,813,730	16,398,210	16,199,157	23,648,583	24,012,887
Current Liabilities	350,362	478,793	1,148,711	991,436	1,499,073	1,470,229
Long-Term Liabilities	1,933,054	2,438,641	5,786,089	6,317,947	7,719,143	8,756,588
Total Liabilities	2,283,416	2,917,434	6,934,800	7,309,383	9,218,216	10,226,817
Net Assets						
Invested in Capital Assets						
Net of Related Debt	736,978	195,448	4,384,588	3,897,468	5,121,566	4,092,916
Restricted	2,803,232	3,271,648	-	-	2,803,232	3,271,648
Unrestricted	1,426,747	1,429,200	5,078,822	4,992,306	6,505,569	6,421,506
Total Net Assets	\$ 4,966,957	\$ 4,896,296	\$ 9,463,410	\$ 8,889,774	\$ 14,430,367	\$ 13,786,070

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City-wide total revenues were \$7,411,329 for the year ended December 31, 2010. Property taxes and intergovernmental revenues accounted for 16% of total revenue for the year, while user charges accounted for 75% of total revenue (see Table A-2).

Table A-2
Change in Net Assets

	Governmental Activities			Business-Type Activities			Total		
	2010	2009	Total % Change	2010	2009	Total % Change	2010	2009	Total % Change
REVENUES									
<u>Program Revenues</u>									
Charges for Services	\$ 79,038	\$ 76,458	3.4 %	\$ 5,490,450	\$ 5,444,866	0.8 %	\$ 5,569,488	\$ 5,521,324	0.9 %
Operating Grants and Contributions	74,043	585,460	(87.4)	39,371	45,466	(13.4)	113,414	630,926	(82.0)
Capital Grants and Contributions	88,583	150,680	(41.2)	-	-	-	88,583	150,680	(41.2)
<u>General Revenues</u>									
Property Taxes	395,362	363,543	8.8	-	-	-	395,362	363,543	8.8
Tax Increments	108,657	108,595	0.1	-	-	-	108,657	108,595	0.1
Unrestricted State Aid	657,305	692,129	(5.0)	-	-	-	657,305	692,129	(5.0)
Investment Earnings	30,533	51,130	(40.3)	7,447	8,922	(16.5)	37,980	60,052	(36.8)
Other	64,186	35,653	80.0	376,354	58,445	543.9	440,540	94,098	368.2
Total Revenues	1,497,707	2,063,648	(27.4)	5,913,622	5,557,699	6.4	7,411,329	7,621,347	(2.8)
EXPENSES									
General Government	515,520	998,651	(48.4)	-	-	-	515,520	998,651	(48.4)
Public Safety	525,068	527,301	(0.4)	-	-	-	525,068	527,301	(0.4)
Public Works	543,814	479,202	13.5	-	-	-	543,814	479,202	13.5
Culture and Recreation	277,591	291,615	(4.8)	-	-	-	277,591	291,615	(4.8)
Economic Development	290,059	425,421	(31.8)	-	-	-	290,059	425,421	(31.8)
Interest	113,487	120,722	(6.0)	-	-	-	113,487	120,722	(6.0)
Water	-	-	-	270,945	261,810	3.5	270,945	261,810	3.5
Sewer	-	-	-	313,442	294,884	6.3	313,442	294,884	6.3
Electric	-	-	-	1,690,225	1,818,355	(7.0)	1,690,225	1,818,355	(7.0)
Telephone	-	-	-	714,795	642,158	11.3	714,795	642,158	11.3
Municipal Liquor	-	-	-	391,503	390,587	0.2	391,503	390,587	0.2
Cable Television	-	-	-	364,848	364,687	0.0	364,848	364,687	0.0
Sanitation	-	-	-	172,893	177,230	(2.4)	172,893	177,230	(2.4)
Storm Sewer	-	-	-	24,777	22,849	8.4	24,777	22,849	8.4
Golf Course	-	-	-	153,517	146,935	4.5	153,517	146,935	4.5
Ambulance	-	-	-	323,743	348,146	(7.0)	323,743	348,146	(7.0)
Broadband Internet	-	-	-	80,805	64,635	25.0	80,805	64,635	25.0
Total Expenses	2,265,539	2,842,912	(20.3)	4,501,493	4,532,276	(0.7)	6,767,032	7,375,188	(8.2)
Transfers	838,493	873,355	(4.0)	(838,493)	(873,355)	4.0	-	-	-
CHANGE IN NET ASSETS									
Net Assets - Beginning 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
NET ASSETS - END OF YEAR	\$ 4,966,957	\$ 4,896,296	1.4	\$ 9,463,410	\$ 8,889,774	6.5	\$ 14,430,367	\$ 13,786,070	4.7

Total revenues surpassed expenses, increasing net assets \$644,297 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, 2010**

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 \$2,265,539.

- Some of the cost was paid by the users of the City's programs (\$79,038).
- Federal and state government payments (\$162,626) subsidized certain programs.
- Ad valorem property taxes (\$395,362) and unrestricted state grants (\$657,305) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also subsidize governmental operations (\$838,493).

Figure A-1 Sources of City's Governmental Revenues for Fiscal 2010

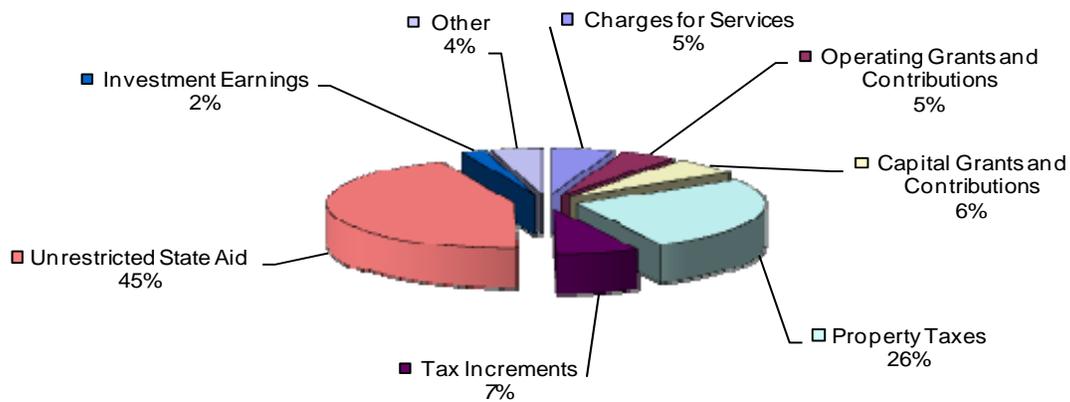
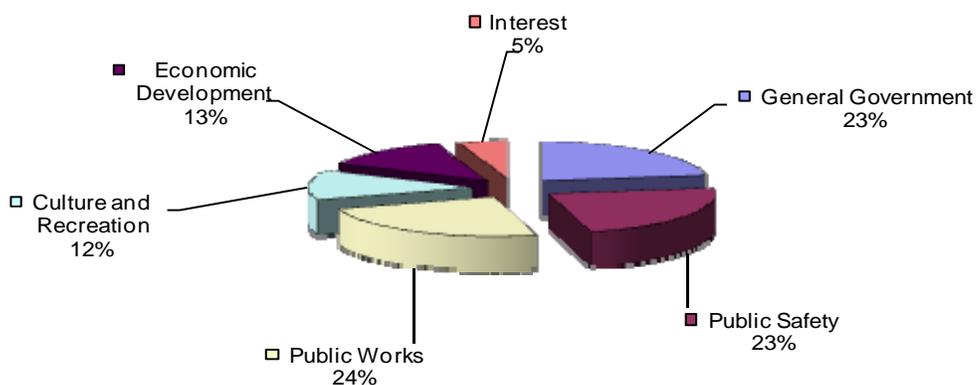


Figure A-2 City's Governmental Expenses for Fiscal 2010



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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
	2010	2009		2010	2009	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 515,520	\$ 998,651	(48.4)%	\$ (490,612)	\$ (491,659)	(0.2)%
Public Safety	525,068	527,301	(0.4)	(414,621)	(378,436)	9.6
Public Works	543,814	479,202	13.5	(480,219)	(365,409)	31.4
Culture and Recreation	277,591	291,615	(4.8)	(234,877)	(248,667)	(5.5)
Economic Development	290,059	425,421	(31.8)	(290,059)	(425,421)	(31.8)
Interest and Fiscal Charges on						
Interest	113,487	120,722	(6.0)	(113,487)	(120,722)	(6.0)
Total	<u>\$ 2,265,539</u>	<u>\$ 2,842,912</u>	(20.3)	<u>\$ (2,023,875)</u>	<u>\$ (2,030,314)</u>	(0.3)
BUSINESS-TYPE ACTIVITIES						
Water	\$ 270,945	\$ 261,810	3.5 %	\$ 134,460	\$ 157,770	(14.8)%
Sewer	313,442	294,884	6.3	287,874	312,414	(7.9)
Electric	1,690,225	1,818,355	(7.0)	245,549	56,260	336.5
Telephone	714,795	642,158	11.3	252,243	331,884	(24.0)
Municipal Liquor	391,503	390,587	0.2	22,784	5,700	299.7
Cable Television	364,848	364,687	-	34,476	27,411	25.8
Sanitation	172,893	177,230	(2.4)	32,963	19,466	69.3
Storm Sewer	24,777	22,849	8.4	4,505	4,706	(4.3)
Golf Course	153,517	146,935	4.5	(32,832)	(25,779)	27.4
Ambulance	323,743	348,146	(7.0)	(77,872)	(66,238)	17.6
Broadband Internet	80,805	64,635	25.0	124,178	134,462	(7.6)
Total	<u>\$ 4,501,493</u>	<u>\$ 4,532,276</u>	(0.7)	<u>\$ 1,028,328</u>	<u>\$ 958,056</u>	7.3

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 \$1,969,884.

Revenues for the City's governmental funds were \$1,641,843, while total expenditures were \$2,788,043.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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, 2010	December 31, 2009	Increase (Decrease)	Percent
Taxes	\$ 293,864	\$ 358,252	\$ (64,388)	(18.0)%
Special Assessments	11,445	5,429	6,016	110.8
Licenses and Permits	11,836	24,316	(12,480)	(51.3)
Intergovernmental	701,740	753,419	(51,679)	(6.9)
Charges for Services	10,950	1,621	9,329	575.5
Fines and Forfeits	13,518	7,368	6,150	83.5
Interest	2,798	4,378	(1,580)	(36.1)
Miscellaneous and Other	60,256	35,492	24,764	69.8
Total General Fund Revenue	<u>\$ 1,106,407</u>	<u>\$ 1,190,275</u>	<u>\$ (83,868)</u>	(7.0)

Total General Fund revenue decreased by \$83,868 or 7.0 percent, from the previous year. The primary reason for the decrease is decreased intergovernmental revenues and tax levy decreases.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change	
	December 31, 2010	December 31, 2009	Increase (Decrease)	Percent
General Government	\$ 550,534	\$ 583,864	\$ (33,330)	(5.7)%
Public Safety	455,731	452,679	3,052	0.7
Public Works	219,389	225,150	(5,761)	(2.6)
Airport	995	1,696	(701)	(41.3)
Economic Development	139,329	149,836	(10,507)	(7.0)
Capital Outlay	166,918	104,187	62,731	60.2
Debt Service	8,473	6,948	1,525	21.9
Total Expenditures	<u>\$ 1,541,369</u>	<u>\$ 1,524,360</u>	<u>\$ 17,009</u>	1.1

The General Fund's expenditures increased \$17,009 from 2009. This increase is due largely to increases in capital outlay.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

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 \$89,065 less than expected. This is primarily due to less than expected intergovernmental revenues
- The actual expenditures were \$94,373 less than budget. This is primarily due to the City cutting expenditures in City departments to help offset the reductions in market value credits during 2010.

Community Projects Fund

The fund balance of the Community Projects Fund decreased by \$3,900 to \$1,025,701; primarily resulting from miscellaneous expenditures as approved by the City Council.

Debt Service Fund

The Debt Service Fund expended approximately \$312,000 more than combined revenues plus transfers in; this is due primarily to the City refunding two bond issues during 2010 which required the City to contribute an additional \$320,000 in funding for refunding to take place.

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 \$141,000, \$292,000, \$25,000, and \$37,000, respectively, for the year ended December 31, 2010.

Electric

The Electric Fund showed an increase in sales of approximately \$61,000 (3%) up to \$1,936,000, resulting from a combination of increased rates and decreased consumption; however, purchased power costs decreased by approximately \$79,000. The net result was an increase in income (before transfers to other funds) of \$273,000 from \$83,000 last year to \$356,000 for the year ended December 31, 2010.

Telephone

The Telephone Fund showed consistent sales between 2010 and 2009. At the same time, expenses (primarily miscellaneous) increased by approximately \$61,000 and income of \$195,000 was reflected in the Telephone Fund's fiber optic Joint Venture, resulting in a net income (before transfers to other funds) of \$467,000 as compared to \$296,000 in the prior year.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

CONSTRUCTION PROJECTS AND DEBT SERVICE

The City did not have any significant construction projects during 2010.

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 2010, the City had invested approximately \$13,500,000 (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 \$524,201 (including the enterprise funds).

Table A-6
The City's Capital Assets

	Governmental Activities		Percent Change	Business-Type Activities		Percent Change	Total		Percent Change
	2010	2009		2010	2009		2010	2009	
Land	\$ 617,741	\$ 617,741	- %	\$ 113,908	\$ 113,908	- %	\$ 731,649	\$ 731,649	- %
Construction-in-Progress	51,474	23,479	119.2	-	-	-	51,474	23,479	119.2
Buildings	1,229,498	1,229,498	-	1,650,856	2,561,644	(35.6)	2,880,354	3,791,142	(24.0)
Infrastructure	3,227,190	3,227,190	-	10,759,582	9,848,794	9.2	13,986,772	13,075,984	7.0
Improvements	168,897	168,897	-	1,056,370	1,056,370	-	1,225,267	1,225,267	-
Machinery and Equipment	488,247	464,714	5.1	2,531,189	3,571,913	(29.1)	3,019,436	4,036,627	(25.2)
Vehicles	329,830	300,452	9.8	326,094	326,094	-	655,924	626,546	4.7
Less: Accumulated Depreciation	<u>(3,313,964)</u>	<u>(3,164,339)</u>	4.7	<u>(5,748,482)</u>	<u>(6,757,954)</u>	(14.9)	<u>(9,062,446)</u>	<u>(9,922,293)</u>	(8.7)
Total	<u>\$ 2,798,913</u>	<u>\$ 2,867,632</u>	(2.4)	<u>\$ 10,689,517</u>	<u>\$ 10,720,769</u>	(0.3)	<u>\$ 13,488,430</u>	<u>\$ 13,588,401</u>	(0.7)

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

LONG-TERM LIABILITIES

At year-end, the City had \$8,536,240 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities net long-term debt decreased \$1,100,682, due primarily to the repayment of general obligation bonds and the refunding of two bonds during 2010.

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

	2010	2009	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds	\$ 2,056,467	\$ 2,677,045	(23.2)%
Capital Leases Payable	19,677	10,746	83.1
Compensated Absences Payable	96,971	92,220	5.2
Other Postemployment Benefits Payable	38,599	19,508	97.9
Less: Bond Discounts	(14,209)	(15,607)	(9.0)
Total Governmental Activities	\$ 2,197,505	\$ 2,783,912	(21.1)
BUSINESS-TYPE ACTIVITIES			
Revenue Bonds	\$ 1,555,179	\$ 1,764,459	(11.9)%
General Obligation Revenue Notes	3,539,000	3,747,000	(5.6)
General Obligation Bonds	1,240,000	1,345,000	(7.8)
Compensated Absences Payable	22,453	23,971	(6.3)
Other Postemployment Benefits Payable	11,353	5,738	97.9
Less: Bond Discounts	(29,250)	(33,158)	(11.8)
Total Business-Type Activities	6,338,735	6,853,010	(7.5)
Total City Wide Debt	\$ 8,536,240	\$ 9,636,922	(11.4)

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.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Pooled Investments	\$ 1,951,131	\$ 3,145,038	\$ 5,096,169	\$ 146,603
Taxes Receivable				
Delinquent	37,921	-	37,921	-
Special Assessments Receivable				
Delinquent	75,660	-	75,660	-
Deferred	2,271,534	-	2,271,534	-
Tax Increments Receivables	1,931	-	1,931	-
Accounts Receivable - Net	5,167	934,401	939,568	-
Accrued Interest Receivable	1,571	-	1,571	-
Notes Receivable - Net	30,819	-	30,819	-
Due from Other Governments	11,250	-	11,250	-
Internal Balances	24,188	(24,188)	-	-
Inventories	-	43,853	43,853	-
Land Held for Resale	-	-	-	361,845
Unamortized Bond Issue Costs	23,096	22,923	46,019	-
Advances to Component Unit	17,192	-	17,192	-
Advances to Primary Government	-	-	-	20,000
Investment in Joint Venture	-	1,586,666	1,586,666	-
Capital Assets not Being Depreciated				
Land	617,741	113,908	731,649	-
Construction-in-Progress	51,474	-	51,474	-
Capital Assets Being Depreciated				
Buildings	707,659	942,182	1,649,841	-
Infrastructure	1,113,665	7,662,545	8,776,210	-
Improvements	32,241	462,087	494,328	-
Machinery and Equipment	167,548	1,434,223	1,601,771	-
Vehicles	108,585	74,572	183,157	-
Total Assets	<u>7,250,373</u>	<u>16,398,210</u>	<u>23,648,583</u>	<u>528,448</u>
LIABILITIES				
Accounts Payable	3,459	387,390	390,849	1,553
Salaries and Benefits Payable	32,867	20,374	53,241	2,798
Deposits Payable	-	1,290	1,290	-
Accrued Interest Payable	29,585	70,145	99,730	-
Due to Other Governments	-	59,175	59,175	-
Advances from Primary Government	-	-	-	17,192
Advances from Component Unit	20,000	-	20,000	-
Deferred Revenue	-	57,691	57,691	-
Special Assessments Payable - Due Within One Year	-	-	-	6,000
Notes Payable - Due Within One Year	-	-	-	4,385
Bonds Payable - Due Within One Year	183,940	535,807	719,747	2,036
Capital Leases Payable - Due Within One Year	7,783	-	7,783	-
Compensated Absences Payable - Due Within One Year	72,728	16,839	89,567	-
Special Assessments Payable - Due in More Than One Year	-	-	-	123,768
Bonds Payable - Due in More Than One Year	1,858,318	5,769,122	7,627,440	20,691
Capital Leases Payable - Due in More Than One Year	11,894	-	11,894	-
Compensated Absences Payable - Due in More Than One Year	24,243	5,614	29,857	-
Other Postemployment Benefits Payable - Due in More Than One Year	38,599	11,353	49,952	1,890
Total Liabilities	<u>2,283,416</u>	<u>6,934,800</u>	<u>9,218,216</u>	<u>180,313</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	736,978	4,384,588	5,121,566	-
Restricted for				
Debt Service	2,803,232	-	2,803,232	-
Unrestricted	1,426,747	5,078,822	6,505,569	348,135
Total Net Assets	<u>\$ 4,966,957</u>	<u>\$ 9,463,410</u>	<u>\$ 14,430,367</u>	<u>\$ 348,135</u>

See accompanying Notes to the Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

Functions/Programs	Program Revenues			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 515,520	\$ 24,908	\$ -	\$ -
Public Safety	525,068	712	39,534	70,201
Public Works	543,814	10,704	34,509	18,382
Culture and Recreation	277,591	42,714	-	-
Economic Development	290,059	-	-	-
Interest	113,487	-	-	-
Total Governmental Activities	2,265,539	79,038	74,043	88,583
Business-Type Activities				
Water	270,945	405,405	-	-
Sewer	313,442	601,316	-	-
Electric	1,690,225	1,935,774	-	-
Telephone	714,795	964,255	2,783	-
Municipal Liquor	391,503	414,287	-	-
Cable Television	364,848	399,324	-	-
Sanitation	172,893	179,633	26,223	-
Storm Sewer	24,777	29,282	-	-
Golf Course	153,517	120,433	252	-
Ambulance	323,743	235,758	10,113	-
Broadband Internet	80,805	204,983	-	-
Total Business-Type Activities	4,501,493	5,490,450	39,371	-
Total Primary Government	<u>\$ 6,767,032</u>	<u>\$ 5,569,488</u>	<u>\$ 113,414</u>	<u>\$ 88,583</u>
Component Unit				
EDA	<u>\$ 218,379</u>	<u>\$ 75,894</u>	<u>\$ -</u>	<u>\$ -</u>

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

CHANGE IN NET ASSETS

Net Assets - Beginning of Year
Prior Period Adjustment
Net Assets - Beginning of Year - As Restated

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
\$ (490,612)	\$ -	\$ (490,612)	\$ -
(414,621)	-	(414,621)	-
(480,219)	-	(480,219)	-
(234,877)	-	(234,877)	-
(290,059)	-	(290,059)	-
(113,487)	-	(113,487)	-
(2,023,875)	-	(2,023,875)	-
-	134,460	134,460	-
-	287,874	287,874	-
-	245,549	245,549	-
-	252,243	252,243	-
-	22,784	22,784	-
-	34,476	34,476	-
-	32,963	32,963	-
-	4,505	4,505	-
-	(32,832)	(32,832)	-
-	(77,872)	(77,872)	-
-	124,178	124,178	-
-	1,028,328	1,028,328	-
(2,023,875)	1,028,328	(995,547)	-
-	-	-	(142,485)
395,362	-	395,362	-
108,657	-	108,657	-
657,305	-	657,305	1,575
30,533	7,447	37,980	108
64,186	376,354	440,540	161,319
838,493	(838,493)	-	-
2,094,536	(454,692)	1,639,844	163,002
70,661	573,636	644,297	20,517
4,896,296	8,889,774	13,786,070	382,249
-	-	-	(54,631)
4,896,296	8,889,774	13,786,070	327,618
\$ 4,966,957	\$ 9,463,410	\$ 14,430,367	\$ 348,135

FUND FINANCIAL STATEMENTS

**CITY OF BARNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Community Projects	Debt Service Fund
ASSETS			
Cash and Investments	\$ 253,802	\$ 987,091	\$ 523,579
Taxes Receivable			
Delinquent	31,441	-	6,480
Special Assessments Receivable			
Delinquent	4,837	-	70,823
Deferred	39,599	-	2,231,935
Accounts Receivable	-	-	-
Tax Increments Receivables	-	-	-
Accrued Interest Receivable	1,571	-	-
Notes Receivable	4,385	-	-
Due From Other Governments	11,250	-	-
Advance to Other Funds	-	29,243	-
Advance to Component Unit	17,192	-	-
Due from Other Funds	61,254	9,367	-
	<u>\$ 425,331</u>	<u>\$ 1,025,701</u>	<u>\$ 2,832,817</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 3,459	\$ -	\$ -
Salaries and Benefits Payable	27,987	-	-
Due to Other Funds	9,367	-	-
Advance from Other Funds	29,243	-	-
Advance from Component Unit	20,000	-	-
Deferred Revenue	71,273	-	2,302,638
	<u>161,329</u>	<u>-</u>	<u>2,302,638</u>
Fund Balances			
Reserved for			
Debt Service	-	-	530,179
Notes Receivables	4,385	-	-
Advances to Other Funds	-	29,243	-
Advances to Component Units	17,192	-	-
Unreserved, Reported In			
General Fund - Undesignated	242,425	-	-
Special Revenue - Undesignated	-	-	-
Special Revenue - Designated	-	996,458	-
Capital Projects - Undesignated	-	-	-
	<u>264,002</u>	<u>1,025,701</u>	<u>530,179</u>
Total Fund Balances	<u>264,002</u>	<u>1,025,701</u>	<u>530,179</u>
Total Liabilities and Fund Balances	<u>\$ 425,331</u>	<u>\$ 1,025,701</u>	<u>\$ 2,832,817</u>

See accompanying Notes to Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ 186,659	\$ 1,951,131
-	37,921
-	75,660
-	2,271,534
5,167	5,167
1,931	1,931
-	1,571
26,434	30,819
-	11,250
-	29,243
-	17,192
-	70,621
<u>\$ 220,191</u>	<u>\$ 4,504,040</u>

\$ -	\$ 3,459
4,880	32,867
37,066	46,433
-	29,243
-	20,000
<u>28,365</u>	<u>2,402,276</u>
70,311	2,534,278

-	530,179
-	4,385
-	29,243
-	17,192
-	242,425
-	-
182,422	1,178,880
<u>(32,542)</u>	<u>(32,542)</u>
<u>149,880</u>	<u>1,969,762</u>
<u>\$ 220,191</u>	<u>\$ 4,504,040</u>

**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS \$ 1,969,762

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. 2,798,913

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. 2,402,276

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	\$ (2,042,258)	
Unamortized Bond Issue Costs	23,096	
Capital Lease Obligations	(19,677)	
Accrued Compensated Absences	(96,971)	
Other Postemployment Benefits Payable	(38,599)	
Accrued Interest Payable on General Obligation Bonds	(29,585)	(2,203,994)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,966,957

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

	General Fund	Community Projects	Debt Service Fund
REVENUES			
Taxes	\$ 293,864	\$ -	\$ 89,380
Tax Increments	-	-	-
Special Assessments	11,445	-	236,832
Licenses and Permits	11,836	-	-
Intergovernmental	701,740	-	-
Charges for Services	10,950	-	-
Fines and Forfeits	13,518	-	-
Gifts and Contributions	-	-	-
Interest on Investments	2,798	17,700	12,775
Miscellaneous	60,256	-	-
Total Revenues	1,106,407	17,700	338,987
EXPENDITURES			
Current			
General Government	550,534	-	-
Public Safety	455,731	-	-
Public Works	219,389	-	-
Airport	995	-	-
Parks and Recreation	-	-	-
Economic Development	139,329	21,600	-
Capital Outlay			
General Government	16,665	-	-
Public Safety	30,495	-	-
Public Works	119,758	-	-
Parks and Recreation	-	-	-
Debt Service			
Principal	6,069	-	620,578
Interest and Other Charges	2,404	-	126,808
Bond Issue Costs	-	-	24,873
Total Expenditures	1,541,369	21,600	772,259
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(434,962)	(3,900)	(433,272)
OTHER FINANCING SOURCES (USES)			
Transfers In	907,000	-	120,974
Transfers Out	(504,693)	-	-
Capital Lease Proceeds	15,000	-	-
Bond Proceeds	-	-	1,020,000
Payment to Refunded Bond Escrow Agent	-	-	(1,020,000)
Total Other Financing Sources (Uses)	417,307	-	120,974
NET CHANGE IN FUND BALANCES			
	(17,655)	(3,900)	(312,298)
Fund Balance - Beginning of Year	281,657	1,029,601	842,477
FUND BALANCE - END OF YEAR	\$ 264,002	\$ 1,025,701	\$ 530,179

See accompanying Notes to Financial Statements.

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 383,244
111,142	111,142
-	248,277
-	11,836
17,163	718,903
42,714	53,664
-	13,518
1,000	1,000
110	33,383
6,620	66,876
178,749	1,641,843
319	550,853
25,950	481,681
-	219,389
-	995
255,284	255,284
121,689	282,618
-	16,665
57,521	88,016
-	119,758
16,925	16,925
-	626,647
-	129,212
-	24,873
477,688	2,812,916
(298,939)	(1,171,073)
315,212	1,343,186
-	(504,693)
-	15,000
-	1,020,000
-	(1,020,000)
315,212	853,493
16,273	(317,580)
133,607	2,287,342
\$ 149,880	\$ 1,969,762

**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, 2010**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (317,580)

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	\$ 88,906	
Current Year Depreciation	<u>(154,603)</u>	(65,697)

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.

(3,022)

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

(170,532)

Bond and lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The proceeds, net of issuance costs, for debt issuance are:

Gross Bond Proceeds	(1,020,000)	
Bond Issue Costs	24,873	
Capital Lease Purchases.	<u>(15,000)</u>	(1,010,127)

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	1,640,578	
Capital Lease	<u>6,069</u>	1,646,647

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	17,989	
Amortization of Bond Issue Costs	(1,777)	
Amortization of Discounts	(1,398)	
Change in Compensated Absences	(4,751)	
Change in Other Postemployment Benefits Payable	<u>(19,091)</u>	<u>(9,028)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 70,661

See accompanying Notes to Financial Statements.

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

ASSETS	Water	Sewer	Electric
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 358,583	\$ 905,882	\$ 443,058
Accounts Receivable - Net	73,878	108,567	434,252
Inventories	-	-	-
Total Current Assets	<u>432,461</u>	<u>1,014,449</u>	<u>877,310</u>
NONCURRENT ASSETS			
Investment in Joint Venture	-	-	-
Unamortized Bond Issue Costs	2,107	1,794	-
Capital Assets			
Land	-	100,831	-
Buildings (Net)	436,368	2,821	78,596
Infrastructure (Net)	1,549,025	4,850,990	310,360
Improvements (Net)	-	-	-
Machinery and Equipment (Net)	105,033	52,383	186,741
Vehicles (Net)	-	-	-
Total Capital Assets	<u>2,090,426</u>	<u>5,007,025</u>	<u>575,697</u>
Total Noncurrent Assets	<u>2,092,533</u>	<u>5,008,819</u>	<u>575,697</u>
Total Assets	<u>2,524,994</u>	<u>6,023,268</u>	<u>1,453,007</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	402	9,521	160,532
Salaries and Benefits Payable	714	289	2,065
Deposits Payable	-	-	1,290
Accrued Interest Payable	18,086	25,847	4,802
Due to Other Governments	34,381	-	7,732
Due to Other Funds	-	-	-
Deferred Revenue	-	-	17,918
Compensated Absences - Due Within One Year	678	669	1,058
Bonds Payable - Due Within One Year	141,182	284,625	30,000
Total Current Liabilities	<u>195,443</u>	<u>320,951</u>	<u>225,397</u>
NONCURRENT LIABILITIES			
Compensated Absences Payable -			
Due in More than One Year	226	223	353
Other Postemployment Benefits Payable -			
Due in More than One Year	385	385	999
Bonds Payable - Due in More than One Year	942,912	3,621,801	209,547
Total Noncurrent Liabilities	<u>943,523</u>	<u>3,622,409</u>	<u>210,899</u>
Total Liabilities	<u>1,138,966</u>	<u>3,943,360</u>	<u>436,296</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,006,332	1,100,599	336,150
Unrestricted	379,696	979,309	680,561
Total Net Assets	<u>\$ 1,386,028</u>	<u>\$ 2,079,908</u>	<u>\$ 1,016,711</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 571,775	\$ 55,523	\$ 133,726	\$ 676,491	\$ 3,145,038
107,192	3,290	75,761	131,461	934,401
-	42,653	-	1,200	43,853
<u>678,967</u>	<u>101,466</u>	<u>209,487</u>	<u>809,152</u>	<u>4,123,292</u>
1,586,666	-	-	-	1,586,666
-	-	19,022	-	22,923
-	-	-	13,077	113,908
1,251	2,295	79,582	341,269	942,182
-	-	368,287	583,883	7,662,545
410,996	-	-	51,091	462,087
446,512	-	539,416	104,138	1,434,223
6,479	-	7,110	60,983	74,572
<u>865,238</u>	<u>2,295</u>	<u>994,395</u>	<u>1,154,441</u>	<u>10,689,517</u>
<u>2,451,904</u>	<u>2,295</u>	<u>1,013,417</u>	<u>1,154,441</u>	<u>12,299,106</u>
3,130,871	103,761	1,222,904	1,963,593	16,422,398
187,696	4,862	8,966	15,411	387,390
6,834	2,305	1,082	7,085	20,374
-	-	-	-	1,290
7,203	-	14,207	-	70,145
3,765	7,194	3,148	2,955	59,175
-	-	-	24,188	24,188
-	-	39,773	-	57,691
9,182	915	2,009	2,328	16,839
45,000	-	35,000	-	535,807
<u>259,680</u>	<u>15,276</u>	<u>104,185</u>	<u>51,967</u>	<u>1,172,899</u>
3,061	305	670	776	5,614
7,725	-	770	1,089	11,353
<u>314,321</u>	<u>-</u>	<u>680,541</u>	<u>-</u>	<u>5,769,122</u>
<u>325,107</u>	<u>305</u>	<u>681,981</u>	<u>1,865</u>	<u>5,786,089</u>
<u>584,787</u>	<u>15,581</u>	<u>786,166</u>	<u>53,832</u>	<u>6,958,988</u>
505,917	2,295	278,854	1,154,441	4,384,588
<u>2,040,167</u>	<u>85,885</u>	<u>157,884</u>	<u>755,320</u>	<u>5,078,822</u>
<u>\$ 2,546,084</u>	<u>\$ 88,180</u>	<u>\$ 436,738</u>	<u>\$ 1,909,761</u>	<u>\$ 9,463,410</u>

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010

	Water	Sewer	Electric
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
Charges for Services	405,405	601,316	1,935,774
OPERATING EXPENSES			
Professional Services	99,062	84,639	85,382
Wages, Salaries, and Compensation	19,847	11,277	61,120
Repairs and Maintenance	5,000	11,885	27,182
Insurance	5,060	3,071	3,317
Utilities	-	-	3,222
Depreciation	61,406	119,712	27,188
Materials and Supplies	18,650	-	849
Miscellaneous Expenses	11,054	8,751	40,367
Purchased Power	-	-	1,386,805
License Fees	900	-	-
Equipment	-	-	42,816
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	220,979	239,335	1,678,248
OPERATING INCOME (LOSS)	184,426	361,981	257,526
NONOPERATING REVENUES (EXPENSES)			
Investment Income	1,563	2,746	862
Joint Venture Income	-	-	-
Intergovernmental Grants	-	-	-
Miscellaneous - Nonoperating	5,691	2,074	110,466
Interest Expense and Fiscal Charges	(49,966)	(74,107)	(11,977)
Total Nonoperating Revenues (Expenses)	(42,712)	(69,287)	99,351
Income (Loss) before Transfers	141,714	292,694	356,877
Transfers In	-	-	-
Transfers Out	(20,000)	(74,000)	(315,000)
CHANGE IN NET ASSETS	121,714	218,694	41,877
Net Assets - Beginning of Year	1,264,314	1,861,214	974,834
NET ASSETS - END OF YEAR	\$ 1,386,028	\$ 2,079,908	\$ 1,016,711

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ -	\$ 414,287	\$ -	\$ -	\$ 414,287
-	315,953	-	-	315,953
-	98,334	-	-	98,334
964,255	-	399,324	770,089	5,076,163
62,397	-	-	164,987	496,467
194,363	55,246	32,011	228,185	602,049
23,235	316	3,831	22,309	93,758
2,978	4,902	3,663	12,265	35,256
-	-	(264)	3,976	6,934
50,253	2,263	32,388	76,388	369,598
4,664	707	1,395	66,780	93,045
358,939	12,116	10,979	94,026	536,232
-	-	-	-	1,386,805
-	-	235,435	-	236,335
-	-	8,086	-	50,902
-	-	-	86,819	86,819
696,829	75,550	327,524	755,735	3,994,200
267,426	22,784	71,800	14,354	1,180,297
1,396	43	431	406	7,447
195,676	-	-	-	195,676
2,783	-	-	36,588	39,371
17,461	2,520	1,900	40,566	180,678
(17,966)	-	(37,324)	-	(191,340)
199,350	2,563	(34,993)	77,560	231,832
466,776	25,347	36,807	91,914	1,412,129
10,768	-	-	68,507	79,275
(350,000)	(15,000)	(7,000)	(136,768)	(917,768)
127,544	10,347	29,807	23,653	573,636
2,418,540	77,833	406,931	1,886,108	8,889,774
\$ 2,546,084	\$ 88,180	\$ 436,738	\$ 1,909,761	\$ 9,463,410

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Water	Sewer	Electric
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 420,211	\$ 604,970	\$ 1,912,158
Payments to Suppliers	(136,756)	(99,177)	(1,523,833)
Payments to Employees	(20,303)	(10,998)	(61,334)
Net Cash Provided by Operating Activities	263,152	494,795	326,991
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers Out	(20,000)	(74,000)	(315,000)
Transfers In	-	-	-
Interfund Borrowings	-	-	-
Grant Receipts	-	-	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	(20,000)	(74,000)	(315,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(245,530)	(371,750)	(28,000)
Interest Paid on Debt	(53,402)	(78,079)	(12,140)
Bond Proceeds	108,000	92,000	-
Acquisition of Capital Assets	-	-	-
Other Miscellaneous Receipts	5,691	2,074	110,466
Net Cash Provided (Used) by Capital and Related Financing Activities	(185,241)	(355,755)	70,326
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from Joint Venture	-	-	-
Interest and Dividends Received	1,563	2,746	862
Net Cash Provided (Used) by Investing Activities	1,563	2,746	862
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,474	67,786	83,179
Cash and Cash Equivalents - Beginning of Year	299,109	838,096	359,879
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 358,583</u>	<u>\$ 905,882</u>	<u>\$ 443,058</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 184,426	\$ 361,981	\$ 257,526
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	61,406	119,712	27,188
(Increase) Decrease in Assets			
Accounts Receivable	14,806	3,654	(21,643)
Inventory	-	-	-
Increase (Decrease) in Liabilities			
Accounts Payable	(3,098)	9,169	64,334
Salaries and Benefits Payable	(646)	89	(708)
Deposits Payable	-	-	-
Other Postemployment Benefits Payable	190	190	494
Due to Other Governments	6,068	-	1,773
Deferred Revenue	-	-	(1,973)
Total Adjustments	78,726	132,814	69,465
Net Cash Provided by Operating Activities	<u>\$ 263,152</u>	<u>\$ 494,795</u>	<u>\$ 326,991</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 975,490	\$ 411,988	\$ 395,246	\$ 746,911	\$ 5,466,974
(372,883)	(335,130)	(263,726)	(454,556)	(3,186,061)
(190,683)	(55,092)	(31,649)	(225,659)	(595,718)
411,924	21,766	99,871	66,696	1,685,195
(350,000)	(15,000)	(7,000)	(136,768)	(917,768)
10,768	-	-	68,507	79,275
-	-	-	1,957	1,957
2,783	-	-	36,588	39,371
(336,449)	(15,000)	(7,000)	(29,716)	(797,165)
(42,000)	-	(35,000)	-	(722,280)
(18,210)	-	(36,053)	-	(197,884)
-	-	-	-	200,000
(256,776)	-	(58,135)	(23,434)	(338,345)
17,461	2,520	1,900	40,566	180,678
(299,525)	2,520	(127,288)	17,132	(877,831)
95,794	-	-	-	95,794
1,396	43	431	406	7,447
97,190	43	431	406	103,241
(126,860)	9,329	(33,986)	54,518	113,440
698,635	46,194	167,712	621,973	3,031,598
\$ 571,775	\$ 55,523	\$ 133,726	\$ 676,491	\$ 3,145,038
\$ 267,426	\$ 22,784	\$ 71,800	\$ 14,354	\$ 1,180,297
50,253	2,263	32,388	76,388	369,598
11,235	(2,299)	(3,366)	(23,178)	(20,791)
-	4,484	-	-	4,484
76,480	(9,606)	(1,472)	(4,966)	130,841
(141)	154	(19)	1,987	716
-	-	-	-	-
3,821	-	381	539	5,615
2,850	3,986	871	1,572	17,120
-	-	(712)	-	(2,685)
144,498	(1,018)	28,071	52,342	504,898
\$ 411,924	\$ 21,766	\$ 99,871	\$ 66,696	\$ 1,685,195

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
FIRE DEPARTMENT AGENCY FUND
DECEMBER 31, 2010**

ASSETS

Cash and Pooled Investments	<u>\$ 61,733</u>
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LIABILITIES

Accounts Payable	<u>\$ 61,733</u>
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See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

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.

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

The City reports the following major governmental funds:

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

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

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

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Additionally, the City reports the following fiduciary fund types:

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

As a general rule, the effect of 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, 2010**

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, 2010**

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, 2010**

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 and Net Assets

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.

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

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

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

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

Property Tax Collection Calendar

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

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

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

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

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, 2010**

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, 2010:

Capital Projects Fund	\$ 32,542
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The City plans to eliminate this deficit through future levies and assessments.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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, 2010, based on market prices. Pooled investment earnings for 2010 were \$40,830.

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, 2010, the balance was fully insured and collateralized as required by *Minnesota Statutes* §118A.03.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments

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

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

As of December 31, 2010, the City had the following investments in its pool:

Type	Maturity Date	Credit Rating	Fair Value	Percent of Total
Repurchase Agreements	Daily	NR	\$ 3,094,794	93.6 %
Minnesota Municipal Money Market Fund (4M)	N/A	NR	16,971	0.5
Federal Home Loan Bank	8/26/2020	AAA/AAA	193,322	5.8
			<u>\$ 3,305,087</u>	

NR = Not Rated

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

Daily = This investment matures each business day.

The repurchase agreement investment as of December 31, 2010 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

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

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

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

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

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

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

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 2010 is as follows:

Balance, January 1, 2010	\$ 1,486,784
Cash Distributions	(91,183)
Net Income	<u>191,065</u>
 Balance, December 31, 2010	 <u><u>\$ 1,586,666</u></u>

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

3. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2010, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 617,741	\$ -	\$ -	\$ 617,741
Construction in Progress	23,479	27,995	-	51,474
Total Capital Assets Not Being Depreciated	641,220	27,995	-	669,215
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	464,714	31,533	(8,000)	488,247
Vehicles	300,452	29,378	-	329,830
Total Capital Assets Being Depreciated	5,390,751	60,911	(8,000)	5,443,662
Less: Accumulated Depreciation for				
Buildings	500,853	20,986	-	521,839
Infrastructure	2,027,219	86,306	-	2,113,525
Improvements	133,511	3,145	-	136,656
Machinery and Equipment	305,614	20,063	(4,978)	320,699
Vehicles	197,142	24,103	-	221,245
Total Accumulated Depreciation	3,164,339	154,603	(4,978)	3,313,964
Total Capital Assets Being Depreciated, Net	2,226,412	(93,692)	(3,022)	2,129,698
Governmental Activities Capital Assets, Net	\$ 2,867,632	\$ (65,697)	\$ (3,022)	\$ 2,798,913

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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, 2010:

	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	-	-	(910,788)	1,650,856
Infrastructure	9,848,794	-	-	910,788	10,759,582
Improvements	1,056,370	-	-	-	1,056,370
Machinery and Equipment	3,571,913	338,346	(1,379,070)	-	2,531,189
Vehicles	326,094	-	-	-	326,094
Total Capital Assets Being Depreciated	17,364,815	338,346	(1,379,070)	-	16,324,091
Less: Accumulated Depreciation for					
Buildings	1,157,298	26,690	-	(475,314)	708,674
Infrastructure	2,427,276	194,447	-	475,314	3,097,037
Improvements	574,402	19,881	-	-	594,283
Machinery and Equipment	2,364,042	111,994	(1,379,070)	-	1,096,966
Vehicles	234,936	16,586	-	-	251,522
Total Accumulated Depreciation	6,757,954	369,598	(1,379,070)	-	5,748,482
Total Capital Assets Being Depreciated, Net	10,606,861	(31,252)	-	-	10,575,609
Business-Type Activities Capital Assets, Net	<u>\$ 10,720,769</u>	<u>\$ (31,252)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,689,517</u>

During 2010, the City transferred \$910,788 of capital asset costs and \$475,314 of accumulated depreciation between buildings and infrastructure as they were misclassified in prior years.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

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

Governmental Activities:	
General Government	\$ 11,065
Public Safety	10,824
Public Works	113,975
Culture and Recreation	18,739
Total Depreciation Expense - Governmental Activities	<u>\$ 154,603</u>
Business-Type Activities:	
Water	\$ 61,406
Sewer	119,712
Electric	27,188
Telephone	50,253
Municipal Liquor	2,263
Cable Television	32,388
Sanitation	2,632
Storm Sewer	21,902
Golf Course	16,392
Ambulance	18,209
Broadband Internet	17,253
Total Depreciation Expense - Business-Type Activities	<u>\$ 369,598</u>

B. Interfund Receivables, Payables and Transfers

The Composition of interfund transfers as of December 31, 2010 is as follows:

	Transfers In:					Total
	General	Debt Service Funds	Capital Projects Funds	Nonmajor Governmental Funds	Enterprise Funds	
Transfer Out:						
General Fund	\$ -	\$ 120,974	\$ -	\$ 315,212	\$ 68,507	\$ 504,693
Enterprise Funds	907,000		-	-	10,768	917,768
Total	<u>\$ 907,000</u>	<u>\$ 120,974</u>	<u>\$ -</u>	<u>\$ 315,212</u>	<u>\$ 79,275</u>	<u>\$ 1,422,461</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, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

The composition of interfund balances at December 31, 2010, is as follows:

Due To/From Other Funds and Discrete Component Unit

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects Fund	\$ 37,066
General Fund	Golf Course Fund	24,188
Community Projects Fund	General Fund	9,367
		<u>\$ 70,621</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	\$ 29,243
	Component Unit - EDA	17,192
Component Unit - EDA	General Fund	20,000
		<u>\$ 66,435</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, 2010**

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 2011	
			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	\$ 111,467	\$ 53,940	\$ 6,420
G.O. Bonds, Refunding Portion of 2005: 3.50% to 4.10%; Issued 11/09/05; Final Maturity 02/01/16.	460,000	290,000	45,000	10,718
G.O. Bonds of 2006; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	635,000	635,000	-	25,613
G.O. Refunding Bonds Series 2010A, 1.00% to 4.00%, Issued 01/07/10, Final Maturity 02/01/23.	1,020,000	1,020,000	85,000	27,540
Total General Obligation Bonds, Including Refunding Bonds	2,553,013	2,056,467	183,940	70,291
Less: Unamortized Discount	-	(14,209)	-	-
Total General Obligation Bonds, Including Refunding Bonds - Net	2,553,013	2,042,258	183,940	70,291
Capital Leases	36,528	19,677	7,783	2,479
Total Long-Term Debt - Governmental Activities	2,589,541	2,061,935	191,723	72,770

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt (Continued)

	Authorized and Issued	Outstanding	Due in 2011	
			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	\$ 605,000	\$ 75,000	\$ 27,160
Water Revenue Bonds of 2002 - WFC; 5.07%, Issued 09/01/02; Final Maturity 09/26/12.	125,560	30,179	14,807	1,355
G.O. Refunding Utility Revenue Bonds of 2003B; 5.40% to 6.00%, Issued 11/19/03; Final Maturity 02/01/12.	705,000	195,000	95,000	5,461
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	725,000	35,000	34,098
Total Revenue Bonds	2,705,560	1,555,179	219,807	68,074
Less: Unamortized Discount	-	(17,177)	-	-
Total Revenue Bonds - Net	2,705,560	1,538,002	219,807	68,074
<u>General Obligation Bonds</u>				
G.O. Improvement Bonds of 2005A; 3.50% to 4.55%, Issued 11/09/05; Final Maturity 02/01/26.	970,000	835,000	40,000	35,186
G.O. Bonds of 2006A; 3.62%, Issued 12/28/06; Final Maturity 2/01/22.	245,000	205,000	15,000	7,904
G.O. Revenue Note of 2006; 1.56%, Issued 07/31/06; Final Maturity 08/20/25.	4,137,640	3,539,000	211,000	55,208
G.O. Refunding Bonds Series 2010A, 1.00% to 2.20%, Issued 01/7/10; Final Maturity 02/01/14.	200,000	200,000	50,000	2,950
Total General Obligation Bonds	5,552,640	4,779,000	316,000	101,248
Less: Unamortized Discount	-	(12,073)	-	-
Total General Obligation Bonds - Net	5,552,640	4,766,927	316,000	101,248
Total Long-Term Debt - Business-Type Activities	8,258,200	6,304,929	535,807	169,322
Total Government-Wide Long-Term Liabilities	<u>\$ 10,847,741</u>	<u>\$ 8,366,864</u>	<u>\$ 727,530</u>	<u>\$ 242,092</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Debt

	December 31, 2009	Additions	Retirements	December 31, 2010	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt, Including					
Refunding Bonds	\$ 2,677,045	\$ 1,020,000	\$ 1,640,578	\$ 2,056,467	\$ 183,940
Less: Unamortized Discounts	(15,607)	-	(1,398)	(14,209)	-
Capital Lease Obligations	10,746	15,000	6,069	19,677	7,783
Compensated Absences Payable	92,220	66,659	61,908	96,971	72,728
Other Postemployment Benefits Payable	19,508	19,214	123	38,599	-
Total Governmental Activities	<u>\$ 2,783,912</u>	<u>\$ 1,120,873</u>	<u>\$ 1,707,280</u>	<u>\$ 2,197,505</u>	<u>\$ 264,451</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 1,764,459	\$ -	\$ 209,280	\$ 1,555,179	\$ 219,807
Revenue Notes	3,747,000	-	208,000	3,539,000	211,000
General Obligation Bonds	1,345,000	200,000	305,000	1,240,000	105,000
Less: Unamortized Discounts	(33,158)	-	(3,908)	(29,250)	-
Compensated Absences Payable	23,971	30,762	32,280	22,453	16,839
Other Postemployment Benefits Payable	5,738	5,651	36	11,353	-
Total Business-Type Activities	<u>\$ 6,853,010</u>	<u>\$ 236,413</u>	<u>\$ 750,688</u>	<u>\$ 6,338,735</u>	<u>\$ 552,646</u>
DISCRETELY PRESENTED COMPONENT UNIT					
Revenue Bonds **	\$ 16,518	\$ 8,200	\$ 1,991	\$ 22,727	\$ 2,036
Other Postemployment Benefits Payable	955	941	6	1,890	-
Special Assessments Payable ***	135,981	-	6,213	129,768	6,000
Total Discretely Presented Component Unit	<u>\$ 153,454</u>	<u>\$ 9,141</u>	<u>\$ 8,210</u>	<u>\$ 154,385</u>	<u>\$ 8,036</u>

** The total amount of the revenue bonds issued by the EDA during 2009 was \$31,500; however during 2009, the EDA had only received advances of \$24,718 leaving an additional \$6,782 to be drawn during 2011.

*** Subsequent to December 31, 2010, the EDA paid these assessments in full.

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
2011	\$ 183,940	\$ 70,291	\$ 254,231	\$ 2,036	\$ 664	\$ 2,700
2012	192,527	63,834	256,361	2,082	618	2,700
2013	190,000	56,604	246,604	2,129	571	2,700
2014	195,000	50,686	245,686	2,177	523	2,700
2015	180,000	44,504	224,504	2,226	474	2,700
2015 - 2019	720,000	143,050	863,050	11,902	1,598	13,500
2020 - 2024	395,000	20,900	415,900	6,957	253	7,210
Total	<u>\$ 2,056,467</u>	<u>\$ 449,869</u>	<u>\$ 2,506,336</u>	<u>\$ 29,509</u>	<u>\$ 4,701</u>	<u>\$ 34,210</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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
2011	\$ 219,807	\$ 68,074	\$ 287,881	\$ 105,000	\$ 46,040	\$ 151,040
2012	230,372	58,732	289,104	105,000	43,317	148,317
2013	120,000	51,078	171,078	105,000	40,367	145,367
2014	125,000	45,398	170,398	110,000	37,090	147,090
2015	130,000	39,398	169,398	60,000	34,132	94,132
2015 - 2019	430,000	117,713	547,713	340,000	130,597	470,597
2020 - 2024	300,000	46,363	346,363	345,000	53,132	398,132
2025 - 2026	-	-	-	70,000	1,580	71,580
Total	<u>\$ 1,555,179</u>	<u>\$ 426,756</u>	<u>\$ 1,981,935</u>	<u>\$ 1,240,000</u>	<u>\$ 386,255</u>	<u>\$ 1,626,255</u>

Year	G.O. Revenue Note			Total Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 211,000	\$ 55,208	\$ 266,208	\$ 535,807	\$ 169,322	\$ 705,129
2012	215,000	51,917	266,917	550,372	153,966	704,338
2013	218,000	48,563	266,563	443,000	140,008	583,008
2014	221,000	45,162	266,162	456,000	127,650	583,650
2015	225,000	41,714	266,714	415,000	115,244	530,244
2015 - 2019	1,177,000	154,877	1,331,877	1,947,000	403,187	2,350,187
2020 - 2024	1,272,000	60,107	1,332,107	1,917,000	159,602	2,076,602
2025 - 2026	-	-	-	70,000	1,580	71,580
Total	<u>\$ 3,539,000</u>	<u>\$ 457,548</u>	<u>\$ 3,996,548</u>	<u>\$ 6,334,179</u>	<u>\$ 1,270,559</u>	<u>\$ 7,604,738</u>

5. Refunding Debt Issued

During 2010, the City of Barnesville issued General Obligation Refunding Bonds Series 2010A in the amount of \$1,220,000 with interest rates of 1.00 percent to 4.00 percent, along with \$320,000 of City funds to provide for the current refunding of the General Obligation Improvement Bonds Series 2003A and the General Obligation Special Assessment Improvement Bonds Series 2002. The balance of the outstanding maturity to be refunded is \$1,510,000 with interest rates of 1.75 percent to 5.10 percent.

As a result of the refunding, the City decreased its debt service requirements \$398,499, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debt services) of \$64,804.

6. Notes Payable – Component Unit

The balance of \$4,385 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

7. Capital Leases

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, 2010, the City has assets under this capital lease of \$21,178 with related accumulated depreciation of \$7,059.

During 2010, the City entered into a 63-month lease with Konica Minolta for the purchase of a copier. Monthly installments including interest are \$341. At December 31, 2010, the City has assets under this capital lease of \$15,000 with related accumulated depreciation of \$1,500.

The future minimum lease payments are as follows:

Year	Minimum Payments
2011	\$ 9,952
2012	4,095
2013	4,095
2014	4,095
2015	3,071
Total Minimum Lease Payments	25,308
Less: Amounts Representing Interest	(5,631)
Present Value of Minimum Lease Payments	\$ 19,677

8. Operating Lease

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

Year	Minimum Payments
2011	\$ 1,228
2012	1,228
2013	1,229
2014	1,229
2015	921
Total Minimum Lease Payments	\$ 5,835

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

9. 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, 2010.

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, 2010:

RESERVED FUND BALANCE

General Fund	
Reserved for Notes Receivable	\$ 4,385
Community Projects Fund	
Reserved for Advances	29,243
Debt Service Fund	
Reserved for Debt Service	530,179

UNRESERVED DESIGNATED FUND BALANCES

Community Projects Fund	
Designated for Future Expenditures	\$ 996,458
Nonmajor Special Revenue Funds	
Designated for Fund Purposes	182,422

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

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

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 PENSION PLAN (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

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

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

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.40% of their annual covered salary in 2010. The City of Barnesville is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.00% for Coordinated Plan GERF members and 14.10% for PEPFF members. The City's contributions to the GERF for the years ending December 31, 2010, 2009, and 2008 were as follows:

Year	General Employees Retirement Fund	Public Employees Police and Fire Fund
2010	\$ 61,209	\$ 37,103
2009	51,594	35,320
2008	51,761	31,044

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, 2010**

NOTE 4 PENSION PLAN (CONTINUED)

B. Barnesville Fire Department Relief Association

Plan Description

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

Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to PERS for the year ended December 31, 2010, were as follows:

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		21,839
Annual Pension Cost		<u>21,839</u>
Less Contribution Made		<u>(21,839)</u>
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	<u>\$</u>	<u>-</u>

The adjustment to annual required contribution above consists of \$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, 2010, 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, 2010, 2009, and 2008.

Three-Year Trend Information

<u>Disclosure</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual Pension Cost (APC)	\$ 21,839	\$ 20,512	\$ 22,271
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, 2010**

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 2010, 2009 and 2008.

Funding Progress

As of December 31, 2009 (the most recent available information), the plan was underfunded by \$1,442. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2010, 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, 2010**

NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Account Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost of 2010, 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	1,136	43
Adjustment to ARC	(1,516)	(57)
Annual OPEB Cost	24,865	941
Contributions During the Year	(159)	(6)
Increase in Net OPEB Obligation	24,706	935
Net OPEB - Beginning of the Year	25,246	955
Net OPEB - End of the Year	\$ 49,952	\$ 1,890

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

Year Ended	Entity	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2010	City	\$ 24,865	\$ 159	-	\$ 49,952
December 31, 2009	City	25,245	-	-	25,245
December 31, 2010	EDA	941	6	-	1,890
December 31, 2009	EDA	955	-	-	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)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	City	\$ -	\$ 139,980	\$ 139,980	-	\$ 856,740	16.3 %
1/1/2009	EDA	-	5,297	5,297	-	32,420	16.3

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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.

NOTE 6 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was recorded in 2010 to properly record special assessments payable related to the Heartland Addition property that was acquired by the Economic Development Authority of Barnesville, the discretely presented component unit during 2009. These assessments were transferred to and are the responsibility of the Economic Development Authority of Barnesville.

The effects of this restatement are shown below:

	<u>Discretely Presented Component Unit</u>
As Originally Reported, Net Assets, January 1, 2010	\$ 382,249
Restatement Adjustment: Special Assessments Payable	<u>(54,631)</u>
Restated Net Assets, January 1, 2010	<u>\$ 327,618</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMMITMENTS AND CONTINGENCIES

Purchased Power

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

Contingencies

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

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF BARNESVILLE, MINNESOTA
 BARNESVILLE FIREMAN'S RELIEF ASSOCIATION
 SCHEDULE OF FUNDING PROGRESS
 DECEMBER 31, 2010**

Fiscal Year End	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Benefit Per Year of Services
12/31/2009	\$ 179,802	\$ 181,244	\$ 1,442	99.2 %	\$ 600
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

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

The December 31, 2010 report is not yet available.

**CITY OF BARNESVILLE, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2010**

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	- %	\$ 856,740	16.3 %
1/1/2009	EDA	-	5,297	5,297	-	32,420	16.3

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 318,027	\$ 318,027	\$ 293,864	\$ (24,163)
Special assessments	7,700	7,700	11,445	3,745
Licenses and Permits	19,450	19,450	11,836	(7,614)
Intergovernmental	804,699	804,699	701,740	(102,959)
Charges for Services	1,400	1,400	10,950	9,550
Fines and Forfeits	8,100	8,100	13,518	5,418
Interest on Investments	300	300	2,798	2,498
Miscellaneous	35,796	35,796	60,256	24,460
Total Revenues	<u>1,195,472</u>	<u>1,195,472</u>	<u>1,106,407</u>	<u>(89,065)</u>
EXPENDITURES				
CURRENT				
General Government	599,640	599,640	550,534	(49,106)
Public Safety	479,111	479,111	455,731	(23,380)
Public Works	277,179	277,179	219,389	(57,790)
Airport	1,515	1,515	995	(520)
Economic Development	139,329	139,329	139,329	-
Capital Outlay				
General Government	15,700	15,700	16,665	965
Public Safety	15,000	15,000	30,495	15,495
Public Works	101,500	101,500	119,758	18,258
Debt service				
Principal	5,218	5,218	6,069	851
Interest and Other Charges	1,550	1,550	2,404	854
Total Expenditures	<u>1,635,742</u>	<u>1,635,742</u>	<u>1,541,369</u>	<u>(94,373)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(440,270)	(440,270)	(434,962)	5,308
OTHER FINANCING SOURCES (USES)				
Transfers In	907,000	907,000	907,000	-
Transfers Out	(504,693)	(504,693)	(504,693)	-
Total Other Financing Sources (Uses)	<u>402,307</u>	<u>402,307</u>	<u>417,307</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (37,963)</u>	<u>\$ (37,963)</u>	(17,655)	<u>\$ 20,308</u>
Fund Balance - Beginning of Year			<u>281,657</u>	
FUND BALANCE - END OF YEAR			<u>\$ 264,002</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest on Investments	\$ 18,911	\$ 18,911	\$ 17,700	\$ (1,211)
EXPENDITURES				
CURRENT				
Economic Development	<u>24,100</u>	<u>24,100</u>	<u>21,600</u>	<u>(2,500)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (5,189)</u>	<u>\$ (5,189)</u>	(3,900)	<u>\$ 1,289</u>
Fund Balance - Beginning of Year			<u>1,029,601</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,025,701</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, 2010

I. BUDGETARY INFORMATION

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

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

OTHER SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2010**

ASSETS	<u>Library</u>	<u>Parks and Recreation</u>	<u>DARE</u>	<u>Small Cities</u>
Cash and Investments	\$ 6,679	\$ 145,676	\$ 7,783	\$ 6,278
Accounts Receivable	-	5,167	-	-
Tax Increment Receivables	-	-	-	-
Notes Receivable	-	-	-	26,434
Total Assets	<u>\$ 6,679</u>	<u>\$ 150,843</u>	<u>\$ 7,783</u>	<u>\$ 32,712</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to Other Funds	\$ -	\$ -	\$ -	-
Salaries and Benefits Payable	-	4,880	-	-
Deferred Revenue	-	-	-	26,434
Total Liabilities	-	4,880	-	26,434
 FUND BALANCES (DEFICIT)				
Unreserved, Designated	<u>6,679</u>	<u>145,963</u>	<u>7,783</u>	<u>6,278</u>
Total Liabilities and Fund Balances	<u>\$ 6,679</u>	<u>\$ 150,843</u>	<u>\$ 7,783</u>	<u>\$ 32,712</u>

<u>TIF Districts</u>	<u>Youth Alive Early Prevention</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>
\$ 5,673	\$ 10,046	\$ 4,524	\$ 186,659
-	-	-	5,167
1,931	-	-	1,931
-	-	-	26,434
<u>\$ 7,604</u>	<u>\$ 10,046</u>	<u>\$ 4,524</u>	<u>\$ 220,191</u>
\$ -	\$ -	\$ 37,066	\$ 37,066
-	-	-	4,880
1,931	-	-	28,365
<u>1,931</u>	<u>-</u>	<u>37,066</u>	<u>70,311</u>
5,673	10,046	(32,542)	149,880
<u>\$ 7,604</u>	<u>\$ 10,046</u>	<u>\$ 4,524</u>	<u>\$ 220,191</u>

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

	Library	Parks and Recreation	DARE	Small Cities
REVENUES				
Tax Increments	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for Services	-	42,714	-	-
Gifts and Contributions	-	-	1,000	-
Interest on Investments	5	76	7	3
Miscellaneous	-	3,950	-	2,670
Total Revenues	5	46,740	1,007	2,673
EXPENDITURES				
CURRENT				
General Government	-	-	-	319
Public Safety	-	-	1,734	-
Parks and Recreation	1,320	253,964	-	-
Economic Development	-	-	-	-
Capital Outlay				
Public Works	-	-	-	-
Parks and Recreation	-	16,925	-	-
Total Expenditures	1,320	270,889	1,734	319
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,315)	(224,149)	(727)	2,354
OTHER FINANCING SOURCES (USES)				
Transfers In	1,962	280,750	-	-
NET CHANGE IN FUND BALANCES	647	56,601	(727)	2,354
Fund Balance (Deficit) - Beginning of Year	6,032	89,362	8,510	3,924
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 6,679</u>	<u>\$ 145,963</u>	<u>\$ 7,783</u>	<u>\$ 6,278</u>

TIF Districts	Youth Alive Early Prevention	Capital Projects Fund	Total Nonmajor Funds
\$ 111,142	\$ -	\$ -	\$ 111,142
13,663	3,500	-	17,163
-	-	-	42,714
-	-	-	1,000
-	16	3	110
-	-	-	6,620
124,805	3,516	3	178,749
-	-	-	319
-	24,216	-	25,950
-	-	-	255,284
121,689	-	-	121,689
-	-	57,521	57,521
-	-	-	16,925
121,689	24,216	57,521	477,688
3,116	(20,700)	(57,518)	(298,939)
-	7,500	25,000	315,212
3,116	(13,200)	(32,518)	16,273
2,557	23,246	(24)	133,607
<u>\$ 5,673</u>	<u>\$ 10,046</u>	<u>\$ (32,542)</u>	<u>\$ 149,880</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 DECEMBER 31, 2010**

ASSETS	<u>Sanitation</u>	<u>Storm Sewer</u>	<u>Golf Course</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 81,670	\$ 166,779	\$ -
Accounts Receivable - Net	34,783	5,379	208
Inventories	-	-	1,200
Total Current Assets	<u>116,453</u>	<u>172,158</u>	<u>1,408</u>
NONCURRENT ASSETS			
Capital Assets			
Land	-	13,077	-
Buildings (Net)	112,014	-	226,394
Infrastructure (Net)	-	583,883	-
Improvements (Net)	-	-	51,091
Machinery and Equipment (Net)	-	16,903	18,667
Vehicles (Net)	-	-	-
Net Capital Assets	<u>112,014</u>	<u>613,863</u>	<u>296,152</u>
Total Assets	<u>228,467</u>	<u>786,021</u>	<u>297,560</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	11,332	-	687
Salaries and Benefits Payable	747	-	69
Due to Other Governments	2,951	-	4
Due to Other Funds	-	-	24,188
Compensated Absences - Due Within One Year	896	-	-
Total Current Liabilities	<u>15,926</u>	<u>-</u>	<u>24,948</u>
NONCURRENT LIABILITIES			
Compensated Absences - Due in More than One Year	299	-	-
Other Postemployment Benefits Payable - Due in More than One Year	93	-	-
Total Noncurrent Liabilities	<u>392</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>16,318</u>	<u>-</u>	<u>24,948</u>
NET ASSETS (DEFICIT)			
Invested in Capital Assets	112,014	613,863	296,152
Unrestricted	100,135	172,158	(23,540)
Total Net Assets	<u>\$ 212,149</u>	<u>\$ 786,021</u>	<u>\$ 272,612</u>

<u>Ambulance</u>	<u>Broadband Internet</u>	<u>Total Nonmajor Proprietary Funds</u>
\$ 99,846	\$ 328,196	\$ 676,491
45,675	45,416	131,461
-	-	1,200
<u>145,521</u>	<u>373,612</u>	<u>809,152</u>
-	-	13,077
2,861	-	341,269
-	-	583,883
-	-	51,091
58,597	9,971	104,138
60,983	-	60,983
<u>122,441</u>	<u>9,971</u>	<u>1,154,441</u>
267,962	383,583	1,963,593
1,812	1,580	15,411
5,882	387	7,085
-	-	2,955
-	-	24,188
477	955	2,328
<u>8,171</u>	<u>2,922</u>	<u>51,967</u>
159	318	776
252	744	1,089
<u>411</u>	<u>1,062</u>	<u>1,865</u>
<u>8,582</u>	<u>3,984</u>	<u>53,832</u>
122,441	9,971	1,154,441
<u>136,939</u>	<u>369,628</u>	<u>755,320</u>
<u>\$ 259,380</u>	<u>\$ 379,599</u>	<u>\$ 1,909,761</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 YEAR ENDED DECEMBER 31, 2010**

	Sanitation	Storm Sewer	Golf Course
OPERATING REVENUES			
Charges for Services	\$ 179,633	\$ 29,282	\$ 120,433
OPERATING EXPENDITURES			
Professional Services	120,722	-	25,140
Wages, Salaries, and Compensation	23,151	-	56,063
Repairs and Maintenance	652	2,875	14,314
Insurance	1,571	-	6,298
Utilities	-	-	4,240
Depreciation	2,632	21,902	16,392
Materials and Supplies	829	-	16,838
Miscellaneous Expenses	23,336	-	14,232
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	<u>172,893</u>	<u>24,777</u>	<u>153,517</u>
OPERATING INCOME (LOSS)	6,740	4,505	(33,084)
NONOPERATING REVENUES (EXPENSES)			
Investment Income	69	124	-
Intergovernmental Grants	26,223	-	252
Miscellaneous - Nonoperating	-	-	5,773
Total Nonoperating Revenues (Expenses)	<u>26,292</u>	<u>124</u>	<u>6,025</u>
Income (Loss) before Transfers	33,032	4,629	(27,059)
Transfers In	-	-	9,000
Transfers Out	<u>(21,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	12,032	4,629	(18,059)
Net Assets - Beginning of Year	<u>200,117</u>	<u>781,392</u>	<u>290,671</u>
NET ASSETS - END OF YEAR	<u><u>\$ 212,149</u></u>	<u><u>\$ 786,021</u></u>	<u><u>\$ 272,612</u></u>

Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
\$ 235,758	\$ 204,983	\$ 770,089
19,125	-	164,987
134,526	14,445	228,185
4,468	-	22,309
4,396	-	12,265
(264)	-	3,976
18,209	17,253	76,388
24,301	24,812	66,780
32,163	24,295	94,026
86,819	-	86,819
<u>323,743</u>	<u>80,805</u>	<u>755,735</u>
(87,985)	124,178	14,354
85	128	406
10,113	-	36,588
34,793	-	40,566
<u>44,991</u>	<u>128</u>	<u>77,560</u>
(42,994)	124,306	91,914
59,507	-	68,507
-	(115,768)	(136,768)
16,513	8,538	23,653
<u>242,867</u>	<u>371,061</u>	<u>1,886,108</u>
<u>\$ 259,380</u>	<u>\$ 379,599</u>	<u>\$ 1,909,761</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Sanitation	Storm Sewer	Golf Course
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 176,351	\$ 29,237	\$ 120,431
Payments to Suppliers	(145,514)	(2,875)	(81,350)
Payments to Employees	(22,920)	-	(56,063)
Net Cash Provided (Used) by Operating Activities	7,917	26,362	(16,982)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers In	-	-	9,000
Transfers Out	(21,000)	-	-
Interfund Borrowings	-	-	1,957
Grant Receipts	26,223	-	252
Net Cash Provided (Used) by Noncapital and Related Financing Activities	5,223	-	11,209
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Capital Assets	-	-	-
Other Miscellaneous Receipts	-	-	5,773
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	5,773
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	69	124	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,209	26,486	-
Cash and Cash Equivalents - Beginning of Year	68,461	140,293	-
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 81,670</u>	<u>\$ 166,779</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 6,740	\$ 4,505	\$ (33,084)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	2,632	21,902	16,392
(Increase) Decrease in Assets			
Accounts Receivable	(3,282)	(45)	(2)
Increase (Decrease) in Liabilities			
Accounts Payable	28	-	(292)
Salaries and Benefits Payable	185	-	-
Other Postemployment Benefits Payable	46	-	-
Due to Other Governments	1,568	-	4
Total Adjustments	1,177	21,857	16,102
Net Cash Provided (Used) by Operating Activities	<u>\$ 7,917</u>	<u>\$ 26,362</u>	<u>\$ (16,982)</u>

Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
\$ 219,360	\$ 201,532	\$ 746,911
(176,457)	(48,360)	(454,556)
<u>(132,568)</u>	<u>(14,108)</u>	<u>(225,659)</u>
(89,665)	139,064	66,696
59,507	-	68,507
-	(115,768)	(136,768)
-	-	1,957
<u>10,113</u>	<u>-</u>	<u>36,588</u>
69,620	(115,768)	(29,716)
(23,434)	-	(23,434)
<u>34,793</u>	<u>-</u>	<u>40,566</u>
11,359	-	17,132
<u>85</u>	<u>128</u>	<u>406</u>
(8,601)	23,424	54,518
<u>108,447</u>	<u>304,772</u>	<u>621,973</u>
<u>\$ 99,846</u>	<u>\$ 328,196</u>	<u>\$ 676,491</u>
\$ (87,985)	\$ 124,178	\$ 14,354
18,209	17,253	76,388
(16,398)	(3,451)	(23,178)
(5,449)	747	(4,966)
1,833	(31)	1,987
125	368	539
<u>-</u>	<u>-</u>	<u>1,572</u>
<u>(1,680)</u>	<u>14,886</u>	<u>52,342</u>
<u>\$ (89,665)</u>	<u>\$ 139,064</u>	<u>\$ 66,696</u>

OTHER COMBINING SCHEDULES

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND – BY BOND ISSUE
 DECEMBER 31, 2010**

	Stoneridge Addition	Series 2004A Refunding Bonds	G.O. Taxable Bonds
ASSETS			
Cash and Pooled Investments	\$ -	\$ 122,227	\$ 74,423
Taxes Receivable			
Delinquent	-	-	-
Special Assessments Receivable			
Delinquent	-	2,802	1,228
Deferred	-	227,336	182,785
Total Assets	\$ -	\$ 352,365	\$ 258,436
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred Revenue	\$ -	\$ 230,138	\$ 184,013
FUND BALANCES (DEFICIT)			
Reserved for Debt Service	-	122,227	74,423
Total Liabilities and Fund Balances	\$ -	\$ 352,365	\$ 258,436

<u>G.O. 2003 Street Bonds</u>	<u>G.O. 2005 Bond Refinance</u>	<u>G.O. 2006 Bonds</u>	<u>G.O. 2010A Refunding Bonds</u>	<u>Total Debt Service Fund</u>
\$ -	\$ 111,071	\$ 18,544	\$ 197,314	\$ 523,579
-	381	41	6,058	6,480
-	12,091	-	54,702	70,823
-	298,469	1,126,376	396,969	2,231,935
<u>\$ -</u>	<u>\$ 422,012</u>	<u>\$ 1,144,961</u>	<u>\$ 655,043</u>	<u>\$ 2,832,817</u>
\$ -	\$ 304,669	\$ 1,126,376	\$ 457,442	\$ 2,302,638
-	117,343	18,585	197,601	530,179
<u>\$ -</u>	<u>\$ 422,012</u>	<u>\$ 1,144,961</u>	<u>\$ 655,043</u>	<u>\$ 2,832,817</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, 2010

	Stoneridge Addition	Series 2004A Refunding Bonds	G.O. Taxable Bonds
REVENUES			
Taxes	\$ 6,285	\$ -	\$ -
Special assessments	25,283	60,800	34,096
Investment Earnings	9,756	474	961
Total Revenues	41,324	61,274	35,057
EXPENDITURES			
Debt Service			
Principal	355,000	150,000	50,578
Interest	49,993	2,145	9,785
Bond Issue Costs	22,800	-	-
Total Expenditures	427,793	152,145	60,363
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(386,469)	(90,871)	(25,306)
OTHER FINANCING SOURCES (USES)			
Transfers In	12,366	-	-
Transfers Out	(50,068)	-	-
Bond Proceeds	935,000	-	-
Payment to Refunded Bond Escrow Agent	(935,000)	-	-
Total Other Financing Sources (Uses)	(37,702)	-	-
NET CHANGE IN FUND BALANCE	(424,171)	(90,871)	(25,306)
Fund Balance (Deficit) - Beginning of Year	424,171	213,098	99,729
FUND BALANCE (DEFICIT) - END OF YEAR	\$ -	\$ 122,227	\$ 74,423

G.O. 2003 Street Bonds	G.O. 2005 Bond Refinance	G.O. 2006 Bonds	G.O. 2010A Refunding Bonds	Intrafund Eliminations	Total Debt Service Fund
\$ 10,158	\$ 52,226	\$ 5,624	\$ 15,087	\$ -	\$ 89,380
-	70,201	19,165	27,287	-	236,832
539	170	6	869	-	12,775
10,697	122,597	24,795	43,243	-	338,987
20,000	45,000	-	-	-	620,578
5,162	12,693	25,993	21,037	-	126,808
2,073	-	-	-	-	24,873
27,235	57,693	25,993	21,037	-	772,259
(16,538)	64,904	(1,198)	22,206	-	(433,272)
12,121	65,000	7,000	175,395	(150,908)	120,974
(100,840)	-	-	-	150,908	-
85,000	-	-	-	-	1,020,000
(85,000)	-	-	-	-	(1,020,000)
(88,719)	65,000	7,000	175,395	-	120,974
(105,257)	129,904	5,802	197,601	-	(312,298)
105,257	(12,561)	12,783	-	-	842,477
\$ -	\$ 117,343	\$ 18,585	\$ 197,601	\$ -	\$ 530,179

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND – BY PROJECT
 DECEMBER 31, 2010**

	Heartland Addition	C.S.A.H. 52 Projects	McGrath & City Center Projects	Total Capital Projects Fund
ASSETS				
Cash and Pooled Investments	\$ -	\$ 4,524	\$ -	\$ 4,524
LIABILITIES AND FUND DEFICITS				
LIABILITIES				
Due to Other Funds	\$ 29,566	\$ -	\$ 7,500	\$ 37,066
FUND BALANCES (DEFICITS)				
Unreserved, Designated	(29,566)	4,524	(7,500)	(32,542)
Total Liabilities and Fund Balances (Deficits)	\$ -	\$ 4,524	\$ -	\$ 4,524

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
CAPITAL PROJECTS FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2010

	Heartland Addition	C.S.A.H. 52 Projects	McGrath & City Center Projects	Total Capital Projects Fund
REVENUES				
Investment Earnings	\$ -	\$ 3	\$ -	\$ 3
EXPENDITURES				
CURRENT				
CAPITAL OUTLAY				
Public Works	29,566	27,955	-	57,521
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(29,566)	(27,952)	-	(57,518)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	25,000	-	25,000
NET CHANGE IN FUND BALANCE	(29,566)	(2,952)	-	(32,518)
Fund Balance (Deficit) - Beginning of Year	-	7,476	(7,500)	(24)
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (29,566)</u>	<u>\$ 4,524</u>	<u>\$ (7,500)</u>	<u>\$ (32,542)</u>

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Barnesville (the City), Minnesota as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 25, 2011. 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 described in the accompanying schedule of findings and recommendations, 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 2010-01, 2010-02, and 2010-03 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.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
April 25, 2011

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2010**

MATERIAL WEAKNESSES

2010-01 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.

2010-02 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, 2010**

MATERIAL WEAKNESSES (CONTINUED)

2010-02 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.

2010-03 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, 2010**

OTHER ITEMS FOR CONSIDERATION (LEGAL COMPLIANCE):

2010-04 CONTRACT COMPLIANCE

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

Condition: We were not presented with documentation of a Form IC-134 for the City's 2010 sealcoat project for which the City submitted final payment during 2010.

Cause: Unknown.

Effect: Not in compliance with *Minnesota Statutes*.

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

Management Response: City management will ensure a Form IC-134 will be obtained prior to submitting final payment on all City construction projects.

PREVIOUSLY REPORTED ITEMS RESOLVED

INVESTMENT COMPLIANCE (2009-04)

We were not presented with a broker certification form, in compliance with *Minnesota Statutes* §118A.04

RESOLUTION

The City obtained the required certifications for 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, 2010, and have issued our report thereon dated April 25, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Audit Guide for Political Subdivisions*, 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 Political Subdivisions* 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 2010-04.

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
LarsonAllen LLP

Brainerd, Minnesota
April 25, 2011