

CITY OF PAYNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2011

**CITY OF PAYNESVILLE, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF PAYNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2011**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeffrey Thompson	Mayor	December 31, 2012
Dennis Zimmerman	Council Member	December 31, 2012
Jeff Bertram	Council Member	December 31, 2012
Jean Soine	Council Member	December 31, 2014
Gene Beavers	Council Member	December 31, 2014

<u>Administration</u>	<u>Position</u>	<u>Term Expires</u>
Renee Eckerly	City Administrator	Appointed

FINANCIAL SECTION



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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, 2011, 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 the 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the City adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. This statement results in the City reporting nonspendable, restricted, committed, and unassigned fund balances in its governmental fund types.

Honorable Mayor and
Members of the City Council
City of Paynesville

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 4 through 13, 55 through 58, and 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as a whole. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CliftonLarsonAllen LLP

Alexandria, Minnesota
March 19, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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, 2011. 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, 2011, and the prior year, 2010, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2011 include the following:

- The assets of the City's general fund exceeded its liabilities at the close of the most recent fiscal year by \$1,417,772. 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 \$694,594.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,741,482, a decrease of \$342,472 from the previous year due to approximately \$660,000 paid out of escrow for the crossover refunding bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

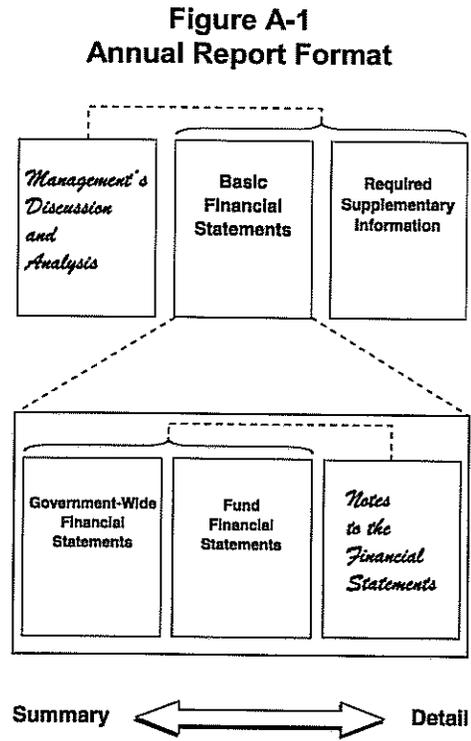
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include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

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

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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.



**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's overall net assets were \$26,378,359 on December 31, 2011.

The City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 6,363,981	\$ 7,476,127	\$ 4,313,603	\$ 3,686,861	\$ 10,677,584	\$ 11,162,988
Capital Assets	13,949,292	14,846,994	6,060,261	5,409,873	20,009,553	20,256,867
Total Assets	<u>20,313,273</u>	<u>22,323,121</u>	<u>10,373,864</u>	<u>9,096,734</u>	<u>30,687,137</u>	<u>31,419,855</u>
Long-Term Liabilities	3,443,465	4,839,990	706	-	3,444,171	4,839,990
Other Liabilities	804,431	844,506	60,176	51,594	864,607	896,100
Total Liabilities	<u>4,247,896</u>	<u>5,684,496</u>	<u>60,882</u>	<u>51,594</u>	<u>4,308,778</u>	<u>5,736,090</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	9,821,790	10,346,124	6,060,261	5,409,873	15,882,051	15,755,997
Restricted	2,755,319	1,844,503	-	-	2,755,319	1,844,503
Unrestricted	3,488,268	4,447,998	4,252,721	3,635,267	7,740,989	8,083,265
Total Net Assets	<u>\$ 16,065,377</u>	<u>\$ 16,638,625</u>	<u>\$ 10,312,982</u>	<u>\$ 9,045,140</u>	<u>\$ 26,378,359</u>	<u>\$ 25,683,765</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City-wide total revenues were \$4,807,084 for the year ended December 31, 2011. The City-wide cost of all activities this year was \$4,112,490. Total revenues surpassed expenses, increasing net assets \$694,594 over last year.

The City's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue:						
Program Revenues:						
Charges for Services	\$ 473,261	\$ 434,762	\$ 2,300,544	\$ 2,136,162	\$ 2,773,805	\$ 2,570,924
Operating Grants and Contributions	82,595	346,533	500	500	83,095	347,033
Capital Grants and Contributions	221,581	2,238,850	-	-	221,581	2,238,850
General Revenues:						
Property Taxes	472,429	449,250	-	-	472,429	449,250
Franchise Fees	33,643	33,507	-	-	33,643	33,507
Tax Increments	38,591	40,610	-	-	38,591	40,610
Intergovernmental	697,381	697,598	-	-	697,381	697,598
Other Revenue	13,704	3,649	222,692	203	236,396	3,852
Investment Income	151,943	130,445	98,220	110,324	250,163	240,769
Total Revenues	<u>2,185,128</u>	<u>4,375,204</u>	<u>2,621,956</u>	<u>2,247,189</u>	<u>4,807,084</u>	<u>6,622,393</u>
Expenses:						
General Government	482,337	412,224	-	-	482,337	412,224
Public Safety	608,054	650,479	-	-	608,054	650,479
Public Works	469,259	469,080	-	-	469,259	469,080
Culture and Recreation	192,662	328,673	-	-	192,662	328,673
Economic Development	131,955	325,925	-	-	131,955	325,925
Interest on Long-Term Debt	178,195	173,447	-	-	178,195	173,447
Airport	138,588	95,844	-	-	138,588	95,844
Water	-	-	281,834	266,342	281,834	266,342
Sewer	-	-	566,234	504,715	566,234	504,715
Municipal Liquor	-	-	1,063,372	890,869	1,063,372	890,869
Total Expenses	<u>2,201,050</u>	<u>2,455,672</u>	<u>1,911,440</u>	<u>1,661,926</u>	<u>4,112,490</u>	<u>4,117,598</u>
Change in Net Assets before Transfers	(15,922)	1,919,532	710,516	585,263	694,594	2,504,795
Transfers	(557,326)	986,756	557,326	(986,756)	-	-
Change in Net Assets	<u>(573,248)</u>	<u>2,906,288</u>	<u>1,267,842</u>	<u>(401,493)</u>	<u>694,594</u>	<u>2,504,795</u>
Net Assets, Beginning of Year	16,638,625	13,732,337	9,045,140	9,446,633	25,683,765	23,178,970
Net Assets, End of Year	<u>\$ 16,065,377</u>	<u>\$ 16,638,625</u>	<u>\$ 10,312,982</u>	<u>\$ 9,045,140</u>	<u>\$ 26,378,359</u>	<u>\$ 25,683,765</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

	Cost of Services Analysis			Net Revenue from (Cost of)		Percentage Change
	Total Cost of Services		Percentage Change	Services		
	2011	2010		2011	2010	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 482,337	\$ 412,224	17.0 %	\$ (300,238)	\$ (290,073)	3.5 %
Public Safety	608,054	650,479	(6.5)	(285,407)	(342,280)	(16.6)
Public Works	469,259	469,080	0.0	(371,724)	1,184,294	(131.4)
Culture and Recreation	192,662	328,673	(41.4)	(172,038)	(52,519)	227.6
Economic and Community Development	131,955	325,925	(59.5)	(94,183)	(23,404)	302.4
Airport	138,588	95,844	44.6	(21,828)	261,902	(108.3)
Interest	178,195	173,447	2.7	(178,195)	(173,447)	2.7
Total	<u>\$ 2,201,050</u>	<u>\$ 2,455,672</u>	(10.4)	<u>\$ (1,423,613)</u>	<u>\$ 564,473</u>	(352.2)
BUSINESS-TYPE ACTIVITIES						
Water	\$ 281,834	\$ 266,342	5.8 %	\$ 162,580	\$ 178,993	(9.2)%
Sewer	566,234	504,715	12.2	220,013	222,300	(1.0)
Municipal Liquor	1,063,372	890,869	19.4	7,011	73,443	(90.5)
Total	<u>\$ 1,911,440</u>	<u>\$ 1,661,926</u>	15.0	<u>\$ 389,604</u>	<u>\$ 474,736</u>	(17.9)

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

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 \$4,741,482.

Revenues for the City's governmental funds were \$2,580,058, while total expenditures were \$3,216,050.

	Governmental Funds			
	2011			
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 1,812,950	\$ 1,276,101	\$ (371,349)	\$ 165,500
Economic Development Revolving Loan	113,704	11,092	-	102,612
Economic Development Authority	1,285	49,592	26,994	(21,313)
Capital Project Funds	406,676	548,714	289,427	147,389
Debt Service Funds	196,692	1,291,197	314,792	(779,713)
Nonmajor Governmental Funds	48,751	39,354	33,656	43,053
Totals	<u>\$ 2,580,058</u>	<u>\$ 3,216,050</u>	<u>\$ 293,520</u>	<u>\$ (342,472)</u>
	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
General Improvements	1,781,911	4,042,540	2,954,559	693,930
Lake Koronis Recreational Trail	289,094	470,809	781,118	599,403
Nonmajor Governmental Funds	58,867	68,656	35,740	25,951
Totals	<u>\$ 4,058,007</u>	<u>\$ 6,189,700</u>	<u>\$ 3,437,588</u>	<u>\$ 1,305,895</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

GENERAL FUND

The General Fund includes the primary operations of the City in providing services to its residents. Fund balance in the General Fund increased by \$165,500 in 2011. The increase is due primarily to an increase in interest income and less expenditures due to reduction in staffing.

General Fund Budgetary Highlights

- Actual revenues were \$37,320 more than budget due primarily to an increase in grant monies received, more interest earned than expected, and an increase in licenses and permits.
- Actual expenditures were \$77,604 less than budget because of a conscious effort to cut costs, including a reduction in staffing.

Economic Development Authority Fund Budgetary Highlights

- Actual expenditures were \$22,598 more than budget due to the City development of Opportunity Park.

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 \$1,795,182, those for the sewer operations amounted to \$1,999,112 and those for the liquor operations amounted to \$458,427. The total change in net assets for each fund was a \$352,354 increase, \$709,774 increase and \$205,714 increase, respectively.

CAPITAL ASSETS

By the end of 2011, the City had invested approximately \$34,000,000 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 \$573,506 (including the enterprise funds).

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 872,445	\$ 872,445	\$ 848,462	\$ 812,962	\$ 1,720,907	\$ 1,685,407
Construction in Progress	2,523,074	4,016,409	24,000	-	2,547,074	4,016,409
Buildings and Improvements	1,429,166	1,470,894	338,325	378,046	1,767,491	1,848,940
Underground Mains	-	-	3,708,038	2,986,933	3,708,038	2,986,933
Wastewater Treatment Facility	-	-	925,978	990,518	925,978	990,518
Infrastructure - Streets	7,946,660	7,280,048	-	-	7,946,660	7,280,048
Infrastructure - Trails	698,700	718,238	-	-	698,700	718,238
Vehicles	288,235	312,523	-	-	288,235	312,523
Furniture and Equipment	74,717	41,501	13,746	15,451	88,463	56,952
Machinery and Equipment	116,295	134,936	201,712	225,963	318,007	360,899
Total Capital Assets	\$ 13,949,292	\$ 14,846,994	\$ 6,060,261	\$ 5,409,873	\$ 20,009,553	\$ 20,256,867

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2011**

LONG-TERM LIABILITIES

At year-end, the City had \$4,200,000 in long-term liabilities outstanding.

- The City's governmental activities total long-term debt decreased \$1,125,000, due to scheduled repayments on existing debt.

Table A-4
The City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
G.O. Bonds	\$ 4,125,000	\$ 5,210,000	\$ -	\$ -	\$ 4,125,000	\$ 5,210,000
G.O. Revenue Bonds	75,000	115,000	3,558	2,902	78,558	117,902
Total Outstanding Debt	<u>\$ 4,200,000</u>	<u>\$ 5,325,000</u>	<u>\$ 3,558</u>	<u>\$ 2,902</u>	<u>\$ 4,203,558</u>	<u>\$ 5,327,902</u>

FACTORS BEARING ON THE CITY'S FUTURE

The City faces elimination of Market Value Homestead Credit of 2012, which has decreased from approximately \$60,000 to \$15,000 over the last three years. With the state's continued budget crisis, it is probable there will continue to be unallotments in the City's local government aid which is undetermined at this time. The potential maximum loss in state aids could be \$100,000. The City continues to incorporate a contingency plan in its budget to mitigate the lost revenue from the state. The Highway 23 bypass project will be complete in August 2012, which will give the city some new challenges and opportunities. The City is developing Opportunity Park on the west end of town for commercial and retail business. The City has also been awarded a grant in the amount of \$2.4 million for improvements to the Wastewater Treatment Facility.

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, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 4,650,490	\$ 3,893,398	\$ 8,543,888
Cash with Fiscal Agent	41,460	-	41,460
Property Taxes Receivable	16,862	-	16,862
Accounts Receivable	14,746	188,160	202,906
Interest Receivable	59,369	-	59,369
Due from Other Governments	23,313	447	23,760
Special Assessments Receivable			
Delinquent	8,530	1,165	9,695
Deferred	1,083,165	52,034	1,135,199
Deferred Debt Issuance Costs	50,934	-	50,934
Inventory	-	129,833	129,833
Prepaid Expenses	32,500	18,566	51,066
Loans Receivable, Net of Allowance	411,624	-	411,624
Internal Balance	(30,000)	30,000	-
OPEB Asset	988	-	988
Non-Depreciable Capital Assets			
Land	872,445	848,462	1,720,907
Construction in Progress	2,523,074	24,000	2,547,074
Depreciable Capital Assets (Net of Accumulated Depreciation)			
Buildings and Improvements	1,429,166	338,325	1,767,491
Furniture and Equipment	74,717	13,746	88,463
Machinery, Furniture and Equipment	116,295	201,712	318,007
Infrastructure - Streets	7,946,660	-	7,946,660
Infrastructure - Trails	698,700	-	698,700
Vehicles	288,235	-	288,235
Wastewater Treatment Facility	-	925,978	925,978
Underground Mains	-	3,708,038	3,708,038
Total Assets	<u>20,313,273</u>	<u>10,373,864</u>	<u>30,687,137</u>
LIABILITIES			
Accounts Payable	40,305	32,907	73,212
Salaries and Benefits Payable	10,090	4,569	14,659
Interest Payable	11,725	-	11,725
OPEB Liability	-	3,558	3,558
Bond Principal Payable:			
Due Within One Year	705,000	-	705,000
Due in More Than One Year	3,422,502	-	3,422,502
Compensated Absences Payable			
Due Within One Year	37,311	19,142	56,453
Due in More Than One Year	20,963	706	21,669
Total Liabilities	<u>4,247,896</u>	<u>60,882</u>	<u>4,308,778</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,821,790	6,060,261	15,882,051
Restricted for			
Debt Service	1,733,942	-	1,733,942
Capital Projects	178,835	-	178,835
Economic Development Revolving Loans	809,943	-	809,943
Economic Development Authority	21,073	-	21,073
Tax Increment Districts	7,562	-	7,562
Police Forfeitures	3,964	-	3,964
Unrestricted	3,488,268	4,252,721	7,740,989
Total Net Assets	<u>\$ 16,065,377</u>	<u>\$ 10,312,982</u>	<u>\$ 26,378,359</u>

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 482,337	\$ 82,833	\$ 550	\$ 98,716	\$ (300,238)	\$ -	\$ (300,238)
Public Safety	608,054	235,891	62,606	24,150	(285,407)	-	(285,407)
Public Works	469,259	16,064	-	81,471	(371,724)	-	(371,724)
Culture and Recreation	192,662	1,185	19,439	-	(172,038)	-	(172,038)
Economic Development	131,955	30,410	-	7,362	(94,183)	-	(94,183)
Airport	138,588	106,878	-	9,882	(21,828)	-	(21,828)
Interest on Long-Term Debt	178,195	-	-	-	(178,195)	-	(178,195)
Total Governmental Activities	2,201,050	473,261	82,595	221,581	(1,423,613)	-	(1,423,613)
BUSINESS-TYPE ACTIVITIES							
Water	281,834	443,914	500	-	-	162,580	162,580
Sewer	566,234	786,247	-	-	-	220,013	220,013
Municipal Liquor	1,063,372	1,070,383	-	-	-	7,011	7,011
Total Business-Type Activities	1,911,440	2,300,544	500	-	-	389,604	389,604
Total Primary Government	\$ 4,112,490	\$ 2,773,805	\$ 83,095	\$ 221,581	\$ (1,423,613)	\$ 389,604	\$ (1,034,009)
GENERAL REVENUES							
Property Taxes					472,429		472,429
Franchise Fees					33,643		33,643
Tax Increments					38,591		38,591
Grants and Contributions not Restricted for a Particular Purpose					697,381		697,381
Investment Earnings					151,943	98,220	250,163
Miscellaneous					13,704	4,406	18,110
Gain on Sale of Capital Assets					-	218,286	218,286
TRANSFERS					(557,326)	557,326	-
Total General Revenues and Transfers					850,365	878,238	1,728,603
CHANGE IN NET ASSETS					(573,248)	1,267,842	694,594
Net Assets - Beginning of Year					16,638,625	9,045,140	25,683,765
NET ASSETS - END OF YEAR					\$ 16,065,377	\$ 10,312,982	\$ 26,378,359

FUND FINANCIAL STATEMENTS

**CITY OF PAYNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220	Debt Service Fund
ASSETS				
Cash and Investments	\$ 1,213,326	\$ 516,494	\$ 41,212	\$ 1,005,348
Cash with Fiscal Agent	-	-	-	41,460
Taxes Receivable - Delinquent	16,863	-	-	-
Special Assessments Receivable:				
Delinquent	-	-	-	8,530
Deferred	-	-	-	672,349
Accounts Receivable	13,970	775	-	-
Interest Receivable	59,369	-	-	-
Prepaid Expenses	32,500	-	-	-
Loans Receivable, Net of Allowance	-	411,624	-	-
Due from Other Funds	114,415	-	-	-
Due from Other Governments	5,331	-	-	17,982
Total Assets	\$ 1,455,774	\$ 928,893	\$ 41,212	\$ 1,745,669
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 11,356	\$ 4,535	\$ 19,832	\$ -
Due to Other Funds	-	114,415	-	-
Advances from Other Funds	-	-	-	-
Salaries and Benefits Payable	9,783	-	307	-
Deferred Revenue	16,863	411,624	-	680,879
Total Liabilities	38,002	530,574	20,139	680,879
FUND BALANCES				
Nonspendable for Prepaid Expenses	32,500	-	-	-
Restricted for Economic Development Loans	-	398,319	-	-
Restricted for Economic Development Authority	-	-	21,073	-
Restricted for Debt Service	-	-	-	1,064,790
Restricted for Capital Projects	-	-	-	-
Restricted for Tax Increment Finance Districts	-	-	-	-
Restricted for Police Forfeitures	-	-	-	-
Committed for Capital Projects	-	-	-	-
Committed for Fire Purchases	-	-	-	-
Unassigned	1,385,272	-	-	-
Total Fund Balances	1,417,772	398,319	21,073	1,064,790
Total Liabilities and Fund Balances	\$ 1,455,774	\$ 928,893	\$ 41,212	\$ 1,745,669

See accompanying Notes to Financial Statements

Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,481,619	\$ 392,491	\$ 4,650,490
-	-	41,460
-	-	16,863
-	-	8,530
410,816	-	1,083,165
-	-	14,745
-	-	59,369
-	-	32,500
-	-	411,624
-	-	114,415
-	-	23,313
<u>\$ 1,892,435</u>	<u>\$ 392,491</u>	<u>\$ 6,456,474</u>

\$ 4,582	\$ -	\$ 40,305
-	-	114,415
30,000	-	30,000
-	-	10,090
410,816	-	1,520,182
445,398	-	1,714,992
-	-	32,500
-	-	398,319
-	-	21,073
-	-	1,064,790
178,835	-	178,835
-	7,562	7,562
-	3,964	3,964
1,268,202	-	1,268,202
-	380,965	380,965
-	-	1,385,272
<u>1,447,037</u>	<u>392,491</u>	<u>4,741,482</u>
<u>\$ 1,892,435</u>	<u>\$ 392,491</u>	<u>\$ 6,456,474</u>

**CITY OF PAYNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 4,741,482**

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	\$ 19,109,271	
Less Accumulated Depreciation	<u>(5,159,979)</u>	
		13,949,292

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	16,863	
Special Assessments	<u>8,530</u>	
		25,393

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred Special Assessments	1,083,165	
Loans Receivable	<u>411,624</u>	
		1,494,789

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	(4,200,000)	
Bond Issuance Costs	50,934	
Discount on Bonds	72,498	
OPEB Asset	988	
Compensated Absences Payable	(58,274)	
Accrued Interest Payable	<u>(11,725)</u>	
		<u>(4,145,579)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 16,065,377**

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220	Debt Service Fund
REVENUES				
Property Taxes	\$ 472,115	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-
Franchise Taxes	33,643	-	-	-
Special Assessments	3,367	-	-	161,226
Licenses and Permits	164,472	-	-	-
Intergovernmental	794,564	-	-	-
Charges for Services	247,435	-	-	-
Fines and Forfeitures	13,661	-	-	-
Miscellaneous				
Investment Income	53,042	12,852	1,285	35,466
Contributions and Donations	3,550	-	-	-
Other Interest Income	-	30,410	-	-
Loan Receipts	-	70,442	-	-
Reimbursements	2,994	-	-	-
Other	24,107	-	-	-
Total Revenues	<u>1,812,950</u>	<u>113,704</u>	<u>1,285</u>	<u>196,692</u>
EXPENDITURES				
CURRENT				
General Government	317,872	-	-	-
Public Safety	537,825	-	-	-
Public Works	181,480	-	-	-
Culture and Recreation	147,734	-	-	-
Economic Development	-	11,092	49,592	-
Airport	86,991	-	-	-
DEBT SERVICE				
Principal	-	-	-	1,125,000
Interest and Other Charges	-	-	-	166,197
CAPITAL OUTLAY				
General Government	1,385	-	-	-
Public Safety	1,259	-	-	-
Public Works	1,112	-	-	-
Culture and Recreation	443	-	-	-
Total Expenditures	<u>1,276,101</u>	<u>11,092</u>	<u>49,592</u>	<u>1,291,197</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	536,849	102,612	(48,307)	(1,094,505)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	2,649	-	-	-
Transfers In	46,953	-	26,994	381,050
Transfers Out	(420,951)	-	-	(66,258)
Total Other Financing Sources (Uses)	<u>(371,349)</u>	<u>-</u>	<u>26,994</u>	<u>314,792</u>
NET CHANGE IN FUND BALANCES	165,500	102,612	(21,313)	(779,713)
Fund Balances - Beginning of Year	1,252,272	295,707	42,386	1,844,503
FUND BALANCES - END OF YEAR	<u>\$ 1,417,772</u>	<u>\$ 398,319</u>	<u>\$ 21,073</u>	<u>\$ 1,064,790</u>

See accompanying Notes to Financial Statements

Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 472,115
-	38,591	38,591
-	-	33,643
7,362	-	171,955
-	-	164,472
258,012	-	1,052,576
-	-	247,435
-	-	13,661
40,117	9,174	151,936
450	886	4,886
-	-	30,410
-	-	70,442
80,150	-	83,144
20,585	100	44,792
<u>406,676</u>	<u>48,751</u>	<u>2,580,058</u>
630	-	318,502
-	3,146	540,971
2,997	-	184,477
86	-	147,820
5,029	36,208	101,921
20,776	-	107,767
-	-	1,125,000
-	-	166,197
104,611	-	105,996
33,042	-	34,301
348,590	-	349,702
32,953	-	33,396
<u>548,714</u>	<u>39,354</u>	<u>3,216,050</u>
(142,038)	9,397	(635,992)
5,579	-	8,228
283,957	36,742	775,696
(109)	(3,086)	(490,404)
<u>289,427</u>	<u>33,656</u>	<u>293,520</u>
147,389	43,053	(342,472)
<u>1,299,648</u>	<u>349,438</u>	<u>5,083,954</u>
<u>\$ 1,447,037</u>	<u>\$ 392,491</u>	<u>\$ 4,741,482</u>

**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, 2011**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (342,472)**

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.

Gain/(Loss) on Sale of Assets	\$ (60,255)	
Capital Outlays	(469,725)	
Depreciation Expense	<u>(367,723)</u>	
		(897,703)

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.

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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	(122,045)	
Grants Receivable	(205,407)	
Loans Receivable	<u>(121,021)</u>	
		(448,473)

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.

2,963

Other postemployment benefits are not reported in governmental funds.

(1,819)

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	1,125,000	
Deferred Bond Issuance Costs	(5,274)	
Bond Discounts	(9,687)	
Compensated Absences Decrease	<u>3,901</u>	
		<u>1,113,940</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (573,248)**

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

ASSETS	Water (110,111,113)	Sewer (115,116,117, 118,380)	Municipal Liquor (105,106)	Total
CURRENT ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 1,706,975	\$ 1,831,812	\$ 354,611	\$ 3,893,398
Special Assessments Receivable:				
Delinquent	599	566	-	1,165
Deferred	26,017	26,017	-	52,034
Accounts Receivable	67,958	120,202	-	188,160
Due from Other Governments	447	-	-	447
Advances to Other Funds	-	30,000	-	30,000
Inventories	-	-	129,833	129,833
Prepaid Expenses	5,273	10,912	2,381	18,566
Total Current Assets	<u>1,807,269</u>	<u>2,019,509</u>	<u>486,825</u>	<u>4,313,603</u>
NONCURRENT ASSETS				
Capital Assets:				
Land	100,546	747,916	-	848,462
Construction in Progress	24,000	-	-	24,000
Buildings and Improvements	461,240	424,095	-	885,335
Furniture and Equipment	-	-	46,022	46,022
Machinery and Equipment	534,324	473,914	-	1,008,238
Wastewater Treatment Facility	-	7,095,342	-	7,095,342
Underground Mains	2,550,920	2,472,181	-	5,023,101
Total Capital Assets	<u>3,671,030</u>	<u>11,213,448</u>	<u>46,022</u>	<u>14,930,500</u>
Less Accumulated Depreciation	<u>(1,424,806)</u>	<u>(7,413,157)</u>	<u>(32,276)</u>	<u>(8,870,239)</u>
Total Noncurrent Assets	<u>2,246,224</u>	<u>3,800,291</u>	<u>13,746</u>	<u>6,060,261</u>
Total Assets	<u>4,053,493</u>	<u>5,819,800</u>	<u>500,571</u>	<u>10,373,864</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	4,168	5,594	23,145	32,907
Salaries and Wages Payable	1,028	1,776	1,765	4,569
Compensated Absences Payable-Due Within One Year	5,692	10,554	2,896	19,142
Total Current Liabilities	<u>10,888</u>	<u>17,924</u>	<u>27,806</u>	<u>56,618</u>
NONCURRENT LIABILITIES				
Compensated Absences Payable-				
Due in More Than One Year	126	269	311	706
OPEB Liabilities	1,073	2,204	281	3,558
Total Noncurrent Liabilities	<u>1,199</u>	<u>2,473</u>	<u>592</u>	<u>4,264</u>
Total Liabilities	<u>12,087</u>	<u>20,397</u>	<u>28,398</u>	<u>60,882</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	2,246,224	3,800,291	13,746	6,060,261
Unrestricted	<u>1,795,182</u>	<u>1,999,112</u>	<u>458,427</u>	<u>4,252,721</u>
Total Net Assets	<u>\$ 4,041,406</u>	<u>\$ 5,799,403</u>	<u>\$ 472,173</u>	<u>\$ 10,312,982</u>

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, 2011

	Water (110,111,113)	Sewer (115,116,117, 118,380)	Municipal Liquor (105,106)	Total
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 1,070,424	\$ 1,070,424
Cost of Sales	-	-	842,939	842,939
Gross Profit	-	-	227,485	227,485
OPERATING REVENUES				
Charges For Services	440,384	688,795	-	1,129,179
Permits, Hookup Fees and Penalties	4,279	1,131	-	5,410
Total Operating Revenues	444,663	689,926	-	1,134,589
OPERATING EXPENSES				
Wages and Salaries	62,108	110,178	97,914	270,200
Materials and Supplies	14,257	7,806	4,581	26,644
Repairs and Maintenance	29,569	63,363	42,093	135,025
Professional Services	18,174	114,354	1,524	134,052
Insurance	8,617	17,037	4,867	30,521
Utilities	37,745	129,006	11,933	178,684
Rent	-	-	14,259	14,259
Depreciation	84,573	119,505	1,705	205,783
Miscellaneous	26,791	4,985	41,677	73,453
Total Operating Expenses	281,834	566,234	220,553	1,068,621
OPERATING INCOME (LOSS)	162,829	123,692	6,932	293,453
NONOPERATING REVENUES (EXPENSES)				
Investment Income	42,578	47,068	8,574	98,220
Special Assessments	3,597	2,259	-	5,856
Other Income	500	94,062	139	94,701
Gain/(Loss) on Disposal of Assets	(979)	(4,913)	224,178	218,286
Total Nonoperating Revenues (Expenses)	45,696	138,476	232,891	417,063
NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	208,525	262,168	239,823	710,516
Capital Contributions	217,080	607,681	-	824,761
Transfers In	66,258	45,609	15,000	126,867
Transfers Out	(139,509)	(205,684)	(49,109)	(394,302)
CHANGE IN NET ASSETS	352,354	709,774	205,714	1,267,842
Net Assets - Beginning of Year	3,689,052	5,089,629	266,459	9,045,140
NET ASSETS - END OF YEAR	<u>\$ 4,041,406</u>	<u>\$ 5,799,403</u>	<u>\$ 472,173</u>	<u>\$ 10,312,982</u>

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	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	\$ 436,331	\$ 742,804	\$ 1,070,424	\$ 2,249,559
Payments to Suppliers	(134,840)	(333,326)	(968,400)	(1,436,566)
Payments to Employees	(61,559)	(109,189)	(96,884)	(267,632)
Net Cash Provided by Operating Activities	239,932	300,289	5,140	545,361
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Revenue	500	94,062	139	94,701
Transfer from Other Funds	66,258	45,609	15,000	126,867
Transfer to Other Funds	(139,509)	(205,684)	(49,109)	(394,302)
Net Cash Provided (Used) by Noncapital Financing Activities	(72,751)	(66,013)	(33,970)	(172,734)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessments	8,779	7,474	-	16,253
Acquisition of Capital Assets	(24,001)	(37,813)	-	(61,814)
Proceeds on Sale of Capital Assets	-	-	248,690	248,690
Net Cash Provided (Used) by Capital and Related Financing Activities	(15,222)	(30,339)	248,690	203,129
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	42,578	47,068	8,574	98,220
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	194,537	251,005	228,434	673,976
Cash and Cash Equivalents - Beginning of Year	1,512,438	1,580,807	126,177	3,219,422
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,706,975	\$ 1,831,812	\$ 354,611	\$ 3,893,398

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	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)	\$ 162,829	\$ 123,692	\$ 6,932	\$ 293,453
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	84,573	119,505	1,705	205,783
(Increase) Decrease in Assets:				
Accounts Receivable	(8,088)	1,878	-	(6,210)
Due from Other Governments	(244)	-	-	(244)
Due from Other Funds	-	51,000	-	51,000
Prepaid Items	(342)	180	752	590
Inventory	-	-	(8,299)	(8,299)
Increase (Decrease) in Liabilities:				
Accounts Payable	655	3,045	3,020	6,720
Salaries Payable	(32)	(127)	136	(23)
OPEB Liability	198	406	52	656
Compensated Absences Payable	383	710	842	1,935
Total Adjustments	<u>77,103</u>	<u>176,597</u>	<u>(1,792)</u>	<u>251,908</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 239,932</u>	<u>\$ 300,289</u>	<u>\$ 5,140</u>	<u>\$ 545,361</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Contribution of Capital Assets Installed by other funds	<u>\$ 217,080</u>	<u>\$ 607,681</u>	<u>\$ -</u>	<u>\$ 824,761</u>

See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011**

ASSETS

Cash and Investments	<u>\$ 34,897</u>
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LIABILITIES

Due to Other Governments - Deputy Registrar	<u>\$ 34,897</u>
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See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 2010 which was collected during the year ended December 31, 2011. 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, 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 nonspendable 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 and for all their unused vacation balance. The majority of employees can accumulate up to a maximum of 250 to 300 hours of sick time. Vacation accruals are based on years of service with the City.

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Fund Balance/Net Assets

At December 31, 2011, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This standard changed fund balance classifications within the fund level statements.

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long term receivables. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the City Council. The City Council passed a resolution authorizing the City Council to assign fund balances and their intended uses. Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

Net assets represent the differences between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net assets are reported as restricted in government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

The City levies its property taxes for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. 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.

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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. The Economic Development Authority Fund reported expenditures of \$49,592, exceeding the budget of \$26,994 by \$22,598. Overages were funded by existing fund balance.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

As of December 31, 2011, the City's deposit and investment balances were as follows:

	Bank Balance	Book Balance
Deposits		
Checking Accounts	\$ 1,838,902	\$ 1,770,677
Cash with Fiscal Agent	41,460	41,460
Cash on Hand	600	600
Total Deposits		\$ 1,812,737
 Total Deposits and Investments		
Governmental Funds		\$ 4,691,950
Proprietary Funds		3,893,398
Agency Fund		34,897
Total		\$ 8,620,245
	Amount	
Deposits	\$ 1,812,737	
Investments	6,807,508	
Total	\$ 8,620,245	

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Fair Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Smith Barney						
Transferable Certificate of Deposit						
Cole Taylor Bank	N/R	N/A	N/A	01/30/12	4.40%	\$ 95,284
Capital One Bank	N/R	N/A	N/A	01/24/12	5.00%	90,248
Washington Mutual Bank	N/R	N/A	N/A	02/09/12	5.20%	96,468
American Express Bank, FSB	N/R	N/A	N/A	02/21/12	3.00%	96,336
Capmark Bank	N/R	N/A	N/A	02/21/12	3.70%	96,409
Firstbank of Puerto Rico	N/R	N/A	N/A	04/09/12	2.30%	150,699
Citibank, NA	N/R	N/A	N/A	09/17/12	2.70%	202,848
Flagstar Bank, FSB	N/R	N/A	N/A	10/09/12	2.50%	101,310
GE Money Bank	N/R	N/A	N/A	12/11/12	2.35%	152,190
GE Capital Financial Inc	N/R	N/A	N/A	12/18/12	4.15%	98,949
M & I Marshall & Ilsley Bank	N/R	N/A	N/A	12/20/12	4.65%	99,430
M & I Bank FSB	N/R	N/A	N/A	01/16/13	4.60%	99,264
Wachovia Mortgage, FSB	N/R	N/A	N/A	02/06/13	3.65%	98,451
Oriental Bank & Trust	N/R	N/A	N/A	04/11/13	4.25%	99,583
Discover Bank	N/R	N/A	N/A	04/15/13	3.25%	98,576
National City Bank	N/R	N/A	N/A	04/16/13	4.25%	99,621
Sallie Mae Bank	N/R	N/A	N/A	05/20/13	3.35%	98,904
Firstbank of Puerto Rico	N/R	N/A	N/A	07/03/13	5.00%	100,686
American Express Centurion Bank	N/R	N/A	N/A	12/24/13	4.75%	101,686
Goldman Sachs Bank USA	N/R	N/A	N/A	02/06/14	3.80%	100,033
Cit Bank	N/R	N/A	N/A	04/08/14	3.50%	93,491
American Express Centurion Bank	N/R	N/A	N/A	05/19/14	1.45%	49,942
Aurora Bank FSB	N/R	N/A	N/A	06/02/14	1.50%	199,998
Banco Popular De Puerto	N/R	N/A	N/A	08/25/14	1.20%	241,203
Barclays Bank Delaware	N/R	N/A	N/A	09/16/14	3.15%	99,415
Ally Bank UT	N/R	N/A	N/A	11/12/14	1.78%	95,866
GE Money Bank	N/R	N/A	N/A	11/19/14	1.74%	95,730
Ally Bank UT	N/R	N/A	N/A	11/26/14	1.78%	149,787
Capital One, N.A.	N/R	N/A	N/A	12/05/14	4.85%	103,608
BMW Bank Of North America	N/R	N/A	N/A	12/11/14	3.00%	99,292
American Express Centurion Bank	N/R	N/A	N/A	12/16/14	3.00%	99,307
Discover Bank	N/R	N/A	N/A	12/16/14	2.95%	99,169
Midfirst Bank	N/R	N/A	N/A	01/06/15	3.00%	99,215
BMW Bank Of North America	N/R	N/A	N/A	01/14/15	1.70%	149,327
Paragon Commercial Bank	N/R	N/A	N/A	01/15/15	2.94%	99,241
Southwest Bank of St. Louis	N/R	N/A	N/A	02/09/15	4.00%	101,452
Cit Bank- UT	N/R	N/A	N/A	05/18/15	1.85%	149,999

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investment	Credit Risk		Concentration	Interest Rate Risk		Carrying Fair Value
	Rating	Agency	Risk % of Portfolio	Maturity Date	Interest Rate	
Transferable Certificate of Deposit (Continued)						
Stockman Bank of Montana	N/R	N/A	N/A	10/26/15	5.15%	\$ 106,322
Goldman Sachs Bank USA	N/R	N/A	N/A	08/24/16	1.85%	146,711
GE Capital Financial Inc	N/R	N/A	N/A	08/26/16	1.85%	53,793
GE Capital Financial Inc	N/R	N/A	N/A	01/09/17	3.51%	100,269
Safra National Bank of NE	N/R	N/A	N/A	08/08/17	2.25%	150,293
Bonds						
Federal National Mortgage	N/R	N/A	N/A	2/13/2019	2.00%	100,041
Federal National Mortgage	N/R	N/A	9.47%	10/20/2021	2.00%	646,893
Federal National Mortgage	N/R	N/A	N/A	10/15/2020	2.13%	300,172
Central Minnesota Federal Credit Union						
Certificate of Deposit	N/R	N/A	N/A	7/1/2013	1.90%	100,000
Certificate of Deposit	N/R	N/A	N/A	7/1/2013	1.90%	100,000
Certificate of Deposit	N/R	N/A	N/A	8/27/2014	2.00%	200,000
Certificate of Deposit	N/R	N/A	N/A	9/10/2014	2.00%	200,000
Certificate of Deposit	N/R	N/A	N/A	9/10/2013	1.80%	200,000
Certificate of Deposit	N/R	N/A	N/A	9/10/2013	1.80%	200,000
Total Investments						<u>\$ 6,807,508</u>

Credit Risk

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

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

- a. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by *Minnesota Statutes* §118A.04, subd. 6;
- b. Mutual funds through shares of registered investment companies provided the mutual fund received certain ratings depending on the investments;

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy doesn't specify any limits relating to concentration of investments. The City holds 9.47% of their investments with the Federal National Mortgage. See the table above for specific concentrations of credit risk.

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 be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

As of December 31, 2011, all City deposits were covered by insurance or collateral. All collateral pledged for the City of Paynesville is held by the pledging financial institution.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011 based on the specific identification method. The City had the following loans receivable as of December 31, 2011:

Interest Rate	Principal Balance 12/31/2011
8.5%	\$ 465
7.0	45,310
5.8	93,236
5.0	217,560
4.8	11,268
4.0	773
4.0	232
4.0	1,199
4.0	337
3.5	8,659
3.5	52,585
less: allowance	<u>(20,000)</u>
Total	<u>\$ 411,624</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 872,445	\$ -	\$ -	\$ 872,445
Construction in Progress	4,016,409	83,702	1,577,037	2,523,074
Total Capital Assets Not Being Depreciated	4,888,854	83,702	1,577,037	3,395,519
Capital Assets Being Depreciated				
Buildings and Improvements	1,919,934	6,552	-	1,926,486
Infrastructure - Streets	10,674,314	946,613	77,000	11,543,927
Infrastructure - Trails	780,664	-	-	780,664
Furniture and Equipment	152,326	45,020	-	197,346
Machinery and Equipment	436,329	-	-	436,329
Vehicles	833,231	25,425	29,656	829,000
Total Capital Assets Being Depreciated	14,796,798	1,023,610	106,656	15,713,752
Less: Accumulated Depreciation for				
Buildings and Improvements	449,040	48,280	-	497,320
Infrastructure - Streets	3,394,266	249,403	46,402	3,597,267
Infrastructure - Trails	62,426	19,538	-	81,964
Furniture and Equipment	110,825	11,804	-	122,629
Machinery and Equipment	301,393	18,641	-	320,034
Vehicles	520,708	20,057	-	540,765
Total Accumulated Depreciation	4,838,658	367,723	46,402	5,159,979
Total Capital Assets Being Depreciated, Net	9,958,140	655,887	60,254	10,553,773
Governmental Activities Capital Assets, Net	<u>\$14,846,994</u>	<u>\$ 739,589</u>	<u>\$ 1,637,291</u>	<u>\$ 13,949,292</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011:

	Beginning Balance	Additions	Disposals	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 812,962	\$ 42,000	\$ 6,500	\$ 848,462
Construction in Progress	-	24,000	-	24,000
Total Capital Assets Not Being Depreciated	<u>812,962</u>	<u>66,000</u>	<u>6,500</u>	<u>872,462</u>
Capital Assets Being Depreciated				
Buildings and Improvements	950,835	-	65,500	885,335
Furniture and Equipment	46,022	-	-	46,022
Machinery and Equipment	1,008,238	-	-	1,008,238
Wastewater Treatment Facility	7,095,342	-	-	7,095,342
Underground Mains	4,226,932	824,763	28,594	5,023,101
Total Capital Assets Being Depreciated	<u>13,327,369</u>	<u>824,763</u>	<u>94,094</u>	<u>14,058,038</u>
Less: Accumulated Depreciation for				
Buildings and Improvements	572,789	21,709	47,488	547,010
Furniture and Equipment	30,571	1,705	-	32,276
Machinery, Furniture and Equipment	782,276	24,250	-	806,526
Wastewater Treatment Facility	6,104,824	64,540	-	6,169,364
Underground Mains	1,239,999	93,579	18,515	1,315,063
Total Accumulated Depreciation	<u>8,730,459</u>	<u>205,783</u>	<u>66,003</u>	<u>8,870,239</u>
Total Capital Assets Being Depreciated, Net	<u>4,596,910</u>	<u>618,980</u>	<u>28,091</u>	<u>5,187,799</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,409,872</u>	<u>\$ 660,980</u>	<u>\$ 34,591</u>	<u>\$ 6,060,261</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets (Continued)

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

Governmental Activities:

General Government	\$ 29,329
Public Safety	38,572
Public Works	241,938
Culture and Recreation	27,063
Airport	30,821
Total Depreciation Expense - Governmental Activities	\$ 367,723

Business-Type Activities:

Water	\$ 84,573
Sewer	119,505
Liquor	1,705
Total Depreciation Expense - Business-Type Activities	\$ 205,783

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 1-10, Midwest Cylinder, \$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, 2011, the balance was \$114,415.

	Due From Economic Development Revolving
Due to General Fund	\$ 114,415

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

The composition of interfund transfers as of December 31, 2011 was as follows:

	Transfers Out							Total
	General	Debt Service	Capital Projects	Nonmajor Governmental	Water	Sewer	Municipal Liquor	
Transfers In:								
General	\$ -	\$ -	\$ 109	\$ 1,344	\$ -	\$ -	\$ 45,500	\$ 46,953
Debt Service	205,800	-	-	-	95,500	79,750	-	381,050
Capital Projects	138,157	-	-	-	34,500	111,300	-	283,957
EDA Fund	26,994	-	-	-	-	-	-	26,994
Nonmajor Governmental	35,000	-	-	1,742	-	-	-	36,742
Water	-	66,258	-	-	-	-	-	66,258
Sewer	-	-	-	-	-	-	3,609	3,609
Municipal Liquor	15,000	-	-	-	-	-	-	15,000
Total	\$ 420,951	\$ 66,258	\$ 109	\$ 3,086	\$ 130,000	\$ 191,050	\$ 49,109	\$ 860,563

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

Transfers Out reported in the Water and Sewer funds are \$9,509 and \$14,634, respectively, in excess of the schedule above due to these funds purchasing a truck for the parks department, which is capitalized in the governmental activities. The governmental activities recognize the offsetting transfer on the Government-Wide Statement of Activities but not on the fund-level statements.

Transfers In reported in the Sewer Fund is \$42,000 in excess of Transfers Out in the Governmental Funds as the Capital Project Fund purchased land that was capitalized in the Sewer Fund. The governmental activities recognize that transfer on the Government-Wide Statement of Activities.

In addition on the Government-Wide Statement of Activities, the Governmental Activities recognizes a Transfer Out and the Business-Type Activities recognizes a Transfer In in the amount of \$824,761 for capital contributions relating to the street project capitalized in the current year.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011 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% to 2.30% 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds,						
Including Refunding Bonds						
Series 2006A	4/1/06	3.4%-4.25%	\$ 1,140,000	12/1/21	\$ 830,000	\$ 70,000
Series 2008A	5/21/08	2.3%-3.7%	1,370,000	12/1/18	1,005,000	130,000
Series 2010A GO Improvement	5/1/10	2.0%-3.5%	1,235,000	12/1/20	1,145,000	300,000
Series 2010B GO Improvement	5/1/10	2.0%-3.5%	685,000	12/1/20	625,000	65,000
Series 2010C GO Improvement	11/1/10	2.0%-2.3%	520,000	12/1/17	520,000	100,000
Crossover Refund						
General Obligation Revenue Bonds:						
Revenue Refunding 2003	3/1/03	1.25%-4.00%	375,000	1/1/13	75,000	40,000
Total Governmental Activities Long-Term Debt					\$ 4,200,000	\$ 705,000
Less: Unamortized Discount					(72,498)	-
Total Governmental Activities Long-Term Debt, Net					<u>\$ 4,127,502</u>	<u>\$ 705,000</u>

3. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
G.O. Improvement Bonds, Including Refunding Bonds	\$ 5,210,000	\$ -	\$ 1,085,000	\$ 4,125,000	\$ 665,000
G.O. Revenue Bonds	115,000	-	40,000	75,000	40,000
Total Bonds Payable	<u>5,325,000</u>	<u>-</u>	<u>1,125,000</u>	<u>4,200,000</u>	<u>705,000</u>
Compensated Absences	62,175	49,178	53,080	58,273	37,311
Total Governmental Activities	<u>5,387,175</u>	<u>49,178</u>	<u>1,178,080</u>	<u>4,258,273</u>	<u>742,311</u>
BUSINESS-TYPE ACTIVITIES					
Other Postemployment Benefits	2,902	1,461	805	3,558	-
Compensated Absences	17,913	19,656	17,721	19,848	19,142
Total Business-Type Activities	<u>20,815</u>	<u>21,117</u>	<u>18,526</u>	<u>23,406</u>	<u>19,142</u>
Total Long-Term Liabilities	<u>\$ 5,407,990</u>	<u>\$ 70,295</u>	<u>\$ 1,196,606</u>	<u>\$ 4,281,679</u>	<u>\$ 761,453</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

4. Minimum Debt Payments

Debt requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities			
	G.O. Revenue Bonds		G.O. Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 40,000	\$ 2,920	\$ 665,000	\$ 125,326
2013	35,000	1,400	460,000	109,456
2014	-	-	475,000	97,371
2015	-	-	460,000	84,518
2016	-	-	480,000	71,181
2017-2021	-	-	1,585,000	141,012
Total	<u>\$ 75,000</u>	<u>\$ 4,320</u>	<u>\$ 4,125,000</u>	<u>\$ 628,864</u>

D. Operating Lease

The City leases a postage meter and copier under noncancelable operating leases. Total cost for these leases were \$4,020 for the year ended December 31, 2011. The future minimum lease payments for the leases are as follows:

Year Ended December 31,	Amount
2012	\$ 4,020
2013	4,020
2014	3,492

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan Member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all PEPFF members 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 GERF. 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 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.4% of their annual covered salary in 2011. The City of Paynesville, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERF members, 7.25% for Coordinated Plan GERF members and 14.10% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010 and 2009 were \$33,490, \$34,702, and \$34,843, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$32,900, \$31,276, and \$31,746, 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 contributes towards retired employees health care benefits, contributing one year for every ten years of service. However, the City does not provide healthcare coverage for retired employees for any employees hired after August, 2007. 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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	\$ 4,054	\$ 1,461	\$ 5,515
Interest on Net OPEB Obligation	3	1	4
Adjustment to Annual Required Contribution	(5)	(1)	(6)
Annual OPEB Cost (Expense)	4,052	1,461	5,513
Contributions Made	(2,233)	(805)	(3,038)
Increase in Net OPEB Obligation	1,819	656	2,475
Net OPEB Obligation (Asset) - Beginning of Year	(2,807)	2,902	95
Net OPEB Obligation (Asset) - End of Year	<u>\$ (988)</u>	<u>\$ 3,558</u>	<u>\$ 2,570</u>

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, 2011 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
December 31, 2011	5,513	81.5	2,570

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 (Relief Association)

Plan Description

All members of the Paynesville Fire Department are covered by a defined contribution plan administered by the Paynesville 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 twenty 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. The City's required contribution for December 31, 2010, the most recent information available, was \$8,131. The Paynesville Fire Department Relief Association also receives funding from the State of Minnesota as a 2% 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 8 RELATED-ORGANIZATION PENSION (CONTINUED)

**Paynesville Fire Relief Association (Relief 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		<u>8,131</u>
Annual Pension Cost		8,131
Less Contribution Made		<u>(8,131)</u>
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	\$	<u><u>-</u></u>

The annual required contribution for the current year was determined as part of December 31, 2010, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. 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
2010	\$ 8,131	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 required to make a contribution of \$8,131 during 2010. There were no required contributions in excess of fire aid for 2009 and 2008.

Funding Progress

As of December 31, 2010 (the most recent available information), the plan was underfunded by \$44,115. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2010, and for the year then ended, the Relief Association held no securities issued by the City or other related-parties.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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	\$ 118,822	\$ 51,178
Hwy 23	685,000	564,726	120,274
Total			<u>\$ 171,452</u>

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.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
PROPERTY TAXES	\$ 516,707	\$ 516,707	\$ 472,115	\$ (44,592)
FRANCHISE TAXES	32,672	32,672	33,643	971
SPECIAL ASSESSMENTS	-	-	3,367	3,367
LICENSES AND PERMITS	154,927	154,927	164,472	9,545
INTERGOVERNMENTAL REVENUE				
Local Government Aid	679,593	679,593	679,593	-
Market Value Credit	15,121	15,121	15,057	(64)
PERA Aid	2,731	2,731	2,731	-
Fire Aid	24,000	24,000	34,434	10,434
Police Aid	25,000	25,000	26,609	1,609
Other Grants and Aids	15,195	15,195	36,140	20,945
Total Intergovernmental Revenue	<u>761,640</u>	<u>761,640</u>	<u>794,564</u>	<u>32,924</u>
CHARGES FOR SERVICES				
General Government	7,150	7,150	9,325	2,175
Public Safety	131,173	131,173	120,674	(10,499)
Public Works	5,400	5,400	5,364	(36)
Culture and Recreation	12,000	12,000	18,989	6,989
Airport	85,125	85,125	93,083	7,958
Total Charges for Services	<u>240,848</u>	<u>240,848</u>	<u>247,435</u>	<u>6,587</u>
FINES AND FORFEITURES	14,000	14,000	13,661	(339)
MISCELLANEOUS REVENUES				
Investment Income	33,294	33,294	53,042	19,748
Contributions and Donations	4,000	4,000	3,550	(450)
Reimbursements	2,042	2,042	2,994	952
Other	15,500	15,500	24,107	8,607
Total Miscellaneous Revenues	<u>54,836</u>	<u>54,836</u>	<u>83,693</u>	<u>28,857</u>
Total Revenues	1,775,630	1,775,630	1,812,950	37,320

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Mayor and Council	\$ 34,933	\$ 34,933	\$ 30,322	\$ 4,611
Administrative and Finance	170,464	170,464	144,337	26,127
Other General Government	145,370	145,370	143,213	2,157
Capital Outlay	1,800	1,800	1,385	415
Total General Government	<u>352,567</u>	<u>352,567</u>	<u>319,257</u>	<u>33,310</u>
PUBLIC SAFETY				
Police				
Current	391,669	391,669	383,549	8,120
Capital Outlay	1,000	1,000	403	597
Fire				
Current	105,915	105,915	113,632	(7,717)
Capital Outlay	2,000	2,000	625	1,375
Other				
Current	42,444	42,444	40,644	1,800
Capital Outlay	150	150	231	(81)
Total Public Safety	<u>543,178</u>	<u>543,178</u>	<u>539,084</u>	<u>4,094</u>
PUBLIC WORKS				
Streets and Highways				
Street Maintenance and Storm Sewers	92,878	92,878	88,539	4,339
Snow and Ice Removal	61,354	61,354	49,376	11,978
Street Lighting	39,350	39,350	43,565	(4,215)
Street - Other Capital Outlay	2,000	2,000	1,112	888
Total Public Works	<u>195,582</u>	<u>195,582</u>	<u>182,592</u>	<u>12,990</u>
CULTURE AND RECREATION				
Libraries				
Current	7,824	7,824	5,831	1,993
Culture and Recreation				
Current	151,879	151,879	141,903	9,976
Capital Outlay	2,200	2,200	443	1,757
Total Culture and Recreation	<u>161,903</u>	<u>161,903</u>	<u>148,177</u>	<u>13,726</u>
AIRPORT				
Current	99,775	99,775	86,991	12,784
Capital Outlay	700	700	-	700
Total Airport	<u>100,475</u>	<u>100,475</u>	<u>86,991</u>	<u>13,484</u>
Total Expenditures	<u>1,353,705</u>	<u>1,353,705</u>	<u>1,276,101</u>	<u>77,604</u>

**CITY OF PAYNESVILLE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND (CONTINUED)
 YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 421,925	\$ 421,925	\$ 536,849	\$ (114,924)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	1,000	1,000	2,649	1,649
Transfers In	30,500	30,500	46,953	16,453
Transfers Out	(405,951)	(405,951)	(420,951)	(15,000)
Total Other Financing Sources (Uses)	(374,451)	(374,451)	(371,349)	3,102
NET CHANGE IN FUND BALANCE	<u>\$ 47,474</u>	<u>\$ 47,474</u>	165,500	<u>\$ 118,026</u>
Fund Balances - Beginning of Year			<u>1,252,272</u>	
FUND BALANCES - END OF YEAR			<u>\$ 1,417,772</u>	

**CITY OF PAYNESVILLE, MINNESOTA
 BUDGETARY COMPARISON SCHEDULE
 ECONOMIC DEVELOPMENT AUTHORITY FUND
 YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted</u> <u>Original</u>	<u>Amounts</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
REVENUES				
MISCELLANEOUS REVENUES				
Investment Income	\$ -	\$ -	\$ 1,285	\$ 1,285
EXPENDITURES				
ECONOMIC DEVELOPMENT				
Current	26,994	26,994	49,592	(22,598)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,994)	(26,994)	(48,307)	21,313
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	26,994	26,994
NET CHANGE IN FUND BALANCES	<u>\$ (26,994)</u>	<u>\$ (26,994)</u>	(21,313)	<u>\$ 5,681</u>
Fund Balances - Beginning of Year			<u>42,386</u>	
FUND BALANCES - END OF YEAR			<u>\$ 21,073</u>	

**CITY OF PAYNESVILLE, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED DECEMBER 31, 2011**

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 City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City 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.

II. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded budgeted amounts in the following funds:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Economic Development Authority	\$ 49,592	\$ 26,994	\$ 22,598

The above overage in the Economic Development Authority Fund was financed by existing fund balance and was due to the city developing Opportunity Park.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2011**

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
12/31/2010	\$568,139	\$ 612,254	\$ 44,115	92.79 %	\$ 2,000
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

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%

OTHER SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2011**

	Police Drug/DWI Forfeiture 205	Tax Increment Development District No. 1 255	Fire Reserve 225	Tax Increment Financing District No. 1-10 270	Total Nonmajor Funds
ASSETS					
Cash and Investments	\$ 3,964	\$ 842	\$ 380,965	\$ 6,720	\$ 392,491
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES					
Restricted	3,964	842	-	6,720	11,526
Committed	-	-	380,965	-	380,965
Total Fund Balances	3,964	842	380,965	6,720	392,491
Total Liabilities and Fund Balances	\$ 3,964	\$ 842	\$ 380,965	\$ 6,720	\$ 392,491

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2011**

	Police Drug/DWI Forfeiture 205	Tax Increment Development District No. 1 255	Police 215
REVENUES			
Tax Increments	\$ -	\$ 23,603	\$ -
Miscellaneous			
Investment Income	88	68	41
Contributions and Donations	-	-	-
Other	-	-	100
Total Revenues	<u>88</u>	<u>23,671</u>	<u>141</u>
EXPENDITURES			
CURRENT			
Public Safety	3,146	-	-
Economic Development	-	22,809	-
Total Expenditures	<u>3,146</u>	<u>22,809</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,058)	862	141
OTHER FINANCING SOURCES (USES)			
Transfers In	1,742	-	-
Transfers Out	-	-	(1,742)
Total Other Financing Sources (Uses)	<u>1,742</u>	<u>-</u>	<u>(1,742)</u>
NET CHANGE IN FUND BALANCES	(1,316)	862	(1,601)
Fund Balances (Deficit) - Beginning of Year	<u>5,280</u>	<u>(20)</u>	<u>1,601</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 3,964</u>	<u>\$ 842</u>	<u>\$ -</u>

Fire Reserve 225	Tax Increment Financing District No. 1-9 265	Tax Increment Financing District No. 1-10 270	Total Nonmajor Funds
\$ -	\$ 4,340	\$ 10,648	\$ 38,591
8,755	35	187	9,174
886	-	-	886
-	-	-	100
<u>9,641</u>	<u>4,375</u>	<u>10,835</u>	<u>48,751</u>
-	-	-	3,146
-	3,906	9,493	36,208
-	<u>3,906</u>	<u>9,493</u>	<u>39,354</u>
9,641	469	1,342	9,397
35,000	-	-	36,742
-	(1,344)	-	(3,086)
<u>35,000</u>	<u>(1,344)</u>	<u>-</u>	<u>33,656</u>
44,641	(875)	1,342	43,053
<u>336,324</u>	<u>875</u>	<u>5,378</u>	<u>349,438</u>
<u>\$ 380,965</u>	<u>\$ -</u>	<u>\$ 6,720</u>	<u>\$ 392,491</u>

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEETS
DEBT SERVICE FUNDS
DECEMBER 31, 2011**

	G.O. Water and Sewer Refunding Bonds 372	2006 Improvements Debt 520	2008 Improvements Debt 535	2010 G.O. Improvement Bonds, Series A 545	2010 G.O. Improvement Bonds, Series B 555	2010 G.O. Improvement Bonds, Series C 585	Total Debt Service Fund
ASSETS							
Cash and Investments	\$ 91,499	\$ 376,687	\$ 192,387	\$ 99,715	\$ 16,795	\$ 228,265	\$ 1,005,348
Cash with Fiscal Agent	41,460	-	-	-	-	-	41,460
Special Assessments Receivable:							
Delinquent	-	7,928	-	-	-	602	8,530
Deferred	-	259,537	110,954	218,069	-	83,789	672,349
Due From Other Governments	-	5,762	5	10,982	-	1,233	17,982
Total Assets	\$ 132,959	\$ 649,914	\$ 303,346	\$ 328,766	\$ 16,795	\$ 313,889	\$ 1,745,669
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Deferred Revenue	\$ -	\$ 267,465	\$ 110,954	\$ 218,069	\$ -	\$ 84,391	\$ 680,879
FUND BALANCES							
Restricted for Debt Service	132,959	382,449	192,392	110,697	16,795	229,498	1,064,790
Total Liabilities and Fund Balances	\$ 132,959	\$ 649,914	\$ 303,346	\$ 328,766	\$ 16,795	\$ 313,889	\$ 1,745,669

CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2011

	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	\$ 10	\$ -	\$ 62	\$ 3,783
Miscellaneous				
Investment Income	1,507	3,446	243	2,760
Total Revenues	<u>1,517</u>	<u>3,446</u>	<u>305</u>	<u>6,543</u>
EXPENDITURES				
DEBT SERVICE				
Principal	-	40,000	-	-
Interest and Other Charges	-	3,640	-	-
Total Expenditures	<u>-</u>	<u>43,640</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,517	(40,194)	305	6,543
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	(66,258)	-	(10,723)	(123,163)
Total Other Financing Sources (Uses)	<u>(66,258)</u>	<u>-</u>	<u>(10,723)</u>	<u>(123,163)</u>
NET CHANGE IN FUND BALANCES	(64,741)	(40,194)	(10,418)	(116,620)
Fund Balances - Beginning of Year	<u>64,741</u>	<u>173,153</u>	<u>10,418</u>	<u>116,620</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 132,959</u>	<u>\$ -</u>	<u>\$ -</u>

2000 G.O. Improvement Bonds, Series B 435	2002 G.O. Improvement Bonds 465	2006 Improvements Debt 520	2008 Improvements Debt 535	2010 G.O. Improvement Bonds, Series A 545
\$ 2,102	\$ -	\$ 54,128	\$ 19,961	\$ 46,965
854	13	6,686	7,153	3,899
<u>2,956</u>	<u>13</u>	<u>60,814</u>	<u>27,114</u>	<u>50,864</u>
-	-	65,000	125,000	90,000
-	-	36,608	37,290	31,422
<u>-</u>	<u>-</u>	<u>101,608</u>	<u>162,290</u>	<u>121,422</u>
2,956	13	(40,794)	(135,176)	(70,558)
-	-	239,527	120,500	73,250
<u>(38,562)</u>	<u>(579)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(38,562)</u>	<u>(579)</u>	<u>239,527</u>	<u>120,500</u>	<u>73,250</u>
(35,606)	(566)	198,733	(14,676)	2,692
<u>35,606</u>	<u>566</u>	<u>183,716</u>	<u>207,068</u>	<u>108,005</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,449</u>	<u>\$ 192,392</u>	<u>\$ 110,697</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2011**

	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	\$ -	\$ 34,215	\$ -	\$ 161,226
Miscellaneous				
Investment Income	1,322	7,583	-	35,466
Total Revenues	<u>1,322</u>	<u>41,798</u>	<u>-</u>	<u>196,692</u>
EXPENDITURES				
DEBT SERVICE				
Principal	60,000	745,000	-	1,125,000
Interest and Other Charges	18,148	39,089	-	166,197
Total Expenditures	<u>78,148</u>	<u>784,089</u>	<u>-</u>	<u>1,291,197</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(76,826)	(742,291)	-	(1,094,505)
OTHER FINANCING SOURCES (USES)				
Transfers In	84,000	36,800	(173,027)	381,050
Transfers Out	-	-	173,027	(66,258)
Total Other Financing Sources (Uses)	<u>84,000</u>	<u>36,800</u>	<u>-</u>	<u>314,792</u>
NET CHANGE IN FUND BALANCES	7,174	(705,491)	-	(779,713)
Fund Balances - Beginning of Year	<u>9,621</u>	<u>934,989</u>	<u>-</u>	<u>1,844,503</u>
FUND BALANCES - END OF YEAR	<u>\$ 16,795</u>	<u>\$ 229,498</u>	<u>\$ -</u>	<u>\$ 1,064,790</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 CAPITAL PROJECT FUNDS
 DECEMBER 31, 2011**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123
ASSETS				
Cash and Investments	\$ 465,643	\$ 128,590	\$ 76,885	\$ 238,918
Special Assessments Receivable: Deferred	-	-	-	-
Total Assets	\$ 465,643	\$ 128,590	\$ 76,885	\$ 238,918
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ -	\$ 476	\$ -	\$ -
Advances from Other Funds	-	-	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	-	476	-	-
FUND BALANCES (DEFICIT)				
Restricted for Capital Projects	-	-	-	-
Committed for Capital Projects	465,643	128,114	76,885	238,918
Total Fund Balances	465,643	128,114	76,885	238,918
Total Liabilities and Fund Balances (Deficit)	\$ 465,643	\$ 128,590	\$ 76,885	\$ 238,918

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
\$ 39,894	\$ 162,342	\$ 117,386	\$ 32,411	\$ 21,076	\$ 12,034	\$ 117,491	\$ 37,701
-	-	-	-	-	-	-	410,816
<u>\$ 39,894</u>	<u>\$ 162,342</u>	<u>\$ 117,386</u>	<u>\$ 32,411</u>	<u>\$ 21,076</u>	<u>\$ 12,034</u>	<u>\$ 117,491</u>	<u>\$ 448,517</u>
\$ -	\$ -	\$ 3,286	\$ 820	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	410,816
-	-	3,286	820	-	-	-	410,816
-	-	-	31,591	21,076	12,034	117,491	-
39,894	162,342	114,100	-	-	-	-	37,701
39,894	162,342	114,100	31,591	21,076	12,034	117,491	37,701
<u>\$ 39,894</u>	<u>\$ 162,342</u>	<u>\$ 117,386</u>	<u>\$ 32,411</u>	<u>\$ 21,076</u>	<u>\$ 12,034</u>	<u>\$ 117,491</u>	<u>\$ 448,517</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET (CONTINUED)
 CAPITAL PROJECT FUNDS
 DECEMBER 31, 2011**

	2010 Improvements 540	Highway 23 Construction 550	Sewer Interceptor 560	Wastewater Facility Plan 570	Total Capital Project Fund
ASSETS					
Cash and Investments	\$ 8,527	\$ 18,116	\$ 2,924	\$ 1,681	\$ 1,481,619
Special Assessments Receivable: Deferred	-	-	-	-	410,816
Total Assets	<u>\$ 8,527</u>	<u>\$ 18,116</u>	<u>\$ 2,924</u>	<u>\$ 1,681</u>	<u>\$ 1,892,435</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 4,582
Advances from Other Funds	-	30,000	-	-	30,000
Deferred Revenue	-	-	-	-	410,816
Total Liabilities	-	30,000	-	-	445,398
FUND BALANCES (DEFICIT)					
Restricted for Capital Projects	8,527	(11,884)	-	-	178,835
Committed for Capital Projects	-	-	2,924	1,681	1,268,202
Total Fund Balances	<u>8,527</u>	<u>(11,884)</u>	<u>2,924</u>	<u>1,681</u>	<u>1,447,037</u>
Total Liabilities and Fund Balances (Deficit)	<u>\$ 8,527</u>	<u>\$ 18,116</u>	<u>\$ 2,924</u>	<u>\$ 1,681</u>	<u>\$ 1,892,435</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2011**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
REVENUES					
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	18,566	-	-	-
Miscellaneous					
Investment Income	12,398	2,959	1,986	6,455	1,051
Contributions and Donations	-	-	-	-	-
Reimbursements	-	80,150	-	-	-
Other	10,700	8,700	-	-	-
Total Revenues	<u>23,098</u>	<u>110,375</u>	<u>1,986</u>	<u>6,455</u>	<u>1,051</u>
EXPENDITURES					
CURRENT					
General Government	-	630	-	-	-
Public Works	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Airport	-	-	-	-	-
CAPITAL OUTLAY					
General Government	-	104,611	-	-	-
Public Safety	-	-	1,986	-	-
Public Works	40,427	-	-	-	-
Culture and Recreation	-	-	-	14,821	-
Total Expenditures	<u>40,427</u>	<u>105,241</u>	<u>1,986</u>	<u>14,821</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(17,329)	5,134	-	(8,366)	1,051
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	-	-	5,579	-	-
Transfers In	79,036	3,800	5,000	15,000	1,000
Transfers Out	(25,000)	(109)	-	-	-
Total Other Financing Sources (Uses)	<u>54,036</u>	<u>3,691</u>	<u>10,579</u>	<u>15,000</u>	<u>1,000</u>
NET CHANGE IN FUND BALANCES	36,707	8,825	10,579	6,634	2,051
Fund Balances (Deficit) - Beginning of Year	<u>428,936</u>	<u>119,289</u>	<u>66,306</u>	<u>232,284</u>	<u>37,843</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 465,643</u>	<u>\$ 128,114</u>	<u>\$ 76,885</u>	<u>\$ 238,918</u>	<u>\$ 39,894</u>

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,362
-	24,150	170,000	-	45,289	-	-
4,064	3,015	(144)	536	304	3,122	984
-	-	450	-	-	-	-
-	-	-	-	-	-	-
-	-	-	1,185	-	-	-
<u>4,064</u>	<u>27,165</u>	<u>170,306</u>	<u>1,721</u>	<u>45,593</u>	<u>3,122</u>	<u>8,346</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	86	-	-	-	-
-	-	-	-	-	-	5,029
-	-	-	-	20,776	-	-
-	-	-	-	-	-	-
-	31,056	-	-	-	-	-
-	-	-	-	-	-	-
-	-	18,132	-	-	-	-
<u>-</u>	<u>31,056</u>	<u>18,218</u>	<u>-</u>	<u>20,776</u>	<u>-</u>	<u>5,029</u>
4,064	(3,891)	152,088	1,721	24,817	3,122	3,317
-	-	-	-	-	-	-
9,000	17,821	7,500	-	-	-	-
-	-	-	-	-	-	-
<u>9,000</u>	<u>17,821</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
13,064	13,930	159,588	1,721	24,817	3,122	3,317
<u>149,278</u>	<u>100,170</u>	<u>(127,997)</u>	<u>19,355</u>	<u>(12,783)</u>	<u>114,369</u>	<u>34,384</u>
<u>\$ 162,342</u>	<u>\$ 114,100</u>	<u>\$ 31,591</u>	<u>\$ 21,076</u>	<u>\$ 12,034</u>	<u>\$ 117,491</u>	<u>\$ 37,701</u>

CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (CONTINUED)
CAPITAL PROJECT FUNDS
YEAR ENDED DECEMBER 31, 2011

	2010 Improvements 540	Highway 23 Construction 550	Sewer Interceptor 560	Wastewater Facility Plan 570	Intrafund Activity	Total Capital Project Fund
REVENUES						
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,362
Intergovernmental	-	-	7	-	-	258,012
Miscellaneous						
Investment Income	1,921	888	412	166	-	40,117
Contributions and Donations	-	-	-	-	-	450
Reimbursements	-	-	-	-	-	80,150
Other	-	-	-	-	-	20,585
Total Revenues	<u>1,921</u>	<u>888</u>	<u>419</u>	<u>166</u>	<u>-</u>	<u>406,676</u>
EXPENDITURES						
CURRENT						
General Government	-	-	-	-	-	630
Public Works	-	-	-	2,997	-	2,997
Culture and Recreation	-	-	-	-	-	86
Economic Development	-	-	-	-	-	5,029
Airport	-	-	-	-	-	20,776
CAPITAL OUTLAY						
General Government	-	-	-	-	-	104,611
Public Safety	-	-	-	-	-	33,042
Public Works	194,339	30,763	39,261	43,800	-	348,590
Culture and Recreation	-	-	-	-	-	32,953
Total Expenditures	<u>194,339</u>	<u>30,763</u>	<u>39,261</u>	<u>46,797</u>	<u>-</u>	<u>548,714</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(192,418)	(29,875)	(38,842)	(46,631)	-	(142,038)
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Capital Assets	-	-	-	-	-	5,579
Transfers In	94,000	-	56,800	20,000	(25,000)	283,957
Transfers Out	-	-	-	-	25,000	(109)
Total Other Financing Sources (Uses)	<u>94,000</u>	<u>-</u>	<u>56,800</u>	<u>20,000</u>	<u>-</u>	<u>289,427</u>
NET CHANGE IN FUND BALANCES	(98,418)	(29,875)	17,958	(26,631)	-	147,389
Fund Balances (Deficit) - Beginning of Year	<u>106,945</u>	<u>17,991</u>	<u>(15,034)</u>	<u>28,312</u>	<u>-</u>	<u>1,299,648</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 8,527</u>	<u>\$ (11,884)</u>	<u>\$ 2,924</u>	<u>\$ 1,681</u>	<u>\$ -</u>	<u>\$ 1,447,037</u>



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REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and
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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2012.

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 Statute §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 management, City Council, and the Minnesota Office of the State Auditor, is not intended to be, and should not be used by anyone other than those specified parties.

CliftonLarsonAllen LLP

Alexandria, Minnesota
March 19, 2012