

CITY OF BARNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014

**CITY OF BARNESVILLE, MINNESOTA
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DECEMBER 31, 2014**

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INTRODUCTORY SECTION

**CITY OF BARNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2014**

ELECTED	NAME	TERM EXPIRES
Mayor	Gene Prim	12/31/2015
City Council	Betty Strom	12/31/2015
City Council	Richard Sylvester	12/31/2015
City Council	Catherine Enstad	12/31/2015
City Council	Larry Davis, Jr.	12/31/2017
City Council	Jason Rick	12/31/2017
City Council	Don Goedtke	12/31/2017

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville (City), Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, as of December 31, 2014, the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Honorable Mayor and
Members of the City Council
City of Barnesville

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 17, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

This section of the City of Barnesville's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2014. The management's discussion and analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year (2014) and the prior year (2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 include the following:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$18,691,919 (net position). Of this amount, \$8,209,459 (unrestricted net position), may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net position increased \$1,015,126 or 5.74% over the prior year.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$2,236,105, a decrease of \$679,883 in comparison to the prior year. Approximately 31.5% of this amount, or \$698,615, is restricted for debt service.
- At the end of the current year, unassigned fund balance for the General Fund was \$6,946, or 0.32% of General Fund expenditures.
- The City's total long-term debt increased by \$2,215,595 during the current year. This increase is the result of the issuance of \$3,870,000 of Communication System Revenue Bonds, less the scheduled repayment of bond principal.

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, 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.

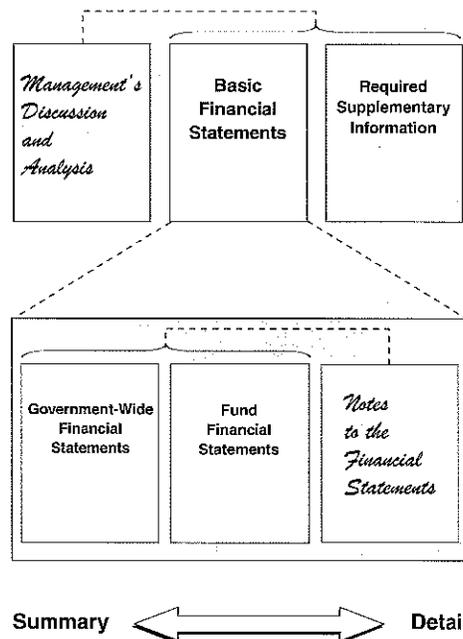
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

City-Wide Statements

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, ambulance, and broadband internet services. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
- *Fiduciary Funds* – The City is the fiscal agent, or fiduciary, for assets that belong to others. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The City's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the City-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$18,691,919 on December 31, 2014 (see Table A-1).

Table A-1
The City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 4,534,882	\$ 5,410,600	\$ 8,424,419	\$ 7,103,218	\$ 12,959,301	\$ 12,513,818
Capital Assets	4,429,597	4,134,405	13,357,302	10,724,422	17,786,899	14,858,827
Total Assets	8,964,479	9,545,005	21,781,721	17,827,640	30,746,200	27,372,645
Current Liabilities	438,713	983,130	996,876	928,702	1,435,589	1,911,832
Long-Term Liabilities	2,289,053	2,478,787	8,329,639	5,305,233	10,618,692	7,784,020
Total Liabilities	2,727,766	3,461,917	9,326,515	6,233,935	12,054,281	9,695,852
Net Position						
Net Investment in Capital Assets	2,038,618	1,634,192	5,632,512	4,792,740	7,671,130	6,426,932
Restricted	2,811,330	2,974,774	-	-	2,811,330	2,974,774
Unrestricted	1,386,765	1,474,122	6,822,694	6,800,965	8,209,459	8,275,087
Total Net Position	\$ 6,236,713	\$ 6,083,088	\$ 12,455,206	\$ 11,593,705	\$ 18,691,919	\$ 17,676,793

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$8,483,310 for the year ended December 31, 2014. Property taxes and intergovernmental revenues accounted for 17.6% of total revenue for the year, while user charges accounted for 70.8% of total revenue (see Table A-2).

Table A-2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
<u>Program Revenues</u>						
Charges for Services	\$ 224,678	\$ 210,650	\$ 5,783,333	\$ 5,581,120	\$ 6,008,011	\$ 5,791,770
Operating Grants and Contributions	54,740	56,242	40,890	41,513	95,630	97,755
Capital Grants and Contributions	137,808	230,544	17,251	18,916	155,059	249,460
<u>General Revenues</u>						
Property Taxes	554,693	594,208	44,000	-	598,693	594,208
Tax Increments	136,920	144,887	-	-	136,920	144,887
Unrestricted State Aid	757,801	659,473	-	-	757,801	659,473
Investment Earnings	35,950	21,295	36,125	2,519	72,075	23,814
Other	78,431	73,041	580,690	408,351	659,121	481,392
Total Revenues	1,981,021	1,990,340	6,502,289	6,052,419	8,483,310	8,042,759
EXPENSES						
General Government	605,031	682,187	-	-	605,031	682,187
Public Safety	619,257	611,770	-	-	619,257	611,770
Public Works	576,407	558,756	-	-	576,407	558,756
Culture and Recreation	383,296	483,091	-	-	383,296	483,091
Economic Development	306,365	287,665	-	-	306,365	287,665
Interest	67,290	128,630	-	-	67,290	128,630
Water	-	-	396,230	289,650	396,230	289,650
Sewer	-	-	348,342	320,661	348,342	320,661
Electric	-	-	1,870,287	1,781,262	1,870,287	1,781,262
Telephone	-	-	758,507	675,228	758,507	675,228
Municipal Liquor	-	-	373,088	381,611	373,088	381,611
Cable Television	-	-	426,842	434,714	426,842	434,714
Sanitation	-	-	187,097	184,723	187,097	184,723
Storm Sewer	-	-	21,902	21,901	21,902	21,901
Ambulance	-	-	417,284	389,523	417,284	389,523
Broadband Internet	-	-	110,959	58,799	110,959	58,799
Total Expenses	2,557,646	2,752,099	4,910,538	4,538,072	7,468,184	7,290,171
Transfers	730,250	674,506	(730,250)	(674,506)	-	-
CHANGE IN NET POSITION	153,625	(87,253)	861,501	839,841	1,015,126	752,588
Net Position - Beginning of Year	6,083,088	6,170,341	11,593,705	10,753,864	17,676,793	16,924,205
NET POSITION - END OF YEAR	\$ 6,236,713	\$ 6,083,088	\$ 12,455,206	\$ 11,593,705	\$ 18,691,919	\$ 17,676,793

Total revenues surpassed expenses, increasing city-wide net position by \$1,015,126 as compared to an increase of \$752,588 in 2013. The increase in net position for 2014 is primarily due to an increase in charges for services and an increase in joint venture revenue.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The City-wide cost of all governmental activities this year was \$2,557,646.

- Some of the cost was paid by the users of the City's programs (\$224,678).
- Federal and state government payments (\$192,548) subsidized certain programs.
- Ad valorem property taxes (\$554,693) and unrestricted state grants (\$757,801) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also subsidize governmental operations (\$730,250).

Figure A-3 Sources of City's Governmental Revenues for Fiscal 2014

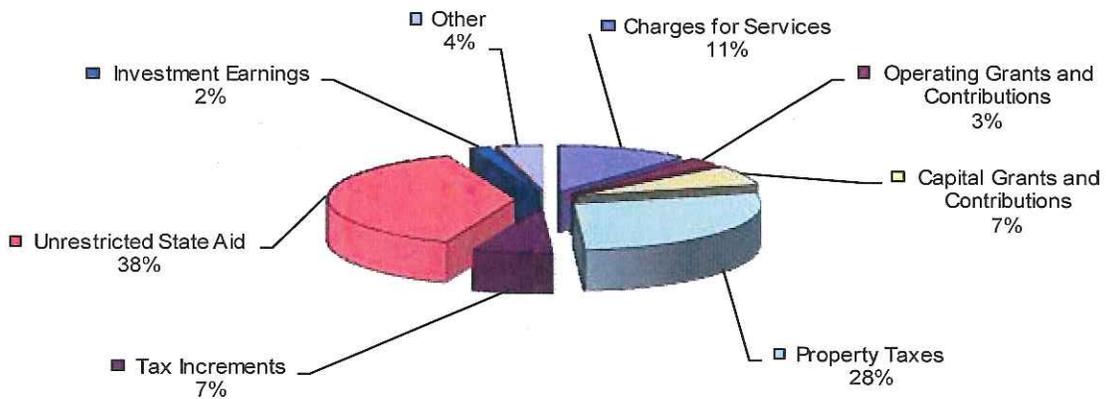
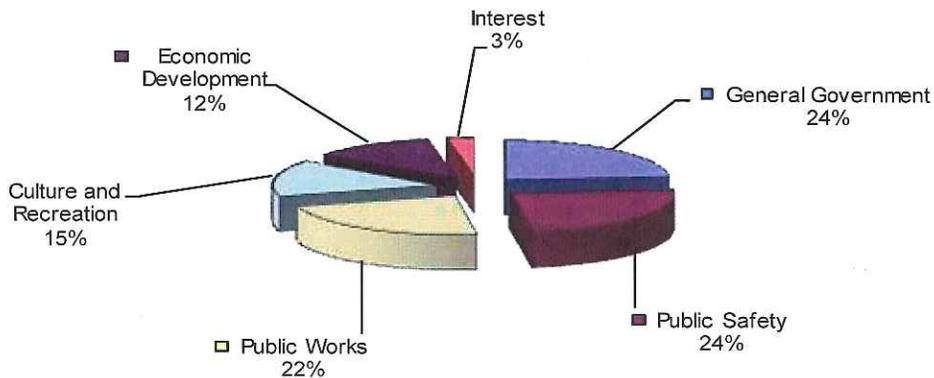


Figure A-4 City's Governmental Expenses for Fiscal 2014



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**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Net Revenue (Cost of Services) After Program Revenues	
	2014	2013	2014	2013
GOVERNMENTAL ACTIVITIES				
General Government	\$ 605,031	\$ 682,187	\$ (567,465)	\$ (650,707)
Public Safety	619,257	611,770	(498,911)	(394,981)
Public Works	576,407	558,756	(504,131)	(489,529)
Culture and Recreation	383,296	483,091	(196,258)	(303,151)
Economic Development	306,365	287,665	(306,365)	(287,665)
Interest and Fiscal Charges on				
Interest	67,290	128,630	(67,290)	(128,630)
Total	<u>\$ 2,557,646</u>	<u>\$ 2,752,099</u>	<u>\$ (2,140,420)</u>	<u>\$ (2,254,663)</u>
BUSINESS-TYPE ACTIVITIES				
Water	\$ 396,230	\$ 289,650	\$ 43,488	\$ 146,830
Sewer	348,342	320,661	267,865	290,376
Electric	1,870,287	1,781,262	373,561	275,623
Telephone	758,507	675,228	194,808	268,905
Municipal Liquor	373,088	381,611	(6,153)	9,222
Cable Television	426,842	434,714	24,528	20,825
Sanitation	187,097	184,723	21,782	30,330
Storm Sewer	21,902	21,901	11,463	10,559
Ambulance	417,284	389,523	(101,926)	(79,632)
Broadband Internet	110,959	58,799	101,520	130,439
Total	<u>\$ 4,910,538</u>	<u>\$ 4,538,072</u>	<u>\$ 930,936</u>	<u>\$ 1,103,477</u>

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

Governmental Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$2,236,105.

Revenues for the City's governmental funds were \$2,147,505, while total expenditures were \$3,132,202.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014	December 31, 2013	Increase (Decrease)
Taxes	\$ 154,634	\$ 183,460	\$ (28,826)
Special Assessments	38,486	41,682	(3,196)
Licenses and Permits	30,564	26,148	4,416
Intergovernmental	841,855	823,042	18,813
Charges for Services	1,234	1,423	(189)
Fines and Forfeits	7,362	6,839	523
Interest	25,272	9,615	15,657
Miscellaneous and Other	75,073	49,850	25,223
Total General Fund Revenues	\$ 1,174,480	\$ 1,142,059	\$ 32,421

Total General Fund revenue increased by \$32,421, or 2.8%, from the previous year. The primary reason for the increase is an increase in intergovernmental revenues, interest income and miscellaneous revenues.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change
	December 31, 2014	December 31, 2013	Increase (Decrease)
General Government	\$ 647,676	\$ 723,857	\$ (76,181)
Public Safety	577,015	549,096	27,919
Public Works	269,883	255,479	14,404
Airport	40	1,268	(1,228)
Economic Development	146,719	152,743	(6,024)
Capital Outlay	547,179	143,478	403,701
Debt Service	9,942	345	9,597
Total Expenditures	\$ 2,198,454	\$ 1,826,266	\$ 372,188

The General Fund's expenditures increased \$372,188 from 2013. This increase is due largely to increases in capital outlay for the city hall remodel project.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 \$108,929 more than expected. This is primarily due to more than expected special assessments and intergovernmental revenues.
- The actual expenditures were \$397,446 more than budget. This is primarily due to the City doing the City Hall remodel project that was not in the budget.

Parks and Recreation Fund

The Parks and Recreation Fund for 2014 had an increase in fund balance of \$113,390. The fund was also over budget in revenues and under budget in expenditures during 2014 by \$31,612 and \$151,779, respectively.

Capital Projects Fund

The Capital Projects Fund for 2014 had a decrease in fund balance of \$11,176. The City did not have any major projects going on during 2014.

Debt Service Fund

During 2014, the City did not issue any debt related to the Debt Service Funds. The Debt Service Fund's fund balance decreased \$522,968 due to the payment of refunded debt from cash held with escrow agent.

Business-Type Funds

Water and Sewer Fund

The Water and Sewer Funds showed net income (before transfers to other funds) of approximately \$47,000 and \$271,000, respectively, for the year ended December 31, 2014, as compared to \$153,000 and \$298,000, respectively for 2013.

Liquor and Cable Television Fund

The operations of the Municipal Liquor and Cable Television Funds showed net income(loss) (before transfers to other funds) of approximately (\$4,000) and \$26,000, respectively, for the year ended December 31, 2014, as compared to \$11,500 and \$22,000, respectively, for 2013.

Electric Fund

The Electric Fund showed an increase in sales of approximately \$187,000 resulting from an increase in consumption and an increase in rates; however, purchased power costs increased by approximately \$33,000. The net result was net income (before transfers to other funds) of approximately \$418,000 for the year ended December 31, 2014.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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

Business-Type Funds (Continued)

Telephone Fund

The Telephone Fund showed an increase in sales of approximately \$8,000, or 0.8%, resulting from an increase in customers. Income of approximately \$520,000 (compared to \$343,000 in the prior year) was reflected in the Telephone Fund's fiber optic Joint Venture, resulting in a net income (before transfers to other funds) of approximately \$724,000 as compared to \$623,000 in the prior year.

CONSTRUCTION PROJECTS AND DEBT SERVICE

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 2014, the City had invested approximately \$17,800,000 (net of accumulated depreciation) in a broad range of capital assets, including buildings, computers, improvements, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3.A.3 to the financial statements). Total depreciation expense for the year was 702,412 (including the enterprise funds).

Table A-6
The City's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 551,831	\$ 551,831	\$ 113,908	\$ 113,908	\$ 665,739	\$ 665,739
Construction-in-Progress	-	-	2,897,262	32,733	2,897,262	32,733
Buildings	1,616,409	1,616,409	1,330,997	1,330,997	2,947,406	2,947,406
Infrastructure	4,728,827	4,700,523	11,816,883	11,816,883	16,545,710	16,517,406
Improvements	688,258	263,978	979,170	979,170	1,667,428	1,243,148
Machinery and Equipment	758,925	683,800	2,700,331	2,664,527	3,459,256	3,348,327
Vehicles	362,669	362,669	459,771	337,722	822,440	700,391
Less: Accumulated Depreciation	(4,277,322)	(4,044,805)	(6,941,020)	(6,551,518)	(11,218,342)	(10,596,323)
Total	<u>\$ 4,429,597</u>	<u>\$ 4,134,405</u>	<u>\$ 13,357,302</u>	<u>\$ 10,724,422</u>	<u>\$ 17,786,899</u>	<u>\$ 14,858,827</u>

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

LONG-TERM LIABILITIES

At year-end, the City had 11,526,863 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities net long-term debt increased \$2,215,595 due primarily to the issuance of the communications revenue bond in the current year and continuing pay down of existing debt as scheduled.

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

	2014	2013
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	\$ 2,355,000	\$ 3,110,000
Capital Leases Payable	41,065	6,323
Compensated Absences Payable	115,615	115,234
Other Postemployment Benefits Payable	120,715	99,961
Less: Bond Discounts	(5,086)	(10,790)
Total Governmental Activities	2,627,309	3,320,728
BUSINESS-TYPE ACTIVITIES		
Revenue Bonds	4,445,000	985,000
General Obligation Revenue Notes	2,674,000	2,895,000
General Obligation Bonds	1,756,000	2,070,000
Compensated Absences Payable	34,556	33,743
Other Postemployment Benefits Payable	29,137	25,115
Less: Bond Discounts	(39,139)	(18,318)
Total Business-Type Activities	8,899,554	5,990,540
Total City-Wide Long-Term Liabilities	\$ 11,526,863	\$ 9,311,268

FACTORS BEARING ON THE CITY'S FUTURE

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Investments	\$ 2,471,531	\$ 4,423,810	\$ 6,895,341	\$ 155,538
Taxes Receivable				
Delinquent	40,087	-	40,087	-
Special Assessments Receivable				
Delinquent	30,344	4,023	34,367	-
Noncurrent	2,157,094	404,689	2,561,783	-
Tax Increments Receivables	87	-	87	-
Accounts Receivable - Net	14,473	942,344	956,817	-
Accrued Interest Receivable	1,219	-	1,219	-
Notes Receivable - Net	8,921	-	8,921	-
Internal Balances	(200,000)	200,000	-	-
Inventories	1,200	66,046	67,246	-
Land Held for Resale	-	-	-	392,288
Advances to Component Unit	9,926	-	9,926	-
Advances to Primary Government	-	-	-	4,854
Investment in Joint Venture	-	2,383,507	2,383,507	-
Capital Assets not Being Depreciated				
Land	551,831	113,908	665,739	-
Construction-in-Progress	-	2,897,262	2,897,262	-
Capital Assets Being Depreciated				
Buildings	843,744	677,281	1,521,025	-
Infrastructure	2,158,345	7,887,844	10,046,189	-
Improvements	495,728	347,616	843,344	-
Machinery and Equipment	299,297	1,253,713	1,553,010	-
Vehicles	80,652	179,678	260,330	-
Total Assets	<u>8,964,479</u>	<u>21,781,721</u>	<u>30,746,200</u>	<u>552,680</u>
LIABILITIES				
Accounts Payable	12,076	243,003	255,079	4,882
Salaries and Benefits Payable	62,524	34,262	96,786	4,882
Deposits Payable	-	1,240	1,240	-
Accrued Interest Payable	21,003	50,682	71,685	102
Due to Other Governments	-	16,802	16,802	-
Due to Primary Government	-	-	-	70,053
Advances from Primary Government	-	-	-	9,926
Advances from Component Unit	4,854	-	4,854	-
Unearned Utility Payments	-	80,972	80,972	-
Bonds Payable - Due Within One Year	245,000	544,000	789,000	1,790
Capital Leases Payable - Due Within One Year	6,545	-	6,545	-
Compensated Absences Payable - Due Within One Year	86,711	25,915	112,626	-
Special Assessments Payable - Due in More Than One Year	-	-	-	214,999
Bonds Payable - Due in More Than One Year	2,104,914	8,291,861	10,396,775	6,873
Capital Leases Payable - Due in More Than One Year	34,520	-	34,520	-
Compensated Absences Payable - Due in More Than One Year	28,904	8,641	37,545	-
Other Postemployment Benefits Payable - Due in More Than One Year	120,715	29,137	149,852	6,207
Total Liabilities	<u>2,727,766</u>	<u>9,326,515</u>	<u>12,054,281</u>	<u>319,714</u>
NET POSITION				
Net Investment in Capital Assets	2,038,618	5,632,512	7,671,130	-
Restricted for				
Debt Service	2,718,521	-	2,718,521	-
Public Safety	6,551	-	6,551	-
Public Works	46,639	-	46,639	-
Economic Development	39,619	-	39,619	-
Unrestricted	1,386,765	6,822,694	8,209,459	232,966
Total Net Position	<u>\$ 6,236,713</u>	<u>\$ 12,455,206</u>	<u>\$ 18,691,919</u>	<u>\$ 232,966</u>

See accompanying Notes to the Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 605,031	\$ 37,566	\$ -	\$ -
Public Safety	619,257	666	44,455	75,225
Public Works	576,407	928	8,765	62,583
Culture and Recreation	383,296	185,518	1,520	-
Economic Development	306,365	-	-	-
Interest	67,290	-	-	-
Total Governmental Activities	2,557,646	224,678	54,740	137,808
Business-Type Activities				
Water	396,230	430,554	-	9,164
Sewer	348,342	608,120	-	8,087
Electric	1,870,287	2,243,848	-	-
Telephone	758,507	949,836	3,479	-
Municipal Liquor	373,088	366,935	-	-
Cable Television	426,842	451,370	-	-
Sanitation	187,097	182,168	26,711	-
Storm Sewer	21,902	33,365	-	-
Ambulance	417,284	304,658	10,700	-
Broadband Internet	110,959	212,479	-	-
Total Business-Type Activities	4,910,538	5,783,333	40,890	17,251
Total Primary Government	\$ 7,468,184	\$ 6,008,011	\$ 95,630	\$ 155,059
Component Unit				
EDA	\$ 233,637	\$ 53,739	\$ -	\$ -

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

CHANGE IN NET POSITION

Net Position - Beginning of Year

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (567,465)	\$ -	\$ (567,465)	\$ -
(498,911)	-	(498,911)	-
(504,131)	-	(504,131)	-
(196,258)	-	(196,258)	-
(306,365)	-	(306,365)	-
(67,290)	-	(67,290)	-
(2,140,420)	-	(2,140,420)	-
-	43,488	43,488	-
-	267,865	267,865	-
-	373,561	373,561	-
-	194,808	194,808	-
-	(6,153)	(6,153)	-
-	24,528	24,528	-
-	21,782	21,782	-
-	11,463	11,463	-
-	(101,926)	(101,926)	-
-	101,520	101,520	-
-	930,936	930,936	-
(2,140,420)	930,936	(1,209,484)	-
-	-	-	(179,898)
554,693	44,000	598,693	-
136,920	-	136,920	-
757,801	-	757,801	136,119
35,950	36,125	72,075	11
78,431	580,690	659,121	41,218
730,250	(730,250)	-	-
2,294,045	(69,435)	2,224,610	177,348
153,625	861,501	1,015,126	(2,550)
6,083,088	11,593,705	17,676,793	235,516
\$ 6,236,713	\$ 12,455,206	\$ 18,691,919	\$ 232,966

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FUND FINANCIAL STATEMENTS

**CITY OF BARNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Parks and Recreation Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,324,643	\$ 368,960	\$ 693,715	\$ 46,639	\$ 37,574	\$ 2,471,531
Taxes Receivable						
Current	34,260	-	5,827	-	-	40,087
Special Assessments Receivable						
Delinquent	25,210	-	5,134	-	-	30,344
Noncurrent	37,652	-	2,027,695	91,747	-	2,157,094
Accounts Receivable	8,765	5,708	-	-	-	14,473
Tax Increments Receivables	-	-	-	-	87	87
Accrued Interest Receivable	1,219	-	-	-	-	1,219
Notes Receivable	-	-	-	-	8,921	8,921
Inventory	-	1,200	-	-	-	1,200
Advance to Component Unit	9,926	-	-	-	-	9,926
Due from Other Funds	168,254	-	-	-	-	168,254
Total Assets	\$ 1,609,929	\$ 375,868	\$ 2,732,371	\$ 138,386	\$ 46,582	\$ 4,903,136
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 8,703	\$ 548	\$ -	\$ -	\$ 2,825	\$ 12,076
Salaries and Benefits Payable	57,667	4,857	-	-	-	62,524
Due to Other Funds	-	-	-	149,306	18,948	168,254
Advance from Other Funds	200,000	-	-	-	-	200,000
Advance from Component Unit	4,854	-	-	-	-	4,854
Unearned Revenue	-	-	-	-	-	-
Total Liabilities	271,224	5,405	-	149,306	21,773	447,708
Deferred Inflows of Resources						
Unavailable Taxes	23,611	-	4,215	-	-	27,826
Unavailable Special Assessments	61,288	-	2,029,541	91,747	-	2,182,576
Unavailable Loans Receivable	-	-	-	-	8,921	8,921
Total Deferred Inflows of Resources	84,899	-	2,033,756	91,747	8,921	2,219,323
Fund Balances (Deficit)						
Nonspendable Inventory	-	1,200	-	-	-	1,200
Nonspendable Advances	9,926	-	-	-	-	9,926
Restricted for Debt Repayment	-	-	698,615	-	-	698,615
Restricted for Other Governmental Funds	-	-	-	-	37,249	37,249
Restricted for Front Street Project	-	-	-	46,639	-	46,639
Committed for Capital Outlay	195,000	1,792	-	-	-	196,792
Committed for Community Projects	1,040,044	50,000	-	-	-	1,090,044
Committed for Park Operations	-	317,471	-	-	-	317,471
Assigned for Joint Powers	1,890	-	-	-	-	1,890
Unassigned	6,946	-	-	(149,306)	(21,361)	(163,721)
Total Fund Balances (Deficit)	1,253,806	370,463	698,615	(102,667)	15,888	2,236,105
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	\$ 1,609,929	\$ 375,868	\$ 2,732,371	\$ 138,386	\$ 46,582	\$ 4,903,136

See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS		\$ 2,236,105
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	4,429,597	
Other long-term assets are not available to pay for current-period expenditures and, therefore, are recorded as a deferred inflow of resources in the governmental funds.	2,219,323	
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	\$ (2,349,914)	
Capital Lease Obligations	(41,065)	
Accrued Compensated Absences	(115,615)	
Other Postemployment Benefits Payable	(120,715)	
Accrued Interest Payable on General Obligation Bonds	(21,003)	<u>(2,648,312)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 6,236,713</u>

See accompanying Notes to Financial Statements.

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	General Fund	Parks and Recreation Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 154,634	\$ 329,376	\$ 71,628	\$ -	\$ -	\$ 555,638
Tax Increments	-	-	-	-	136,920	136,920
Special Assessments	38,486	-	225,681	-	-	264,167
Licenses and Permits	30,564	508	-	-	-	31,072
Intergovernmental	841,855	-	-	-	-	841,855
Charges for Services	1,234	185,010	-	-	-	186,244
Fines and Forfeits	7,362	-	-	-	-	7,362
Gifts and Contributions	-	1,520	-	-	1,500	3,020
Interest on Investments	25,272	-	5,101	-	-	30,373
Miscellaneous	75,073	5,224	-	-	10,557	90,854
Total Revenues	1,174,480	521,638	302,410	-	148,977	2,147,505
EXPENDITURES						
Current						
General Government	647,676	-	-	-	-	647,676
Public Safety	577,015	-	-	-	1,788	578,803
Public Works	269,883	-	-	-	-	269,883
Airport	40	-	-	-	-	40
Parks and Recreation	-	344,651	-	-	-	344,651
Economic Development	146,719	-	-	-	174,458	321,177
Capital Outlay						
General Government	370,332	-	-	-	-	370,332
Public Works	176,847	-	-	33,876	-	210,723
Parks and Recreation	-	63,597	-	-	-	63,597
Debt Service						
Principal	7,822	-	245,000	-	-	252,822
Interest and Other Charges	2,120	-	70,378	-	-	72,498
Total Expenditures	2,198,454	408,248	315,378	33,876	176,246	3,132,202
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,023,974)	113,390	(12,968)	(33,876)	(27,269)	(984,697)
OTHER FINANCING SOURCES (USES)						
Transfers In	730,250	-	-	22,700	-	752,950
Transfers Out	(22,700)	-	-	-	-	(22,700)
Capital Lease Proceeds	42,564	-	-	-	-	42,564
Payment to Refunded Bond Escrow Agent	-	-	(510,000)	-	-	(510,000)
Proceeds from Sale of Capital Assets	42,000	-	-	-	-	42,000
Total Other Financing Sources (Uses)	792,114	-	(510,000)	22,700	-	304,814
NET CHANGE IN FUND BALANCES	(231,860)	113,390	(522,968)	(11,176)	(27,269)	(679,883)
Fund Balance (Deficit) - Beginning of Year	1,485,666	257,073	1,221,583	(91,491)	43,157	2,915,988
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 1,253,806	\$ 370,463	\$ 698,615	\$ (102,667)	\$ 15,888	\$ 2,236,105

See accompanying Notes to Financial Statements.

**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, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (679,883)

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	\$ 638,881	
Current Year Depreciation	<u>(300,255)</u>	338,626

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. (43,434)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (166,385)

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

Capital Lease Proceeds		(42,564)
------------------------	--	----------

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

Principal Repayments:		
General Obligation Bonds	755,000	
Capital Lease	<u>7,822</u>	762,822

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	11,282	
Amortization of Discounts	(5,704)	
Change in Compensated Absences	(381)	
Change in Other Postemployment Benefits Payable	<u>(20,754)</u>	<u>(15,557)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 153,625

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

ASSETS	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
Current Assets			
Cash and Cash Equivalents	\$ 507,352	\$ 775,309	\$ 588,213
Accounts Receivable - Net	83,246	121,240	401,205
Special Assessments Receivable			
Delinquent	2,137	1,886	-
Noncurrent	212,049	192,640	-
Inventories	-	-	-
Total Current Assets	<u>804,784</u>	<u>1,091,075</u>	<u>989,418</u>
Noncurrent Assets			
Investment in Joint Venture	-	-	-
Advances to Other Funds	-	200,000	-
Capital Assets			
Land	-	100,831	-
Construction in Progress	-	-	-
Buildings (Net)	384,938	2,504	68,060
Infrastructure (Net)	1,894,806	4,901,723	249,421
Improvements (Net)	-	-	-
Machinery and Equipment (Net)	121,151	50,505	180,072
Vehicles (Net)	-	120,015	-
Total Capital Assets	<u>2,400,895</u>	<u>5,175,578</u>	<u>497,553</u>
Total Noncurrent Assets	<u>2,400,895</u>	<u>5,375,578</u>	<u>497,553</u>
Total Assets	<u>3,205,679</u>	<u>6,466,653</u>	<u>1,486,971</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	1,082	1,721	783
Salaries and Benefits Payable	723	531	3,105
Deposits Payable	-	-	1,240
Accrued Interest Payable	7,342	18,280	1,173
Due to Other Governments	96	-	7,642
Unearned Utility Payments	-	-	32,713
Compensated Absences - Due Within One Year	212	212	2,589
Bonds Payable - Due Within One Year	80,000	269,000	-
Total Current Liabilities	<u>89,455</u>	<u>289,744</u>	<u>49,245</u>
Noncurrent Liabilities			
Compensated Absences Payable -			
Due in More than One Year	71	71	863
Other Postemployment Benefits Payable -			
Due in More than One Year	939	883	3,665
Bonds Payable - Due in More than One Year	1,070,361	3,005,000	-
Total Noncurrent Liabilities	<u>1,071,371</u>	<u>3,005,954</u>	<u>4,528</u>
Total Liabilities	<u>1,160,826</u>	<u>3,295,698</u>	<u>53,773</u>
Net Position			
Net Investment in Capital Assets	1,250,534	1,901,578	497,553
Unrestricted	794,319	1,269,377	935,645
Total Net Position	<u>\$ 2,044,853</u>	<u>\$ 3,170,955</u>	<u>\$ 1,433,198</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 1,523,015	\$ 11,560	\$ 84,858	\$ 933,503	\$ 4,423,810
135,351	3,452	91,290	106,560	942,344
-	-	-	-	4,023
-	-	-	-	404,689
-	66,046	-	-	66,046
1,658,366	81,058	176,148	1,040,063	5,840,912
2,383,507	-	-	-	2,383,507
-	-	-	-	200,000
-	-	-	13,077	113,908
2,897,262	-	-	-	2,897,262
1,251	44,398	71,784	104,346	677,281
-	-	343,571	498,323	7,887,844
347,616	-	-	-	347,616
314,884	-	542,471	44,630	1,253,713
27,034	-	14,691	17,938	179,678
3,588,047	44,398	972,517	678,314	13,357,302
5,971,554	44,398	972,517	678,314	15,940,809
7,629,920	125,456	1,148,665	1,718,377	21,781,721
200,646	982	9,797	27,992	243,003
12,844	5,237	1,089	10,733	34,262
-	-	-	-	1,240
12,434	-	11,453	-	50,682
2,687	2,436	2,493	1,448	16,802
-	-	48,259	-	80,972
14,260	2,706	1,756	4,180	25,915
155,000	-	40,000	-	544,000
397,871	11,361	114,847	44,353	996,876
4,753	903	586	1,394	8,641
17,296	-	2,483	3,871	29,137
3,688,437	-	528,063	-	8,291,861
3,710,486	903	531,132	5,265	8,329,639
4,108,357	12,264	645,979	49,618	9,326,515
855,681	44,398	404,454	678,314	5,632,512
2,665,882	68,794	98,232	990,445	6,822,694
\$ 3,521,563	\$ 113,192	\$ 502,686	\$ 1,668,759	\$ 12,455,206

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	Water	Sewer	Electric
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
Charges for Services	430,554	608,120	2,243,848
OPERATING EXPENSES			
Professional Services	128,446	112,485	107,184
Wages, Salaries, and Compensation	15,913	11,617	65,907
Repairs and Maintenance	140,929	18,288	22,060
Insurance	4,776	7,030	3,974
Utilities	-	-	3,966
Depreciation	77,357	134,184	30,281
Materials and Supplies	1,965	-	643
Miscellaneous Expenses	6,972	10,866	49,731
Purchased Power	-	-	1,493,653
License Fees	842	-	-
Equipment	-	-	86,131
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	377,200	294,470	1,863,530
OPERATING INCOME (LOSS)	53,354	313,650	380,318
NONOPERATING REVENUES (EXPENSES)			
Taxes	-	-	-
Investment Income	443	671	27,184
Joint Venture Income	-	-	-
Special Assessments	9,164	8,087	-
Intergovernmental Grants	-	-	-
Miscellaneous - Nonoperating	3,431	2,557	16,818
Interest Expense and Fiscal Charges	(19,030)	(53,872)	(6,757)
Total Nonoperating Revenues (Expenses)	(5,992)	(42,557)	37,245
Income (Loss) before Transfers	47,362	271,093	417,563
Transfers In	-	-	-
Transfers Out	(45,000)	(55,000)	(195,500)
CHANGE IN NET POSITION	2,362	216,093	222,063
Net Position - Beginning of Year	2,042,491	2,954,862	1,211,135
NET POSITION - END OF YEAR	<u>\$ 2,044,853</u>	<u>\$ 3,170,955</u>	<u>\$ 1,433,198</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ -	\$ 366,935	\$ -	\$ -	\$ 366,935
-	(284,507)	-	-	(284,507)
-	82,428	-	-	82,428
949,836	-	451,370	732,670	5,416,398
38,156	-	-	151,132	537,403
246,865	64,719	21,006	224,066	650,093
12,922	1,605	6,152	9,658	211,614
4,499	8,054	6,498	5,006	39,837
-	-	-	-	3,966
80,153	912	33,803	45,467	402,157
4,058	927	1,874	36,144	45,611
271,448	12,364	11,883	104,079	467,343
-	-	-	-	1,493,653
-	-	289,019	-	289,861
-	-	26,989	33,671	146,791
-	-	-	128,019	128,019
658,101	88,581	397,224	737,242	4,416,348
291,735	(6,153)	54,146	(4,572)	1,082,478
-	-	-	44,000	44,000
6,344	-	-	1,483	36,125
519,808	-	-	-	519,808
-	-	-	-	17,251
3,479	-	-	37,411	40,890
10,536	2,269	1,038	24,233	60,882
(100,406)	-	(29,618)	-	(209,683)
439,761	2,269	(28,580)	107,127	509,273
731,496	(3,884)	25,566	102,555	1,591,751
7,648	-	-	-	7,648
(300,250)	(6,000)	-	(136,148)	(737,898)
438,894	(9,884)	25,566	(33,593)	861,501
3,082,669	123,076	477,120	1,702,352	11,593,705
\$ 3,521,563	\$ 113,192	\$ 502,686	\$ 1,668,759	\$ 12,455,206

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	Water	Sewer	Electric
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 431,056	\$ 609,318	\$ 2,209,353
Payments to Suppliers	(287,779)	(147,697)	(1,778,663)
Payments to Employees	(15,828)	(11,419)	(64,818)
Net Cash Provided by Operating Activities	127,449	450,202	365,872
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers Out	(45,000)	(55,000)	(195,500)
Transfers In	-	-	-
Interfund Borrowings	-	(200,000)	-
Taxes	-	-	-
Other Miscellaneous Receipts	3,431	2,557	16,818
Intergovernmental Grants	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(41,569)	(252,443)	(178,682)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(107,000)	(428,000)	(148,000)
Interest Paid on Debt	(18,454)	(57,639)	(5,694)
Bond Proceeds	-	-	-
Special Assessments	19,164	16,910	-
Acquisition of Capital Assets	(11,537)	(122,049)	(9,484)
Net Cash Provided (Used) by Capital and Related Financing Activities	(117,827)	(590,778)	(163,178)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from Joint Venture	-	-	-
Interest and Dividends Received	443	671	27,184
Net Cash Provided (Used) by Investing Activities	443	671	27,184
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(31,504)	(392,348)	51,196
Cash and Cash Equivalents - Beginning of Year	538,856	1,167,657	537,017
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 507,352</u>	<u>\$ 775,309</u>	<u>\$ 588,213</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 53,354	\$ 313,650	\$ 380,318
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	77,357	134,184	30,281
(Increase) Decrease in Assets			
Accounts Receivable	502	1,198	(32,931)
Inventory	-	-	-
Increase (Decrease) in Liabilities			
Accounts Payable	(3,745)	972	(11,227)
Salaries and Benefits Payable	(70)	43	46
Other Postemployment Benefits Payable	116	116	846
Due to Other Governments	(104)	-	(94)
Compensated Absences Payable	39	39	197
Unavailable Utility Payments	-	-	(1,564)
Total Adjustments	74,095	136,552	(14,446)
Net Cash Provided by Operating Activities	<u>\$ 127,449</u>	<u>\$ 450,202</u>	<u>\$ 365,872</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Nonmajor Proprietary Funds	Total
\$ 954,512	\$ 366,249	\$ 455,330	\$ 755,409	\$ 5,781,227
(153,610)	(316,588)	(339,269)	(454,272)	(3,477,878)
(241,203)	(63,652)	(20,204)	(224,780)	(641,904)
559,699	(13,991)	95,857	76,357	1,661,445
(300,250)	(6,000)	-	(136,148)	(737,898)
7,648	-	-	-	7,648
-	-	-	-	(200,000)
-	-	-	43,996	43,996
10,536	2,269	1,038	24,233	60,882
3,479	-	-	37,411	40,890
(278,587)	(3,731)	1,038	(30,508)	(784,482)
(222,000)	-	(40,000)	-	(945,000)
(114,702)	-	(29,738)	-	(226,227)
3,870,000	-	-	-	3,870,000
-	-	-	-	36,074
(2,891,967)	-	-	-	(3,035,037)
641,331	-	(69,738)	-	(300,190)
197,423	-	-	-	197,423
6,344	-	-	1,487	36,129
203,767	-	-	1,487	233,552
1,126,210	(17,722)	27,157	47,336	810,325
396,805	29,282	57,701	886,167	3,613,485
\$ 1,523,015	\$ 11,560	\$ 84,858	\$ 933,503	\$ 4,423,810
\$ 291,735	\$ (6,153)	\$ 54,146	\$ (4,572)	\$ 1,082,478
80,153	912	33,803	45,467	402,157
4,676	(686)	5,565	22,739	1,063
-	(8,377)	-	-	(8,377)
177,291	(392)	3,218	13,457	179,574
2,363	702	90	180	3,354
2,043	-	543	358	4,022
182	(362)	(72)	(20)	(470)
1,256	365	169	(1,252)	813
-	-	(1,605)	-	(3,169)
267,964	(7,838)	41,711	80,929	578,967
\$ 559,699	\$ (13,991)	\$ 95,857	\$ 76,357	\$ 1,661,445

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2014**

ASSETS

Cash and Pooled Investments	<u>\$ 149,348</u>
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LIABILITIES

Due to Fire Department	<u>\$ 149,348</u>
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See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Financial Reporting Entity

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

Discretely Presented Component Unit

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Jointly Governed Organization

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

B. Government-Wide and Fund Financial Statements

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

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

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

C. Measurement Focus and Basis of Accounting

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

Additionally, the City reports the following fiduciary fund types:

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

Barnesville Food Pantry Agency Fund – The Food Pantry Fund accounts for the activity held by the City in a strictly custodial capacity.

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

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

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Investments (Including Cash Equivalents)

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

1. Cash and Investments (Including Cash Equivalents) (Continued)

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.

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 a deferred inflow of resources at the time of the levy. Deferred inflows of resources are recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

5. Inventory

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

6. Land Held for Resale

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

7. Prepaid Items

Payments made to vendors for services that will benefit future periods are recorded as prepaid items. That portion of the relevant funds' balances equal to the prepaid items is considered nonspendable.

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. Interest expense of \$81,130 was capitalized in the Telephone Fund as of December 31, 2014.

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

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

9. Compensated Absences

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

10. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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. Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis accounting. The City does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

12. Fund Balance and Net Position

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

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

E. Revenues, Expenditures, and Expense

1. Revenues

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

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

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

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

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

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

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

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

2. Expenditures

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

3. Expenses

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

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Deficit Fund Balances

The Capital Projects Fund had a deficit fund balance of \$102,667 as of December 31, 2014. The City plans to eliminate this deficit through future revenues and/or transfers.

The TIF Districts Fund had a deficit fund balance of \$21,361 as of December 31, 2014. The City plans to eliminate this deficit through future revenues and/or transfers.

B. Excess of Expenditures Over Appropriations

General Fund expenditures exceeded appropriations by \$397,496 in part to improvements made to City Hall. These improvements were funded in part by reserves previously set aside for capital improvements. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

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, 2014, based on market prices.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Deposits

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

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

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

At December 31, 2014, the balance was fully insured and collateralized as required by *Minnesota Statutes* §118A.03.

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;

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

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 with certain restrictions, repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

As of December 31, 2014, the City had the following investments in its pool:

Type	Maturity Date	Credit Rating	Fair Value	Percent of Total
State BK India NY	6/22/2017	NR	\$ 101,226	3.5 %
Federal National Mtg Assn	6/21/2032	AA+	99,961	3.4
Discover Bank CD	6/25/2015	NR	249,527	8.6
DMB Community Bank	5/3/2016	NR	249,376	8.6
Fannie Mae	10/25/2022	NR	239,282	8.2
Goldman Sachs BK NY	11/30/2015	NR	249,065	8.6
Goldman Sachs BK NY Medium Term CD	1/30/2015	NR	10,031	0.3
Synchrony Bank CD	1/20/2015	NR	57,104	2.0
Synchrony Bank CD	6/19/2015	NR	1,002	0.0
FNMA- Callable Agency	12/20/2018	NR	248,298	8.5
Minnesota Municipal Money Market Fund (4M)	N/A	NR	34,562	1.2
Money Market Funds	N/A	NR	1,365,899	47.0
			<u>\$ 2,905,335</u>	

NR = Not Rated

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

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

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.

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

Deposits	\$ 4,294,892
Investments	2,905,335
Total Cash and Investments	\$ 7,200,227
Governmental Funds	
Cash and Investments	\$ 2,471,531
Enterprise Funds	
Cash and Cash Equivalents	4,423,810
Component Unit	155,538
Fiduciary Funds	149,348
Total Cash and Investments	\$ 7,200,227

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 Ottetail Telephone to operate a fiber optic video transmission network to serve 17 area school districts. Each telephone company contributed capital and shares in the operating decisions. Barnesville's share is approximately 18.1%. All profits and losses are shared proportionately to each member's ownership. The City uses the equity method to account for its investments. Joint venture activity for 2014 is as follows:

Balance, January 1, 2014	\$ 2,061,122
Cash Distributions	(195,424)
Net Income	517,809
	\$ 2,383,507
Balance, December 31, 2014	\$ 2,383,507

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Non-Marketable Investments/Investment in Joint Venture (Continued)

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, 2014, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 551,831	\$ -	\$ -	\$ 551,831
Capital Assets Being Depreciated				
Buildings	1,616,409	-	-	1,616,409
Infrastructure	4,700,523	28,304	-	4,728,827
Improvements	263,978	424,280	-	688,258
Machinery and Equipment	683,800	186,297	(111,172)	758,925
Vehicles	362,669	-	-	362,669
Total Capital Assets Being Depreciated	<u>7,627,379</u>	<u>638,881</u>	<u>(111,172)</u>	<u>8,155,088</u>
Less: Accumulated Depreciation for				
Buildings	744,711	27,954	-	772,665
Infrastructure	2,416,122	154,360	-	2,570,482
Improvements	184,000	8,530	-	192,530
Machinery and Equipment	493,744	33,622	(67,738)	459,628
Vehicles	206,228	75,789	-	282,017
Total Accumulated Depreciation	<u>4,044,805</u>	<u>300,255</u>	<u>(67,738)</u>	<u>4,277,322</u>
Total Capital Assets Being Depreciated, Net	<u>3,582,574</u>	<u>338,626</u>	<u>(43,434)</u>	<u>3,877,766</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,134,405</u>	<u>\$ 338,626</u>	<u>\$ (43,434)</u>	<u>\$ 4,429,597</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014:

BUSINESS-TYPE ACTIVITIES	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 113,908	\$ -	\$ -	\$ 113,908
Construction in Progress	32,733	2,864,529	-	2,897,262
Total Capital Assets Not Being Depreciated	<u>146,641</u>	<u>2,864,529</u>	<u>-</u>	<u>3,011,170</u>
Capital Assets Being Depreciated				
Buildings	1,330,997	-	-	1,330,997
Infrastructure	11,816,883	-	-	11,816,883
Improvements	979,170	-	-	979,170
Machinery and Equipment	2,664,527	48,459	(12,655)	2,700,331
Vehicles	337,722	122,049	-	459,771
Total Capital Assets Being Depreciated	<u>17,129,299</u>	<u>170,508</u>	<u>(12,655)</u>	<u>17,287,152</u>
Less: Accumulated Depreciation for				
Buildings	632,653	21,063	-	653,716
Infrastructure	3,707,844	221,195	-	3,929,039
Improvements	616,431	15,123	-	631,554
Machinery and Equipment	1,338,937	120,336	(12,655)	1,446,618
Vehicles	255,653	24,440	-	280,093
Total Accumulated Depreciation	<u>6,551,518</u>	<u>402,157</u>	<u>(12,655)</u>	<u>6,941,020</u>
Total Capital Assets Being Depreciated, Net	<u>10,577,781</u>	<u>(231,649)</u>	<u>-</u>	<u>10,346,132</u>
Business-Type Activities Capital Assets, Net	<u>\$ 10,724,422</u>	<u>\$ 2,632,880</u>	<u>\$ -</u>	<u>\$ 13,357,302</u>

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

Governmental Activities:	
General Government	\$ 17,535
Public Safety	15,740
Public Works	229,236
Culture and Recreation	37,744
Total Depreciation Expense - Governmental Activities	<u>\$ 300,255</u>

Business-Type Activities:	
Water	\$ 77,357
Sewer	134,184
Electric	30,281
Telephone	80,153
Municipal Liquor	912
Cable Television	33,803
Sanitation	2,632
Storm Sewer	21,902
Ambulance	18,491
Broadband Internet	2,442
Total Depreciation Expense - Business-Type Activities	<u>\$ 402,157</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers

The Composition of interfund transfers as of December 31, 2014 is as follows:

	Transfers In:			Total
	General	Capital Projects Funds	Telephone Enterprise Funds	
Transfer Out:				
General Fund	\$ -	\$ 22,700	\$ -	\$ 22,700
Water Enterprise Fund	45,000	-	-	45,000
Sewer Enterprise Fund	55,000	-	-	55,000
Electric Enterprise Fund	195,500	-	-	195,500
Telephone Enterprise Fund	300,250	-	-	300,250
Municipal Liquor Enterprise Fund	6,000	-	-	6,000
Nonmajor Enterprise Funds	128,500	-	7,648	128,596
Total	\$ 730,250	\$ 22,700	\$ 7,648	\$ 780,018

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

The composition of interfund balances at December 31, 2014, is as follows:

Due To/From Other Funds and Discrete Component Unit

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects Fund	\$ 149,306
General Fund	TIF Districts	18,948
		\$ 168,254

The interfund receivables/payables between the General Fund and Capital Projects Fund, and the General Fund and TIF Districts Fund are related to the elimination of negative cash balances at year-end.

Advances To/From Other Funds and Discrete Component Unit

Advance To	Advance From	Amount
General Fund	Component Unit - EDA	\$ 4,854
Component Unit - EDA	General Fund	9,926
General Fund	Sewer Fund	200,000
		\$ 214,780

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. The advance between the General Fund and the Sewer Fund was to pay for the old city hall project. The General Fund will reimburse the Sewer Fund \$20,000 each year for the next ten years.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

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.

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt

	Authorized and Issued	Outstanding	Due in 2015	
			Principal	Interest
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds, Including Refunding Bonds				
G.O. Improvement and Refunding Bonds Series 2012A, 0.65% to 0.90%, Issued 04/12/12, Final Maturity 02/01/16.	\$ 150,000	\$ 90,000	\$ 55,000	\$ 535
G.O. Improvement and Refunding Bonds Series 2012A, 0.80% to 2.20%, Issued 04/12/12, Final Maturity 02/01/22.	545,000	545,000	65,000	7,953
G.O. Refunding Bonds Series 2010A, 1.00% to 4.00%, Issued 01/07/10, Final Maturity 02/01/23.	1,020,000	680,000	70,000	21,650
G.O. Improvement and Refunding Bonds Series 2012A, 0.55% to 3.30%, Issued 04/12/12, Final Maturity 02/01/32.	760,000	695,000	35,000	15,880
G.O. Improvement Bonds Series 2013A, 1.5% to 3.75%, Issued 11/21/13, Final Maturity 02/21/29.	345,000	345,000	20,000	9,503
Total General Obligation Bonds, Including Refunding Bonds	2,820,000	2,355,000	245,000	55,521
Less: Unamortized Discount	-	(5,086)	-	-
Total General Obligation Bonds, Including Refunding Bonds - Net	2,820,000	2,349,914	245,000	55,521
Capital Leases	57,564	41,065	6,545	5,340
Total Long-Term Debt - Governmental Activities	2,877,564	2,390,979	251,545	60,861

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt (Continued)

	Authorized and Issued	Outstanding	Due in 2015	
			Principal	Interest
BUSINESS-TYPE ACTIVITIES				
<u>Revenue Bonds</u>				
Communication System Revenue Bonds, Series 2014A; 0.75% to 4.6%; Issued 05/13/14; Final Maturity 12/01/34.	\$ 3,870,000	\$ 3,870,000	\$ 155,000	\$ 128,100
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	575,000	40,000	27,488
Total Revenue Bonds	4,660,000	4,445,000	195,000	155,588
Less: Unamortized Discount	-	(33,500)	-	-
Total Revenue Bonds - Net	4,660,000	4,411,500	195,000	155,588
<u>General Obligation Bonds</u>				
G.O. Improvement and Refunding Bonds Series 2012AA; 0.65% to 2.70%, Issued 04/12/12; Final Maturity 2/01/26.	740,000	685,000	55,000	12,555
G.O. Improvement and Refunding Bonds Series 2012A; 0.80% to 2.20%, Issued 04/12/12; Final Maturity 2/01/22.	150,000	150,000	20,000	2,200
G.O. Revenue Note of 2006; 1.56%, Issued 07/31/06; Final Maturity 08/20/25.	4,137,640	2,674,000	225,000	41,714
G.O. Revenue Bonds of 2011, 1.000% to 1.143%, Issued 2/29/12, Final Maturity 8/20/31.	1,049,285	921,000	49,000	9,884
Total General Obligation Bonds	7,046,925	4,430,000	349,000	66,353
Less: Unamortized Discount	-	(5,639)	-	-
Total General Obligation Bonds - Net	7,046,925	4,424,361	349,000	66,353
Total Long-Term Debt - Business-Type Activities	11,706,925	8,835,861	544,000	221,941
Total Government-Wide Long-Term Liabilities	<u>\$ 14,584,489</u>	<u>\$ 11,226,840</u>	<u>\$ 795,545</u>	<u>\$ 282,802</u>
DISCRETELY PRESENTED COMPONENT UNIT				
<u>Revenue Bonds</u>				
Lease Revenue Bonds of 2009; 2.25%, Issued 09/15/09; Final Maturity 09/15/2022.	\$ 31,500	\$ 8,663	\$ 1,790	\$ 349

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Debt

	December 31, 2013	Additions	Retirements	December 31, 2014	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt, Including					
Refunding Bonds	\$ 3,110,000	\$ -	\$ 755,000	\$ 2,355,000	\$ 245,000
Less: Unamortized Discounts	(10,790)	-	(5,704)	(5,086)	-
Capital Lease Obligations	6,323	42,564	7,822	41,065	6,545
Compensated Absences Payable	115,234	86,699	86,318	115,615	86,711
Other Postemployment Benefits Payable	99,961	20,754	-	120,715	-
Total Governmental Activities	<u>\$ 3,320,728</u>	<u>\$ 150,017</u>	<u>\$ 843,436</u>	<u>\$ 2,627,309</u>	<u>\$ 338,256</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 985,000	\$ 3,870,000	\$ 410,000	\$ 4,445,000	\$ 195,000
Revenue Notes	2,895,000	-	221,000	2,674,000	225,000
General Obligation Bonds	2,070,000	-	314,000	1,756,000	124,000
Less: Unamortized Discounts	(18,318)	(26,563)	(5,742)	(39,139)	-
Compensated Absences Payable	33,743	40,165	39,352	34,556	25,915
Other Postemployment Benefits Payable	25,115	4,022	-	29,137	-
Total Business-Type Activities	<u>\$ 5,990,540</u>	<u>\$ 3,887,624</u>	<u>\$ 978,610</u>	<u>\$ 8,899,554</u>	<u>\$ 569,915</u>
DISCRETELY PRESENTED COMPONENT UNIT					
Revenue Bonds **	\$ 10,414	\$ -	\$ 1,751	\$ 8,663	\$ 1,790
Other Postemployment Benefits Payable	5,094	1,113	-	6,207	-
Special Assessments Payable	219,999	-	5,000	214,999	-
Total Discretely Presented Component Unit	<u>\$ 235,507</u>	<u>\$ 1,113</u>	<u>\$ 6,751</u>	<u>\$ 229,869</u>	<u>\$ 1,790</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 2014.

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
2015	\$ 245,000	\$ 55,521	\$ 300,521	\$ 1,790	\$ 349	\$ 2,139
2016	225,000	52,173	277,173	1,831	309	2,140
2017	195,000	48,682	243,682	1,872	267	2,139
2018	195,000	44,925	239,925	1,914	225	2,139
2019	195,000	40,768	235,768	1,256	182	1,438
2020 - 2024	830,000	126,055	956,055	-	-	-
2025 - 2029	335,000	49,238	384,238	-	-	-
2030 - 2032	135,000	6,569	141,569	-	-	-
Total	<u>\$ 2,355,000</u>	<u>\$ 423,931</u>	<u>\$ 2,778,931</u>	<u>\$ 8,663</u>	<u>\$ 1,332</u>	<u>\$ 9,995</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments (Continued)

Year	Business-Type Activities					
	Revenue Bonds			G.O. Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 195,000	\$ 155,588	\$ 350,588	\$ 225,000	\$ 41,714	\$ 266,714
2016	200,000	152,625	352,625	228,000	38,204	266,204
2017	200,000	149,050	349,050	232,000	34,648	266,648
2018	200,000	145,088	345,088	235,000	31,028	266,028
2019	210,000	140,350	350,350	239,000	27,362	266,362
2020 - 2024	1,140,000	607,063	1,747,063	1,253,000	79,654	1,332,654
2025 - 2029	1,070,000	405,865	1,475,865	262,000	4,088	266,088
2030 - 2034	1,230,000	173,370	1,403,370	-	-	-
Total	\$ 4,445,000	\$ 1,928,999	\$ 6,373,999	\$ 2,674,000	\$ 256,698	\$ 2,930,698

Year	G.O. Bonds			Total Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 124,000	\$ 24,639	\$ 148,639	\$ 544,000	\$ 221,941	\$ 765,941
2016	116,000	23,521	139,521	544,000	214,350	758,350
2017	121,000	22,295	143,295	553,000	205,993	758,993
2018	126,000	20,838	146,838	561,000	196,954	757,954
2019	126,000	19,166	145,166	575,000	186,878	761,878
2018 - 2022	618,000	65,568	683,568	3,011,000	752,285	3,763,285
2023 - 2027	408,000	18,879	426,879	1,740,000	428,832	2,168,832
2028 - 2032	117,000	1,889	118,889	1,347,000	175,259	1,522,259
Total	\$ 1,756,000	\$ 196,795	\$ 1,952,795	\$ 8,875,000	\$ 2,382,492	\$ 11,257,492

5. Bonds Issued

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

During 2013, the City issued General Obligation Improvement Bonds, Series 2013A in the amount of \$345,000 with interest rates of 1.5-3.75%. This bond is being used to finance road projects throughout the City.

During 2014, the City issued a Communication System Revenue Bond, Series 2014A in the amount of \$3,870,000 with interest rates of 0.75-4.60%. This bond is being used to finance improvements to the City's existing broadband communication infrastructure system.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

6. Capital Leases

During 2014, the City entered into a 60-month lease with Konica Minolta for the purchase of a copier. Monthly installments including interest are \$341. At December 31, 2014, the City has assets under this capital lease of \$42,564 with related accumulated depreciation of \$2,128.

The future minimum lease payments are as follows:

Capital Leases	
Year	Minimum Payments
2015	\$ 11,885
2016	11,885
2017	11,885
2018	11,885
2019	8,913
Total Minimum Lease Payments	56,453
Less: Amounts Representing Interest	(15,388)
Present Value of Minimum Lease Payments	\$ 41,065

7. Operating Lease

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

Operating Lease	
Year	Minimum Payments
2015	\$ 921

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

8. 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, 2014.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

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

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 PENSION PLAN (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

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

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

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 9.60% of their annual covered salary in 2014. The City of Barnesville is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members and 15.3% for PEPFF members. The City's contributions to the GERF for the years ending December 31, 2014, 2013, and 2012 were as follows:

Year	General Employees Retirement Fund	Public Employees Police and Fire Fund
2014	\$ 68,395	\$ 47,791
2013	66,633	44,916
2012	64,167	39,841

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, 2014**

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, 2014, were as follows:

Annual Required Contribution	\$	-	
Interest on Net Pension Obligation		-	
Adjustment to Annual Required Contribution		28,959	
Annual Pension Cost		28,959	
Less Contribution Made		(28,959)	
Increase (Decrease) in Net Pension Obligation		-	
Net Pension Obligation - Beginning of Year		-	
Net Pension Obligation - End of Year	\$	-	

The adjustment to annual required contribution above only contains the State Fire Aid made to the City.

The annual required contribution for the current year was determined as part of December 31, 2014, simplified statutory valuation procedure using the entry age actuarial cost method. The valuation assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. The assumptions did not include post-retirement benefit increases, which are funded by state statute when granted. Net position available for benefits exceeded the pension benefit obligation at December 31, 2014, 2013, and 2012.

Three-Year Trend Information

Disclosure	2014	2013	2012
Annual Pension Cost (APC)	\$ 28,959	\$ 32,814	\$ 24,344
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, 2014**

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 2014, 2013, and 2012.

Funding Progress

As of December 31, 2013 (the most recent available information), the plan was overfunded by \$91,273. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2014, and for the year then ended, the Association held no securities issued by the City or other related-parties.

NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 2014, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	City	EDA
Annual Required Contribution (ARC)	\$ 26,911	\$ 1,209
Interest on Net OPEB Obligation	5,606	252
Adjustment to ARC	(7,741)	(348)
Annual OPEB Cost	24,776	1,113
Contributions During the Year	-	-
Increase in Net OPEB Obligation	24,776	1,113
Net OPEB - Beginning of the Year	125,076	5,094
Net OPEB - End of the Year	<u>\$ 149,852</u>	<u>\$ 6,207</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

Year Ended	Entity	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2014	City	\$ 24,776	\$ -	- %	\$ 149,852
December 31, 2013	City	25,264	-	-	125,076
December 31, 2012	City	25,727	-	-	99,812
December 31, 2014	EDA	1,113	-	-	6,207
December 31, 2013	EDA	1,135	-	-	5,094
December 31, 2012	EDA	926	-	-	3,959

Funding Status

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions

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

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

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

NOTE 6 COMMITMENTS AND CONTINGENCIES

Purchased Power

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

NOTE 7 SUBSEQUENT EVENTS

In January of 2015, the City was engaged in a restoration project for the Whisky Creek Spillway in the amount of \$368,409. This project will start in 2015 and is estimated to be completed by June 30, 2018.

On March 5, 2015, the City approved the Safe Routes to School project to Paras Contracting Inc. in the amount of \$332,780.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF BARNESVILLE, MINNESOTA
 BARNESVILLE FIREMAN'S RELIEF ASSOCIATION
 SCHEDULE OF FUNDING PROGRESS
 DECEMBER 31, 2014**

Fiscal Year End	Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Benefit Per Year of Services
12/31/2013	\$ 302,157	\$ 210,884	\$ 91,273	143.3 %	\$ 700
12/31/2012	219,067	207,263	11,804	105.7	700
12/31/2011	200,950	188,446	12,504	106.6	700

Additional information relating to the pension plan is provided in Note 4.B.
 The December 31, 2014 report is not yet available.

**CITY OF BARNESVILLE, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2014**

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

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 175,837	\$ 175,837	\$ 154,634	\$ (21,203)
Special Assessments	5,000	5,000	38,486	33,486
Licenses and Permits	17,000	17,000	30,564	13,564
Intergovernmental	803,246	803,246	841,855	38,609
Charges for Services	300	300	1,234	934
Fines and Forfeits	6,600	6,600	7,362	762
Interest on Investments	20,149	20,149	25,272	5,123
Miscellaneous	37,419	37,419	75,073	37,654
Total Revenues	1,065,551	1,065,551	1,174,480	108,929
EXPENDITURES				
Current				
General Government	643,349	643,349	647,676	4,327
Public Safety	567,209	567,209	577,015	9,806
Public Works	330,706	330,706	269,883	(60,823)
Airport	1,584	1,584	40	(1,544)
Economic Development	130,119	130,119	146,719	16,600
Capital Outlay				
General Government	17,892	17,892	370,332	352,440
Public Safety	30,000	30,000	-	(30,000)
Public Works	80,000	80,000	176,847	96,847
Debt service				
Principal	-	-	7,822	7,822
Interest and Other Charges	149	149	2,120	1,971
Total Expenditures	1,801,008	1,801,008	2,198,454	397,446
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(735,457)	(735,457)	(1,023,974)	(288,517)
OTHER FINANCING SOURCES (USES)				
Transfers In	730,250	730,250	730,250	-
Transfers Out	-	-	(22,700)	(22,700)
Capital Lease Proceeds	-	-	42,564	42,564
Proceeds From Sale of Capital Assets	-	-	42,000	42,000
Total Other Financing Sources (Uses)	730,250	730,250	792,114	61,864
NET CHANGE IN FUND BALANCE				
	\$ (5,207)	\$ (5,207)	(231,860)	\$ (226,653)
Fund Balance - Beginning of Year			1,485,666	
FUND BALANCE - END OF YEAR			<u>\$ 1,253,806</u>	

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

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
PARKS AND RECREATION SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 329,376	\$ 329,376	\$ 329,376	\$ -
Licenses and Permits	250	250	508	258
Charges for Services	160,150	160,150	185,010	24,860
Gifts and Contributions	-	-	1,520	1,520
Interest on Investments	50	50	-	(50)
Miscellaneous	200	200	5,224	5,024
Total Revenues	<u>490,026</u>	<u>490,026</u>	<u>521,638</u>	<u>31,612</u>
EXPENDITURES				
Current				
Parks and Recreation	437,527	437,527	344,651	(92,876)
Capital Outlay				
Parks and Recreation	<u>122,500</u>	<u>122,500</u>	<u>63,597</u>	<u>(58,903)</u>
Total Expenditures	<u>560,027</u>	<u>560,027</u>	<u>408,248</u>	<u>(151,779)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (70,001)</u>	<u>\$ (70,001)</u>	113,390	<u>\$ 183,391</u>
Fund Balance - Beginning of Year			<u>257,073</u>	
FUND BALANCE - END OF YEAR			<u>\$ 370,463</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, 2014

I. BUDGETARY INFORMATION

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

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

II. EXPENDITURES IN EXCESS OF APPROPRIATIONS

General Fund expenditures exceeded appropriations by \$397,496 in part to improvements made to City Hall. These improvements were funded in part by reserves previously set aside for capital improvements. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

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SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

ASSETS	<u>DARE</u>	<u>Small Cities</u>	<u>TIF Districts</u>	<u>Youth Alive Early Prevention</u>	<u>Total Nonmajor Funds</u>
Cash and Investments	\$ 5,787	\$ 30,698	\$ -	\$ 1,089	\$ 37,574
Tax Increment Receivables	-	-	87	-	87
Notes Receivable	-	8,921	-	-	8,921
Total Assets	<u>\$ 5,787</u>	<u>\$ 39,619</u>	<u>\$ 87</u>	<u>\$ 1,089</u>	<u>\$ 46,582</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 325	\$ -	\$ 2,500	\$ -	\$ 2,825
Due to Other Funds	-	-	18,948	-	18,948
Total Liabilities	325	-	21,448	-	21,773
Deferred Inflows of Resources					
Unavailable Loans Receivable	-	8,921	-	-	8,921
 Fund Balances (Deficit)					
Restricted for Dare Program	5,462	-	-	-	5,462
Restricted for Program Income	-	30,698	-	-	30,698
Restricted for Contracted Services	-	-	-	1,089	1,089
Unassigned	-	-	(21,361)	-	(21,361)
Total Fund Balances (Deficit)	<u>5,462</u>	<u>30,698</u>	<u>(21,361)</u>	<u>1,089</u>	<u>15,888</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	<u>\$ 5,787</u>	<u>\$ 39,619</u>	<u>\$ 87</u>	<u>\$ 1,089</u>	<u>\$ 46,582</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2014**

	DARE	Small Cities	TIF Districts	Youth Alive Early Prevention	Total Nonmajor Funds
REVENUES					
Tax Increments	\$ -	\$ -	\$ 136,920	\$ -	\$ 136,920
Gifts and Contributions	1,500	-	-	-	1,500
Interest on Investments	-	-	-	-	-
Miscellaneous	-	10,557	-	-	10,557
Total Revenues	1,500	10,557	136,920	-	148,977
EXPENDITURES					
Current					
Public Safety	1,788	-	-	-	1,788
Economic Development	-	-	174,458	-	174,458
Total Expenditures	1,788	-	174,458	-	176,246
NET CHANGE IN FUND BALANCES	(288)	10,557	(37,538)	-	(27,269)
Fund Balance (Deficit) - Beginning of Year	5,750	20,141	16,177	1,089	43,157
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 5,462	\$ 30,698	\$ (21,361)	\$ 1,089	\$ 15,888

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2014**

ASSETS	Sanitation	Storm Sewer	Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
Current Assets					
Cash and Cash Equivalents	\$ 127,951	\$ 267,593	\$ 77,744	\$ 460,215	\$ 933,503
Accounts Receivable - Net	40,104	8,133	36,362	21,961	106,560
Total Current Assets	168,055	275,726	114,106	482,176	1,040,063
Noncurrent Assets					
Capital Assets					
Land	-	13,077	-	-	13,077
Buildings (Net)	101,485	-	2,861	-	104,346
Infrastructure (Net)	-	498,323	-	-	498,323
Machinery and Equipment (Net)	-	14,855	29,571	204	44,630
Vehicles (Net)	-	-	17,938	-	17,938
Net Capital Assets	101,485	526,255	50,370	204	678,314
Total Assets	269,540	801,981	164,476	482,380	1,718,377
LIABILITIES					
Current Liabilities					
Accounts Payable	12,310	-	952	14,730	27,992
Salaries and Benefits Payable	1,214	-	8,198	1,321	10,733
Due to Other Governments	1,448	-	-	-	1,448
Compensated Absences - Due Within One Year	905	-	2,076	1,199	4,180
Total Current Liabilities	15,877	-	11,226	17,250	44,353
Noncurrent Liabilities					
Compensated Absences - Due in More than One Year	302	-	692	400	1,394
Other Postemployment Benefits Payable - Due in More than One Year	352	-	2,103	1,416	3,871
Total Noncurrent Liabilities	654	-	2,795	1,816	5,265
Total Liabilities	16,531	-	14,021	19,066	49,618
NET POSITION					
Net Investment in Capital Assets	101,485	526,255	50,370	204	678,314
Unrestricted	151,524	275,726	100,085	463,110	990,445
Total Net Position	\$ 253,009	\$ 801,981	\$ 150,455	\$ 463,314	\$ 1,668,759

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	Sanitation	Storm Sewer	Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
OPERATING REVENUES					
Charges for Services	\$ 182,168	\$ 33,365	\$ 304,658	\$ 212,479	\$ 732,670
OPERATING EXPENSES					
Professional Services	132,956	-	18,176	-	151,132
Wages, Salaries, and Compensation	25,493	-	172,086	26,487	224,066
Repairs and Maintenance	693	-	8,965	-	9,658
Insurance	2,024	-	2,982	-	5,006
Depreciation	2,632	21,902	18,491	2,442	45,467
Materials and Supplies	549	-	35,595	-	36,144
Equipment	-	-	-	33,671	33,671
Miscellaneous Expenses	22,750	-	32,970	48,359	104,079
Medicare/Medicaid Fee Reductions	-	-	128,019	-	128,019
Total Operating Expenses	187,097	21,902	417,284	110,959	737,242
OPERATING INCOME (LOSS)	(4,929)	11,463	(112,626)	101,520	(4,572)
NONOPERATING REVENUES (EXPENSES)					
Taxes	-	-	44,000	-	44,000
Investment Income	-	-	1,483	-	1,483
Intergovernmental Grants	26,711	-	10,700	-	37,411
Miscellaneous - Nonoperating	-	-	24,233	-	24,233
Total Nonoperating Revenues (Expenses)	26,711	-	80,416	-	107,127
Income (Loss) before Transfers	21,782	11,463	(32,210)	101,520	102,555
Transfers In	-	-	-	-	-
Transfers Out	(15,000)	(7,500)	-	(113,648)	(136,148)
CHANGE IN NET POSITION	6,782	3,963	(32,210)	(12,128)	(33,593)
Net Position - Beginning of Year	246,227	798,018	182,665	475,442	1,702,352
NET POSITION - END OF YEAR	\$ 253,009	\$ 801,981	\$ 150,455	\$ 463,314	\$ 1,668,759

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	Sanitation	Storm Sewer	Ambulance	Broadband Internet	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 183,374	\$ 33,241	\$ 321,430	\$ 217,364	\$ 755,409
Payments to Suppliers	(159,194)	-	(227,679)	(67,399)	(454,272)
Payments to Employees	(25,318)	-	(173,536)	(25,926)	(224,780)
Net Cash Provided (Used) by Operating Activities	(1,138)	33,241	(79,785)	124,039	76,357
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
FINANCING ACTIVITIES					
Transfers Out	(15,000)	(7,500)	-	(113,648)	(136,148)
Taxes	-	-	43,996	-	43,996
Other Miscellaneous Receipts	-	-	24,233	-	24,233
Grant Receipts	28,711	-	10,700	-	37,411
Net Cash Provided (Used) by Noncapital Financing Activities and Related Financing Activities	11,711	(7,500)	78,929	(113,648)	(30,508)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and Dividends Received	-	-	1,487	-	1,487
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,573	25,741	631	10,391	47,336
Cash and Cash Equivalents - Beginning of Year	117,378	241,852	77,113	449,824	886,167
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 127,951</u>	<u>\$ 267,593</u>	<u>\$ 77,744</u>	<u>\$ 460,215</u>	<u>\$ 933,503</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (4,929)	\$ 11,463	\$ (112,626)	\$ 101,520	\$ (4,572)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	2,632	21,902	18,491	2,442	45,467
(Increase) Decrease in Assets					
Accounts Receivable	1,206	(124)	16,772	4,885	22,739
Increase (Decrease) in Liabilities					
Accounts Payable	(202)	-	(972)	14,631	13,457
Salaries and Benefits Payable	7	-	(98)	271	180
Other Postemployment Benefits Payable	-	-	244	114	358
Due to Other Governments	(20)	-	-	-	(20)
Compensated Absences Payable	168	-	(1,596)	176	(1,252)
Total Adjustments	3,791	21,778	32,841	22,519	80,929
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,138)</u>	<u>\$ 33,241</u>	<u>\$ (79,785)</u>	<u>\$ 124,039</u>	<u>\$ 76,357</u>

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OTHER COMBINING SCHEDULES

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND – BY BOND ISSUE
 DECEMBER 31, 2014**

ASSETS	<u>Series 2004A Refunding Bonds</u>	<u>G.O. Taxable Bonds</u>	<u>G.O. 2005 Bond Refinance</u>	<u>G.O. 2006 Bonds</u>
Cash and Pooled Investments	\$ 181,328	\$ 103,080	\$ 224,986	\$ 29,703
Taxes Receivable				
Delinquent	-	-	-	765
Special Assessments Receivable				
Delinquent	-	1,326	884	661
Noncurrent	122,988	69,287	216,895	1,130,100
Total Assets	<u>\$ 304,316</u>	<u>\$ 173,693</u>	<u>\$ 442,765</u>	<u>\$ 1,161,229</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Deferred Inflows of Resources				
Unavailable Taxes	\$ -	\$ -	\$ -	\$ -
Unavailable Special Assessments	122,988	69,287	216,895	1,130,100
Total Deferred Inflows of Resources	<u>122,988</u>	<u>69,287</u>	<u>216,895</u>	<u>1,130,100</u>
Fund Balances				
Restricted for Debt Repayment	181,328	104,406	225,870	31,129
Total Fund Balance (Deficit)	<u>181,328</u>	<u>104,406</u>	<u>225,870</u>	<u>31,129</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 304,316</u>	<u>\$ 173,693</u>	<u>\$ 442,765</u>	<u>\$ 1,161,229</u>

G.O. 2010A Refunding Bonds	G.O. 2011A Improvement Bonds	G.O. 2013A Improvement Bonds	Total Debt Service Fund
\$ 102,224	\$ 59,547	\$ (7,153)	\$ 693,715
327	4,735	-	5,827
-	2,263	-	5,134
262,913	225,512	-	2,027,695
<u>\$ 365,464</u>	<u>\$ 292,057</u>	<u>\$ (7,153)</u>	<u>\$ 2,732,371</u>

\$ -	\$ 4,215	\$ -	\$ 4,215
262,913	227,358	-	2,029,541
<u>262,913</u>	<u>231,573</u>	<u>-</u>	<u>2,033,756</u>
102,551	60,484	(7,153)	698,615
<u>102,551</u>	<u>60,484</u>	<u>(7,153)</u>	<u>698,615</u>
<u>\$ 365,464</u>	<u>\$ 292,057</u>	<u>\$ (7,153)</u>	<u>\$ 2,732,371</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, 2014

	Series 2004A Refunding Bonds	G.O. Taxable Bonds	G.O. 2005 Bond Refinance	G.O. 2006 Bonds
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 34,003
Special assessments	30,309	43,995	41,025	43,764
Investment Earnings	133	288	48	4,106
Total Revenues	<u>30,442</u>	<u>44,283</u>	<u>41,073</u>	<u>81,873</u>
EXPENDITURES				
Debt Service				
Principal	-	-	60,000	70,000
Interest	-	-	950	22,697
Total Expenditures	<u>-</u>	<u>-</u>	<u>60,950</u>	<u>92,697</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	30,442	44,283	(19,877)	(10,824)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	20,000
Transfers Out	(30,000)	(20,000)	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	(510,000)
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(20,000)</u>	<u>-</u>	<u>(490,000)</u>
NET CHANGE IN FUND BALANCE	442	24,283	(19,877)	(500,824)
Fund Balance (Deficit) - Beginning of Year	<u>180,886</u>	<u>80,123</u>	<u>245,747</u>	<u>531,953</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 181,328</u>	<u>\$ 104,406</u>	<u>\$ 225,870</u>	<u>\$ 31,129</u>

G.O. 2010A Refunding Bonds	G.O. 2011A Improvement Bonds	G.O. 2013A Improvement Bonds	Internal Eliminations	Total Debt Service Fund
\$ 14,514	\$ 23,111	\$ -	\$ -	\$ 71,628
46,439	20,149	-	-	225,681
526	-	-	-	5,101
61,479	43,260	-	-	302,410
85,000	30,000	-	-	245,000
23,460	16,118	7,153	-	70,378
108,460	46,118	7,153	-	315,378
(46,981)	(2,858)	(7,153)	-	(12,968)
30,000	-	-	(50,000)	-
-	-	-	50,000	-
-	-	-	-	(510,000)
30,000	-	-	-	(510,000)
(16,981)	(2,858)	(7,153)	-	(522,968)
119,532	63,342	-	-	1,221,583
<u>\$ 102,551</u>	<u>\$ 60,484</u>	<u>\$ (7,153)</u>	<u>\$ -</u>	<u>\$ 698,615</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUND – BY PROJECT
DECEMBER 31, 2014**

	Heartland Addition	C.S.A.H. 52 Projects	McGrath & City Center Projects	Commercial Park Extension
ASSETS				
Cash and Pooled Investments	\$ -	\$ 46,639	\$ -	\$ -
Special Assessments - Noncurrent	-	-	-	91,747
Total Assets	<u>\$ -</u>	<u>\$ 46,639</u>	<u>\$ -</u>	<u>\$ 91,747</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND DEFICITS				
Liabilities				
Due to Other Funds	\$ 29,566	\$ -	\$ 7,500	\$ 110,311
Accounts Payable	-	-	-	-
Total Liabilities	29,566	-	7,500	110,311
Deferred Inflows of Resources				
Unavailable Special Assessments	-	-	-	91,747
Fund Balances (Deficits)				
Restricted for Front Street Project	-	46,639	-	-
Unassigned	(29,566)	-	(7,500)	(110,311)
Total Fund Balances (Deficits)	<u>(29,566)</u>	<u>46,639</u>	<u>(7,500)</u>	<u>(110,311)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 46,639</u>	<u>\$ -</u>	<u>\$ 91,747</u>

Infrastructure Improvements District 2013-1	Safe Routes to Schools	Total Capital Projects Fund
\$ -	\$ -	\$ 46,639
-	-	91,747
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,386</u>

\$ -	\$ 1,929	\$ 149,306
-	-	-
-	1,929	149,306
-	-	91,747
-	-	46,639
-	(1,929)	(149,306)
-	(1,929)	(102,667)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,386</u>

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUND – BY PROJECT
 YEAR ENDED DECEMBER 31, 2014**

	<u>Heartland Addition</u>	<u>C.S.A.H. 52 Projects</u>	<u>McGrath & City Center Projects</u>	<u>Commercial Park Extension</u>
EXPENDITURES				
Capital Outlay				
Public Works	\$ -	\$ -	\$ -	\$ -
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-	-
Fund Balance (Deficit) - Beginning of Year	(29,566)	46,639	(7,500)	(110,311)
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (29,566)</u>	<u>\$ 46,639</u>	<u>\$ (7,500)</u>	<u>\$ (110,311)</u>

Infrastructure Improvements District 2013-1	Safe Routes to Schools	Total Capital Projects Fund
\$ 31,947	\$ 1,929	\$ 33,876
(31,947)	(1,929)	(33,876)
22,700	-	22,700
(9,247)	(1,929)	(11,176)
9,247	-	(91,491)
\$ -	\$ (1,929)	\$ (102,667)

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OTHER REPORTS SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Barnesville (City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 17, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2014-001 through 2014-003 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Barnesville

Compliance and Other Matters

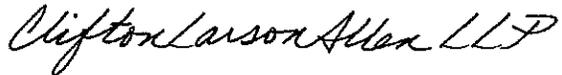
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 17, 2015

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**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2014**

MATERIAL WEAKNESSES

2014-001 LACK OF SEGREGATION OF DUTIES

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

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

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

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

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

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

2014-002 YEAR-END CLOSING PROCEDURES

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

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

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

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

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

MATERIAL WEAKNESSES (CONTINUED)

2014-002 YEAR-END CLOSING PROCEDURES (CONTINUED)

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

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

2014-003 FINANCIAL STATEMENT PREPARATION

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures, are complete, and presented in accordance with GAAP.

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

Cause: The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Management Response: The City will continue to evaluate whether an internal control policy over financial reporting would be beneficial.

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

OTHER ITEMS FOR CONSIDERATION - MINNESOTA LEGAL COMPLIANCE

2014-004 DECLARATION FOR PAYMENT

Criteria: *Minnesota Statutes* §471.391, Subd. 2 requires each declaration for payment to be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid. The check or order-check by which the claim is paid may have printed or stamped on its reverse side, above the space for endorsement thereof, this requirement.

Condition: The City did not have this statement printed on the check stock for part of the year and has not been stamping this on the checks prior to issuing them as payment.

Cause: The City ordered new checks and did not include the required additional wording on the back of the checks.

Effect: The City is not in compliance with *Minnesota Statutes*.

Recommendation: We recommend city management be aware of applicable state statutes and implement procedures to ensure compliance with applicable state statutes.

Management Response: The City is aware of this issue and has ordered new checks with the required additional wording on the back of the check.

2014-005 PAYMENT OF SUBCONTRACTORS

Criteria: *Minnesota Statutes* §471.425, Subd. 4a requires that contracts between the City and a prime contractor require the prime contractor to pay subcontractors within 10 days of receipt of payment from the City or pay interest at a rate of 1.5% per month or any part of a month.

Condition: During our testing of contracts, it was noted that this requirement was not in the contracts between the City and the prime contractors that the City uses.

Cause: The City was not aware of this requirement.

Effect: The City is not in compliance with *Minnesota Statutes*.

Recommendation: We recommend that the City establish procedures to ensure this statement appears in all contracts that the City enters into.

Management Response: The City will correct this going forward.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Barnesville (City), as of December 31, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 17, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as noted in the Schedule of Findings and Recommendations as 2014-004 and 2014-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 17, 2015

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