# CITY OF PAYNESVILLE, MINNESOTA

## BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

## YEAR ENDED DECEMBER 31, 2010

CITY OF PAYNESVILLE, MINNESOTA
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# INTRODUCTORY SECTION

# CITY OF PAYNESVILLE, MINNESOTA
## PRINCIPAL CITY OFFICIALS
## DECEMBER 31, 2010

| Elected Officials | Position | Term Expires |
|---|---|---|
| Jeffrey Thompson | Mayor | December 31, 2010 |
| Gene Beavers | Council Member | December 31, 2010 |
| Jean Soine | Council Member | December 31, 2010 |
| Dennis Zimmerman | Council Member | December 31, 2012 |
| Jeff Bertram | Council Member | December 31, 2012 |

| Administration | Position | Term Expires |
|---|---|---|
| Renee Eckerly | City Administrator | Appointed |

# FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville, Minnesota (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paynesville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville, Minnesota, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress for the Paynesville Fire Department Relief Association, Schedule of Funding Progress for the Other Postemployment Benefit Plan and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and
Members of the City Council
City of Paynesville

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

**LarsonAllen LLP**

Alexandria, Minnesota
March 28, 2011

# REQUIRED SUPPLEMENTARY INFORMATION

# CITY OF PAYNESVILLE, MINNESOTA
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# YEAR ENDED DECEMBER 31, 2010

This section of the City of Paynesville's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2010. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2010, and the prior year, 2009, is required to be presented in the MD&A.

## FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 include the following:

- The assets of the City's general fund exceeded its liabilities at the close of the most recent fiscal year by $1,252,272. This is the amount that may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total change in net assets was $2,504,795.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $5,063,954, an increase of $1,285,895 from the previous year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

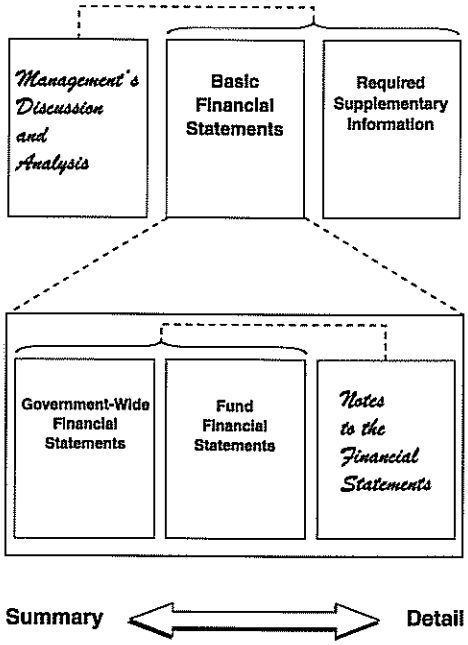
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include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

- The first two statements are City-wide financial statements which provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the City, reporting the City's operations in more detail than the City-wide statements.
    - The governmental funds statements tell how basic services such as general government, public safety, and public works were financed in the short-term as well as what remains for future spending.
    - Fiduciary fund 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.
    - The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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**



## 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 |
|---|---|---|---|
| **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 and liquor. |
| **Required Financial Statements** | Statement of net assets. | Balance sheet. | Statement of net assets. |
| | Statement of activities. | Statement of revenues, expenditures and changes in fund balance. | Statement of revenues, expenses and changes in net assets, and statement of cash flows. |
| **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. |
| **Type of Asset/Liability Information** | All assets and liabilities, both financial and capital, short-term and long-term. | Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included. | All assets and liabilities, both financial and capital, and short-term and long-term. |
| **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. |

### City-Wide Statements

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

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

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### City-Wide Statements (Continued)

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

- Governmental activities – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- Business-type activities – The City's enterprise fund operations (water, sewer, and municipal liquor) are included here. Charges for services and sales 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 future operations. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less 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 three 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, and municipal liquor operations. 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 the State of Minnesota Deputy Registrar. 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. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City-wide financial statements because the City cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

### Net Assets

The City's overall net assets were $25,683,765 on December 31, 2010.

**The City's Net Assets**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and Other Assets | $ 7,476,127 | $ 5,918,497 | $ 3,686,861 | $ 3,905,240 | $ 11,162,988 | $ 9,823,737 |
| Capital Assets | 14,846,994 | 11,469,647 | 5,409,873 | 5,607,931 | 20,256,867 | 17,077,578 |
| Total Assets | 22,323,121 | 17,388,144 | 9,096,734 | 9,513,171 | 31,419,855 | 26,901,315 |
| Long-Term Liabilities | 4,839,990 | 2,884,295 | - | - | 4,839,990 | 2,884,295 |
| Other Liabilities | 844,506 | 771,512 | 51,594 | 66,538 | 896,100 | 838,050 |
| Total Liabilities | 5,684,496 | 3,655,807 | 51,594 | 66,538 | 5,736,090 | 3,722,345 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 10,346,124 | 8,333,271 | 5,409,873 | 5,607,931 | 15,755,997 | 13,941,202 |
| Restricted | 1,844,503 | 1,245,100 | - | - | 1,844,503 | 1,245,100 |
| Unrestricted | 4,447,998 | 4,153,966 | 3,635,267 | 3,838,702 | 8,083,265 | 7,992,668 |
| Total Net Assets | $ 16,638,625 | $ 13,732,337 | $ 9,045,140 | $ 9,446,633 | $ 25,683,765 | $ 23,178,970 |

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

### Changes in Net Assets

The City-wide total revenues were $6,729,025 for the year ended December 31, 2010. The City-wide cost of all activities this year was $4,224,230. Total revenues surpassed expenses, increasing net assets $2,504,795 over last year.

**The City's Change in Net Assets**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | $ 434,762 | $ 506,225 | $ 2,136,162 | $ 2,000,823 | $ 2,570,924 | $ 2,507,048 |
| Operating Grants and Contributions | 346,533 | 552,625 | 500 | 600 | 347,033 | 553,225 |
| Capital Grants and Contributions | 2,238,850 | 256,714 | - | 24,654 | 2,238,850 | 281,368 |
| General Revenues: | | | | | | |
| Property Taxes | 449,250 | 481,752 | - | - | 449,250 | 481,752 |
| Franchise Fees | 33,507 | 31,095 | - | - | 33,507 | 31,095 |
| Tax Increments | 40,610 | 40,283 | - | - | 40,610 | 40,283 |
| Intergovernmental | 697,598 | 784,192 | - | - | 697,598 | 784,192 |
| Other Revenue | 3,649 | 1,070,900 | 203 | 273 | 3,852 | 1,071,173 |
| Investment Income | 130,445 | 123,172 | 110,324 | 139,104 | 240,769 | 262,276 |
| Total Revenues | 4,375,204 | 3,846,958 | 2,247,189 | 2,165,454 | 6,622,393 | 6,012,412 |
| Expenses: | | | | | | |
| General Government | 412,224 | 398,916 | - | - | 412,224 | 398,916 |
| Public Safety | 650,479 | 609,512 | - | - | 650,479 | 609,512 |
| Public Works | 469,080 | 478,086 | - | - | 469,080 | 478,086 |
| Culture and Recreation | 328,673 | 191,491 | - | - | 328,673 | 191,491 |
| Economic Development | 325,925 | 549,029 | - | - | 325,925 | 549,029 |
| Interest on Long-Term Debt | 173,447 | 171,085 | | - | 173,447 | 171,085 |
| Airport | 95,844 | 39,716 | - | - | 95,844 | 39,716 |
| Water | - | - | 266,342 | 268,710 | 266,342 | 268,710 |
| Sewer | - | - | 504,715 | 770,659 | 504,715 | 770,659 |
| Municipal Liquor | - | - | 890,869 | 784,557 | 890,869 | 784,557 |
| Total Expenses | 2,455,672 | 2,437,835 | 1,661,926 | 1,823,926 | 4,117,598 | 4,261,761 |
| Change in Net Assets before Contributions and Transfers | 1,919,532 | 1,409,123 | 585,263 | 341,528 | 2,504,795 | 1,750,651 |
| Capital Contributions | - | (456,301) | - | 456,301 | - | - |
| Transfers | 986,756 | (61,500) | (986,756) | 61,500 | - | - |
| Change in Net Assets | 2,906,288 | 891,322 | (401,493) | 859,329 | 2,504,795 | 1,750,651 |
| Net Assets, Beginning of Year | 13,732,337 | 12,841,015 | 9,446,633 | 8,587,304 | 23,178,970 | 21,428,319 |
| Net Assets, End of Year | $ 16,638,625 | $ 13,732,337 | $ 9,045,140 | $ 9,446,633 | $ 25,683,765 | $ 23,178,970 |

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

### Changes in Net Assets (Continued)

**Cost of Services Analysis**

| | Total Cost of Services | | Percentage | Net Revenue from (Cost of) Services | | Percentage |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | Change | 2010 | 2009 | Change |
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| General Government | $ 412,224 | $ 398,916 | 3.3 % | $ (290,073) | $ (314,569) | (7.8)% |
| Public Safety | 650,479 | 609,512 | 6.7 | (342,280) | (312,062) | 9.7 |
| Public Works | 469,080 | 478,086 | (1.9) | 1,184,294 | (409,168) | (389.4) |
| Culture and Recreation | 328,673 | 191,491 | 71.6 | (52,519) | (111,362) | (52.8) |
| Economic and Community Developm | 325,925 | 549,029 | (40.6) | (23,404) | (51,278) | (54.4) |
| Airport | 95,844 | 39,716 | 141.3 | 261,902 | 115,884 | 126.0 |
| Interest | 173,447 | 171,085 | 1.4 | (173,447) | (39,716) | 336.7 |
| Total | $ 2,455,672 | $ 2,437,835 | 0.7 | $ 564,473 | $ (1,122,271) | (150.3) |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | |
| Water | $ 266,342 | $ 268,710 | (0.9)% | $ 178,993 | $ 160,559 | 11.5 % |
| Sewer | 504,715 | 770,659 | (34.5) | 222,300 | (1,943) | (11541.1) |
| Liquor | 890,869 | 784,557 | 13.6 | 73,443 | 43,535 | 68.7 |
| Total | $ 1,661,926 | $ 1,823,926 | (8.9) | $ 474,736 | $ 202,151 | 134.8 |

## FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

The financial performance of the City as a whole is reflected in its governmental funds as well. As the City completed the year, its governmental funds reported a combined fund balance of $5,063,954.

Revenues for the City's governmental funds were $4,058,007, while total expenditures were $6,209,700.

**Governmental Funds**

| | 2010 | | | |
|---|---|---|---|---|
| | Revenue | Expenditures | Other Financing Sources (Uses) | Fund Balance Increase (Decrease) |
| General Fund | $ 1,660,691 | $ 1,348,849 | $ (365,311) | $ (53,469) |
| Economic Development Revolving Loan | 157,498 | 125,367 | - | 32,131 |
| Economic Development Authority | 109,946 | 133,479 | 31,482 | 7,949 |
| Capital Project Funds | 1,781,911 | 4,042,540 | 2,954,559 | 693,930 |
| Debt Service Funds | 289,094 | 470,809 | 781,118 | 599,403 |
| Nonmajor Governmental Funds | 58,867 | 68,656 | 35,740 | 25,951 |
| Totals | $ 4,058,007 | $ 6,189,700 | $ 3,437,588 | $ 1,305,895 |

| | 2009 | | | |
|---|---|---|---|---|
| | Revenue | Expenditures | Other Financing Sources (Uses) | Fund Balance Increase (Decrease) |
| General Fund | $ 1,785,405 | $ 1,402,145 | $ 198,503 | $ 581,763 |
| Economic Development Revolving Loan | 252,102 | 115,745 | - | 136,357 |
| Economic Development Authority | 374,166 | 399,449 | 36,893 | 11,610 |
| General Improvements | 314,643 | 1,209,773 | 491,546 | (403,584) |
| Lake Koronis Recreational Trail | 269,121 | 860,540 | 232,500 | (358,919) |
| Nonmajor Governmental Funds | 60,397 | 43,662 | 45,633 | 62,368 |
| Totals | $ 3,055,834 | $ 4,031,314 | $ 1,005,075 | $ 29,595 |

## GENERAL FUND

The General Fund includes the primary operations of the City in providing services to its residents. Fund balance in the General Fund decreased by $53,469 in 2010. The decrease was largely due to budgeted transfers out to other funds.

### General Fund Budgetary Highlights

- Actual revenues were $91,069 less than budget due primarily to state aid cuts, less interest earned than expected, a decrease in building permits, and a decrease in the number of fire calls.
- Actual expenditures were $32,511 less than budget because of the cuts made by the City due to state aid cuts.

## PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water operations amounted to $1,598,357, those for the sewer operations amounted to $1,810,414 and those for the liquor operations amounted to $226,496. The total change in net assets for each fund was a $153,485 increase, $603,751 decrease and $48,773 increase, respectively.

## CAPITAL ASSETS

By the end of 2010, the City had invested approximately $33,800,000 in a broad range of capital assets, including: buildings, improvements, equipment, and infrastructure. More detailed information about capital assets can be found in the Note 3.A.3 to the financial statements. Total depreciation expense for the year was $597,662 (including the enterprise funds).

**Table A-3**
**The City's Capital Assets (Net of Depreciation)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 872,445 | $ 872,445 | $ 812,962 | $ 812,962 | $ 1,685,407 | $ 1,685,407 |
| Construction in Progress | 4,016,409 | 731,607 | - | - | 4,016,409 | 731,607 |
| Buildings and Improvements | 1,470,894 | 1,058,526 | 378,046 | 401,277 | 1,848,940 | 1,459,803 |
| Underground Mains | - | - | 2,986,933 | 3,070,176 | 2,986,933 | 3,070,176 |
| Wastewater Treatment Facility | - | - | 990,518 | 1,055,057 | 990,518 | 1,055,057 |
| Infrastructure - Streets | 7,280,048 | 7,541,502 | - | - | 7,280,048 | 7,541,502 |
| Infrastructure - Trails | 718,238 | 737,773 | - | - | 718,238 | 737,773 |
| Vehicles | 312,523 | 319,043 | - | - | 312,523 | 319,043 |
| Furniture and Equipment | 41,501 | 52,908 | 15,451 | 17,156 | 56,952 | 70,064 |
| Machinery and Equipment | 134,936 | 155,843 | 225,963 | 251,305 | 360,899 | 407,148 |
| Total Capital Assets | $ 14,846,994 | $ 11,469,647 | $ 5,409,873 | $ 5,607,933 | $ 20,256,867 | $ 17,077,580 |

## LONG-TERM LIABILITIES

At year-end, the City had $5,325,000 in long-term liabilities outstanding.

- The City's governmental activities total long-term debt increased $2,135,000, due primarily to the issuance of three new bonds during 2010.

**Table A-4**
**The City's Outstanding Debt**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| G.O. Bonds | $ 5,210,000 | $ 3,035,000 | $ - | $ - | $ 5,210,000 | $ 3,035,000 |
| G.O. Revenue Bonds | 115,000 | 155,000 | - | - | 115,000 | 155,000 |
| Total Outstanding Debt | $ 5,325,000 | $ 3,190,000 | $ - | $ - | $ 5,325,000 | $ 3,190,000 |

## FACTORS BEARING ON THE CITY'S FUTURE

The City faced a cut of $48,916 in market value credit in 2010. With the state's continued budget crisis, it is probable there will continue to be unallotments in the cities local government aid and market value homestead credit of which are undetermined at this time. Maximum could be $150,000. The City continues to incorporate a contingency plan in its budget to mitigate the lost revenue from the state and to copy with the current economic conditions.

## 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 funds it receives. Contact City of Paynesville, City Administrator, 221 Washburne Avenue, Paynesville, Minnesota 56362 if you have questions about this report or would like to request additional financial information.

# BASIC FINANCIAL STATEMENTS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF PAYNESVILLE, MINNESOTA
# STATEMENT OF NET ASSETS
# DECEMBER 31, 2010

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| **ASSETS** | | | |
| Cash and Investments (Including Cash Equivalents) | $ 4,600,554 | $ 3,219,422 | $ 7,819,976 |
| Cash with Fiscal Agent | 42,180 | - | 42,180 |
| Cash with Escrow | 670,228 | - | 670,228 |
| Property Taxes Receivable | 16,547 | - | 16,547 |
| Accounts Receivable | 23,177 | 181,950 | 205,127 |
| Interest Receivable | 28,556 | - | 28,556 |
| Due from Other Governments | 314,708 | 203 | 314,911 |
| Special Assessments Receivable | | | |
| Delinquent | 12,025 | 880 | 12,905 |
| Deferred | 1,201,715 | 62,716 | 1,264,431 |
| Deferred Debt Issuance Costs | 56,208 | - | 56,208 |
| Inventory | - | 121,534 | 121,534 |
| Prepaid Expenses | 55,777 | 19,156 | 74,933 |
| Loans Receivable, Net of Allowance | 532,645 | - | 532,645 |
| Internal Balance | (81,000) | 81,000 | - |
| OPEB Asset | 2,807 | - | 2,807 |
| Non-Depreciable Capital Assets | | | |
| Land | 872,445 | 812,962 | 1,685,407 |
| Construction in Progress | 4,016,409 | - | 4,016,409 |
| Depreciable Capital Assets (Net of Accumulated Depreciation) | | | |
| Buildings and Improvements | 1,470,894 | 378,046 | 1,848,940 |
| Furniture and Equipment | 41,501 | 15,451 | 56,952 |
| Machinery and Equipment | 134,936 | 225,963 | 360,899 |
| Infrastructure - Streets | 7,280,048 | - | 7,280,048 |
| Infrastructure - Trails | 718,238 | - | 718,238 |
| Vehicles | 312,523 | - | 312,523 |
| Wastewater Treatment Facility | - | 990,518 | 990,518 |
| Underground Mains | - | 2,986,933 | 2,986,933 |
| Total Assets | 22,323,121 | 9,096,734 | 31,419,855 |
| **LIABILITIES** | | | |
| Accounts Payable | 347,852 | 26,187 | 374,039 |
| Salaries and Benefits Payable | 16,966 | 4,592 | 21,558 |
| Interest Payable | 14,688 | - | 14,688 |
| OPEB Liability | - | 2,902 | 2,902 |
| Bond Principal Payable: | | | |
| Due Within One Year | 465,000 | - | 465,000 |
| Due in More Than One Year | 4,777,815 | - | 4,777,815 |
| Compensated Absences Payable | | | |
| Due Within One Year | - | 17,913 | 17,913 |
| Due in More Than One Year | 62,175 | - | 62,175 |
| Total Liabilities | 5,684,496 | 51,594 | 5,736,090 |
| **NET ASSETS** | | | |
| Invested in Capital Assets, Net of Related Debt | 10,346,124 | 5,409,873 | 15,755,997 |
| Restricted for | | | |
| Debt Service | 1,844,503 | - | 1,844,503 |
| Unrestricted | 4,447,998 | 3,635,267 | 8,083,265 |
| Total Net Assets | $ 16,638,625 | $ 9,045,140 | $ 25,683,765 |

*See accompanying Notes to Financial Statements*

# CITY OF PAYNESVILLE, MINNESOTA
# STATEMENT OF ACTIVITIES
# YEAR ENDED DECEMBER 31, 2010

| Functions/Programs | Expenses | Program Revenues: Fees, Charges, Fines, and Other | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|
| **PRIMARY GOVERNMENT** | | | | | | | |
| **GOVERNMENTAL ACTIVITIES** | | | | | | | |
| General Government | $ 412,224 | $ 69,065 | $ 1,250 | $ 51,836 | $ (290,073) | $ - | $ (290,073) |
| Public Safety | 650,479 | 221,739 | 60,701 | 25,759 | (342,280) | - | (342,280) |
| Public Works | 469,080 | 7,533 | - | 1,645,841 | 1,184,294 | - | 1,184,294 |
| Culture and Recreation | 328,673 | 3,584 | 16,931 | 255,639 | (52,519) | - | (52,519) |
| Economic Development | 325,925 | 34,870 | 267,651 | - | (23,404) | - | (23,404) |
| Airport | 95,844 | 97,971 | - | 259,775 | 261,902 | - | 261,902 |
| Interest on Long-Term Debt | 173,447 | - | - | - | (173,447) | - | (173,447) |
| Total Governmental Activities | 2,455,672 | 434,762 | 346,533 | 2,238,850 | 564,473 | - | 564,473 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | | | |
| Water | 266,342 | 444,835 | 500 | - | - | 178,993 | 178,993 |
| Sewer | 504,715 | 727,015 | - | - | - | 222,300 | 222,300 |
| Municipal Liquor | 890,869 | 964,312 | - | - | - | 73,443 | 73,443 |
| Total Business-Type Activities | 1,661,926 | 2,136,162 | 500 | - | - | 474,736 | 474,736 |
| Total Primary Government | $ 4,117,598 | $ 2,570,924 | $ 347,033 | $ 2,238,850 | 564,473 | 474,736 | 1,039,209 |
| **GENERAL REVENUES** | | | | | | | |
| Property Taxes | | | | | 449,250 | - | 449,250 |
| Franchise Fees | | | | | 33,507 | - | 33,507 |
| Tax Increments | | | | | 40,610 | - | 40,610 |
| Grants and Contributions not Restricted for a Particular Purpose | | | | | 697,598 | - | 697,598 |
| Investment Earnings | | | | | 130,445 | 110,324 | 240,769 |
| Miscellaneous | | | | | 3,649 | 203 | 3,852 |
| **TRANSFERS** | | | | | 986,756 | (986,756) | - |
| Total General Revenues and Transfers | | | | | 2,341,815 | (876,229) | 1,465,586 |
| **CHANGE IN NET ASSETS** | | | | | 2,906,288 | (401,493) | 2,504,795 |
| Net Assets - Beginning of Year | | | | | 13,732,337 | 9,446,633 | 23,178,970 |
| **NET ASSETS - END OF YEAR** | | | | | $ 16,638,625 | $ 9,045,140 | $ 25,683,765 |

*See accompanying Notes to Financial Statements*

# FUND FINANCIAL STATEMENTS

# CITY OF PAYNESVILLE, MINNESOTA
## BALANCE SHEET
## GOVERNMENTAL FUNDS
## DECEMBER 31, 2010

| | General Fund 100 | Economic Development Revolving Loan 210 | Paynesville Economic Development Authority 220 | Debt Service Fund |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Investments | $ 1,103,323 | $ 416,468 | $ 42,788 | $ 1,127,077 |
| Cash with Fiscal Agent | - | - | - | 42,180 |
| Cash with Escrow | - | - | - | 670,228 |
| Taxes Receivable - Delinquent | 16,547 | - | - | - |
| Special Assessments Receivable: | | | | |
| Delinquent | - | - | - | 12,025 |
| Deferred | - | - | - | 790,899 |
| Accounts Receivable | 18,885 | 2,116 | - | - |
| Interest Receivable | 28,556 | - | - | - |
| Prepaid Expenses | 33,386 | - | - | - |
| Loans Receivable, Net of Allowance | - | 532,645 | - | - |
| Due from Other Funds | 122,877 | - | - | - |
| Due from Other Governments | 3,675 | - | - | 5,018 |
| Total Assets | $ 1,327,249 | $ 951,229 | $ 42,788 | $ 2,647,427 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **LIABILITIES** | | | | |
| Accounts Payable | $ 41,814 | $ - | $ 51 | $ - |
| Due to Other Funds | - | 122,877 | - | - |
| Advances from Other Funds | - | - | - | - |
| Salaries and Benefits Payable | 16,615 | - | 351 | - |
| Deferred Revenue | 16,548 | 532,645 | - | 802,924 |
| Total Liabilities | 74,977 | 655,522 | 402 | 802,924 |
| **FUND BALANCES** | | | | |
| Unreserved, Reported in: | | | | |
| General Fund - Designated | 1,252,272 | - | - | - |
| Special Revenue - Undesignated | - | 295,707 | 42,386 | - |
| Debt Service - Undesignated | - | - | - | 1,844,503 |
| Capital Projects - Undesignated | - | - | - | - |
| Total Fund Balances | 1,252,272 | 295,707 | 42,386 | 1,844,503 |
| Total Liabilities and Fund Balances | $ 1,327,249 | $ 951,229 | $ 42,788 | $ 2,647,427 |

*See accompanying Notes to Financial Statements*

| Capital Project Fund | Total Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ 1,544,014 | $ 366,884 | $ 4,600,554 |
| - | - | 42,180 |
| - | - | 670,228 |
| - | - | 16,547 |
| - | - | 12,025 |
| 410,816 | - | 1,201,715 |
| - | 2,176 | 23,177 |
| - | - | 28,556 |
| 22,391 | - | 55,777 |
| - | - | 532,645 |
| - | - | 122,877 |
| 306,015 | - | 314,708 |
| $ 2,283,236 | $ 369,060 | $ 7,620,989 |
| $ 286,365 | $ 19,622 | $ 347,852 |
| - | - | 122,877 |
| 81,000 | - | 81,000 |
| - | - | 16,966 |
| 616,223 | - | 1,968,340 |
| 983,588 | 19,622 | 2,537,035 |
| - | - | 1,252,272 |
| - | 349,438 | 687,531 |
| - | - | 1,844,503 |
| 1,299,648 | - | 1,299,648 |
| 1,299,648 | 349,438 | 5,083,954 |
| $ 2,283,236 | $ 369,060 | $ 7,620,989 |

# CITY OF PAYNESVILLE, MINNESOTA
## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES
## DECEMBER 31, 2010

| | | |
|---|---|---|
| **FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** | | $ 5,083,954 |
| Amounts reported for governmental activities in the statement of net assets are | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. | | |
| Cost of Capital Assets | $ 19,685,652 | |
| Less Accumulated Depreciation | (4,838,658) | |
| | | 14,846,994 |
| Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds. | | |
| Property Taxes | 16,547 | |
| Special Assessments | 12,025 | |
| | | 28,572 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Deferred Special Assessments | 1,201,715 | |
| Grants Receivable | 205,408 | |
| Loans Receivable | 532,645 | |
| | | 1,939,768 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of: | | |
| Bond Principal Payable | (5,325,000) | |
| Bond Issuance Costs | 56,208 | |
| Discount on Bonds | 82,185 | |
| OPEB Asset | 2,807 | |
| Compensated Absences Payable | (62,175) | |
| Accrued Interest Payable | (14,688) | |
| | | (5,260,663) |
| **NET ASSETS OF GOVERNMENTAL ACTIVITIES** | | $ 16,638,625 |

*See accompanying Notes to Financial Statements*

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

| | General Fund 100 | Economic Development Revolving Loan 210 | Paynesville Economic Development Authority 220 | Debt Service Fund |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Property Taxes | $ 450,648 | $ - | $ - | $ - |
| Tax Increments | - | - | - | - |
| Franchise Taxes | 33,507 | - | - | - |
| Special Assessments | - | - | - | 246,733 |
| Licenses and Permits | 142,971 | - | - | - |
| Intergovernmental | 768,314 | - | 109,320 | - |
| Charges for Services | 221,834 | - | - | - |
| Fines and Forfeitures | 15,989 | - | - | - |
| Miscellaneous | | | | |
| Investment Income | 4,160 | 14,094 | 626 | 41,708 |
| Contributions and Donations | 4,250 | - | - | - |
| Other Interest Income | - | 25,196 | - | 653 |
| Loan Receipts | - | 63,208 | - | - |
| Reimbursements | 1,518 | 55,000 | - | - |
| Other | 17,500 | - | - | - |
| Total Revenues | 1,660,691 | 157,498 | 109,946 | 289,094 |
| **EXPENDITURES** | | | | |
| **CURRENT** | | | | |
| General Government | 343,844 | - | - | - |
| Public Safety | 564,651 | - | - | - |
| Public Works | 188,127 | - | - | - |
| Culture and Recreation | 154,620 | - | - | - |
| Economic Development | - | 125,367 | 133,479 | - |
| Airport | 92,405 | - | - | - |
| **DEBT SERVICE** | | | | |
| Principal | - | - | - | 305,000 |
| Interest and Other Charges | - | - | - | 165,809 |
| **CAPITAL OUTLAY** | | | | |
| General Government | 159 | - | - | - |
| Public Safety | 1,759 | - | - | - |
| Public Works | 1,440 | - | - | - |
| Culture and Recreation | 1,844 | - | - | - |
| Airport | - | - | - | - |
| Total Expenditures | 1,348,849 | 125,367 | 133,479 | 470,809 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 311,842 | 32,131 | (23,533) | (181,715) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Bond Proceeds | - | - | - | 520,000 |
| Bond Discount | - | - | - | 9,318 |
| Transfers In | 84,714 | - | 31,614 | 251,800 |
| Transfers Out | (450,025) | - | (132) | - |
| Total Other Financing Sources (Uses) | (365,311) | - | 31,482 | 781,118 |
| **NET CHANGE IN FUND BALANCES** | (53,469) | 32,131 | 7,949 | 599,403 |
| Fund Balances - Beginning of Year | 1,305,741 | 263,576 | 34,437 | 1,245,100 |
| **FUND BALANCES - END OF YEAR** | $ 1,252,272 | $ 295,707 | $ 42,386 | $ 1,844,503 |

*See accompanying Notes to Financial Statements*

| Capital Project Fund | Total Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ - | $ - | $ 450,648 |
| - | 40,610 | 40,610 |
| - | - | 33,507 |
| 61,818 | - | 308,551 |
| - | - | 142,971 |
| 1,520,295 | - | 2,397,929 |
| - | - | 221,834 |
| - | 2,176 | 18,165 |
| 63,231 | 6,329 | 130,148 |
| 3,796 | 500 | 8,546 |
| - | - | 25,849 |
| - | - | 63,208 |
| 118,336 | - | 174,854 |
| 14,435 | 9,252 | 41,187 |
| 1,781,911 | 58,867 | 4,058,007 |
| 1,492 | 1,393 | 346,729 |
| - | 584 | 565,235 |
| - | - | 188,127 |
| 156 | - | 154,776 |
| 400 | 66,679 | 325,925 |
| - | - | 92,405 |
| - | - | 305,000 |
| 67,022 | - | 232,831 |
| 63,453 | - | 63,612 |
| 59,075 | - | 60,834 |
| 3,566,782 | - | 3,568,222 |
| 276,906 | - | 278,750 |
| 7,254 | - | 7,254 |
| 4,042,540 | 68,656 | 6,189,700 |
| (2,260,629) | (9,789) | (2,131,693) |
| 1,920,000 | - | 2,440,000 |
| 1,514 | - | 10,832 |
| 1,077,226 | 45,000 | 1,490,354 |
| (44,181) | (9,260) | (503,598) |
| 2,954,559 | 35,740 | 3,437,588 |
| 693,930 | 25,951 | 1,305,895 |
| 605,718 | 323,487 | 3,778,059 |
| $ 1,299,648 | $ 349,438 | $ 5,083,954 |

# CITY OF PAYNESVILLE, MINNESOTA
## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
## YEAR ENDED DECEMBER 31, 2010

| | | |
|---|---|---|
| **NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** | | $ 1,305,895 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | |
| Capital Outlays | $ 3,776,949 | |
| Depreciation Expense | (399,602) | |
| | | 3,377,347 |
| Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds. | | (1,398) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Special Assessments Deferred and Delinquent | 73,065 | |
| Grants Receivable | 205,407 | |
| Loans Receivable | 40,123 | |
| | | 318,595 |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. | | (2,776) |
| Other postemployment benefits are not reported in governmental funds. | | 1,553 |
| Repayment of long-term debt is reported as an expenditure or other financing use in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. In the current period, this amount consists of: | | |
| Bond Principal Retirement | 305,000 | |
| Deferred Bond Issuance Costs | 22,767 | |
| Bond Discounts | 28,561 | |
| Compensated Absences Decrease | (9,256) | |
| | | (2,092,928) |
| **CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** | | $ 2,906,288 |

*See accompanying Notes to Financial Statements*

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

| | Water (110,111,113) | Sewer (115,116,117, 118,380) | Municipal Liquor (105,106) | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and Investments (Including Cash Equivalents) | $ 1,512,438 | $ 1,580,807 | $ 126,177 | $ 3,219,422 |
| Special Assessments Receivable: | | | | |
| Delinquent | 440 | 440 | - | 880 |
| Deferred | 31,358 | 31,358 | - | 62,716 |
| Accounts Receivable | 59,870 | 122,080 | - | 181,950 |
| Due from Other Governments | 203 | - | - | 203 |
| Advances to Other Funds | - | 81,000 | - | 81,000 |
| Inventories | - | - | 121,534 | 121,534 |
| Prepaid Expenses | 4,931 | 11,092 | 3,133 | 19,156 |
| Total Current Assets | 1,609,240 | 1,826,777 | 250,844 | 3,686,861 |
| **NONCURRENT ASSETS** | | | | |
| Capital Assets: | | | | |
| Land | 100,546 | 705,916 | 6,500 | 812,962 |
| Buildings and Improvements | 461,240 | 424,095 | 65,500 | 950,835 |
| Machinery and Equipment | 534,324 | 473,914 | 46,022 | 1,054,260 |
| Wastewater Treatment Facility | - | 7,095,342 | - | 7,095,342 |
| Underground Mains | 2,343,961 | 1,882,972 | - | 4,226,933 |
| Total Capital Assets | 3,440,071 | 10,582,239 | 118,022 | 14,140,332 |
| Less Accumulated Depreciation | (1,349,376) | (7,303,024) | (78,059) | (8,730,459) |
| Total Noncurrent Assets | 2,090,695 | 3,279,215 | 39,963 | 5,409,873 |
| Total Assets | 3,699,935 | 5,105,992 | 290,807 | 9,096,734 |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts Payable | 3,513 | 2,549 | 20,125 | 26,187 |
| Salaries and Wages Payable | 1,060 | 1,903 | 1,629 | 4,592 |
| Compensated Absences Payable | 5,435 | 10,113 | 2,365 | 17,913 |
| Total Current Liabilities | 10,008 | 14,565 | 24,119 | 48,692 |
| **NONCURRENT LIABILITIES** | | | | |
| OPEB Liabilities | 875 | 1,798 | 229 | 2,902 |
| Total Liabilities | 10,883 | 16,363 | 24,348 | 51,594 |
| **NET ASSETS** | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,090,695 | 3,279,215 | 39,963 | 5,409,873 |
| Unrestricted | 1,598,357 | 1,810,414 | 226,496 | 3,635,267 |
| Total Net Assets | $ 3,689,052 | $ 5,089,629 | $ 266,459 | $ 9,045,140 |

*See accompanying Notes to Financial Statements*

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

| | Water (110,111,113) | Sewer (115,116,117, 118,380) | Municipal Liquor (105,106) | Total |
|---|---|---|---|---|
| **SALES AND COST OF SALES** | | | | |
| Sales | $ - | $ - | $ 964,495 | $ 964,495 |
| Cost of Sales | - | - | 742,228 | 742,228 |
| Gross Profit | - | - | 222,267 | 222,267 |
| **OPERATING REVENUES** | | | | |
| Charges For Services | 426,281 | 630,687 | - | 1,056,968 |
| Permits, Hookup Fees and Penalties | 18,697 | 15,666 | - | 34,363 |
| Total Operating Revenues | 444,978 | 646,353 | - | 1,091,331 |
| **OPERATING EXPENSES** | | | | |
| Wages and Salaries | 61,367 | 109,219 | 91,213 | 261,799 |
| Materials and Supplies | 15,748 | 6,918 | 3,674 | 26,340 |
| Repairs and Maintenance | 24,463 | 52,533 | 2,603 | 79,599 |
| Professional Services | 7,049 | 81,634 | 7,258 | 95,941 |
| Insurance | 9,408 | 18,574 | 6,647 | 34,629 |
| Utilities | 30,629 | 107,742 | 8,774 | 147,145 |
| Depreciation | 78,182 | 116,536 | 3,342 | 198,060 |
| Miscellaneous | 34,652 | 4,839 | 25,190 | 64,681 |
| Total Operating Expenses | 261,498 | 497,995 | 148,701 | 908,194 |
| **OPERATING INCOME (LOSS)** | 183,480 | 148,358 | 73,566 | 405,404 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Investment Income | 43,834 | 62,848 | 3,642 | 110,324 |
| Special Assessments | (4,844) | (6,720) | - | (11,564) |
| Other Income | 500 | 80,662 | (63) | 81,099 |
| Total Nonoperating Revenues (Expenses) | 39,490 | 136,790 | 3,579 | 179,859 |
| **NET INCOME (LOSS) BEFORE TRANSFERS** | 222,970 | 285,148 | 77,145 | 585,263 |
| Transfers Out | (69,485) | (888,899) | (28,372) | (986,756) |
| **CHANGE IN NET ASSETS** | 153,485 | (603,751) | 48,773 | (401,493) |
| Net Assets - Beginning of Year | 3,535,567 | 5,693,380 | 217,686 | 9,446,633 |
| **NET ASSETS - END OF YEAR** | $ 3,689,052 | $ 5,089,629 | $ 266,459 | $ 9,045,140 |

*See accompanying Notes to Financial Statements*

# CITY OF PAYNESVILLE, MINNESOTA
# STATEMENT OF CASH FLOWS
# PROPRIETARY FUNDS
# YEAR ENDED DECEMBER 31, 2010

| | Water (110,111,113) | Sewer (115,116,117, 118,380) | Municipal Liquor (105,106) | Total |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from Customers and Users | $ 443,951 | $ 541,794 | $ 964,495 | $ 1,950,240 |
| Payments to Suppliers | (125,928) | (278,486) | (823,432) | (1,227,846) |
| Payments to Employees | (59,936) | (106,464) | (90,481) | (256,881) |
| Net Cash Provided by Operating Activities | 258,087 | 156,844 | 50,582 | 465,513 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Miscellaneous Revenue | 500 | 80,662 | (63) | 81,099 |
| Transfer to Other Funds | (69,485) | (888,899) | (28,372) | (986,756) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (68,985) | (808,237) | (28,435) | (905,657) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Interest Paid on Debt | - | (503) | - | (503) |
| Special Assessments | 14,315 | 12,428 | - | 26,743 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 14,315 | 11,925 | - | 26,240 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investment Income Received | 43,834 | 62,848 | 3,642 | 110,324 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 247,251 | (576,620) | 25,789 | (303,580) |
| Cash and Cash Equivalents - Beginning of Year | 1,265,187 | 2,157,427 | 100,388 | 3,523,002 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 1,512,438 | $ 1,580,807 | $ 126,177 | $ 3,219,422 |

*See accompanying Notes to Financial Statements*

# CITY OF PAYNESVILLE, MINNESOTA
## STATEMENT OF CASH FLOWS (CONTINUED)
## PROPRIETARY FUNDS
## YEAR ENDED DECEMBER 31, 2010

| | Water (110,111,113) | Sewer (115,116,117, 118,380) | Municipal Liquor (105,106) | Total |
|---|---|---|---|---|
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | |
| Operating Income (Loss) | $ 183,480 | $ 148,358 | $ 73,566 | $ 405,404 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation Expense | 78,182 | 116,536 | 3,342 | 198,060 |
| (Increase) Decrease in Assets: | | | | |
| Accounts Receivable | (869) | (23,567) | - | (24,436) |
| Due from Other Governments | (158) | 8 | - | (150) |
| Due from Other Funds | - | (81,000) | - | (81,000) |
| Prepaid Items | 408 | 418 | 1,450 | 2,276 |
| Inventory | - | - | (20,197) | (20,197) |
| Increase (Decrease) in Liabilities: | | | | |
| Accounts Payable | (4,387) | (6,664) | (8,311) | (19,362) |
| Salaries Payable | 262 | 493 | 289 | 1,044 |
| OPEB Liability | 434 | 892 | 114 | 1,440 |
| Compensated Absences Payable | 735 | 1,370 | 329 | 2,434 |
| Total Adjustments | 74,607 | 8,486 | (22,984) | 60,109 |
| Net Cash Provided (Used) by Operating Activities | $ 258,087 | $ 156,844 | $ 50,582 | $ 465,513 |

*See accompanying Notes to Financial Statements.*

# CITY OF PAYNESVILLE, MINNESOTA
## STATEMENT OF FIDUCIARY NET ASSETS
## AGENCY FUNDS
## DECEMBER 31, 2010

| | |
|---|---|
| **ASSETS** | |
| Cash and Investments - Deputy Registrar | $ 35,471 |
| **LIABILITIES** | |
| Due to Other Governments | $ 35,471 |

*See accompanying Notes to Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paynesville (the City) was formed and operates pursuant to applicable Minnesota laws. The governing body consists of a four-member council and a mayor elected by voters of the City.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed 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. In conformity with generally accepted accounting principles, the financial statements of the City's component unit are included in the financial reporting entity as a blended component unit.

Blended Component Unit

The financial statements of the Economic Development Authority (EDA) of Paynesville have been included in the financial reporting entity as a blended component unit since members of the board are appointed by the City Council. The members of the EDA board act as an advisory board to the Council which is the governing board of the EDA.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the Primary Government and its component unit. These statements include the financial activities of the overall City government. 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 external parties for support. Likewise, the Primary Government is reported separately from certain legally separate component units for which the Primary Government is financially accountable.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

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 activity 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.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund. Separate statements for each fund category—governmental, proprietary, and fiduciary are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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.

Paynesville Economic Development Authority Fund – The economic development authority special revenue fund is used to account for the financial activity of the City's Economic Development Authority.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Economic Development Revolving Loan Fund – The economic development revolving loan special revenue fund is used to account for the revolving loan activities.

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 wells' operations.

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

Municipal Liquor Fund – The Municipal Liquor fund accounts for the activities of the City's municipal liquor store.

Additionally, the City reports an agency fund. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. This fund accounts for assets that the City holds for the State of Minnesota in an agency capacity.

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. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes 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.

D. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from these estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are allocated to the respective funds not the basis of applicable cash balance participation by each fund. Investments are stated at fair value.

For the purposes of the statement of cash flows of the proprietary fund cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months.

The City considers all cash and investments under the classifications current assets and restricted assets to be cash and cash equivalents, except those held with fiscal agents. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts. Designated cash balances in the enterprise fund consists of amounts received from water and sewer availability charges to be used for water and sewer improvements and principal and interest collection on special assessments to be used for debt retirement.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets 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. Property Taxes

The City levies its general property tax for the subsequent year during the month of December and certifies its levy to Stearns County which acts as the collection agency for property taxes within the County. Taxes are recognized as receivables on January 1 of the current year when they are levied against individual properties by the County. They become a lien against the property against which they are levied on the levy date.

Current year property tax revenues represent the tax levy certified to the County Auditor in December of 2009 which was collected during the year ended December 31, 2010. 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.

4. 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.

5. Special Assessments

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

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Loans Receivable

Loans receivable represents the unpaid principal portions of loans made to the City through its revolving loan fund in the fund financial statements. Principal and interest received by the City on these loans are recognized in the period in which they are collected; accordingly, the unpaid principal portions are also reflected in deferred revenue in the fund financial statements.

The City has provided an allowance for uncollectable loans receivable based the specific identification method. An allowance is estimated for these loans based on the historical experience of the City and knowledge about the loan payment schedules. At December 31, 2010, the allowance for uncollectable loans receivable was $20,000.

7. Inventory

Inventory is valued at cost using the first in, first out (FIFO) method. The only fund to carry inventory is the municipal liquor fund.

8. Prepaid Items

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

9. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of Infrastructure assets from 1980 to 2003, totaling $24,829,566, have been estimated. 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Capital Assets (Continued)

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

| Assets | Years |
|---|---|
| Buildings | 30-40 |
| Building Improvements | 7-30 |
| Furniture and Equipment | 5 |
| Vehicles | 5 |
| Machinery and Equipment | 5-20 |
| Fire Trucks | 15 |
| Utility Distribution System | 40 |
| Infrastructure | 20-50 |
| Ponds | 20 |

10. Compensated Absences

The City compensates employees who terminate employment with the City for one-eighth of their unused sick leave up to a maximum of 100 hours. Employees hired prior to January 8, 1992, can accumulate an unlimited number of sick hours; a maximum of 125 hours may be accumulated for employees hired after this date.

11. Long-Term Obligations

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

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

12. Fund Balance

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues, Expenditures, and Expenses

1. Revenues

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

Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues 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. Stearns County is the collecting agency for the levy and then remits the collections 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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues, Expenditures, and Expenses (Continued)

2. Expenditures

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

3. Expenses

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

## NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**Budget**

The budget was prepared for the general and economic development authority fund on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. The budget presented in this report along with the budget to actual is presented in accordance with generally accepted accounting principles.

**Deficit Fund Balances**

There was a deficit fund balance in the following non major fund:

| | | |
|---|---|---|
| Tax Increment Development District No. 1 Fund | $ | 20 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

As of December 31, 2010, the City's deposit and investment balances were as follows:

| Deposits | Bank Balance | Book Balance |
|---|---|---|
| Checking Accounts | $ 1,418,224 | $ 1,247,711 |
| Cash with Fiscal Agent | 42,180 | 42,180 |
| Cash with Escrow Agent | 670,228 | 670,228 |
| Cash in Agency Funds | 35,471 | 35,471 |
| Cash on Hand | 600 | 600 |
| Total Deposits | | $ 1,996,190 |

| Total Deposits and Investments | |
|---|---|
| Governmental Funds | $ 5,312,962 |
| Proprietary Funds | 3,219,422 |
| Agency Fund | 35,471 |
| Total | $ 8,567,855 |

| | Amount |
|---|---|
| Deposits | $ 1,996,190 |
| Investments | 6,571,665 |
| Total | $ 8,567,855 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

| Investment | Credit Risk Rating | Credit Risk Agency | Concentration Risk % of Portfolio | Interest Rate Risk Maturity Date | Interest Rate Risk Interest Rate | Carrying Fair Value |
|---|---|---|---|---|---|---|
| Smith Barney | | | | | | |
| Transferable Certificate of Deposit | | | | | | |
| Cole Taylor Bank | N/R | N/A | N/A | 1/30/2012 | 4.40 % | $ 97,929 |
| Wachovia Bank, FSB | N/R | N/A | N/A | 2/7/2011 | 3.40 | 96,240 |
| Pyramax Bank, FSB | N/R | N/A | N/A | 2/28/2011 | 3.70 | 96,428 |
| Capital One Bank | N/R | N/A | N/A | 1/24/2012 | 5.00 | 93,299 |
| Washington Mutual Bank | N/R | N/A | N/A | 2/9/2012 | 5.20 | 99,873 |
| American Express Bank, FSB | N/R | N/A | N/A | 2/21/2012 | 3.00 | 97,888 |
| Capmark Bank | N/R | N/A | N/A | 2/21/2012 | 3.70 | 98,368 |
| Firstbank of Puerto Rico | N/R | N/A | N/A | 4/9/2012 | 2.30 | 151,982 |
| Citibank, NA | N/R | N/A | N/A | 9/17/2012 | 2.70 | 204,558 |
| Flagstar Bank, FSB | N/R | N/A | N/A | 10/9/2012 | 2.50 | 102,007 |
| GE Money Bank | N/R | N/A | N/A | 12/11/2012 | 2.30 | 152,870 |
| GE Capital Financial Inc | N/R | N/A | N/A | 12/18/2012 | 4.15 | 100,239 |
| M & I Marshall & Ilsley Bank | N/R | N/A | N/A | 12/20/2012 | 4.65 | 101,175 |
| M & I Bank FSB | N/R | N/A | N/A | 1/16/2013 | 4.60 | 100,857 |
| Wachovia Mortgage, FSB | N/R | N/A | N/A | 2/6/2013 | 3.65 | 99,129 |
| Oriental Bank & Trust | N/R | N/A | N/A | 4/11/2013 | 4.25 | 100,675 |
| Discover Bank | N/R | N/A | N/A | 4/15/2013 | 3.25 | 98,562 |
| National City Bank | N/R | N/A | N/A | 4/16/2013 | 4.25 | 100,703 |
| Sallie Mae Bank | N/R | N/A | N/A | 5/20/2013 | 3.35 | 98,893 |
| Firstbank of Puerto Rico | N/R | N/A | N/A | 7/3/2013 | 5.00 | 102,141 |
| American Express Centurion Bank | N/R | N/A | N/A | 12/24/2013 | 4.75 | 102,594 |
| Goldman Sachs Bank USA | N/R | N/A | N/A | 2/6/2014 | 3.80 | 99,686 |
| Citi Bank | N/R | N/A | N/A | 4/8/2014 | 3.50 | 92,808 |
| Barclays Bank Delaware | N/R | N/A | N/A | 9/16/2014 | 3.15 | 99,061 |
| Ally Bank UT | N/R | N/A | N/A | 11/12/2014 | 1.78 | 94,232 |
| GE Money Bank | N/R | N/A | N/A | 11/19/2014 | 1.74 | 94,045 |
| Ally Bank UT | N/R | N/A | N/A | 11/26/2014 | 1.78 | 147,210 |
| Capital One, N.A. | N/R | N/A | N/A | 12/5/2014 | 4.85 | 103,457 |
| BMW Bank Of North America | N/R | N/A | N/A | 12/11/2014 | 3.00 | 98,702 |
| American Express Centurion Bank | N/R | N/A | N/A | 12/16/2014 | 3.00 | 98,712 |
| Discover Bank | N/R | N/A | N/A | 12/16/2014 | 2.95 | 98,531 |
| Midfirst Bank | N/R | N/A | N/A | 1/6/2015 | 3.00 | 97,812 |
| Paragon Commercial Bank | N/R | N/A | N/A | 1/15/2015 | 2.94 | 97,822 |
| Southwest Bank of St. Louis | N/R | N/A | N/A | 2/9/2015 | 4.00 | 99,670 |
| Stockman Bank of Montana | N/R | N/A | N/A | 10/26/2015 | 5.15 | 104,744 |
| Lehman Brothers Bank FSB | N/R | N/A | N/A | 1/27/2016 | 6.00 | 96,254 |
| GE Capital Financial Inc | N/R | N/A | N/A | 1/9/2027 | 3.51 | 94,446 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

| Investment | Credit Risk Rating | Credit Risk Agency | Concentration Risk % of Portfolio | Interest Rate Risk Maturity Date | Interest Rate Risk Interest Rate | Carrying Fair Value |
|---|---|---|---|---|---|---|
| Smith Barney | | | | | | |
| Bonds | | | | | | |
| Federal National Mortgage | AAA | Moody's | N/A | 2/15/2016 | 2.99 % | $ 200,582 |
| Federal National Mortgage | AAA | Moody's | N/A | 7/15/2018 | 4.00 % | 150,179 |
| Federal National Mortgage | AAA | Moody's | N/A | 7/27/2018 | 2.00 % | 150,263 |
| Federal National Mortgage | AAA | Moody's | N/A | 11/19/2018 | 2.53 % | 246,883 |
| Federal National Mortgage | AAA | Moody's | N/A | 9/23/2020 | 2.33 % | 192,958 |
| Federal National Mortgage | AAA | Moody's | N/A | 9/29/2020 | 2.07 % | 435,200 |
| Federal National Mortgage | AAA | Moody's | N/A | 10/15/2020 | 2.13 % | 282,000 |
| Central Minnesota Federal Credit Union | | | | | | |
| Certificate of Deposit | N/R | N/A | N/A | 7/1/2013 | 2.96 % | 100,000 |
| Certificate of Deposit | N/R | N/A | N/A | 7/1/2013 | 2.96 % | 100,000 |
| Certificate of Deposit | N/R | N/A | N/A | 8/27/2014 | 4.03 % | 200,000 |
| Certificate of Deposit | N/R | N/A | N/A | 9/10/2014 | 2.55 % | 200,000 |
| Certificate of Deposit | N/R | N/A | N/A | 9/10/2013 | 2.50 % | 200,000 |
| Certificate of Deposit | N/R | N/A | N/A | 9/10/2013 | 1.80 % | 200,000 |
| Total Investments | | | | | | $ 6,571,665 |

Credit Risk

*Minnesota Statutes* restrict the types of investments in which the City may invest. The City's investment policy identifies eight different acceptable investment types and the minimum requirements of each one.

*Minnesota Statues* §§ 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 received certain ratings depending on the investments;

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit Risk (Continued)

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;

f. With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy addresses collateralization and states that at no time will deposits exceed FDIC coverage limits unless such excesses are protected by pledged securities.

*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, or bonds; issues of a U.S. government agency; general obligations of a state or 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 he 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.

As of December 31, 2010, all City deposits were covered by insurance or collateral.

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Loans Receivable

The City uses revolving loans for economic development purposes. The City's management has estimated a $20,000 allowance for doubtful accounts as of December 31, 2010 based on the specific identification method. The City had the following loans receivable as of December 31, 2010:

| Interest Rate | Principal Balance 12/31/2010 |
|---|---|
| 8.5 % | $ 2,783 |
| 7.0 | 46,502 |
| 5.8 | 96,388 |
| 4.8 | 233,526 |
| 4.8 | 12,969 |
| 4.3 | 26,735 |
| 4.0 | 1,299 |
| 4.0 | 987 |
| 4.0 | 987 |
| 4.0 | 877 |
| 4.0 | 558 |
| 4.0 | 559 |
| 4.0 | 559 |
| 4.0 | 561 |
| 4.0 | 557 |
| 4.0 | 2,033 |
| 4.0 | 1,515 |
| 4.0 | 2,443 |
| 4.0 | 1,614 |
| 3.5 | 9,523 |
| 3.5 | 109,668 |
| Total | $ 552,644 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

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

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 872,445 | $ - | $ - | $ 872,445 |
| Construction in Progress | 731,607 | 3,744,638 | 459,836 | 4,016,409 |
| Total Capital Assets Not Being Depreciated | 1,604,052 | 3,744,638 | 459,836 | 4,888,854 |
| Capital Assets Being Depreciated | | | | |
| Buildings and Improvements | 1,460,098 | 459,836 | - | 1,919,934 |
| Infrastructure - Streets | 10,674,314 | - | - | 10,674,314 |
| Infrastructure - Trails | 780,664 | - | - | 780,664 |
| Furniture and Equipment | 152,326 | - | - | 152,326 |
| Machinery and Equipment | 436,329 | - | - | 436,329 |
| Vehicles | 800,920 | 32,311 | - | 833,231 |
| Total Capital Assets Being Depreciated | 14,304,651 | 492,147 | - | 14,796,798 |
| Less: Accumulated Depreciation for | | | | |
| Buildings and Improvements | 401,572 | 47,468 | - | 449,040 |
| Infrastructure - Streets | 3,132,812 | 261,454 | - | 3,394,266 |
| Infrastructure - Trails | 42,891 | 19,535 | - | 62,426 |
| Furniture and Equipment | 99,418 | 11,407 | - | 110,825 |
| Machinery and Equipment | 280,486 | 20,907 | - | 301,393 |
| Vehicles | 481,877 | 38,831 | - | 520,708 |
| Total Accumulated Depreciation | 4,439,056 | 399,602 | - | 4,838,658 |
| Total Capital Assets Being Depreciated, Net | 9,865,595 | 92,545 | - | 9,958,140 |
| Governmental Activities Capital Assets, Net | $ 11,469,647 | $ 3,837,183 | $ 459,836 | $ 14,846,994 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

The following is a summary of the proprietary fund capital assets at December 31, 2010:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|---|---|---|---|
| **BUSINESS-TYPE ACTIVITIES** | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 812,962 | $ - | $ - | $ 812,962 |
| Capital Assets Being Depreciated | | | | |
| Buildings and Improvements | 950,835 | - | - | 950,835 |
| Furniture and Equipment | 46,022 | - | - | 46,022 |
| Machinery and Equipment | 1,008,239 | - | - | 1,008,239 |
| Wastewater Treatment Facility | 7,095,342 | - | - | 7,095,342 |
| Underground Mains | 4,226,932 | - | - | 4,226,932 |
| Total Capital Assets Being Depreciated | 13,327,370 | - | - | 13,327,370 |
| Less: Accumulated Depreciation for | | | | |
| Buildings and Improvements | 549,558 | 23,231 | - | 572,789 |
| Furniture and Equipment | 28,866 | 1,705 | - | 30,571 |
| Machinery and Equipment | 756,934 | 25,342 | - | 782,276 |
| Wastewater Treatment Facility | 6,040,285 | 64,539 | - | 6,104,824 |
| Underground Mains | 1,156,756 | 83,243 | - | 1,239,999 |
| Total Accumulated Depreciation | 8,532,399 | 198,060 | - | 8,730,459 |
| Total Capital Assets Being Depreciated, Net | 4,794,971 | (198,060) | - | 4,596,911 |
| Business-Type Activities Capital Assets, Net | $ 5,607,933 | $ (198,060) | $ - | $ 5,409,873 |

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

| | |
|---|---|
| Governmental Activities: | |
| General Government | $ 28,010 |
| Public Safety | 49,877 |
| Public Works | 271,939 |
| Culture and Recreation | 25,834 |
| Airport | 23,942 |
| Total Depreciation Expense - Governmental Activities | $ 399,602 |
| Business-Type Activities: | |
| Water | $ 78,182 |
| Sewer | 116,536 |
| Liquor | 3,342 |
| Total Depreciation Expense - Business-Type Activities | $ 198,060 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers

1. Due to/from Other Funds

During 1992 and 1993, the General Fund loaned the Tax Increment Financing District No 1-4 $270,500 for the purpose of establishing the District and financing improvements to the District. During 2003, this loan was assumed by the Economic Development Revolving Loan Fund. At December 31, 2010, the balance was $122,877.

| | Due From Economic Development Revolving |
|---|---|
| Due to | |
| General Fund | $ 122,877 |

2. Interfund Transfers

The composition of interfund transfers as of December 31, 2010 was as follows:

| | Transfers Out | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | General | Paynesville EDA | Capital Projects | Nonmajor Governmental | Water | Sewer | Municipal Liquor | Total |
| Transfers In: | | | | | | | | |
| General | $ - | $ 132 | $ 44,181 | $ 9,260 | $ 985 | $ 1,784 | $ 28,372 | $ 84,714 |
| Paynesville Economic Development Authority | 31,614 | - | - | - | - | - | - | 31,614 |
| Debt Service | 120,800 | - | - | - | 68,500 | 62,500 | - | 251,800 |
| Capital Projects | 252,611 | - | - | - | - | 824,615 | - | 1,077,226 |
| Nonmajor Governmental | 45,000 | - | - | - | - | - | - | 45,000 |
| Total | $ 450,025 | $ 132 | $ 44,181 | $ 9,260 | $ 69,485 | $ 888,899 | $ 28,372 | $ 1,490,354 |

These transfers were for allocating funds for debt service payments, administration and capital projects as determined by the City Council.

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities

1. Long-Term Debt

The City's Bond Rating for the year ended December 31, 2010 was Moody's Investor A3.

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 Revenue Bonds

The City issues general obligation Revenue bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both the water and sewer 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 and general obligation revenue 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, special assessments and water and sewer revenues are dedicated for the retirement of these bonds.

General Obligation Crossover Refunding Bonds

In 2010, the City issued G.O. Improvement Crossover Refunding Bonds Series 2010C in the amount of $520,000 with interest rates of 2.00 percent to 2.30 percent to crossover refund $585,000 of the General Obligation Improvement Bonds of 2004 and $75,000 of the General Obligation Improvement Bonds, Series 2004A with a crossover date of December 1, 2011.

The net proceeds of $670,228 (bond proceeds along with $161,982 of the City's existing funds) were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the Series 2004 and 2004A G.O. Improvement Bonds until December 1, 2011, at which time the refunded bonds will be paid-off.

As a result of the crossover refunding, the City reduced its total debt service requirements by $59,203, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of $33,095.

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

### C. Liabilities (Continued)

#### 2. Components of Long-Term Debt (Continued)

| | Issue Date | Interest Rates | Original Issue | Final Maturity | Principal Outstanding | Due Within One Year |
|---|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | | |
| General Obligation Bonds, Including Refunding Bonds | | | | | | |
| Series 2004 GO Improvement | 4/1/04 | 1.4%-4.3% | $ 990,000 | 12/1/19 | $ 645,000 | $ 60,000 |
| Series 2004A | 10/1/04 | 2.35%-4.3% | 220,000 | 12/1/14 | 100,000 | 25,000 |
| Series 2006A | 4/1/06 | 3.4%-4.25% | 1,140,000 | 12/1/21 | 895,000 | 65,000 |
| Series 2008A | 5/21/08 | 2.3%-3.7% | 1,370,000 | 12/1/18 | 1,130,000 | 125,000 |
| Series 2010A GO Improvement | 5/1/10 | 2.0%-3.5% | 1,235,000 | 12/1/20 | 1,235,000 | 90,000 |
| Series 2010B GO Improvement | 5/1/10 | 2.0%-3.5% | 685,000 | 12/1/20 | 685,000 | 60,000 |
| Series 2010C GO Improvement Crossover Refund | 11/1/10 | 2.0%-2.3% | 520,000 | 12/1/17 | 520,000 | - |
| General Obligation Revenue Bonds: | | | | | | |
| Revenue Refunding 2003 | 3/1/03 | 1.25%-4.00% | 375,000 | 1/1/13 | 115,000 | 40,000 |
| Less: Unamortized Discount | | | | | (82,185) | - |
| Total Governmental Activities Long-Term Debt | | | | | $ 5,242,815 | $ 465,000 |

#### 3. Changes in Long-Term Debt

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | |
| Bonds Payable | | | | | |
| G.O. Improvement Bonds, Including Refunding Bonds | $ 3,035,000 | $ 2,440,000 | $ 265,000 | $ 5,210,000 | $ 425,000 |
| G.O. Revenue Bonds | 155,000 | - | 40,000 | 115,000 | 40,000 |
| Total Bonds Payable | 3,190,000 | 2,440,000 | 305,000 | 5,325,000 | 465,000 |
| Compensated Absences | 52,919 | 64,334 | 55,078 | 62,175 | - |
| Total Governmental Activities | 3,242,919 | 2,504,334 | 360,078 | 5,387,175 | 465,000 |
| **BUSINESS-TYPE ACTIVITIES** | | | | | |
| Compensated Absences | 15,479 | 16,809 | 14,375 | 17,913 | 17,913 |
| Total Long-Term Liabilities | $ 3,258,398 | $ 2,521,143 | $ 374,453 | $ 5,405,088 | $ 482,913 |

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments

Debt requirements to maturity are as follows:

| Year Ending | Governmental Activities | | | |
|---|---|---|---|---|
| | G.O. Revenue Bonds | | G.O. Bonds | |
| December 31, | Principal | Interest | Principal | Interest |
| 2011 | $ 40,000 | $ 4,360 | $ 425,000 | $ 110,138 |
| 2012 | 40,000 | 2,920 | 755,000 | 102,333 |
| 2013 | 35,000 | 1,400 | 550,000 | 93,729 |
| 2014 | - | - | 570,000 | 84,079 |
| 2015 | - | - | 530,000 | 73,846 |
| 2016-2020 | - | - | 2,280,000 | 200,115 |
| 2021 | - | - | 100,000 | 12,538 |
| Total | $ 115,000 | $ 8,680 | $ 5,210,000 | $ 676,778 |

D. Operating Lease

The City leases a postage meter and copier under noncancelable operating leases. Total cost for these leases were $3,565 for the year ended December 31, 2010. The future minimum lease payments for the leases are as follows:

| Year Ended December 31, | Amount |
|---|---|
| 2011 | $ 3,170 |
| 2012 | 3,170 |
| 2013 | 3,170 |
| 2014 | 2,642 |

E. 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.

## NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Fund Balance

Reserves and Designated Fund Balance

Reserves represent those portions of fund balance appropriated for expenditure or legally segregated for a specific use.

| | General Fund |
|---|---|
| Unreserved: | |
| Designated for Working Capital | $ 1,252,272 |

## NOTE 4 PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of the City are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

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

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

## NOTE 4 PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

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

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

B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. The City of Paynesville, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.00% for Coordinated Plan GERF members and 14.10% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were $34,702, $34,843, and $34,307, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2010, 2009, and 2008 were $31,276, $31,746, and $29,257, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

## NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

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

The City makes available to eligible retirees and their spouses a single-employer defined benefit healthcare plan. The plan offers medical coverage. The City does not provide healthcare coverage for retired employees. Rather, it allows employees who separate from City employment due to retirement or disability, access to the coverage; however, that coverage is paid for at the former employees' expense.

## NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Plan Description

The City makes available to eligible retirees and their spouses a single-employer defined benefit healthcare plan. The plan offers medical coverage. The City does not provide healthcare coverage for retired employees. Rather, it allows employees who separate from City employment due to retirement or disability, access to the coverage; however, that coverage is paid for at the former employees' expense.

### Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in City's net OPEB obligation to the plan.

| | Governmental Funds | Enterprise Funds | Total |
|---|---|---|---|
| Annual Required Contribution | $ 4,053 | $ 1,462 | $ 5,515 |
| Interest on Net OPEB Obligation | (57) | 66 | 9 |
| Adjustment to Annual Required Contribution | 76 | (88) | (12) |
| Annual OPEB Cost (Expense) | 4,072 | 1,440 | 5,512 |
| Contributions Made | (5,625) | - | (5,625) |
| Increase in Net OPEB Obligation | (1,553) | 1,440 | (113) |
| Net OPEB Obligation - Beginning of Year | (1,254) | 1,462 | 208 |
| Net OPEB Obligation - End of Year | $ (2,807) | $ 2,902 | $ 95 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending December 31, 2010 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| December 31, 2009 | $ 5,515 | 96.2 % | $ 208 |
| December 31, 2010 | 5,512 | 102.1 | 95 |

## NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

### Funded Status and Funding Progress

As of January 1, 2009 the most recent actuarial valuation date, the City had no assets deposited to fund the plan. Therefore, the actuarial value of the assets is zero.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/(c) |
|---|---|---|---|---|---|---|
| 1/1/2009 | $ - | $ 45,768 | $ 45,768 | 0.0% | $673,408 | 6.8% |

### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the January 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 9%, reduced by decrements to an ultimate rate of 5% after eight years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at January 1, 2009 was 30 years.

## NOTE 6 JOINTLY GOVERNED ORGANIZATION

The Paynesville Area Health Care System (the "System) operates under authority granted to it by *Minnesota Statutes*. The System operates under a joint powers type arrangement. The System is jointly governed by the following members: the Townships of Paynesville, Roseville, Union Grove and Zion and the Cities of Paynesville, Regal and St. Martin.

## NOTE 7 RELATED ORGANIZATIONS

### Paynesville Fire Department Relief Association

This Association is organized as a non-profit corporation by its members to provide pension and other benefits to such members in accordance with *Minnesota Statutes*. The Board of Trustees is elected by the membership of the organization and not by the City Council. All funding is conducted in accordance with *Minnesota Statutes*, whereby state aids flow to the Association, tax levies are requested by the Association and are only reviewed by the City and the Association pays benefits directly to its members. The Association may certify tax levies to Stearns County directly if the City does not carry out this function. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

## NOTE 8 RELATED-ORGANIZATION PENSION

### Paynesville Fire Relief Association (the "Association")

### Plan Description

All members of the Crosslake Fire Department are covered by a defined contribution plan administered by the Crosslake Firemen's Relief Association (Relief Association). The plan is a single employer retirement plan and is established and administered in accordance with *Minnesota Statutes*, Chapter 69.

The Relief Association 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 Relief Association within the parameters provided by state statutes.

The Relief Association issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Hall.

### Funding Policy

*Minnesota Statutes* Chapter 69.77 sets the minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet the normal cost plus amortizing any prior year's service cost over a ten year period. No contribution was required from the City for the year ended December 31, 2009, however, the City contributed $5,000. The Paynesville Fire Department Relief Association also receives funding from the State of Minnesota as a two percent fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

## NOTE 8 RELATED-ORGANIZATION PENSION (CONTINUED)

### Paynesville Fire Relief Association (the "Association") (Continued)

**Funding Policy (Continued)**

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to PERS for the current year were as follows:

| | |
|---|---|
| Annual Required Contribution | $ - |
| Interest on Net Pension Obligation | - |
| Adjustment to Annual Required Contribution | 5,000 |
| Annual Pension Cost | 5,000 |
| Less Contribution Made | (5,000) |
| Increase (Decrease) in Net Pension Obligation | - |
| Net Pension Obligation - Beginning of Year | - |
| Net Pension Obligation - End of Year | $ - |

The annual required contribution for the current year was determined as part of December 31, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. Pension benefit obligations on an actuarial basis are not calculated for individual volunteer fire relief associations since state statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

| December 31, | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2009 | $ 5,000 | 100% | $ - |

**Contributions Required and Made**

The City makes contributions to the Relief Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was not required to make any contributions in excess of fire aid for 2009, 2008 and 2007.

**Funding Progress**

As of December 31, 2009 (the most recent available information), the plan was underfunded by $61,506. Additional information on the funding progress is included in the required supplementary information section of this report.

**Related-Party Investments**

As of December 31, 2009, and for the year then ended, the Relief Association held no securities issued by the City or other related-parties.

## NOTE 9 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Construction Commitments

At year-end, the City had the following outstanding construction commitments:

| Project Name | Total Contract | Spent to Date | Commitment |
|---|---|---|---|
| Trail- Phase 6 & 8 | $ 170,000 | $ - | $ 170,000 |
| Trail- Phase 7 | 39,500 | 20,000 | 19,500 |
| Nature Park Overlay | 3,000 | - | 3,000 |
| Sewer Interceptor | 434,442 | 323,805 | 110,637 |
| Water Treatment Facility Design | 130,000 | - | 130,000 |
| Trusse Repair- City Hall | 91,749 | 58,505 | 33,244 |
| HVAC Replacement - City Hall | 50,115 | 26,385 | 23,730 |
| Hwy 23 | 685,000 | 533,962 | 151,038 |
| 2010 Street Project | 1,235,000 | 841,072 | 393,928 |
| Total | | | $ 1,035,077 |

B. Contingencies

The City, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

## NOTE 10 RELATED-PARTY TRANSACTION

A member of the Airport Commission Board provided the City a short-term, interest free loan in the amount of $76,431 to help finance the airport hangar project until federal funding was received. The City received and repaid this amount back during 2010, therefore, no outstanding obligation at year-end remains.

## NOTE 11 SUBSEQUENT EVENT

On December 20, 2010, the City Council approved the sale of the liquor store property in the amount of $250,000 with a closing date of April 2011. The City has entered into a lease agreement for rental of space beginning in March 2011.

# REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

# CITY OF PAYNESVILLE, MINNESOTA
## BUDGETARY COMPARISON SCHEDULE
## GENERAL FUND
## YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **REVENUES** | | | | |
| **PROPERTY TAXES** | $ 445,250 | $ 445,250 | $ 450,648 | $ 5,398 |
| **FRANCHISE TAXES** | 32,672 | 32,672 | 33,507 | 835 |
| **LICENSES AND PERMITS** | 162,225 | 162,225 | 142,971 | (19,254) |
| **INTERGOVERNMENTAL REVENUE** | | | | |
| Local Government Aid | 679,705 | 679,705 | 679,593 | (112) |
| Market Value Credit | 64,078 | 64,078 | 15,274 | (48,804) |
| PERA Aid | 2,731 | 2,731 | 2,731 | - |
| Fire Aid | 22,000 | 22,000 | 28,579 | 6,579 |
| Police Aid | 25,000 | 25,000 | 26,473 | 1,473 |
| Other Grants and Aids | 15,195 | 15,195 | 15,664 | 469 |
| Total Intergovernmental Revenue | 808,709 | 808,709 | 768,314 | (40,395) |
| **CHARGES FOR SERVICES** | | | | |
| General Government | 7,050 | 7,050 | 6,792 | (258) |
| Public Safety | 139,582 | 139,582 | 112,349 | (27,233) |
| Public Works | 5,000 | 5,000 | 5,382 | 382 |
| Culture and Recreation | 9,500 | 9,500 | 13,135 | 3,635 |
| Airport | 83,800 | 83,800 | 84,176 | 376 |
| Total Charges for Services | 244,932 | 244,932 | 221,834 | (23,098) |
| **FINES AND FORFEITURES** | 15,100 | 15,100 | 15,989 | 889 |
| **MISCELLANEOUS REVENUES** | | | | |
| Investment Income | 22,322 | 22,322 | 4,160 | (18,162) |
| Contributions and Donations | 3,250 | 3,250 | 4,250 | 1,000 |
| Reimbursements | 2,300 | 2,300 | 1,518 | (782) |
| Other | 15,000 | 15,000 | 17,500 | 2,500 |
| Total Miscellaneous Revenues | 42,872 | 42,872 | 27,428 | (15,444) |
| Total Revenues | 1,751,760 | 1,751,760 | 1,660,691 | (91,069) |

## CITY OF PAYNESVILLE, MINNESOTA
## BUDGETARY COMPARISON SCHEDULE
## GENERAL FUND (CONTINUED)
## YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **EXPENDITURES** | | | | |
| **CURRENT** | | | | |
| **GENERAL GOVERNMENT** | | | | |
| Mayor and Council | $ 34,619 | $ 34,619 | $ 28,914 | $ 5,705 |
| Administrative and Finance | 157,083 | 157,083 | 156,296 | 787 |
| Other General Government | 166,893 | 166,893 | 158,634 | 8,259 |
| Capital Outlay | 3,700 | 3,700 | 159 | 3,541 |
| Total General Government | 362,295 | 362,295 | 344,003 | 18,292 |
| **PUBLIC SAFETY** | | | | |
| Police | | | | |
| Current | 390,691 | 390,691 | 402,377 | (11,686) |
| Capital Outlay | 1,000 | 1,000 | 931 | 69 |
| Fire | | | | |
| Current | 111,401 | 111,401 | 109,959 | 1,442 |
| Capital Outlay | 2,500 | 2,500 | 280 | 2,220 |
| Other | | | | |
| Current | 60,280 | 60,280 | 52,315 | 7,965 |
| Capital Outlay | 1,550 | 1,550 | 548 | 1,002 |
| Total Public Safety | 567,422 | 567,422 | 566,410 | 1,012 |
| **PUBLIC WORKS** | | | | |
| Streets and Highways | | | | |
| Street Maintenance and Storm Sewers | 90,363 | 90,363 | 90,731 | (368) |
| Snow and Ice Removal | 54,919 | 54,919 | 59,350 | (4,431) |
| Street Lighting | 38,000 | 38,000 | 38,046 | (46) |
| Street - Other Capital Outlay | 2,000 | 2,000 | 1,440 | 560 |
| Total Public Works | 185,282 | 185,282 | 189,567 | (4,285) |
| **CULTURE AND RECREATION** | | | | |
| Libraries | | | | |
| Current | 7,899 | 7,899 | 4,469 | 3,430 |
| Culture and Recreation | | | | |
| Current | 159,024 | 159,024 | 150,151 | 8,873 |
| Capital Outlay | 3,200 | 3,200 | 1,844 | 1,356 |
| Total Culture and Recreation | 170,123 | 170,123 | 156,464 | 13,659 |
| **AIRPORT** | | | | |
| Current | 95,538 | 95,538 | 92,405 | 3,133 |
| Capital Outlay | 700 | 700 | - | 700 |
| Total Airport | 96,238 | 96,238 | 92,405 | 3,833 |
| Total Expenditures | 1,381,360 | 1,381,360 | 1,348,849 | 32,511 |

## CITY OF PAYNESVILLE, MINNESOTA
## BUDGETARY COMPARISON SCHEDULE
## GENERAL FUND (CONTINUED)
## YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | $ 370,400 | $ 370,400 | $ 311,842 | $ 58,558 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers In | 27,500 | 27,500 | 84,714 | 57,214 |
| Transfers Out | (372,225) | (372,225) | (450,025) | (77,800) |
| Total Other Financing Sources (Uses) | (344,725) | (344,725) | (365,311) | (20,586) |
| **NET CHANGE IN FUND BALANCE** | $ 25,675 | $ 25,675 | (53,469) | $ (79,144) |
| Fund Balances - Beginning of Year | | | 1,305,741 | |
| **FUND BALANCES - END OF YEAR** | | | $ 1,252,272 | |

# CITY OF PAYNESVILLE, MINNESOTA
## BUDGETARY COMPARISON SCHEDULE
## ECONOMIC DEVELOPMENT AUTHORITY FUND
## YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **REVENUES** | | | | |
| **INTERGOVERNMENTAL REVENUES** | | | | |
| Other Grants and Aids | $ - | $ - | $ 109,320 | $ 109,320 |
| **MISCELLANEOUS REVENUES** | | | | |
| Investment Income | - | - | 626 | 626 |
| Total Revenues | - | - | 109,946 | 109,946 |
| **EXPENDITURES** | | | | |
| **ECONOMIC DEVELOPMENT** | | | | |
| Current | 31,614 | 31,614 | 133,479 | (101,865) |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (31,614) | (31,614) | (23,533) | (8,081) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers In | 31,614 | 31,614 | 31,614 | - |
| Transfers Out | - | - | (132) | (132) |
| Total Other Financing Sources (Uses) | 31,614 | 31,614 | 31,482 | (132) |
| **NET CHANGE IN FUND BALANCES** | $ - | $ - | 7,949 | $ 7,949 |
| Fund Balances - Beginning of Year | | | 34,437 | |
| **FUND BALANCES - END OF YEAR** | | | $ 42,386 | |

## I. BUDGETARY INFORMATION

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

a. Prior to September 15 of each year, the Finance Director 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 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 on the City's budget are conducted at the Council's Chambers at City Hall.

c. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy is 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 certain special revenue funds. The City also adopts budgets for the debt service funds, capital project funds, and enterprise 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, miscellaneous services and charges, and capital outlay) within each program. All amounts over budget have been approved by the City Council through the disbursement process. 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, certain special revenue funds, and the debt service fund 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.

## CITY OF PAYNESVILLE, MINNESOTA
## SCHEDULES OF FUNDING PROGRESS
## YEAR ENDED DECEMBER 31, 2010

Paynesville Firefighters Relief Association

| Fiscal Year Ending | Value of Assets (a) | Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Benefit per Year of Service |
|---|---|---|---|---|---|
| 12/31/2009 | $ 550,748 | $ 612,254 | $ 61,506 | 89.95 % | $ 2,000 |
| 12/31/2008 | 415,704 | 584,846 | 169,142 | 71.08 | 2,000 |
| 12/31/2007 | 598,099 | 515,741 | (82,358) | 115.97 | 2,000 |

Other Postemployment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/(c) |
|---|---|---|---|---|---|---|
| 1/1/2009 | $ - | $ 45,768 | $ 45,768 | 0.0% | $ 673,408 | 6.8% |

# CITY OF PAYNESVILLE, MINNESOTA
# COMBINING BALANCE SHEETS
# NONMAJOR GOVERNMENTAL FUNDS
# DECEMBER 31, 2010

| | Police Drug/DWI Forfeiture 205 | Tax Increment Development District No. 1 255 | Police 215 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Investments | $ 3,688 | $ 10,904 | $ 1,601 |
| Accounts Receivable | 2,176 | - | - |
| Total Assets | $ 5,864 | $ 10,904 | $ 1,601 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **LIABILITIES** | | | |
| Accounts Payable | $ 584 | $ 10,924 | $ - |
| **FUND BALANCES** | | | |
| Unreserved, Reported in: | | | |
| Special Revenue - Undesignated | 5,280 | (20) | 1,601 |
| Total Liabilities and Fund Balances | $ 5,864 | $ 10,904 | $ 1,601 |

| Fire Reserve 225 | Tax Increment Financing District No. 1-9 265 | Tax Increment Financing District No. 1-10 270 | Total Nonmajor Funds |
|---|---|---|---|
| $ 336,324 | $ 3,018 | $ 11,349 | $ 366,884 |
| - | - | - | 2,176 |
| $ 336,324 | $ 3,018 | $ 11,349 | $ 369,060 |
| $ - | $ 2,143 | $ 5,971 | $ 19,622 |
| 336,324 | 875 | 5,378 | 349,438 |
| $ 336,324 | $ 3,018 | $ 11,349 | $ 369,060 |

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

| | Police Drug/DWI Forfeiture 205 | Tax Increment Development District No. 1 255 | Police 215 | Tax Increment Financing District No. 1-8 260 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Tax Increments | $ - | $ 22,579 | $ - | $ - |
| Fines and Forfeitures | 2,176 | - | - | - |
| Miscellaneous | | | | |
| Investment Income | 110 | 53 | 48 | 8 |
| Contributions and Donations | - | - | - | - |
| Other | - | - | - | 9,252 |
| Total Revenues | 2,286 | 22,632 | 48 | 9,260 |
| **EXPENDITURES** | | | | |
| **CURRENT** | | | | |
| General Government | - | - | - | - |
| Public Safety | 584 | - | - | - |
| Economic Development | - | 21,849 | - | 28,603 |
| Total Expenditures | 584 | 21,849 | - | 28,603 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 1,702 | 783 | 48 | (19,343) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers In | - | - | - | - |
| Transfers Out | - | - | - | (9,260) |
| Total Other Financing Sources (Uses) | - | - | - | (9,260) |
| **NET CHANGE IN FUND BALANCES** | 1,702 | 783 | 48 | (28,603) |
| Fund Balances (Deficit) - Beginning of Year | 3,578 | (803) | 1,553 | 28,603 |
| **FUND BALANCES (DEFICIT) - END OF YEAR** | $ 5,280 | $ (20) | $ 1,601 | $ - |

| Fire Reserve 225 | Tax Increment Financing District No. 1-9 265 | Tax Increment Financing District No. 1-10 270 | Total Nonmajor Funds |
|---|---|---|---|
| $ - | $ 4,762 | $ 13,269 | $ 40,610 |
| - | - | - | 2,176 |
| 5,905 | 29 | 176 | 6,329 |
| 500 | - | - | 500 |
| - | - | - | 9,252 |
| 6,405 | 4,791 | 13,445 | 58,867 |
| 1,393 | - | - | 1,393 |
| - | - | - | 584 |
| - | 4,285 | 11,942 | 66,679 |
| 1,393 | 4,285 | 11,942 | 68,656 |
| 5,012 | 506 | 1,503 | (9,789) |
| 45,000 | - | - | 45,000 |
| - | - | - | (9,260) |
| 45,000 | - | - | 35,740 |
| 50,012 | 506 | 1,503 | 25,951 |
| 286,312 | 369 | 3,875 | 323,487 |
| $ 336,324 | $ 875 | $ 5,378 | $ 349,438 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING BALANCE SHEETS
## DEBT SERVICE FUNDS
## DECEMBER 31, 2010

| | 1993/2002 G.O. Refunding Bonds 112 | G.O. Water and Sewer Refunding Bonds 372 | 1998 G.O. Improvement Bonds 410 | 2000 G.O. Improvement Bonds 420 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Investments | $ 64,741 | $ 130,973 | $ 10,418 | $ 116,620 |
| Cash with Fiscal Agent | - | 42,180 | - | - |
| Cash with Escrow | - | - | - | - |
| Special Assessments Receivable: | | | | |
| Delinquent | 44 | - | - | 9,506 |
| Deferred | - | - | 30,368 | 54,798 |
| Due From Other Governments | - | - | - | - |
| Total Assets | $ 64,785 | $ 173,153 | $ 40,786 | $ 180,924 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **LIABILITIES** | | | | |
| Deferred Revenue | $ 44 | $ - | $ 30,368 | $ 64,304 |
| **FUND BALANCES** | | | | |
| Unreserved, Undesignated | 64,741 | 173,153 | 10,418 | 116,620 |
| Total Liabilities and Fund Balances | $ 64,785 | $ 173,153 | $ 40,786 | $ 180,924 |

| 2000 G.O. Improvement Bonds, Series B 435 | 2002 G.O. Improvement Bonds 465 | 2006 Improvements Debt 520 | 2008 Improvements 535 | 2010 G.O. Improvement Bonds, Series A 545 |
|---|---|---|---|---|
| $ 35,417 | $ 566 | $ 183,408 | $ 203,034 | $ 108,005 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | 777 | - | - |
| 77,875 | - | 142,171 | 125,201 | 249,639 |
| 189 | - | 308 | 4,034 | - |
| $ 113,481 | $ 566 | $ 326,664 | $ 332,269 | $ 357,644 |
| $ 77,875 | $ - | $ 142,948 | $ 125,201 | $ 249,639 |
| 35,606 | 566 | 183,716 | 207,068 | 108,005 |
| $ 113,481 | $ 566 | $ 326,664 | $ 332,269 | $ 357,644 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING BALANCE SHEET
## DEBT SERVICE FUNDS (CONTINUED)
## DECEMBER 31, 2010

| | 2010 G.O. Improvement Bonds, Series B 555 | 2010 G.O. Improvement Bonds, Series B 585 | Intrafund Activity | Total Debt Service Fund |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Investments | $ 9,621 | $ 264,274 | $ - | $ 1,127,077 |
| Cash with Fiscal Agent | - | - | - | 42,180 |
| Cash with Escrow | - | 670,228 | - | 670,228 |
| Special Assessments Receivable: | | | | |
| Delinquent | - | 1,698 | - | 12,025 |
| Deferred | - | 110,847 | - | 790,899 |
| Due From Other Governments | - | 487 | - | 5,018 |
| Total Assets | $ 9,621 | $ 1,047,534 | $ - | $ 2,647,427 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **LIABILITIES** | | | | |
| Deferred Revenue | $ - | $ 112,545 | $ - | $ 802,924 |
| **FUND BALANCES** | | | | |
| Unreserved, Undesignated | 9,621 | 934,989 | - | 1,844,503 |
| Total Liabilities and Fund Balances | $ 9,621 | $ 1,047,534 | $ - | $ 2,647,427 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## DEBT SERVICE FUNDS
## YEAR ENDED DECEMBER 31, 2010

| | 1993/2002 G.O. Refunding Bonds 112 | G.O. Water and Sewer Refunding Bonds 372 | 1998 G.O. Improvement Bonds 410 | 2000 G.O. Improvement Bonds 420 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Special Assessments | $ - | $ - | $ 2,071 | $ 23,409 |
| Miscellaneous | | | | |
| Investment Income | 1,994 | 5,278 | 265 | 3,077 |
| Other Interest Income | - | - | - | - |
| Total Revenues | 1,994 | 5,278 | 2,336 | 26,486 |
| **EXPENDITURES** | | | | |
| **DEBT SERVICE** | | | | |
| Principal | - | 40,000 | - | - |
| Interest and Other Charges | - | 5,030 | - | - |
| Total Expenditures | - | 45,030 | - | - |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 1,994 | (39,752) | 2,336 | 26,486 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Bond Proceeds | - | - | - | - |
| Bond Discount | - | - | - | - |
| Transfers In | - | - | - | - |
| Transfers Out | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - |
| **NET CHANGE IN FUND BALANCES** | 1,994 | (39,752) | 2,336 | 26,486 |
| Fund Balances - Beginning of Year | 62,747 | 212,905 | 8,082 | 90,134 |
| **FUND BALANCES - END OF YEAR** | $ 64,741 | $ 173,153 | $ 10,418 | $ 116,620 |

| 2000 G.O. Improvement Bonds, Series B 435 | 2002 G.O. Improvement Bonds 465 | 2004 G.O. Improvement Bonds 485 | 2004 G.O. Improvement Bonds, Series A 505 | 2006 Improvements Debt 520 | 2008 Improvements 535 | 2010 G.O. Improvement Bonds, Series A 545 |
|---|---|---|---|---|---|---|
| $ 12,345 | $ - | $ 23,509 | $ 6,199 | $ 41,785 | $ 24,985 | $ 111,943 |
| 830 | 17 | 11,041 | 3,179 | 6,188 | 7,740 | 1,892 |
| - | - | - | - | - | - | - |
| 13,175 | 17 | 34,550 | 9,378 | 47,973 | 32,725 | 113,835 |
| - | - | 60,000 | 20,000 | 65,000 | 120,000 | - |
| - | - | 26,040 | 4,795 | 39,013 | 40,290 | 18,330 |
| - | - | 86,040 | 24,795 | 104,013 | 160,290 | 18,330 |
| 13,175 | 17 | (51,490) | (15,417) | (56,040) | (127,565) | 95,505 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 36,800 | - | 66,000 | 116,500 | 12,500 |
| - | - | (340,121) | (86,135) | - | - | - |
| - | - | (303,321) | (86,135) | 66,000 | 116,500 | 12,500 |
| 13,175 | 17 | (354,811) | (101,552) | 9,960 | (11,065) | 108,005 |
| 22,431 | 549 | 354,811 | 101,552 | 173,756 | 218,133 | - |
| $ 35,606 | $ 566 | $ - | $ - | $ 183,716 | $ 207,068 | $ 108,005 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## DEBT SERVICE FUNDS (CONTINUED)
## YEAR ENDED DECEMBER 31, 2010

| | 2010 G.O. Improvement Bonds, Series B 555 | 2010 G.O. Crossover Refunding Series C 585 | Intrafund Activity | Total Debt Service Fund |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Special Assessments | $ - | $ 487 | $ - | $ 246,733 |
| Miscellaneous | | | | |
| Investment Income | 207 | - | - | 41,708 |
| Other Interest Income | - | 653 | - | 653 |
| Total Revenues | 207 | 1,140 | - | 289,094 |
| **EXPENDITURES** | | | | |
| **DEBT SERVICE** | | | | |
| Principal | - | - | - | 305,000 |
| Interest and Other Charges | 10,586 | 21,725 | - | 165,809 |
| Total Expenditures | 10,586 | 21,725 | - | 470,809 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (10,379) | (20,585) | - | (181,715) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Bond Proceeds | - | 520,000 | - | 520,000 |
| Bond Discount | - | 9,318 | - | 9,318 |
| Transfers In | 20,000 | 426,256 | (426,256) | 251,800 |
| Transfers Out | - | - | 426,256 | - |
| Total Other Financing Sources (Uses) | 20,000 | 955,574 | - | 781,118 |
| **NET CHANGE IN FUND BALANCES** | 9,621 | 934,989 | - | 599,403 |
| Fund Balances - Beginning of Year | - | - | - | 1,245,100 |
| **FUND BALANCES - END OF YEAR** | $ 9,621 | $ 934,989 | $ - | $ 1,844,503 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING BALANCE SHEET
## CAPITAL PROJECT FUNDS
## DECEMBER 31, 2010

| | Street and Sidewalk Improvements 120 | General Improvements 121 | Police Improvements 122 | Park Improvements 123 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Investments | $ 428,936 | $ 97,010 | $ 66,306 | $ 232,284 |
| Special Assessments Receivable: | | | | |
| Deferred | - | - | - | - |
| Prepaid Expenses | - | 22,391 | - | - |
| Due from Other Governments | - | - | - | - |
| Advances to Other Funds | - | - | - | - |
| Total Assets | $ 428,936 | $ 119,401 | $ 66,306 | $ 232,284 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **LIABILITIES** | | | | |
| Accounts Payable | $ - | $ 112 | $ - | $ - |
| Advances from Other Funds | - | - | - | - |
| Deferred Revenue | - | - | - | - |
| Total Liabilities | - | 112 | - | - |
| **FUND BALANCES (DEFICIT)** | | | | |
| Unreserved, Undesignated | 428,936 | 119,289 | 66,306 | 232,284 |
| Total Liabilities and Fund Balances (Deficit) | $ 428,936 | $ 119,401 | $ 66,306 | $ 232,284 |

| Emergency Services Improvements 124 | Airport Capital Improvements 125 | Fire Department Capital Improvements 126 | Lake Koronis Recreation Trail 127 | Park Dedication 129 | Airport Hangar 455 | 2008 Improvements 530 | Heatherwood Plat Three 525 |
|---|---|---|---|---|---|---|---|
| $ 38,268 | $ 137,117 | $ 100,170 | $ 113,569 | $ 19,355 | $ 217 | $ 114,369 | $ 34,384 |
| - | - | - | - | - | - | - | 410,816 |
| - | - | - | - | - | - | - | - |
| - | - | - | 170,000 | - | 35,407 | - | - |
| - | 13,000 | - | - | - | - | - | - |
| $ 38,268 | $ 150,117 | $ 100,170 | $ 283,569 | $ 19,355 | $ 35,624 | $ 114,369 | $ 445,200 |
| $ 425 | $ 839 | $ - | $ 241,566 | $ - | $ - | $ - | $ - |
| - | - | - | - | - | 13,000 | - | - |
| - | - | - | 170,000 | - | 35,407 | - | 410,816 |
| 425 | 839 | - | 411,566 | - | 48,407 | - | 410,816 |
| 37,843 | 149,278 | 100,170 | (127,997) | 19,355 | (12,783) | 114,369 | 34,384 |
| $ 38,268 | $ 150,117 | $ 100,170 | $ 283,569 | $ 19,355 | $ 35,624 | $ 114,369 | $ 445,200 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING BALANCE SHEET (CONTINUED)
## CAPITAL PROJECT FUNDS
## DECEMBER 31, 2010

| | 2010 Improvements 540 | Highway 23 Construction 550 | Sewer Interceptor 560 | Wastewater Facility Plan 570 | Intrafund Activity | Total Capital Project Fund |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Investments | $ 107,176 | $ 28 | $ 26,513 | $ 28,312 | $ - | $ 1,544,014 |
| Special Assessments Receivable: | | | | | | |
| Deferred | - | - | - | - | - | 410,816 |
| Prepaid Expenses | - | - | - | - | - | 22,391 |
| Due from Other Governments | - | 100,608 | - | - | - | 306,015 |
| Advances to Other Funds | - | - | - | - | (13,000) | - |
| Total Assets | $ 107,176 | $ 100,636 | $ 26,513 | $ 28,312 | $ (13,000) | $ 2,283,236 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| **LIABILITIES** | | | | | | |
| Accounts Payable | $ 231 | $ 1,645 | $ 41,547 | $ - | $ - | $ 286,365 |
| Advances from Other Funds | - | 81,000 | - | - | (13,000) | 81,000 |
| Deferred Revenue | - | - | - | - | - | 616,223 |
| Total Liabilities | 231 | 82,645 | 41,547 | - | (13,000) | 983,588 |
| **FUND BALANCES (DEFICIT)** | | | | | | |
| Unreserved, Undesignated | 106,945 | 17,991 | (15,034) | 28,312 | - | 1,299,648 |
| Total Liabilities and Fund Balances (Deficit) | $ 107,176 | $ 100,636 | $ 26,513 | $ 28,312 | $ (13,000) | $ 2,283,236 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## CAPITAL PROJECT FUNDS
## YEAR ENDED DECEMBER 31, 2010

| | Street and Sidewalk Improvements 120 | General Improvements 121 | Police Improvements 122 | Park Improvements 123 | Emergency Services Improvements 124 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Special Assessments | $ - | $ - | $ - | $ - | $ - |
| Intergovernmental | - | 23,716 | - | - | - |
| Miscellaneous | | | | | |
| Investment Income | 11,829 | 3,646 | 2,668 | 6,826 | 1,160 |
| Contributions and Donations | - | - | - | 3,520 | - |
| Reimbursements | - | 28,270 | - | - | - |
| Other | 2,151 | 8,700 | - | - | - |
| Total Revenues | 13,980 | 64,332 | 2,668 | 10,346 | 1,160 |
| **EXPENDITURES** | | | | | |
| **CURRENT** | | | | | |
| General Government | - | 1,492 | - | - | - |
| Culture and Recreation | - | - | - | - | - |
| Economic Development | - | - | - | - | - |
| **DEBT SERVICE** | | | | | |
| Interest and Other Charges | - | - | - | - | - |
| **CAPITAL OUTLAY** | | | | | |
| General Government | - | 63,453 | - | - | - |
| Public Safety | - | - | 23,025 | - | 425 |
| Public Works | 7,094 | - | - | - | - |
| Culture and Recreation | - | - | - | 15,565 | - |
| Airport | - | - | - | - | - |
| Total Expenditures | 7,094 | 64,945 | 23,025 | 15,565 | 425 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 6,886 | (613) | (20,357) | (5,219) | 735 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Bond Proceeds | - | - | - | - | - |
| Bond Discount | - | - | - | - | - |
| Transfers In | 78,190 | 7,100 | 2,000 | 30,000 | 1,000 |
| Transfers Out | - | - | - | - | - |
| Total Other Financing Sources (Uses) | 78,190 | 7,100 | 2,000 | 30,000 | 1,000 |
| **NET CHANGE IN FUND BALANCES** | 85,076 | 6,487 | (18,357) | 24,781 | 1,735 |
| Fund Balances (Deficit) - Beginning of Year | 343,860 | 112,802 | 84,663 | 207,503 | 36,108 |
| **FUND BALANCES (DEFICIT) - END OF YEAR** | $ 428,936 | $ 119,289 | $ 66,306 | $ 232,284 | $ 37,843 |

| Airport Capital Improvements 125 | Fire Department Capital Improvements 126 | Lake Koronis Recreation Trail 127 | Park Dedication 129 | Airport Hangar 455 | 2008 Improvements 530 | Heatherwood Plat Three 525 |
|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ - | $ 61,818 |
| - | 25,759 | - | - | 224,368 | - | - |
| 4,669 | 2,910 | 953 | 549 | (1,369) | 3,524 | 829 |
| - | - | 276 | - | - | - | - |
| - | 4,427 | 85,639 | - | - | - | - |
| - | - | - | 3,584 | - | - | - |
| 4,669 | 33,096 | 86,868 | 4,133 | 222,999 | 3,524 | 62,647 |
| - | - | - | - | - | - | - |
| - | - | 156 | - | - | - | - |
| - | - | - | - | - | - | 400 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | 35,625 | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 261,341 | - | - | - | - |
| 839 | - | - | - | 6,415 | - | - |
| 839 | 35,625 | 261,497 | - | 6,415 | - | 400 |
| 3,830 | (2,529) | (174,629) | 4,133 | 216,584 | 3,524 | 62,247 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 9,000 | 17,821 | 107,500 | - | 28,450 | - | - |
| (28,450) | - | - | - | - | - | (44,181) |
| (19,450) | 17,821 | 107,500 | - | 28,450 | - | (44,181) |
| (15,620) | 15,292 | (67,129) | 4,133 | 245,034 | 3,524 | 18,066 |
| 164,898 | 84,878 | (60,868) | 15,222 | (257,817) | 110,845 | 16,318 |
| $ 149,278 | $ 100,170 | $ (127,997) | $ 19,355 | $ (12,783) | $ 114,369 | $ 34,384 |

# CITY OF PAYNESVILLE, MINNESOTA
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
## CAPITAL PROJECT FUNDS
## YEAR ENDED DECEMBER 31, 2010

| | 2010 Improvements 540 | Highway 23 Construction 550 | Sewer Interceptor 560 | Wastewater Facility Plan 570 | Intrafund Activity | Total Capital Project Fund |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Special Assessments | $ - | $ - | $ - | $ - | $ - | $ 61,818 |
| Intergovernmental | - | 1,246,386 | 66 | - | - | 1,520,295 |
| Miscellaneous | | | | | | |
| Investment Income | 15,745 | 4,489 | 1,306 | 3,497 | - | 63,231 |
| Contributions and Donations | - | - | - | - | - | 3,796 |
| Reimbursements | - | - | - | - | - | 118,336 |
| Other | - | - | - | - | - | 14,435 |
| Total Revenues | 15,745 | 1,250,875 | 1,372 | 3,497 | - | 1,781,911 |
| **EXPENDITURES** | | | | | | |
| **CURRENT** | | | | | | |
| General Government | - | - | - | - | - | 1,492 |
| Culture and Recreation | - | - | - | - | - | 156 |
| Economic Development | - | - | - | - | - | 400 |
| **DEBT SERVICE** | | | | | | |
| Interest and Other Charges | 40,251 | 26,771 | - | - | - | 67,022 |
| **CAPITAL OUTLAY** | | | | | | |
| General Government | - | - | - | - | - | 63,453 |
| Public Safety | - | - | - | - | - | 59,075 |
| Public Works | 1,037,636 | 1,788,261 | 433,606 | 300,185 | - | 3,566,782 |
| Culture and Recreation | - | - | - | - | - | 276,906 |
| Airport | - | - | - | - | - | 7,254 |
| Total Expenditures | 1,077,887 | 1,815,032 | 433,606 | 300,185 | - | 4,042,540 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (1,062,142) | (564,157) | (432,234) | (296,688) | - | (2,260,629) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Bond Proceeds | 1,235,000 | 685,000 | - | - | - | 1,920,000 |
| Bond Discount | 960 | 554 | - | - | - | 1,514 |
| Transfers In | - | 82,415 | 417,200 | 325,000 | (28,450) | 1,077,226 |
| Transfers Out | - | - | - | - | 28,450 | (44,181) |
| Total Other Financing Sources (Uses) | 1,235,960 | 767,969 | 417,200 | 325,000 | - | 2,954,559 |
| **NET CHANGE IN FUND BALANCES** | 173,818 | 203,812 | (15,034) | 28,312 | - | 693,930 |
| Fund Balances (Deficit) - Beginning of Year | (66,873) | (185,821) | - | - | - | 605,718 |
| **FUND BALANCES (DEFICIT) - END OF YEAR** | $ 106,945 | $ 17,991 | $ (15,034) | $ 28,312 | $ - | $ 1,299,648 |

LarsonAllen LLP
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# REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the City Council
City of Paynesville
Paynesville, Minnesota

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paynesville, Minnesota (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to *Minnesota Statutes* Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven 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. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Paynesville, Minnesota, complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the management, others within the organization, City Council, state and federal awarding agencies and the Minnesota Office of the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

LarsonAllen LLP

**LarsonAllen LLP**

Alexandria, Minnesota
March 28, 2011


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