

CITY OF BARNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2016

**CITY OF BARNESVILLE, MINNESOTA
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DECEMBER 31, 2016**

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INTRODUCTORY SECTION

**CITY OF BARNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2016**

ELECTED	NAME	TERM EXPIRES
Mayor	Gene Prim	12/31/2017
City Council	Larry Davis, Jr.	12/31/2017
City Council	Jason Rick	12/31/2017
City Council	Don Goedtke	12/31/2017
City Council	Betty Strom	12/31/2019
City Council	Dawn Stuvland	12/31/2019
City Council	Brad Field	12/31/2019

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FINANCIAL SECTION

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, 2016, 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.

Auditors' Responsibility

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

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

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

Honorable Mayor and
Members of the City Council
City of Barnesville

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2016, 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.

Emphasis of a Matter

For the year ended December 31, 2016 the City restated beginning governmental activities net position to correct an error in the previously issued financial statements (see Note 9). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, 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 21, 2017, 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 21, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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, 2016. 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 (2016) and the prior year (2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 include the following:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$21,541,398 (net position). Of this amount, \$8,445,555 (unrestricted net position), may be used to meet the City's ongoing obligations to citizens and creditors.
- City-wide net position increased \$1,694,451 over the prior year.
- As of the close of the current year, the City's governmental funds reported combined fund balance of \$2,728,912, an increase of \$302,338 in comparison to the prior year. Approximately 26.01% of this amount, or \$709,842, is restricted for debt service.
- At the end of the current year, unassigned fund balance for the General Fund was \$303,112, or of General Fund expenditures.

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), pension schedules and budgetary schedules, 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.

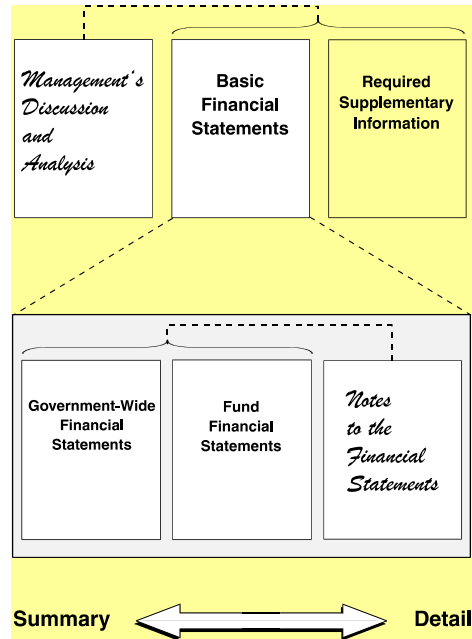
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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, 2016**

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, deferred outflows of resources, deferred inflows of resources, 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 deferred outflows of resources and liabilities and deferred inflows of resources – 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.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

- 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.

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 ten 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, ambulance, sanitation, storm sewer, 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, 2016**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's net position was \$21,541,398 on December 31, 2016 (see Table A-1).

Table A-1
The City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015		2015		2015	
	2016	As Restated	2016	As Restated	2016	As Restated
Current and Other Assets	\$ 5,862,472	\$ 4,691,119	\$ 8,691,359	\$ 8,202,361	\$ 14,553,831	\$ 12,893,480
Capital Assets	6,479,456	5,089,618	13,569,235	13,933,270	20,048,691	19,022,888
Total Assets	<u>12,341,928</u>	<u>9,780,737</u>	<u>22,260,594</u>	<u>22,135,631</u>	<u>34,602,522</u>	<u>31,916,368</u>
Deferred Outflows of Resources	1,154,333	162,776	281,299	51,067	1,435,632	213,843
Current Liabilities	508,434	475,922	991,301	788,245	1,499,735	1,264,167
Long-Term Liabilities	4,786,502	2,743,209	7,885,977	8,126,684	12,672,479	10,869,893
Total Liabilities	<u>5,294,936</u>	<u>3,219,131</u>	<u>8,877,278</u>	<u>8,914,929</u>	<u>14,172,214</u>	<u>12,134,060</u>
Deferred Inflows of Resources	233,467	109,162	91,075	40,042	324,542	149,204
Net Position						
Net Investment in Capital Assets	3,349,598	2,949,760	5,819,870	5,771,642	9,169,468	8,721,402
Restricted	3,551,303	3,079,752	283,325	-	3,834,628	3,079,752
Unrestricted	1,066,957	585,708	7,470,345	7,460,085	8,537,302	8,045,793
Total Net Position	<u>\$ 7,967,858</u>	<u>\$ 6,615,220</u>	<u>\$ 13,573,540</u>	<u>\$ 13,231,727</u>	<u>\$ 21,541,398</u>	<u>\$ 19,846,947</u>

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$10,013,070 for the year ended December 31, 2016. Property taxes and intergovernmental revenues accounted for 29.3% of total revenue for the year, while user charges accounted for 61.96% of total revenue (see Table A-2).

Table A-2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015 As Restated	2016	2015 As Restated	2016	2015 As Restated
	REVENUES					
<u>Program Revenues</u>						
Charges for Services	\$ 238,676	\$ 234,363	\$ 5,965,372	\$ 5,943,906	\$ 6,204,048	\$ 6,178,269
Operating Grants and Contributions	240,280	157,216	54,238	76,606	294,518	233,822
Capital Grants and Contributions	1,143,174	1,182,553	8,086	12,388	1,151,260	1,194,941
<u>General Revenues</u>						
Property Taxes	667,910	613,580	45,000	52,000	712,910	665,580
Tax Increments	175,526	167,651	-	-	175,526	167,651
Unrestricted State Aid	774,138	770,477	-	-	774,138	770,477
Investment Earnings	31,439	20,808	36,123	10,054	67,562	30,862
Other	203,852	61,925	429,256	590,516	633,108	652,441
Total Revenues	3,474,995	3,208,573	6,538,075	6,685,470	10,013,070	9,894,043
EXPENSES						
General Government	572,772	606,753	-	-	572,772	606,753
Public Safety	935,023	519,686	-	-	935,023	519,686
Public Works	528,603	523,421	-	-	528,603	523,421
Culture and Recreation	431,197	464,440	-	-	431,197	464,440
Economic Development	310,854	289,959	-	-	310,854	289,959
Interest	109,519	60,588	-	-	109,519	60,588
Water	-	-	296,341	287,890	296,341	287,890
Sewer	-	-	346,948	390,330	346,948	390,330
Electric	-	-	1,793,550	1,900,025	1,793,550	1,900,025
Telephone	-	-	859,631	582,556	859,631	582,556
Municipal Liquor	-	-	419,745	404,095	419,745	404,095
Cable Television	-	-	882,585	429,049	882,585	429,049
Sanitation	-	-	222,356	192,535	222,356	192,535
Storm Sewer	-	-	21,902	21,902	21,902	21,902
Ambulance	-	-	529,827	471,364	529,827	471,364
Broadband Internet	-	-	57,766	125,308	57,766	125,308
Total Expenses	2,887,968	2,464,847	5,430,651	4,805,054	8,318,619	7,269,901
Transfers	765,611	757,747	(765,611)	(757,747)	-	-
CHANGE IN NET POSITION	1,352,638	1,501,473	341,813	1,122,669	1,694,451	2,624,142
Net Position - Beginning of Year	6,615,220	5,113,747	13,231,727	12,109,058	19,846,947	17,222,805
NET POSITION - END OF YEAR	<u>\$ 7,967,858</u>	<u>\$ 6,615,220</u>	<u>\$ 13,573,540</u>	<u>\$ 13,231,727</u>	<u>\$ 21,541,398</u>	<u>\$ 19,846,947</u>

Total revenues surpassed expenses, increasing city-wide net position by \$1,694,451 as compared to an increase of \$2,624,142 in 2015. The increase in net position for 2016 is primarily due to the recognition of special assessment revenue for the Del Acres Gilbertson Phase II project.

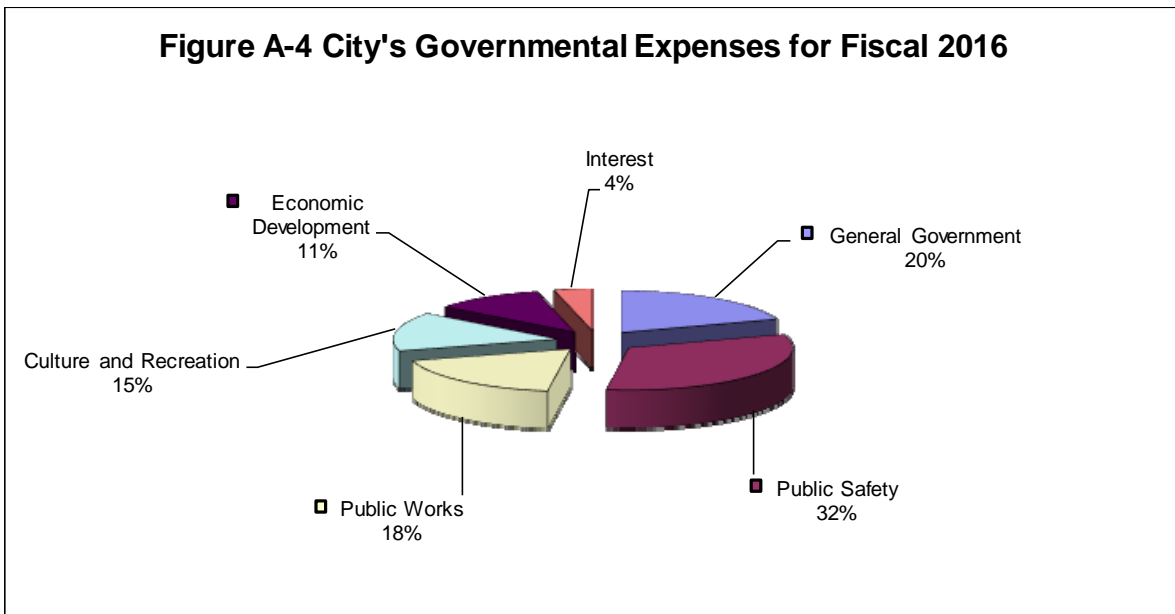
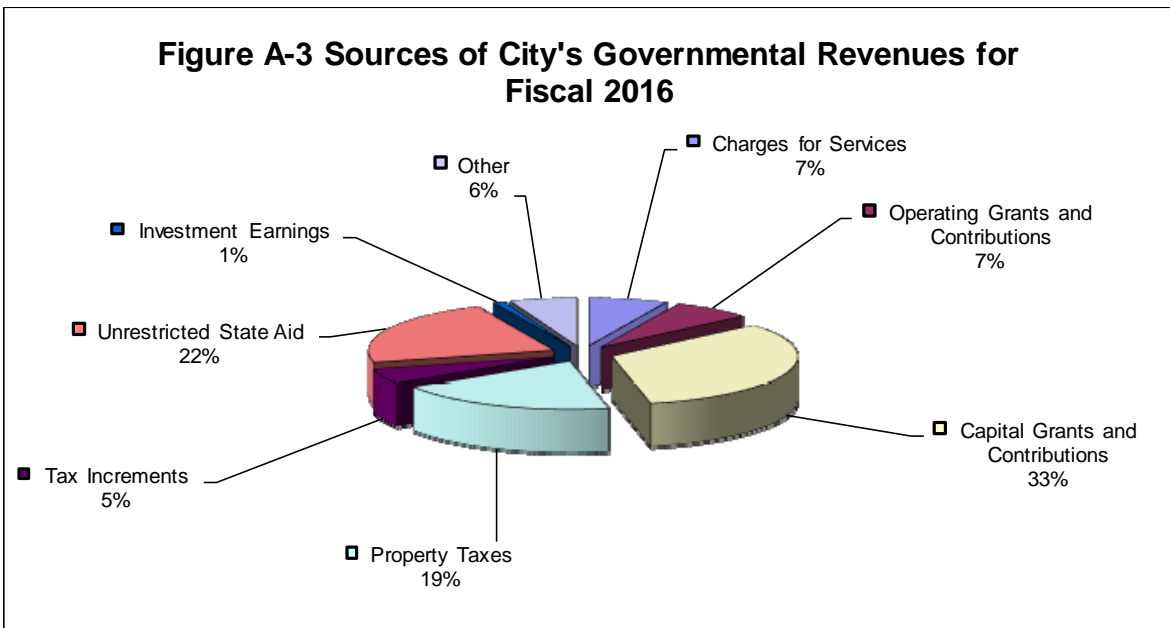
**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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 \$2,887,968.

- Some of the cost was paid by the users of the City's programs (\$240,280).
- Federal and state government payments (\$1,143,174) subsidized certain programs.
- Ad valorem property taxes (\$667,910) and unrestricted state grants (\$774,138) also helped fund the net costs of governmental services.
- Transfers from the City's business-type operations also subsidize governmental operations (\$765,611).



**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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	
	2016	2015	2016	2015
GOVERNMENTAL ACTIVITIES				
General Government	\$ 572,772	\$ 606,753	\$ (527,776)	\$ (574,811)
Public Safety	935,023	519,686	(828,278)	(394,367)
Public Works	528,603	523,421	549,223	308,509
Culture and Recreation	431,197	464,440	(58,970)	120,501
Economic Development	310,854	289,959	(290,518)	(289,959)
Interest and Fiscal Charges on Interest	109,519	60,588	(109,519)	(60,588)
Total	<u>\$ 2,887,968</u>	<u>\$ 2,464,847</u>	<u>\$ (1,265,838)</u>	<u>\$ (890,715)</u>
BUSINESS-TYPE ACTIVITIES				
Water	\$ 296,341	\$ 287,890	\$ 161,924	\$ 161,284
Sewer	346,948	390,330	296,130	241,952
Electric	1,793,550	1,900,025	273,379	211,667
Telephone	859,631	582,556	181,109	447,802
Municipal Liquor	419,745	404,095	(12,314)	(2,966)
Cable Television	882,585	429,049	(402,139)	31,317
Sanitation	222,356	192,535	20,248	57,867
Storm Sewer	21,902	21,902	14,350	12,790
Ambulance	529,827	471,364	(114,529)	(83,176)
Broadband Internet	57,766	125,308	178,887	149,309
Total	<u>\$ 5,430,651</u>	<u>\$ 4,805,054</u>	<u>\$ 597,045</u>	<u>\$ 1,227,846</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 \$2,728,912.

Revenues for the City's governmental funds were \$2,418,006, while total expenditures were \$4,161,615.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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 Increase (Decrease)
	December 31, 2016	December 31, 2015	
Taxes	\$ 273,933	\$ 198,119	\$ 75,814
Special Assessments	23,680	11,398	12,282
Licenses and Permits	35,605	22,784	12,821
Intergovernmental	858,959	908,454	(49,495)
Charges for Services	995	2,336	(1,341)
Fines and Forfeits	4,754	7,221	(2,467)
Interest	13,744	12,960	784
Miscellaneous and Other	57,117	55,868	1,249
Total General Fund Revenues	\$ 1,268,787	\$ 1,219,140	\$ 49,647

Total General Fund revenue increased by \$49,647, or 4.1%, from the previous year. The primary reason for the increase is an increase in taxes, due to an increase in the levy.

The following schedule presents a summary of General Fund Expenditures:

Table A-5
General Fund Expenditures

	Year Ended		Change Increase (Decrease)
	December 31, 2016	December 31, 2015	
General Government	\$ 678,050	\$ 684,487	\$ (6,437)
Public Safety	623,625	578,529	45,096
Public Works	263,356	239,995	23,361
Airport	-	730	(730)
Economic Development	163,003	154,364	8,639
Capital Outlay	1,892	232,446	(230,554)
Debt Service	11,884	11,885	(1)
Total Expenditures	\$ 1,741,810	\$ 1,902,436	\$ (160,626)

The General Fund's expenditures decreased \$160,626 from 2015. This decrease is due largely to decreases in capital outlay for sealcoating and equipment purchases.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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 \$95,242 more than budget. This is primarily due to an increase in taxes from the levy, the recognition of the state fire pass through funds, and more building permits issued than budgeted.
- The actual expenditures were \$177,464 under budget. This is primarily due to public works expenditures coming in under budget by \$114,523 due to less projects done on streets than budgeted for.

Parks and Recreation Fund

The Parks and Recreation Fund had a decrease in fund balance of \$51,303. Revenues and expenditures exceeded budget during 2016 by \$140,670 and \$191,973, respectively. The overages were a result of donations and corresponding expenditures for the Blue Eagle project and splash pad.

Capital Projects Fund

The Capital Projects Fund had an increase in fund balance of \$45,401. The increase represents unspent bond proceeds.

Debt Service Fund

The Debt Service Fund's fund balance decreased \$14,254 as a result of a debt payments exceeding current year revenue.

Other Governmental Funds

The Other Governmental Fund's fund balance increased \$47,424 as a result of tax increment collections in excess of expenditures.

Business-Type Funds

Water and Sewer Funds

The Water and Sewer Funds reported net income (before transfers to other funds) of \$165,816 and \$302,809, respectively, for the year ended December 31, 2016, as compared to \$165,887 and \$283,198, respectively for 2015. The increase in Sewer is due to an increase in charges for services and a decrease in expenses.

Liquor and Cable Television Funds

The operations of the Municipal Liquor and Cable Television Funds reported net income(loss) (before transfers to other funds) of (\$8,582) and (\$399,197), respectively, for the year ended December 31, 2016, as compared to (\$313) and \$34,265, respectively, for 2015. The significant decrease in Cable Television Fund is attributable to a loss on the sale of capital assets.

Electric Fund

The Electric Fund experienced a decrease in expenses due to less purchased power. Revenues remained consistent with prior year. The net result was net income (before transfers to other funds) of \$316,329 for the year ended December 31, 2016.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

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 \$10,000, or 1.0%, resulting from an increase in customers. Income of \$350,737 (compared to \$470,297 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 \$543,365 as compared to \$932,139 in the prior year.

Ambulance Fund

The Ambulance Fund reported net income (loss) (before transfers to other funds) of (\$27,831) for the year ended December 31, 2016, as compared to \$13,313 for 2015. The decrease was a result of operating expenses exceeding charges for services.

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 2016, the City had invested \$20,048,691 (net of accumulated depreciation) in a broad range of capital assets, including buildings, computers, improvements, equipment, and infrastructure (see Table A-6).

Table A-6
The City's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 563,716	\$ 563,716	\$ 113,908	\$ 113,908	\$ 677,624	\$ 677,624
Construction-in-Progress	1,838,030	674,258	-	3,853,305	1,838,030	4,527,563
Buildings	1,616,409	1,616,409	1,330,997	1,330,997	2,947,406	2,947,406
Infrastructure	4,849,251	4,849,251	11,816,883	11,816,883	16,666,134	16,666,134
Improvements	1,104,759	663,713	979,170	979,170	2,083,929	1,642,883
Machinery and Equipment	820,736	788,168	6,538,623	2,689,732	7,359,359	3,477,900
Vehicles	444,789	444,789	466,942	459,771	911,731	904,560
Less: Accumulated Depreciation	(4,758,234)	(4,510,686)	(7,677,288)	(7,310,496)	(12,435,522)	(11,821,182)
Total	\$ 6,479,456	\$ 5,089,618	\$ 13,569,235	\$ 13,933,270	\$ 20,048,691	\$ 19,022,888

Major capital asset acquisitions during the year included:

Governmental Activities:

- Whisky Creek Restoration totaling \$160,520.
- Splash Pad totaling \$127,445.
- Del Acres Gilbertson 2nd Addition Project totaling \$1,166,303.

Business-type Activities:

- Additions to the communication infrastructure totaling \$256,414.

Total depreciation expense for the year was \$844,248 (including enterprise funds). More detailed information about capital assets can be found in Note 3.A.3 to the financial statements.

**CITY OF BARNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2016**

LONG-TERM LIABILITIES

At year-end, the City had \$10,920,477 in long-term liabilities outstanding.

- The City's governmental activities and business-type activities net long-term debt increased \$486,329 due primarily to the issuance of 2016A G.O. Improvement Bonds in the amount of \$1,260,000 offset by scheduled principal payments.

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

	2016	2015
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	\$ 3,145,000	\$ 2,110,000
Capital Leases Payable	26,998	34,520
Less: Bond Discounts	(4,239)	(4,662)
Total Governmental Activities	3,167,759	2,139,858
BUSINESS-TYPE ACTIVITIES		
Revenue Bonds	4,050,000	4,250,000
General Obligation Revenue Notes	2,221,000	2,449,000
General Obligation Bonds	1,516,000	1,632,000
Less: Bond Discounts	(34,282)	(36,710)
Total Business-Type Activities	7,752,718	8,294,290
Total City-Wide Long-Term Liabilities	\$ 10,920,477	\$ 10,434,148

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.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Investments	\$ 2,891,473	\$ 4,090,759	\$ 6,982,232	\$ 147,377
Taxes Receivable				
Delinquent	25,893	-	25,893	-
Special Assessments Receivable				
Delinquent	18,400	1,265	19,665	-
Noncurrent	2,913,406	366,248	3,279,654	-
Accounts Receivable - Net	14,497	1,018,446	1,032,943	-
Accrued Interest Receivable	3,441	-	3,441	-
Notes Receivable - Net	5,321	-	5,321	-
Internal Balances	(21,085)	21,085	-	-
Inventories	1,200	60,545	61,745	-
Land Held for Resale	-	-	-	1,868,908
Advances to Component Unit	9,926	246,000	255,926	-
Advances to Primary Government	-	-	-	4,854
Restricted Cash	-	283,325	283,325	-
Investment in Joint Venture	-	2,603,686	2,603,686	-
Capital Assets not Being Depreciated				
Land	563,716	113,908	677,624	-
Construction-in-Progress	1,838,030	-	1,838,030	-
Capital Assets Being Depreciated				
Buildings	787,834	635,153	1,422,987	9,739
Infrastructure	1,990,612	7,449,628	9,440,240	-
Improvements	926,475	318,622	1,245,097	-
Machinery and Equipment	300,707	4,847,612	5,148,319	-
Vehicles	72,082	204,312	276,394	-
Total Assets	<u>12,341,928</u>	<u>22,260,594</u>	<u>34,602,522</u>	<u>2,030,878</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	1,154,333	281,299	1,435,632	41,167
LIABILITIES				
Accounts Payable	16,639	228,734	245,373	7,501
Contracts Payable	97,322	-	97,322	-
Salaries and Benefits Payable	55,279	31,843	87,122	4,649
Deposits Payable	-	1,349	1,349	-
Accrued Interest Payable	36,745	42,384	79,129	78
Due to Other Governments	-	15,705	15,705	-
Due to Primary Government	-	-	-	70,053
Advances from Primary Government	-	-	-	255,926
Advances from Component Unit	4,854	-	4,854	-
Unearned Utility Payments	-	89,159	89,159	-
Bonds Payable - Due Within One Year	195,000	553,000	748,000	1,872
Capital Leases Payable - Due Within One Year	8,646	-	8,646	-
Compensated Absences Payable - Due Within One Year	93,949	29,127	123,076	-
Special Assessments Payable - Due in More Than One Year	-	-	-	1,451,049
Bonds Payable - Due in More Than One Year	2,945,761	7,199,718	10,145,479	3,170
Capital Leases Payable - Due in More Than One Year	18,352	-	18,352	-
Compensated Absences Payable - Due in More Than One Year	31,316	9,711	41,027	-
Net Pension Liability	1,791,073	676,548	2,467,621	99,010
Total Liabilities	<u>5,294,936</u>	<u>8,877,278</u>	<u>14,172,214</u>	<u>1,893,308</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	233,467	91,075	324,542	13,328
NET POSITION				
Net Investment in Capital Assets	3,349,598	5,819,870	9,169,468	9,739
Restricted for				
Debt Service	3,460,259	283,325	3,743,584	-
Public Safety	3,896	-	3,896	-
Economic Development	87,148	-	87,148	-
Unrestricted	1,066,957	7,470,345	8,537,302	155,670
Total Net Position	<u>\$ 7,967,858</u>	<u>\$ 13,573,540</u>	<u>\$ 21,541,398</u>	<u>\$ 165,409</u>

See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Expenses	Program Revenues		
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 572,772	\$ 40,674	\$ 4,322	\$ -
Public Safety	935,023	-	47,580	59,165
Public Works	528,603	680	8,620	1,068,526
Culture and Recreation	431,197	197,322	159,422	15,483
Economic Development	310,854	-	20,336	-
Interest	109,519	-	-	-
Total Governmental Activities	2,887,968	238,676	240,280	1,143,174
Business-Type Activities				
Water	296,341	453,911	58	4,296
Sewer	346,948	639,232	56	3,790
Electric	1,793,550	2,066,639	290	-
Telephone	859,631	1,037,076	3,664	-
Municipal Liquor	419,745	407,179	252	-
Cable Television	882,585	480,345	101	-
Sanitation	222,356	202,581	40,023	-
Storm Sewer	21,902	36,252	-	-
Ambulance	529,827	405,628	9,670	-
Broadband Internet	57,766	236,529	124	-
Total Business-Type Activities	5,430,651	5,965,372	54,238	8,086
Total Primary Government	\$ 8,318,619	\$ 6,204,048	\$ 294,518	\$ 1,151,260
Component Unit				
EDA	\$ 239,606	\$ 58,970	\$ 386	\$ -

General Revenues
 Property Taxes
 Tax Increments
 Grants and Contributions not Restricted for a Particular Purpose
 Interest Income
 Miscellaneous
 Sale of Capital Assets
 Transfers
 Total General Revenues and Transfers

CHANGE IN NET POSITION

Net Position - Beginning of Year
 Restatement
 Net Position - Beginning of Year, as Restated

NET POSITION - END OF YEAR

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (527,776)	\$ -	\$ (527,776)	\$ -
(828,278)	-	(828,278)	-
549,223	-	549,223	-
(58,970)	-	(58,970)	-
(290,518)	-	(290,518)	-
(109,519)	-	(109,519)	-
(1,265,838)	-	(1,265,838)	-
-	161,924	161,924	-
-	296,130	296,130	-
-	273,379	273,379	-
-	181,109	181,109	-
-	(12,314)	(12,314)	-
-	(402,139)	(402,139)	-
-	20,248	20,248	-
-	14,350	14,350	-
-	(114,529)	(114,529)	-
-	178,887	178,887	-
-	597,045	597,045	-
(1,265,838)	597,045	(668,793)	-
-	-	-	(180,250)
667,910	45,000	712,910	-
175,526	-	175,526	-
774,138	-	774,138	148,403
31,439	36,123	67,562	258
203,852	429,256	633,108	24,080
-	-	-	5,998
765,611	(765,611)	-	-
2,618,476	(255,232)	2,363,244	178,739
1,352,638	341,813	1,694,451	(1,511)
7,078,669	13,231,727	20,310,396	166,920
(463,449)	-	(463,449)	-
6,615,220	13,231,727	19,846,947	166,920
\$ 7,967,858	\$ 13,573,540	\$ 21,541,398	\$ 165,409

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FUND FINANCIAL STATEMENTS

**CITY OF BARNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General Fund	Parks and Recreation Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,531,172	\$ 440,522	\$ 706,685	\$ 127,248	\$ 85,846	\$ 2,891,473
Taxes Receivable						
Current	22,895	-	2,892	-	106	25,893
Special Assessments Receivable						
Delinquent	15,800	-	2,600	-	-	18,400
Noncurrent	36,832	-	2,784,827	91,747	-	2,913,406
Accounts Receivable	8,620	5,877	-	-	-	14,497
Accrued Interest Receivable	3,441	-	-	-	-	3,441
Notes Receivable	-	-	-	-	5,321	5,321
Inventory	-	1,200	-	-	-	1,200
Advance to Component Unit	9,926	-	-	-	-	9,926
Due from Other Funds	249,226	-	-	-	-	249,226
Total Assets	\$ 1,877,912	\$ 447,599	\$ 3,497,004	\$ 218,995	\$ 91,273	\$ 6,132,783
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ 14,527	\$ 1,883	\$ -	\$ -	\$ 229	\$ 16,639
Contracts Payable	-	7,975	-	89,347	-	97,322
Salaries and Benefits Payable	48,095	7,184	-	-	-	55,279
Due to Other Funds	-	-	-	110,311	-	110,311
Advance from Other Funds	160,000	-	-	-	-	160,000
Advance from Component Unit	4,854	-	-	-	-	4,854
Total Liabilities	227,476	17,042	-	199,658	229	444,405
Deferred Inflows of Resources						
Unavailable Taxes	14,594	-	1,967	-	-	16,561
Unavailable Special Assessments	52,022	-	2,785,195	91,747	-	2,928,964
Unavailable Grants and Aid	8,620	-	-	-	-	8,620
Unavailable Loans Receivable	-	-	-	-	5,321	5,321
Total Deferred Inflows of Resources	75,236	-	2,787,162	91,747	5,321	2,959,466
Fund Balances (Deficit)						
Nonspendable Inventory	-	1,200	-	-	-	1,200
Nonspendable Advances	9,926	-	-	-	-	9,926
Restricted for Capital Projects	-	-	-	37,901	-	37,901
Restricted for Economic Development	-	-	-	-	28,605	28,605
Restricted for Debt Repayment	-	-	709,842	-	-	709,842
Restricted for Small Cities Grant	-	-	-	-	53,222	53,222
Restricted for Dare Program	-	-	-	-	3,896	3,896
Committed for Capital Outlay	228,500	16,625	-	-	-	245,125
Committed for Community Projects	1,031,071	-	-	-	-	1,031,071
Committed for Park Operations	-	412,732	-	-	-	412,732
Assigned for Joint Powers	2,591	-	-	-	-	2,591
Unassigned	303,112	-	-	(110,311)	-	192,801
Total Fund Balances (Deficit)	1,575,200	430,557	709,842	(72,410)	85,723	2,728,912
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	\$ 1,877,912	\$ 447,599	\$ 3,497,004	\$ 218,995	\$ 91,273	\$ 6,132,783

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, 2016**

FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS		\$ 2,728,912
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.		6,479,456
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.		2,959,466
Net pension liability and related deferred inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	\$ (1,791,073)	
Deferred Inflows of Resources - Pension Related	(233,467)	
Deferred Outflows of Resources - Pension Related	<u>1,154,333</u>	(870,207)
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds Payable, Net of Unamortized Bond Discounts	(3,140,761)	
Capital Lease Obligations	(26,998)	
Accrued Compensated Absences	(125,265)	
Accrued Interest Payable on General Obligation Bonds	<u>(36,745)</u>	<u>(3,329,769)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 7,967,858</u></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, 2016

	General Fund	Parks and Recreation Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 273,933	\$ 323,900	\$ 70,418	\$ -	\$ -	\$ 668,251
Tax Increments	-	-	-	-	175,526	175,526
Special Assessments	23,680	-	148,324	-	-	172,004
Licenses and Permits	35,605	730	-	-	-	36,335
Intergovernmental	858,959	15,483	-	-	6,161	880,603
Charges for Services	995	196,592	-	-	-	197,587
Fines and Forfeits	4,754	-	-	-	-	4,754
Gifts and Contributions	-	159,422	-	-	1,520	160,942
Interest Income	13,744	913	1,389	900	154	17,100
Miscellaneous	57,117	8,448	25,000	-	14,339	104,904
Total Revenues	<u>1,268,787</u>	<u>705,488</u>	<u>245,131</u>	<u>900</u>	<u>197,700</u>	<u>2,418,006</u>
EXPENDITURES						
Current						
General Government	678,050	-	-	-	6,161	684,211
Public Safety	623,625	-	-	-	1,074	624,699
Public Works	263,356	-	-	-	-	263,356
Parks and Recreation	-	383,192	-	-	-	383,192
Economic Development	163,003	-	-	-	163,377	326,380
Capital Outlay						
Public Safety	1,892	-	-	-	-	1,892
Public Works	-	-	-	1,177,091	-	1,177,091
Parks and Recreation	-	373,599	-	-	-	373,599
Debt Service						
Principal	7,522	-	225,000	-	-	232,522
Interest and Other Charges	4,362	-	52,720	-	-	57,082
Bond Issue Costs	-	-	-	37,591	-	37,591
Total Expenditures	<u>1,741,810</u>	<u>756,791</u>	<u>277,720</u>	<u>1,214,682</u>	<u>170,612</u>	<u>4,161,615</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(473,023)	(51,303)	(32,589)	(1,213,782)	27,088	(1,743,609)
OTHER FINANCING SOURCES (USES)						
Transfers In	765,611	-	-	17,518	-	783,129
Transfers Out	(17,518)	-	-	-	-	(17,518)
Bond Proceeds	-	-	18,335	1,241,665	-	1,260,000
Proceeds from Sale of Capital Assets	-	-	-	-	20,336	20,336
Total Other Financing Sources (Uses)	<u>748,093</u>	<u>-</u>	<u>18,335</u>	<u>1,259,183</u>	<u>20,336</u>	<u>2,045,947</u>
NET CHANGE IN FUND BALANCES						
	275,070	(51,303)	(14,254)	45,401	47,424	302,338
Fund Balance (Deficit) - Beginning of Year	1,300,130	481,860	724,096	(117,811)	38,299	2,426,574
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 1,575,200</u>	<u>\$ 430,557</u>	<u>\$ 709,842</u>	<u>\$ (72,410)</u>	<u>\$ 85,723</u>	<u>\$ 2,728,912</u>

See accompanying Notes to Financial Statements.

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**CITY OF BARNESVILLE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 302,338

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	\$ 1,658,386	
Current Year Depreciation	<u>(268,548)</u>	1,389,838

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		923,056
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Bond and lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The proceeds, net of issuance costs, for debt issuance are:

Gross Bond Proceeds		(1,260,000)
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Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.		(211,073)
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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	225,000	
Capital Lease	<u>7,522</u>	232,522

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	(14,298)	
Amortization of Discounts	(423)	
Change in Compensated Absences	<u>(9,322)</u>	<u>(24,043)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,352,638

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Water	Sewer	Electric
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 632,259	\$ 1,019,673	\$ 918,636
Accounts Receivable - Net	80,927	124,897	405,763
Special Assessments Receivable			
Delinquent	672	593	-
Noncurrent	191,627	174,621	-
Inventories	-	-	-
Total Current Assets	905,485	1,319,784	1,324,399
Noncurrent Assets			
Investment in Joint Venture	-	-	-
Restricted Cash	-	-	-
Advance to Component Unit	137,160	37,900	-
Advances to Other Funds	-	160,000	-
Capital Assets			
Land	-	100,831	-
Buildings (Net)	359,225	2,343	62,791
Infrastructure (Net)	1,785,727	4,654,020	223,125
Improvements (Net)	-	-	-
Machinery and Equipment (Net)	100,647	34,066	171,586
Vehicles (Net)	-	95,605	-
Total Capital Assets	2,245,599	4,886,865	457,502
Total Noncurrent Assets	2,382,759	5,084,765	457,502
Total Assets	3,288,244	6,404,549	1,781,901
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	6,147	5,940	30,940
LIABILITIES			
Current Liabilities			
Accounts Payable	307	625	175,403
Salaries and Benefits Payable	696	504	3,129
Deposits Payable	-	-	1,349
Accrued Interest Payable	6,752	15,324	-
Due to Other Governments	251	-	5,868
Due to Other Funds	-	-	-
Unearned Utility Payments	-	-	37,300
Compensated Absences - Due Within One Year	330	330	2,316
Bonds Payable - Due Within One Year	81,000	272,000	-
Total Current Liabilities	89,336	288,783	225,365
Noncurrent Liabilities			
Compensated Absences Payable -			
Due in More than One Year	110	110	772
Bonds Payable - Due in More than One Year	914,301	2,465,000	-
Net Pension Liability	14,783	14,286	74,413
Total Noncurrent Liabilities	929,194	2,479,396	75,185
Total Liabilities	1,018,530	2,768,179	300,550
DEFERRED INFLOWS OF RESOURCES			
Pension Related	1,990	1,924	10,017
NET POSITION			
Net Investment in Capital Assets	1,250,298	2,149,865	457,502
Restricted for Debt Service	-	-	-
Unrestricted	1,023,573	1,490,521	1,044,772
Total Net Position	\$ 2,273,871	\$ 3,640,386	\$ 1,502,274

Telephone	Municipal Liquor	Cable Television	Ambulance	Nonmajor Proprietary Funds	Total
\$ 757,144	\$ 9,075	\$ -	\$ -	\$ 753,972	\$ 4,090,759
123,518	7,756	91,317	89,780	94,488	1,018,446
-	-	-	-	-	1,265
-	-	-	-	-	366,248
-	60,545	-	-	-	60,545
<u>880,662</u>	<u>77,376</u>	<u>91,317</u>	<u>89,780</u>	<u>848,460</u>	<u>5,537,263</u>
2,603,686	-	-	-	-	2,603,686
212,494	-	-	-	70,831	283,325
-	-	-	-	70,940	246,000
-	-	-	-	-	160,000
-	-	-	-	13,077	113,908
1,252	42,574	67,886	2,861	96,221	635,153
-	-	331,214	-	455,542	7,449,628
318,622	-	-	-	-	318,622
4,167,951	-	296,054	63,478	13,830	4,847,612
11,945	-	6,492	90,270	-	204,312
<u>4,499,770</u>	<u>42,574</u>	<u>701,646</u>	<u>156,609</u>	<u>578,670</u>	<u>13,569,235</u>
<u>7,315,950</u>	<u>42,574</u>	<u>701,646</u>	<u>156,609</u>	<u>720,441</u>	<u>16,862,246</u>
8,196,612	119,950	792,963	246,389	1,568,901	22,399,509
119,730	26,860	10,743	51,859	29,080	281,299
14,633	1,539	21,313	566	14,348	228,734
10,981	3,514	895	9,589	2,535	31,843
-	-	-	-	-	1,349
10,449	-	9,859	-	-	42,384
2,044	3,526	2,609	-	1,407	15,705
-	-	75,104	63,811	-	138,915
-	-	51,859	-	-	89,159
14,858	1,421	2,273	5,282	2,317	29,127
155,000	-	45,000	-	-	553,000
<u>207,965</u>	<u>10,000</u>	<u>208,912</u>	<u>79,248</u>	<u>20,607</u>	<u>1,130,216</u>
4,953	474	758	1,761	773	9,711
3,381,093	-	439,324	-	-	7,199,718
287,961	64,599	25,840	124,725	69,941	676,548
<u>3,674,007</u>	<u>65,073</u>	<u>465,922</u>	<u>126,486</u>	<u>70,714</u>	<u>7,885,977</u>
3,881,972	75,073	674,834	205,734	91,321	9,016,193
38,765	8,696	3,478	16,790	9,415	91,075
967,030	42,574	217,322	156,609	578,670	5,819,870
212,494	-	-	-	70,831	283,325
<u>3,216,081</u>	<u>20,467</u>	<u>(91,928)</u>	<u>(80,885)</u>	<u>847,744</u>	<u>7,470,345</u>
<u>\$ 4,395,605</u>	<u>\$ 63,041</u>	<u>\$ 125,394</u>	<u>\$ 75,724</u>	<u>\$ 1,497,245</u>	<u>\$ 13,573,540</u>

CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Water	Sewer	Electric
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ -
Cost of Sales	-	-	-
Gross Profit	-	-	-
OPERATING REVENUES			
Charges for Services	453,911	639,232	2,066,639
OPERATING EXPENSES			
Professional Services	123,329	111,312	114,575
Wages, Salaries, and Compensation	15,958	16,741	78,647
Repairs and Maintenance	45,384	7,446	24,985
Insurance	3,341	5,988	2,730
Utilities	-	-	3,650
Depreciation	77,648	144,355	32,583
Materials and Supplies	150	-	414
Miscellaneous Expenses	10,658	18,072	30,786
Purchased Power	-	-	1,415,219
License Fees	2,494	-	-
Equipment	-	-	91,134
Medicare/Medicaid Fee Reductions	-	-	-
Total Operating Expenses	278,962	303,914	1,794,723
OPERATING INCOME (LOSS)	174,949	335,318	271,916
NONOPERATING REVENUES (EXPENSES)			
Taxes	-	-	-
Interest Income	1,484	2,699	27,380
Joint Venture Income	-	-	-
Special Assessments	4,296	3,790	-
Intergovernmental Grants	58	56	290
Miscellaneous - Nonoperating	2,408	3,980	15,570
Interest Expense and Fiscal Charges	(17,379)	(43,034)	1,173
Gain (Loss) on Sale of Capital Assets	-	-	-
Total Nonoperating Revenues (Expenses)	(9,133)	(32,509)	44,413
Income (Loss) before Transfers	165,816	302,809	316,329
Transfers In	-	-	-
Transfers Out	(50,000)	(55,000)	(221,785)
CHANGE IN NET POSITION	115,816	247,809	94,544
Net Position - Beginning of Year	2,158,055	3,392,577	1,407,730
NET POSITION - END OF YEAR	<u>\$ 2,273,871</u>	<u>\$ 3,640,386</u>	<u>\$ 1,502,274</u>

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Ambulance	Nonmajor Proprietary Funds	Total
\$ -	\$ 407,179	\$ -	\$ -	\$ -	\$ 407,179
-	(317,670)	-	-	-	(317,670)
-	89,509	-	-	-	89,509
1,037,076	-	480,345	405,628	475,362	5,558,193
72,632	-	800	15,149	159,305	597,102
277,160	72,433	26,246	215,628	67,525	770,338
23,376	1,356	4,183	20,739	547	128,016
3,188	6,550	4,631	1,987	1,287	29,702
146	-	-	146	-	3,942
239,824	912	27,725	27,869	24,534	575,450
2,319	1,232	1,476	29,747	659	35,997
239,337	19,592	11,791	51,307	48,167	429,710
-	-	-	-	-	1,415,219
-	-	337,421	-	-	339,915
-	-	442,288	-	-	533,422
-	-	-	175,592	-	175,592
857,982	102,075	856,561	538,164	302,024	5,034,405
179,094	(12,566)	(376,216)	(132,536)	173,338	613,297
-	-	-	45,000	-	45,000
3,124	23	191	46	1,176	36,123
350,737	-	-	-	-	350,737
-	-	-	-	-	8,086
3,664	252	101	9,670	40,147	54,238
8,395	3,709	2,751	41,652	54	78,519
(1,649)	-	(26,024)	-	-	(86,913)
-	-	-	8,337	-	8,337
364,271	3,984	(22,981)	104,705	41,377	494,127
543,365	(8,582)	(399,197)	(27,831)	214,715	1,107,424
76,055	-	-	-	-	76,055
(301,962)	-	-	-	(212,919)	(841,666)
317,458	(8,582)	(399,197)	(27,831)	1,796	341,813
4,078,147	71,623	524,591	103,555	1,495,449	13,231,727
\$ 4,395,605	\$ 63,041	\$ 125,394	\$ 75,724	\$ 1,497,245	\$ 13,573,540

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016**

	Water	Sewer	Electric
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 457,606	\$ 633,893	\$ 2,023,373
Payments to Suppliers	(185,252)	(142,318)	(1,517,242)
Payments to Employees	(13,093)	(13,090)	(62,265)
Net Cash Provided (Used) by Operating Activities	259,261	478,485	443,866
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
FINANCING ACTIVITIES			
Transfers Out	(50,000)	(55,000)	(221,785)
Transfers In	-	-	-
Repayment of Advance to Component Unit	7,840	2,100	-
Interfund Borrowings	-	20,000	-
Taxes	-	-	-
Other Miscellaneous Receipts	2,408	3,980	15,570
Intergovernmental Grants	58	56	290
Net Cash Provided (Used) by Noncapital Financing Activities and Related Financing Activities	(39,694)	(28,864)	(205,925)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Paid on Debt	(76,000)	(268,000)	-
Interest Paid on Debt	(17,208)	(44,517)	1,173
Special Assessments	16,995	14,995	-
Proceeds from Disposal of Capital Assets	-	-	-
Acquisition of Capital Assets	-	-	(11,228)
Net Cash Provided (Used) by Capital and Related Financing Activities	(76,213)	(297,522)	(10,055)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from Joint Venture	-	-	-
Interest and Dividends Received	1,484	2,699	27,380
Net Cash Provided (Used) by Investing Activities	1,484	2,699	27,380
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents - Beginning of Year	487,421	864,875	663,370
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 632,259	\$ 1,019,673	\$ 918,636
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 174,949	\$ 335,318	\$ 271,916
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	77,648	144,355	32,583
Impairment Loss	-	-	-
(Increase) Decrease in Assets			
Accounts Receivable	3,695	(5,339)	(45,029)
Inventory	-	-	-
Deferred Outflows of Resources - Pension	(5,013)	(4,970)	(25,622)
Increase (Decrease) in Liabilities			
Customer Deposits	-	-	109
Accounts Payable	(145)	500	166,318
Salaries and Benefits Payable	62	63	488
Due to Other Governments	249	-	(67)
Due to Other Funds	-	-	-
Compensated Absences Payable	76	76	(544)
Net Pension Liability	6,639	7,318	36,213
Deferred Inflows of Resources - Pension	1,101	1,164	5,847
Unearned Utility Payments	-	-	1,654
Total Adjustments	84,312	143,167	171,950
Net Cash Provided (Used) by Operating Activities	\$ 259,261	\$ 478,485	\$ 443,866

See accompanying Notes to Financial Statements.

Telephone	Municipal Liquor	Cable Television	Ambulance	Nonmajor Proprietary Funds	Total
\$ 1,069,995	\$ 405,418	\$ 485,864	\$ 369,083	\$ 478,697	\$ 5,923,929
(338,678)	(345,233)	(326,092)	(230,435)	(208,329)	(3,293,579)
(227,464)	(61,320)	(20,095)	(184,356)	(52,576)	(634,259)
503,853	(1,135)	139,677	(45,708)	217,792	1,996,091
(301,962)	-	-	-	(212,919)	(841,666)
76,055	-	-	-	-	76,055
-	-	-	-	4,060	14,000
-	-	-	-	-	20,000
-	-	-	44,996	-	44,996
8,395	3,709	2,751	41,652	54	78,519
3,664	252	101	9,670	40,147	54,238
(213,848)	3,961	2,852	96,318	(168,658)	(553,858)
(155,000)	-	(45,000)	-	-	(544,000)
(127,388)	-	(26,238)	-	-	(214,178)
-	-	-	-	-	31,990
-	-	-	8,337	-	8,337
(147,766)	-	(158,883)	(151,336)	-	(469,213)
(430,154)	-	(230,121)	(142,999)	-	(1,187,064)
270,321	-	-	-	-	270,321
3,124	23	191	50	1,177	36,128
273,445	23	191	50	1,177	306,449
133,296	2,849	(87,401)	(92,339)	50,311	561,618
836,342	6,226	87,401	92,339	774,492	3,812,466
\$ 969,638	\$ 9,075	\$ -	\$ -	\$ 824,803	\$ 4,374,084
\$ 179,094	\$ (12,566)	\$ (376,216)	\$ (132,536)	\$ 173,338	\$ 613,297
239,824	912	27,725	27,869	24,534	575,450
-	-	384,735	-	-	384,735
32,919	(1,761)	5,222	(36,545)	3,335	(43,503)
-	(280)	-	-	-	(280)
(97,148)	(21,658)	(8,919)	(42,976)	(23,926)	(230,232)
-	-	-	-	-	109
2,320	1,447	16,664	421	1,636	189,161
1,131	416	(10)	2,343	552	5,045
-	-	(5)	-	-	177
-	-	75,104	63,811	-	138,915
(1,101)	500	288	-	34	(671)
125,756	27,238	12,743	60,918	32,916	309,741
21,058	4,617	2,049	9,824	5,373	51,033
-	-	297	1,163	-	3,114
324,759	11,431	515,893	86,828	44,454	1,382,794
\$ 503,853	\$ (1,135)	\$ 139,677	\$ (45,708)	\$ 217,792	\$ 1,996,091

**CITY OF BARNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016**

ASSETS

Cash and Pooled Investments	\$ 144,993
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LIABILITIES

Due to Fire Department	\$ 144,993
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See accompanying Notes to Financial Statements.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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.

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

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

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

The City reports the following major governmental funds:

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

Parks and Recreations Special Revenue Fund – The Parks and Recreations 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.

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.

Ambulance Fund – The Ambulance Fund accounts for the operations of the City’s ambulance service.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Additionally, the City reports the following fiduciary fund types:

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

As a general rule, the effect of 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.

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 and restricted 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.

Restricted cash in the enterprise funds relates to cash restricted for repayment of debt.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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)

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 for 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, 2016**

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. 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 \$126,938 was capitalized in the Telephone Fund as of December 31, 2016.

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

8. Deferred Outflows of Resources

The City reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. The deferred outflow of resources reported in the financial statements consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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)

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.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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. 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. Deferred inflows related to pensions are reported in the government-wide and proprietary fund statement of net position. This deferred inflow results from differences between expected and actual experience, changes in assumptions and differences between projected and actual earnings on plan investments.

13. 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. The city council is the delegated authority to assign fund balance at year end. 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

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

2. Expenditures

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

3. Expenses

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

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Deficit Fund Balances

The Capital Projects Fund had a deficit fund balance of \$72,410 as of December 31, 2016. The City plans to eliminate this deficit through future special assessment revenues and/or transfers.

B. Excess of Expenditures over Appropriations

Expenditures exceeded budgeted amounts in the following funds:

	Expenditures	Budget	Excess
Park and Recreation Fund	\$ 756,791	\$ 564,818	\$ 191,973

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.

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

At December 31, 2016, 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;
- 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, 2016, 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	\$ 100,596	6.3 %
Capital One Natl Assn CD	10/22/2018	NR	100,701	6.3
Minnesota Municipal Money Market Fund (4M)	N/A	NR	41,695	2.6
Ally Bk Midvale Utah CD	7/3/2017	NR	4,005	0.3
Ally Bk Midvale Utah CD 1.1% 17	6/19/2017	NR	248,184	15.5
Ehlers Money Market Funds	N/A	NR	19,063	1.2
Ally Bk Midvale Utah CD	1/30/2017	NR	74,018	4.6
DMB Community Bank 11 mo CD	4/3/2017	NR	249,000	15.6
Federal Natl MTG Assn Call 1.2% 122018	12/20/2018	NR	251,720	15.7
Goldman Sachs Bk USA NY CD	12/11/2017	NR	248,484	15.5
Capital One BK USA Natl Assn CD 1.2%19	8/5/2019	NR	245,490	15.3
Santander BK Natl Assn CD 0.65%17	1/13/2017	NR	17,000	1.1
			<u>\$ 1,599,955</u>	

NR = Not Rated

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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

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

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

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

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

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

Deposits	\$ 5,957,972
Investments	1,599,955
Total Cash and Investments	<u>\$ 7,557,927</u>
Governmental Funds	
Cash and Investments	\$ 2,891,473
Enterprise Funds	
Cash and Investments	4,090,759
Restricted Cash and Investments	283,325
Component Unit	147,377
Fiduciary Funds	144,993
Total Cash and Investments	<u>\$ 7,557,927</u>

Fair Value Measurements

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Value Measurements (Continued)

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the City's own assumptions about the assumptions market participants and would use in pricing the asset.

Investments are measured as follows:

	<u>12/31/2016</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Certificates of Deposit	\$ 1,539,197	\$ 1,539,197	\$ -	\$ -
Total Investments by Fair Value Level	<u>1,539,197</u>	<u>\$1,539,197</u>	<u>\$ -</u>	<u>\$ -</u>
NAV Funds	41,695			
Investments Measured at Amortized Cost				
Money Market Funds	<u>19,063</u>			
Total Investments	<u>\$ 1,599,955</u>			

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Value Measurements (Continued)

The Minnesota Municipal Money Market Trust Fund (4M) is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

The City reports an investment in the Pool at the NAV per share, the fair value established by the pool.

2. Non-Marketable Investments/Investment in Joint Venture

The City's telephone company has entered into an agreement with Rothsay Telephone, Park Region Mutual Telephone, Red River Rural Telephone, Loretel Systems and East Ottertail Telephone to operate a fiber optic video transmission network to serve 17 area school districts. Each telephone company contributed capital and shares in the operating decisions. Barnesville's share is approximately 18.1%. All profits and losses are shared proportionately to each member's ownership. The City uses the equity method to account for its investments. Joint venture activity for 2016 is as follows:

Balance, January 1, 2016	\$ 2,523,270
Cash Distributions	(253,322)
Net Income	<u>333,738</u>
Balance, December 31, 2016	<u><u>\$ 2,603,686</u></u>

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2016, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 563,716	\$ -	\$ -	\$ 563,716
Construction in Progress	674,258	1,462,352	(298,580)	1,838,030
Total Capital Assets Not Being Depreciated	<u>1,237,974</u>	<u>1,462,352</u>	<u>(298,580)</u>	<u>2,401,746</u>
Capital Assets Being Depreciated				
Buildings	1,616,409	-	-	1,616,409
Infrastructure	4,849,251	-	-	4,849,251
Improvements	663,713	441,046	-	1,104,759
Machinery and Equipment	788,168	53,568	(21,000)	820,736
Vehicles	444,789	-	-	444,789
Total Capital Assets Being Depreciated	<u>8,362,330</u>	<u>494,614</u>	<u>(21,000)</u>	<u>8,835,944</u>
Less: Accumulated Depreciation for				
Buildings	800,620	27,955	-	828,575
Infrastructure	2,727,445	131,194	-	2,858,639
Improvements	154,934	23,350	-	178,284
Machinery and Equipment	498,788	42,241	(21,000)	520,029
Vehicles	328,899	43,808	-	372,707
Total Accumulated Depreciation	<u>4,510,686</u>	<u>268,548</u>	<u>(21,000)</u>	<u>4,758,234</u>
Total Capital Assets Being Depreciated, Net	<u>3,851,644</u>	<u>226,066</u>	<u>-</u>	<u>4,077,710</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,089,618</u>	<u>\$ 1,688,418</u>	<u>\$ (298,580)</u>	<u>\$ 6,479,456</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

The following is a summary of the business-type activities capital assets at December 31, 2016:

BUSINESS-TYPE ACTIVITIES	Beginning Balance	Additions	Disposals / Adjustments	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 113,908	\$ -	\$ -	\$ 113,908
Construction in Progress	3,853,305	-	(3,853,305)	-
Total Capital Assets Not Being Depreciated	3,967,213	-	(3,853,305)	113,908
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	2,689,732	4,355,817	(506,926)	6,538,623
Vehicles	459,771	101,952	(94,781)	466,942
Total Capital Assets Being Depreciated	17,276,553	4,457,769	(601,707)	21,132,615
Less: Accumulated Depreciation for				
Buildings	674,780	21,064	-	695,844
Infrastructure	4,148,146	219,109	-	4,367,255
Improvements	646,051	14,497	-	660,548
Machinery and Equipment	1,526,814	278,074	(113,877)	1,691,011
Vehicles	314,705	42,706	(94,781)	262,630
Total Accumulated Depreciation	7,310,496	575,450	(208,658)	7,677,288
Total Capital Assets Being Depreciated, Net	9,966,057	3,882,319	(393,049)	13,455,327
Business-Type Activities Capital Assets, Net	<u>\$ 13,933,270</u>	<u>\$ 3,882,319</u>	<u>\$ (4,246,354)</u>	<u>\$ 13,569,235</u>

The Cable Television Fund recognized an impairment loss of \$384,735 related to digital assets that have become impaired due to unexpected obsolescence. The impairment loss is included in operating expenses.

The following is a summary of the component unit capital assets at December 31, 2016:

COMPONENT UNIT	Beginning Balance	Additions	Disposals / Adjustments	Ending Balance
Capital Assets Being Depreciated				
Buildings	\$ -	\$ 9,989	\$ -	\$ 9,989
Less: Accumulated Depreciation for				
Buildings	-	250	-	250
Component Unit Capital Assets, Net	<u>\$ -</u>	<u>\$ 9,739</u>	<u>\$ -</u>	<u>\$ 9,739</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

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

Governmental Activities:	
General Government	\$ 28,242
Public Safety	12,667
Public Works	175,685
Culture and Recreation	51,954
Total Depreciation Expense - Governmental Activities	<u>\$ 268,548</u>
Business-Type Activities:	
Water	\$ 77,648
Sewer	144,355
Electric	32,583
Telephone	239,824
Municipal Liquor	912
Cable Television	27,725
Sanitation	2,632
Storm Sewer	21,902
Ambulance	27,869
Total Depreciation Expense - Business-Type Activities	<u>\$ 575,450</u>

B. Interfund Receivables, Payables and Transfers

The composition of interfund transfers as of December 31, 2016 is as follows:

	Transfers In:			Total
	General Fund	Capital Projects Funds	Telephone Enterprise Fund	
Transfer Out:				
General Fund	\$ -	\$ 17,518	\$ -	\$ 17,518
Water Enterprise Fund	50,000	-	-	50,000
Sewer Enterprise Fund	55,000	-	-	55,000
Electric Enterprise Fund	221,785	-	-	221,785
Telephone Enterprise Fund	301,962	-	-	301,962
Nonmajor Enterprise Funds	136,864	-	76,055	212,919
Total	<u>\$ 765,611</u>	<u>\$ 17,518</u>	<u>\$ 76,055</u>	<u>\$ 859,184</u>

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

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

The composition of interfund balances at December 31, 2016, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects Fund	\$ 110,311
General Fund	Cable Television Fund	75,104
General Fund	Ambulance Fund	63,811
Total		<u>\$ 249,226</u>

The interfund receivables/payables between the General Fund and Capital Projects Fund, the General Fund and Cable Television Fund, and the General Fund and Ambulance 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	160,000
Component Unit - EDA	Sewer Fund	37,900
Component Unit - EDA	Water Fund	137,160
Component Unit - EDA	Sanitation Fund	70,940
Total		<u>\$ 420,780</u>

The advances between the General Fund and EDA were to provide for the purchase of land and land improvements on lots that are considered land held for resale in the EDA. These advances do not have set repayment schedules and repayment only occurs when lots are sold by the EDA. 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. In 2015, the council approved the advance of \$260,000 to the EDA for the purchase of the Del/Gilbertson land. The funds came from the Sewer, Water, and Sanitation Fund. The advance will be repaid as the Del Gilbertson properties are sold.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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.

2. Components of Long-Term Debt

	Authorized and Issued	Outstanding	Due in 2017	
			Principal	Interest
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds, Including Refunding Bonds				
G.O. Improvement and Refunding Bonds Series 2012A, 0.80% to 2.20%, Issued 04/12/12, Final Maturity 02/01/22.	\$ 545,000	\$ 415,000	\$ 65,000	\$ 6,750
G.O. Refunding Bonds Series 2010A, 1.00% to 4.00%, Issued 01/07/10, Final Maturity 02/01/23.	1,020,000	540,000	75,000	17,798
G.O. Improvement and Refunding Bonds Series 2012A, 0.55% to 3.30%, Issued 04/12/12, Final Maturity 02/01/32.	760,000	625,000	35,000	15,233
G.O. Improvement Bonds Series 2013A, 1.5% to 3.75%, Issued 11/21/13, Final Maturity 02/21/29.	345,000	305,000	20,000	8,903
G.O. Improvement Bonds Series 2016A, 1.00% to 3.00%, Issued 6/2/16, Final Maturity 2/1/37.	1,260,000	1,260,000	-	32,144
Total General Obligation Bonds, Including Refunding Bonds	3,930,000	3,145,000	195,000	80,828
Less: Unamortized Discount	-	(4,239)	-	-
Total General Obligation Bonds, Including Refunding Bonds - Net	3,930,000	3,140,761	195,000	80,828
Capital Leases	57,564	26,998	8,646	3,239
Total Long-Term Debt - Governmental Activities	3,987,564	3,167,759	203,646	84,067

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt (Continued)

	Authorized and Issued	Outstanding	Due in 2017	
			Principal	Interest
BUSINESS-TYPE ACTIVITIES				
Revenue Bonds				
<hr/>				
Communication System Revenue Bonds, Series 2014A; 0.75% to 4.6%; Issued 05/13/14; Final Maturity 12/01/34.	\$ 3,870,000	\$ 3,560,000	\$ 155,000	\$ 125,387
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	490,000	45,000	23,663
Total Revenue Bonds	4,660,000	4,050,000	200,000	149,050
Less: Unamortized Discount	-	(29,583)	-	-
Total Revenue Bonds - Net	4,660,000	4,020,417	200,000	149,050
<hr/>				
General Obligation Bonds				
G.O. Improvement and Refunding Bonds Series 2012AA; 0.65% to 2.70%, Issued 04/12/12; Final Maturity 2/01/26.	740,000	580,000	55,000	11,582
G.O. Improvement and Refunding Bonds Series 2012A; 0.80% to 2.20%, Issued 04/12/12; Final Maturity 2/01/22.	150,000	115,000	15,000	1,903
G.O. Revenue Note of 2006; 1.56%, Issued 07/31/06; Final Maturity 08/20/25.	4,137,640	2,221,000	232,000	34,648
G.O. Revenue Bonds of 2011, 1.000% to 1.143%, Issued 2/29/12, Final Maturity 8/20/31.	1,049,285	821,000	51,000	8,810
Total General Obligation Bonds	6,076,925	3,737,000	353,000	56,943
Less: Unamortized Discount	-	(4,699)	-	-
Total General Obligation Bonds - Net	6,076,925	3,732,301	353,000	56,943
Total Long-Term Debt - Business-Type Activities	10,736,925	7,752,718	553,000	205,993
Total Government-Wide Long-Term Liabilities	<u>\$ 14,724,489</u>	<u>\$ 10,920,477</u>	<u>\$ 756,646</u>	<u>\$ 290,060</u>
<hr/>				
DISCRETELY PRESENTED COMPONENT UNIT				
Revenue Bonds				
<hr/>				
Lease Revenue Bonds of 2009; 2.25%, Issued 09/15/09; Final Maturity 09/15/2022.	\$ 31,500	\$ 5,042	\$ 1,872	\$ 267

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Debt

	December 31, 2015	Additions	Retirements	December 31, 2016	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Debt, Including					
Refunding Bonds	\$ 2,110,000	\$ 1,260,000	\$ 225,000	\$ 3,145,000	\$ 195,000
Less: Unamortized Discounts	(4,662)	-	(423)	(4,239)	-
Capital Lease Obligations	34,520	-	7,522	26,998	8,646
Compensated Absences Payable	115,943	89,308	79,986	125,265	93,949
Total Governmental Activities	<u>\$ 2,255,801</u>	<u>\$ 1,349,308</u>	<u>\$ 312,085</u>	<u>\$ 3,293,024</u>	<u>\$ 297,595</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	\$ 4,250,000	\$ -	\$ 200,000	\$ 4,050,000	\$ 200,000
Revenue Notes	2,449,000	-	228,000	2,221,000	232,000
General Obligation Bonds	1,632,000	-	116,000	1,516,000	121,000
Less: Unamortized Discounts	(36,710)	-	(2,428)	(34,282)	-
Compensated Absences Payable	38,346	39,255	38,763	38,838	29,127
Total Business-Type Activities	<u>\$ 8,332,636</u>	<u>\$ 39,255</u>	<u>\$ 580,335</u>	<u>\$ 7,791,556</u>	<u>\$ 582,127</u>
DISCRETELY PRESENTED COMPONENT UNIT					
Revenue Bonds	\$ 6,873	\$ -	\$ 1,831	\$ 5,042	\$ 1,872
Special Assessments Payable	202,744	1,430,845	182,540	1,451,049	-
Total Discretely Presented Component Unit	<u>\$ 209,617</u>	<u>\$ 1,430,845</u>	<u>\$ 184,371</u>	<u>\$ 1,456,091</u>	<u>\$ 1,872</u>

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
2017	\$ 195,000	\$ 80,828	\$ 275,828	\$ 1,872	\$ 267	\$ 2,139
2018	250,000	72,267	322,267	1,914	225	2,139
2019	250,000	67,533	317,533	1,256	182	1,438
2020	255,000	62,144	317,144	-	-	-
2021	265,000	55,995	320,995	-	-	-
2022 - 2026	835,000	199,795	1,034,795	-	-	-
2027 - 2031	610,000	112,432	722,432	-	-	-
2032 - 2036	405,000	39,408	444,408	-	-	-
2037	80,000	1,200	81,200	-	-	-
Total	<u>\$ 3,145,000</u>	<u>\$ 691,600</u>	<u>\$ 3,836,600</u>	<u>\$ 5,042</u>	<u>\$ 674</u>	<u>\$ 5,716</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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
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	215,000	134,775	349,775	243,000	23,634	266,634
2021	220,000	128,688	348,688	247,000	19,843	266,843
2022 - 2026	1,150,000	529,975	1,679,975	1,025,000	40,264	1,065,264
2027 - 2031	1,085,000	321,115	1,406,115	-	-	-
2032 - 2036	770,000	71,565	841,565	-	-	-
Total	<u>\$ 4,050,000</u>	<u>\$ 1,620,606</u>	<u>\$ 5,670,606</u>	<u>\$ 2,221,000</u>	<u>\$ 176,779</u>	<u>\$ 2,397,779</u>

Year	G.O. Bonds			Total Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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
2020	128,000	17,325	145,325	586,000	175,734	761,734
2021	128,000	15,294	143,294	595,000	163,825	758,825
2022 - 2026	598,000	44,357	642,357	2,773,000	614,596	3,387,596
2027 - 2031	289,000	9,359	298,359	1,374,000	330,474	1,704,474
2032 - 2036	-	-	-	770,000	71,565	841,565
Total	<u>\$ 1,516,000</u>	<u>\$ 148,634</u>	<u>\$ 1,664,634</u>	<u>\$ 7,787,000</u>	<u>\$ 1,946,019</u>	<u>\$ 9,733,019</u>

5. Bonds Issued

During 2016, the City issued General Obligation Improvement Bonds, Series 2016A in the amount of \$1,260,000 with interest rates of 1.0-3.0%. This bond is being used to finance the Del Acres Gilbertson phase II project.

During 2016, improvements were made to the Del Acres Gilbertson property owned by the EDA. The EDA recognized the improvements as land held for resale and recognized the special assessments payable to the City in the amount of \$1,430,845 related to phase I and phase II. The assessments are deferred until the property sells. Since these have not been certified to the County, no interest will accrue on the outstanding amount.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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 \$990. At December 31, 2016, the City has assets under this capital lease of \$42,564 with related accumulated depreciation of \$19,863.

The future minimum lease payments are as follows:

Capital Leases	
Year	Minimum Payments
2017	\$ 11,885
2018	11,885
2019	8,913
Total Minimum Lease Payments	32,683
Less: Amounts Representing Interest	(5,685)
Present Value of Minimum Lease Payments	\$ 26,998

7. Risk Management

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment is estimated to be immaterial based on worker's compensation rates and salaries for the year ended December 31, 2016.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. Plan 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan

The Police and Fire Plan originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plan Benefits

General Employee Plan 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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City contributions to the General Employees Fund for the year ended December 31, 2016, were \$72,123. The City contributions were equal to the required contributions as set by state statute.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for Police and Fire Fund members in calendar year 2016. The City contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$52,873. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$1,242,284 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$16,225. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was .0153%, which was a decrease of .0009% from its proportionate share measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$150,039 for its proportionate share of the General Employee Plan's pension expense. In addition, the City recognized an additional \$4,838 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

The proportionate share of the General Employee Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 100,916
Changes in Actuarial Assumptions	243,239	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	235,791	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	66,317
City Contributions Subsequent to the Measurement Date	37,495	-
Total	<u>\$ 516,525</u>	<u>\$ 167,233</u>

\$37,495 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expenses Amount
2017	\$ 79,052
2018	79,052
2019	108,819
2020	44,874

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2016, the City reported a liability of \$1,324,347 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City proportion was .033%, which was a decrease of .002% from its proportionate share measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$225,621 for its proportionate share of the Police and Fire Plan's pension expense. The City also recognized \$2,970 for the year ended December 31, 2016, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Plan. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014.

At December 31, 2016, the City's proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ -	\$ 151,928
Changes in Actuarial Assumptions	728,846	-
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	202,105	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	18,709
City Contributions Subsequent to the Measurement Date		
	29,323	-
Total	<u>\$ 960,274</u>	<u>\$ 170,637</u>

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$29,323 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expenses Amount
2017	\$ 163,819
2018	163,819
2019	163,819
2020	147,485
2021	121,372

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per Year
Salary Increases	3.25% per Year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.5 %
International Stocks	15	6.0
Bonds	18	1.5
Alternative Assets	20	6.4
Cash	2	0.5
Totals	100.0 %	

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the funds' projected fiduciary net position benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

G. Pension Liability Sensitivity

The following presents the City proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
	6.50%	7.50%	8.50%
City's Proportionate Share of the General Employee Plan Net Pension Liability	\$ 1,764,412	\$ 1,242,284	\$ 812,193

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
	4.60%	5.60%	6.60%
City's Proportionate Share of the Police and Fire Plan Net Pension Liability	\$ 1,853,911	\$ 1,324,347	\$ 891,654

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 5 DEFINED CONTRIBUTION PLAN – FIRE RELIEF ASSOCIATION

A. Plan Description

Effective January 1, 2015, all members of the Barnesville Fire Department are covered by a defined contribution plan administered by the Barnesville Firemen's District (District). The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statutes Chapter 69.

The District provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with state statute, and vest after ten years of credited service. Retirement benefits are based on a member's years of service. Benefit provisions can be amended by the District within the parameters provided by state statutes.

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. Funding Policy

Minnesota Statutes Chapter 69.77 sets the minimum contribution requirement for the City of Barnesville and State Aid on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of volunteers; therefore, members have no contribution requirements. The City's 2016 contribution to the plan was as follows:

State Aid flowed through City to District	\$ 33,638
Voluntary (Non-Required) Contribution from City	8,000
Total Contribution	<u>\$ 41,638</u>

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City provides health insurance benefits for certain retired employees under a single-employer fully-insured plan with age based premiums. 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, the premiums paid are age based and the retirees are required to pay the full amount of the total premium cost and therefore the City has no liability reflected in the City's financial statements.

**CITY OF BARNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 7 COMMITMENTS AND CONTINGENCIES

Purchased Power

The City is obligated to purchase all of its wholesale power requirements from Missouri River Energy Services and Western Area Power Association through January 1, 2057.

NOTE 8 TAX ABATEMENTS

The City has five pay-as-you-go tax increment financing districts with local businesses to promote economic development, redevelopment, and housing within the City as authorized under Minnesota Statute 469.174. The City is currently collecting tax increments that are paid through the property tax collection process. Two of the districts will stop collections as of December 31, 2022 another district will stop collections as of December 31, 2024, while the last two districts will stop collections as of December 31, 2029 and 2039, respectively. The requirement for businesses to receive the excess tax increments from the City is to perform improvements on the owned property. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% of the property tax increments collected to be returned to the developers less administrative fees. For the year ended December 31, 2016, the City paid excess tax increment in the amount of \$145,835. No other commitments were made by the City as part of these agreements.

NOTE 9 RESTATEMENT

Governmental activities beginning net position was restated by \$463,449 to correct an overstatement of special assessment receivables in the prior year.

	Net Position as Previously Stated	Restatement	Net Position As Restated
Governmental Activities	\$ 7,078,669	\$ (463,449)	\$ 6,615,220

NOTE 10 SUBSEQUENT EVENT

Subsequent to December 31, 2016, the City issued G.O. Equipment Certificates in the amount of \$675,000 to refund an existing cable bond.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

	Measurement Date June 30, 2016	Measurement Date June 30, 2015
PERA - General Employees Plan		
City's Proportion of the Net Pension Liability	0.0153%	0.0162%
City's Proportionate Share of the Net Pension Liability	\$ 1,242,284	\$ 839,568
State's Proportionate Share of the Net Pension Liability Associated with the City	\$ 16,225	\$ -
City's Covered-Employee Payroll	\$ 951,245	\$ 950,430
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	130.60%	88.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%
PERA - Police and Fire Plan		
City's Proportion of the Net Pension Liability	0.0330%	0.0350%
City's Proportionate Share of the Net Pension Liability	\$ 1,324,347	\$ 397,682
City's Covered-Employee Payroll	\$ 322,142	\$ 320,101
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	411.11%	124.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.88%	82.30%

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA - General Employees Plan			
Contractually Required Contribution	\$ 72,123	\$ 73,020	\$ 68,395
Contributions in Relation to the Contractually Required Contribution	<u>(72,123)</u>	<u>(73,020)</u>	<u>(68,395)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 961,636	\$ 973,605	\$ 943,183
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%
PERA - Police and Fire Plan			
Contractually Required Contribution	\$ 52,873	\$ 54,333	\$ 47,791
Contributions in Relation to the Contractually Required Contribution	<u>(52,873)</u>	<u>(54,333)</u>	<u>(47,791)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 326,375	\$ 335,388	\$ 301,363
Contributions as a Percentage of Covered Employee Payroll	16.20%	16.20%	15.86%

Note: Information is required to be presented for ten years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF BARNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 263,595	\$ 263,595	\$ 273,933	\$ 10,338
Special Assessments	5,000	5,000	23,680	18,680
Licenses and Permits	19,550	19,550	35,605	16,055
Intergovernmental	822,240	822,240	858,959	36,719
Charges for Services	850	850	995	145
Fines and Forfeits	6,625	6,625	4,754	(1,871)
Interest Income	16,600	16,600	13,744	(2,856)
Miscellaneous	39,085	39,085	57,117	18,032
Total Revenues	<u>1,173,545</u>	<u>1,173,545</u>	<u>1,268,787</u>	<u>95,242</u>
EXPENDITURES				
Current				
General Government	718,506	718,506	678,050	(40,456)
Public Safety	610,329	610,329	623,625	13,296
Public Works	377,879	377,879	263,356	(114,523)
Airport	1,557	1,557	-	(1,557)
Economic Development	163,003	163,003	163,003	-
Capital Outlay				
General Government	15,000	15,000	-	(15,000)
Public Safety	33,000	33,000	1,892	(31,108)
Debt service				
Principal	-	-	7,522	7,522
Interest and Other Charges	-	-	4,362	4,362
Total Expenditures	<u>1,919,274</u>	<u>1,919,274</u>	<u>1,741,810</u>	<u>(177,464)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(745,729)	(745,729)	(473,023)	272,706
OTHER FINANCING SOURCES (USES)				
Transfers In	765,611	765,611	765,611	-
Transfers Out	(20,000)	(20,000)	(17,518)	2,482
Proceeds From Sale of Capital Assets	5,000	5,000	-	(5,000)
Total Other Financing Sources (Uses)	<u>750,611</u>	<u>750,611</u>	<u>748,093</u>	<u>(2,518)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 4,882</u>	<u>\$ 4,882</u>	275,070	<u>\$ 270,188</u>
Fund Balance - Beginning of Year			<u>1,300,130</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,575,200</u>	

The Notes to 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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 323,900	\$ 323,900	\$ 323,900	\$ -
Licenses and Permits	500	500	730	230
Intergovernmental	-	-	15,483	15,483
Charges for Services	173,300	173,300	196,592	23,292
Fines and Forfeits	-	-	-	-
Gifts and Contributions	-	-	159,422	159,422
Interest on Investments	-	-	913	913
Miscellaneous	67,118	67,118	8,448	(58,670)
Total Revenues	<u>564,818</u>	<u>564,818</u>	<u>705,488</u>	<u>140,670</u>
EXPENDITURES				
Current				
Parks and Recreation	418,100	418,100	383,192	(34,908)
Capital Outlay				
Parks and Recreation	<u>146,718</u>	<u>146,718</u>	<u>373,599</u>	<u>226,881</u>
Total Expenditures	<u>564,818</u>	<u>564,818</u>	<u>756,791</u>	<u>191,973</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(51,303)</u>	<u>\$ (51,303)</u>
Fund Balance - Beginning of Year			<u>481,860</u>	
FUND BALANCE - END OF YEAR			<u>\$ 430,557</u>	

The Notes to 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, 2016

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.

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SUPPLEMENTARY INFORMATION

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2016**

ASSETS	<u>DARE</u>	<u>Small Cities</u>	<u>TIF Districts</u>	<u>Total Nonmajor Funds</u>
Cash and Investments	\$ 3,896	\$ 53,222	\$ 28,728	\$ 85,846
Taxes Receivable	-	-	106	106
Notes Receivable	-	5,321	-	5,321
Total Assets	<u>\$ 3,896</u>	<u>\$ 58,543</u>	<u>\$ 28,834</u>	<u>\$ 91,273</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ 229	\$ 229
Deferred Inflows of Resources				
Unavailable Loans Receivable	-	5,321	-	5,321
Fund Balances (Deficit)				
Restricted for Dare Program	3,896	-	-	3,896
Restricted for Economic Development	-	-	28,605	28,605
Restricted for Program Income	-	53,222	-	53,222
Total Fund Balances (Deficit)	<u>3,896</u>	<u>53,222</u>	<u>28,605</u>	<u>85,723</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	<u>\$ 3,896</u>	<u>\$ 58,543</u>	<u>\$ 28,834</u>	<u>\$ 91,273</u>

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	DARE	Small Cities	TIF Districts	Total Nonmajor Funds
REVENUES				
Tax Increments	\$ -	\$ -	\$ 175,526	\$ 175,526
Intergovernmental	-	6,161	-	6,161
Gifts and Contributions	1,520	-	-	1,520
Interest Income	10	144	-	154
Miscellaneous	-	14,339	-	14,339
Total Revenues	1,530	20,644	175,526	197,700
EXPENDITURES				
Current				
General Government	-	6,161	-	6,161
Public Safety	1,074	-	-	1,074
Economic Development	-	-	163,377	163,377
Total Expenditures	1,074	6,161	163,377	170,612
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	456	14,483	12,149	27,088
OTHER FINANCING SOURCES (USES)				
Sale of Asset	-	-	20,336	20,336
NET CHANGE IN FUND BALANCES	456	14,483	32,485	47,424
Fund Balance (Deficit) - Beginning of Year	3,440	38,739	(3,880)	38,299
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 3,896	\$ 53,222	\$ 28,605	\$ 85,723

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Sanitation	Storm Sewer	Broadband Internet	Total Nonmajor Proprietary Funds
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 116,438	\$ 330,918	\$ 306,616	\$ 753,972
Accounts Receivable - Net	40,619	1,768	52,101	94,488
Total Current Assets	157,057	332,686	358,717	848,460
Noncurrent Assets				
Restricted Cash	-	-	70,831	70,831
Advance to Component Unit	70,940	-	-	70,940
Capital Assets				
Land	-	13,077	-	13,077
Buildings (Net)	96,221	-	-	96,221
Infrastructure (Net)	-	455,542	-	455,542
Machinery and Equipment (Net)	-	13,830	-	13,830
Net Capital Assets	96,221	482,449	-	578,670
Total Noncurrent	167,161	482,449	70,831	720,441
Total Assets	324,218	815,135	429,548	1,568,901
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	15,805	-	13,275	29,080
LIABILITIES				
Current Liabilities				
Accounts Payable	14,311	-	37	14,348
Salaries and Benefits Payable	1,436	-	1,099	2,535
Due to Other Governments	1,407	-	-	1,407
Compensated Absences - Due Within One Year	1,253	-	1,064	2,317
Total Current Liabilities	18,407	-	2,200	20,607
Noncurrent Liabilities				
Compensated Absences - Due in More than One Year	418	-	355	773
Net Pension Liability	38,014	-	31,927	69,941
Total Noncurrent Liabilities	38,432	-	32,282	70,714
Total Liabilities	56,839	-	34,482	91,321
DEFERRED INFLOWS OF RESOURCES				
Pension Related	5,117	-	4,298	9,415
NET POSITION				
Net Investment in Capital Assets	96,221	482,449	-	578,670
Restricted for Debt Service	-	-	70,831	70,831
Unrestricted	181,846	332,686	333,212	847,744
Total Net Position	\$ 278,067	\$ 815,135	\$ 404,043	\$ 1,497,245

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	Sanitation	Storm Sewer	Broadband Internet	Total Nonmajor Proprietary Funds
OPERATING REVENUES				
Charges for Services	\$ 202,581	\$ 36,252	\$ 236,529	\$ 475,362
OPERATING EXPENSES				
Professional Services	158,862	-	443	159,305
Wages, Salaries, and Compensation	37,485	-	30,040	67,525
Repairs and Maintenance	532	-	15	547
Insurance	1,287	-	-	1,287
Depreciation	2,632	21,902	-	24,534
Materials and Supplies	659	-	-	659
Miscellaneous Expenses	20,899	-	27,268	48,167
Total Operating Expenses	<u>222,356</u>	<u>21,902</u>	<u>57,766</u>	<u>302,024</u>
OPERATING INCOME (LOSS)	(19,775)	14,350	178,763	173,338
NONOPERATING REVENUES (EXPENSES)				
Interest Income	277	623	276	1,176
Intergovernmental Grants	40,023	-	124	40,147
Miscellaneous - Nonoperating	-	-	54	54
Total Nonoperating Revenues (Expenses)	<u>40,300</u>	<u>623</u>	<u>454</u>	<u>41,377</u>
Income (Loss) before Transfers	20,525	14,973	179,217	214,715
Transfers Out	<u>(18,000)</u>	<u>(7,500)</u>	<u>(187,419)</u>	<u>(212,919)</u>
CHANGE IN NET POSITION	2,525	7,473	(8,202)	1,796
Net Position - Beginning of Year	<u>275,542</u>	<u>807,662</u>	<u>412,245</u>	<u>1,495,449</u>
NET POSITION - END OF YEAR	<u>\$ 278,067</u>	<u>\$ 815,135</u>	<u>\$ 404,043</u>	<u>\$ 1,497,245</u>

**CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2016**

	Sanitation	Storm Sewer	Broadband Internet	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 204,121	\$ 41,787	\$ 232,789	\$ 478,697
Payments to Suppliers	(180,579)	-	(27,750)	(208,329)
Payments to Employees	(27,848)	-	(24,728)	(52,576)
Net Cash Provided (Used) by Operating Activities	(4,306)	41,787	180,311	217,792
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
FINANCING ACTIVITIES				
Transfers to Other Funds	(18,000)	(7,500)	(187,419)	(212,919)
Advance to Component Unit	4,060	-	-	4,060
Other Miscellaneous Receipts	-	-	54	54
Grant Receipts	40,023	-	124	40,147
Net Cash Provided (Used) by Noncapital Financing Activities and Related Financing Activities	26,083	(7,500)	(187,241)	(168,658)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends Received	277	624	276	1,177
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,054	34,911	(6,654)	50,311
Cash and Cash Equivalents - Beginning of Year	94,384	296,007	384,101	774,492
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 116,438	\$ 330,918	\$ 377,447	\$ 824,803
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (19,775)	\$ 14,350	\$ 178,763	\$ 173,338
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	2,632	21,902	-	24,534
(Increase) Decrease in Assets				
Accounts Receivable	1,540	5,535	(3,740)	3,335
Deferred Outflows of Resources	(13,164)	-	(10,762)	(23,926)
Increase (Decrease) in Liabilities				
Accounts Payable	1,660	-	(24)	1,636
Salaries and Benefits Payable	360	-	192	552
Compensated Absences Payable	356	-	(322)	34
Net Pension Liability	19,040	-	13,876	32,916
Deferred Inflows of Resources	3,045	-	2,328	5,373
Total Adjustments	15,469	27,437	1,548	44,454
Net Cash Provided (Used) by Operating Activities	\$ (4,306)	\$ 41,787	\$ 180,311	\$ 217,792

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OTHER COMBINING SCHEDULES

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 DEBT SERVICE FUND – BY BOND ISSUE
 DECEMBER 31, 2016**

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	\$ 135,288	\$ 113,330	\$ 187,417	\$ 81,064
Taxes Receivable				
Current	-	-	-	458
Special Assessments Receivable				
Delinquent	-	1,228	-	661
Noncurrent	82,776	20,401	90,435	694,291
Total Assets	<u>\$ 218,064</u>	<u>\$ 134,959</u>	<u>\$ 277,852</u>	<u>\$ 776,474</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Deferred Inflows of Resources				
Unavailable Taxes	\$ -	\$ -	\$ -	\$ -
Unavailable Special Assessments	82,776	20,401	90,435	694,291
Total Deferred Inflows of Resources	<u>82,776</u>	<u>20,401</u>	<u>90,435</u>	<u>694,291</u>
Fund Balances				
Restricted	<u>135,288</u>	<u>114,558</u>	<u>187,417</u>	<u>82,183</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 218,064</u>	<u>\$ 134,959</u>	<u>\$ 277,852</u>	<u>\$ 776,474</u>

G.O. 2010A Refunding Bonds	G.O. 2011A Improvement Bonds	G.O. 2013A Improvement Bonds	G.O. 2016A Improvement Bonds	Total Debt Service Fund
\$ 63,201	\$ 103,914	\$ 4,136	18,335	\$ 706,685
-	2,400	34	-	2,892
-	711	-	-	2,600
<u>219,937</u>	<u>202,898</u>	<u>296,979</u>	<u>1,177,110</u>	<u>2,784,827</u>
<u>\$ 283,138</u>	<u>\$ 309,923</u>	<u>\$ 301,149</u>	<u>\$ 1,195,445</u>	<u>\$ 3,497,004</u>

\$ -	\$ 1,967	\$ -	\$ -	\$ 1,967
<u>219,937</u>	<u>203,266</u>	<u>296,979</u>	<u>1,177,110</u>	<u>2,785,195</u>
<u>219,937</u>	<u>205,233</u>	<u>296,979</u>	<u>1,177,110</u>	<u>2,787,162</u>
<u>63,201</u>	<u>104,690</u>	<u>4,170</u>	<u>18,335</u>	<u>709,842</u>
<u>\$ 283,138</u>	<u>\$ 309,923</u>	<u>\$ 301,149</u>	<u>\$ 1,195,445</u>	<u>\$ 3,497,004</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, 2016

	Series 2004A Refunding Bonds	G.O. Taxable Bonds	G.O. 2005 Bond Refinance	G.O. 2006 Bonds
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 34,875
Special Assessments	6,388	27,324	20,094	31,259
Interest Income	274	290	224	-
Miscellaneous	-	-	-	-
Total Revenues	6,662	27,614	20,318	66,134
EXPENDITURES				
Debt Service				
Principal	-	-	35,000	65,000
Interest and Other Charges	-	-	157	7,400
Total Expenditures	-	-	35,157	72,400
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,662	27,614	(14,839)	(6,266)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	20,000
Transfers Out	(40,000)	(25,000)	-	-
Bond Proceeds	-	-	-	-
Total Other Financing Sources (Uses)	(40,000)	(25,000)	-	20,000
NET CHANGE IN FUND BALANCE	(33,338)	2,614	(14,839)	13,734
Fund Balance (Deficit) - Beginning of Year	168,626	111,944	202,256	68,449
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 135,288	\$ 114,558	\$ 187,417	\$ 82,183

G.O. 2010A Refunding Bonds	G.O. 2011A Improvement Bonds	G.O. 2013A Improvement Bonds	G.O. 2016A Improvement Bonds	Internal Eliminations	Total Debt Service Fund
\$ -	\$ 32,937	\$ 2,606	\$ -	\$ -	\$ 70,418
37,211	18,027	8,021	-	-	148,324
533	68	-	-	-	1,389
-	-	25,000	-	-	25,000
37,744	51,032	35,627	-	-	245,131
70,000	35,000	20,000	-	-	225,000
19,829	15,582	9,752	-	-	52,720
89,829	50,582	29,752	-	-	277,720
(52,085)	450	5,875	-	-	(32,589)
30,000	-	15,000	-	(65,000)	-
-	-	-	-	65,000	-
-	-	-	18,335	-	18,335
30,000	-	15,000	18,335	-	18,335
(22,085)	450	20,875	18,335	-	(14,254)
85,286	104,240	(16,705)	-	-	724,096
\$ 63,201	\$ 104,690	\$ 4,170	\$ 18,335	\$ -	\$ 709,842

**CITY OF BARNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND – BY PROJECT
 DECEMBER 31, 2016**

	Street Reconstruction	Commercial Park Extension	Safe Routes to Schools	Del Acres Gilbertson Second Addition	Total Capital Projects Fund
ASSETS					
Cash and Pooled Investments	\$ -	\$ -	\$ -	\$ 127,248	\$ 127,248
Special Assessments - Noncurrent	-	91,747	-	-	91,747
Total Assets	<u>\$ -</u>	<u>\$ 91,747</u>	<u>\$ -</u>	<u>\$ 127,248</u>	<u>\$ 218,995</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND DEFICITS					
Liabilities					
Due to Other Funds	\$ -	\$ 110,311	\$ -	\$ -	\$ 110,311
Contracts Payable	-	-	-	89,347	89,347
Total Liabilities	-	110,311	-	89,347	199,658
Deferred Inflows of Resources					
Unavailable Special Assessments	-	91,747	-	-	91,747
Fund Balances (Deficits)					
Restricted	-	-	-	37,901	37,901
Unassigned	-	(110,311)	-	-	(110,311)
Total Fund Balances (Deficits)	-	(110,311)	-	37,901	(72,410)
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 91,747</u>	<u>\$ -</u>	<u>\$ 127,248</u>	<u>\$ 218,995</u>

CITY OF BARNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
CAPITAL PROJECTS FUND – BY PROJECT
YEAR ENDED DECEMBER 31, 2016

	Street Reconstruction	Commercial Park Extension	Safe Routes to Schools	Del Acres Gilbertson Second Addition	Total Capital Projects Fund
REVENUES					
Interest Income	\$ -	\$ -	\$ -	\$ 900	\$ 900
EXPENDITURES					
Debt Service					
Bond Issue Costs	-	-	-	37,591	37,591
Capital Outlay					
Public Works	-	-	10,018	1,167,073	1,177,091
Total Expenditures	-	-	10,018	1,204,664	1,214,682
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(10,018)	(1,203,764)	(1,213,782)
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	-	-	-	1,241,665	1,241,665
Transfers In	7,500	-	10,018	-	17,518
Total Other Financing Sources (Uses)	7,500	-	10,018	1,241,665	1,259,183
NET CHANGE IN FUND BALANCE	7,500	-	-	37,901	45,401
Fund Balance (Deficit) - Beginning of Year	(7,500)	(110,311)	-	-	(117,811)
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ (110,311)</u>	<u>\$ -</u>	<u>\$ 37,901</u>	<u>\$ (72,410)</u>

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OTHER REPORTS SECTION

**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, 2016, 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 21, 2017.

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 and significant deficiencies.

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 2016-001 through 2016-003 to be material weaknesses.

Honorable Mayor and
Members of the City Council
City of Barnesville

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2016-004 to be a significant deficiency.

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 21, 2017

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**CITY OF BARNESVILLE, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2016**

MATERIAL WEAKNESSES

2016-001 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 Finance Director 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.

2016-002 MATERIAL AUDIT ADJUSTMENTS/RESTATEMENT

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. In addition, beginning net position for governmental activities was restated to correct an overstated receivable in the previously issued financial statements.

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, 2016

MATERIAL WEAKNESSES (CONTINUED)

2016-002 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.

2016-003 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, 2016**

SIGNIFICANT DEFICIENCY

2016-004 IMPROPER BILLING ON TELEPHONE

Criteria: Management is responsible for ensuring utility bills are accurate and calculated in accordance with approved and stated rates.

Condition: For two of six telephone invoices tested, the rate being charged did not agree to the tariff.

Cause: The City has a limited number of personnel to monitor proper billing rates.

Effect: Telephone bills were understated by \$2 per line of service.

Recommendation: The City should implement internal controls to ensure that the rates in the utility system match what is approved.

Management Response: The City will monitor the billing rates to ensure the proper rate is applied to each bill.

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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, 2016 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 21, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities* promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, 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 Cities*. 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 purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 21, 2017