

CITY OF PAYNESVILLE, MINNESOTA

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2013

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INTRODUCTORY SECTION

**CITY OF PAYNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2013**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeffrey Thompson	Mayor	December 31, 2014
Donovan Mayer	Council Member	December 31, 2016
Kay McDaniel	Council Member	December 31, 2016
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

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the City of Paynesville has corrected the cash with fiscal agent balances in the Debt Service Fund that was incorrectly reported in the December 31, 2012 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress on pages 5-14, 56-60, and 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

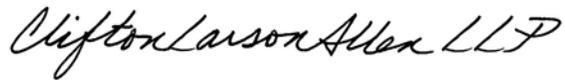
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paynesville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and
Members of the City Council
City of Paynesville

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014, on our consideration of the City of Paynesville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Paynesville's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Alexandria, Minnesota
March 17, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

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, 2013. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2013, and the prior year, 2012, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 include the following:

- The assets of the City's general fund exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$1,620,506. 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 position was \$2,868,699.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,993,199, a decrease of \$588,788 from the previous year due to the new EDA loans during the year and pay off of debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

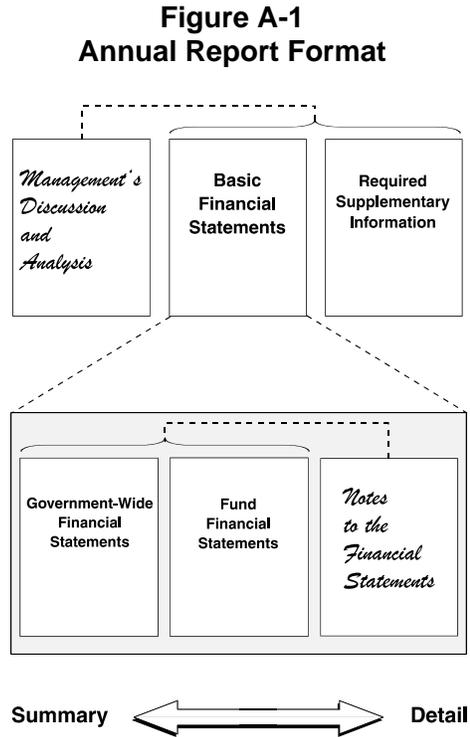
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2013**

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, 2013**

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 position.	Balance sheet.	Statement of net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	Statement of revenues, expenses and changes in net position, 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 and Deferred Outflow of Resources/ Liability and Deferred Inflow of Resources Information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term.	Only assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter, no capital assets included.	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the City's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

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:

- 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.
- 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 position. 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, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's overall net position was \$30,652,545 on December 31, 2013.

The City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 5,923,234	\$ 6,398,698	\$ 5,623,004	\$ 5,162,717	\$ 11,546,238	\$ 11,561,415
Capital Assets	13,880,145	13,862,568	11,642,181	7,542,033	25,522,326	21,404,601
Total Assets	<u>19,803,379</u>	<u>20,261,266</u>	<u>17,265,185</u>	<u>12,704,750</u>	<u>37,068,564</u>	<u>32,966,016</u>
Long-Term Liabilities	2,210,987	2,678,910	2,861,263	-	5,072,250	2,678,910
Other Liabilities	702,030	1,319,946	641,739	1,147,614	1,343,769	2,467,560
Total Liabilities	<u>2,913,017</u>	<u>3,998,856</u>	<u>3,503,002</u>	<u>1,147,614</u>	<u>6,416,019</u>	<u>5,146,470</u>
Net Position						
Net Investment in Capital Assets	11,202,073	10,739,190	8,630,045	7,542,033	19,832,118	18,281,223
Restricted	2,449,467	2,426,652	-	-	2,449,467	2,426,652
Unrestricted	3,238,822	3,096,568	5,132,138	4,015,103	8,370,960	7,111,671
Total Net Position	<u>\$ 16,890,362</u>	<u>\$ 16,262,410</u>	<u>\$ 13,762,183</u>	<u>\$ 11,557,136</u>	<u>\$ 30,652,545</u>	<u>\$ 27,819,546</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$7,938,933 for the year ended December 31, 2013. The City-wide cost of all activities this year was \$5,070,234. Total revenues surpassed expenses, increasing net position \$2,868,699 over last year.

**Table A-2
The City's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue:						
Program Revenues:						
Charges for Services	\$ 735,158	\$ 468,539	\$ 2,494,549	\$ 2,413,609	\$ 3,229,707	\$ 2,882,148
Operating Grants and Contributions	902,292	180,239	450	17,121	902,742	197,360
Capital Grants and Contributions	152,557	556,221	1,945,627	548,735	2,098,184	1,104,956
General Revenues:						
Property Taxes	555,279	544,426	-	-	555,279	544,426
Franchise Fees	31,947	31,530	-	-	31,947	31,530
Tax Increments	38,665	38,151	-	-	38,665	38,151
Intergovernmental	682,324	682,485	-	-	682,324	682,485
Other Revenue	338,649	10,821	65,271	9,562	403,920	20,383
Investment Earnings (Losses)	(16,607)	108,688	12,772	83,058	(3,835)	191,746
Total Revenues	<u>3,420,264</u>	<u>2,621,100</u>	<u>4,518,669</u>	<u>3,072,085</u>	<u>7,938,933</u>	<u>5,693,185</u>
Expenses:						
General Government	349,708	364,336	-	-	349,708	364,336
Public Safety	636,417	544,147	-	-	636,417	544,147
Public Works	671,939	503,195	-	-	671,939	503,195
Culture and Recreation	239,987	327,778	-	-	239,987	327,778
Economic Development	824,875	182,182	-	-	824,875	182,182
Interest on Long-Term Debt	198,239	115,613	-	-	198,239	115,613
Airport	190,737	300,403	-	-	190,737	300,403
Water	-	-	264,244	265,721	264,244	265,721
Sewer	-	-	557,399	580,630	557,399	580,630
Municipal Liquor	-	-	1,136,689	1,067,993	1,136,689	1,067,993
Total Expenses	<u>3,111,902</u>	<u>2,337,654</u>	<u>1,958,332</u>	<u>1,914,344</u>	<u>5,070,234</u>	<u>4,251,998</u>
Change in Net Position before Transfers	308,362	283,446	2,560,337	1,157,741	2,868,699	1,441,187
Transfers	355,290	(86,413)	(355,290)	86,413	-	-
Change in Net Position	<u>663,652</u>	<u>197,033</u>	<u>2,205,047</u>	<u>1,244,154</u>	<u>2,868,699</u>	<u>1,441,187</u>
Net Position, Beginning of Year	16,262,410	16,065,377	11,557,136	10,312,982	27,819,546	26,378,359
Prior Period Adjustment, see Note 10	(35,700)	-	-	-	(35,700)	-
Net Position, Beginning of Year, as Restated	16,226,710	16,065,377	11,557,136	10,312,982	27,783,846	26,378,359
Net Position, End of Year	<u>\$ 16,890,362</u>	<u>\$ 16,262,410</u>	<u>\$ 13,762,183</u>	<u>\$ 11,557,136</u>	<u>\$ 30,652,545</u>	<u>\$ 27,819,546</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

	Cost of Services Analysis			Net Revenue from (Cost of)		Percentage Change
	Total Cost of Services		Percentage Change	Services		
	2013	2012		2013	2012	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 349,708	\$ 364,336	(4.0)%	\$ (260,248)	\$ (277,957)	6.4 %
Public Safety	636,417	544,147	17.0	(328,252)	(264,065)	(24.3)
Public Works	671,939	503,195	33.5	(357,846)	(437,323)	18.2
Culture and Recreation	239,987	327,778	(26.8)	(173,930)	(67,995)	(155.8)
Economic and Community Development	824,875	182,182	352.8	16,424	(56,761)	128.9
Airport	190,737	300,403	(36.5)	(19,804)	87,059	(122.7)
Interest	198,239	115,613	71.5	(198,239)	(115,613)	(71.5)
Total	<u>\$ 3,111,902</u>	<u>\$ 2,337,654</u>	33.1	<u>\$ (1,321,895)</u>	<u>\$ (1,132,655)</u>	(16.7)
BUSINESS-TYPE ACTIVITIES						
Water	\$ 264,244	\$ 265,721	(0.6)%	\$ 244,252	\$ 246,455	(0.9)%
Sewer	557,399	580,630	(4.0)	2,173,541	756,111	187.5
Municipal Liquor	1,136,689	1,067,993	6.4	64,501	62,555	3.1
Total	<u>\$ 1,958,332</u>	<u>\$ 1,914,344</u>	2.3	<u>\$ 2,482,294</u>	<u>\$ 1,065,121</u>	133.1

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 \$3,993,199.

The General Fund's fund balance increased \$34,687 from the prior year. This is primarily due to a conscious effort by staff to reduce expenditures below the revenues collected for 2013.

The Economic Development Revolving Loan Fund's fund balance decreased \$449,746 as a result of issuing new revolving loans to businesses.

The Economic Development Authority Fund's fund balance increased \$291,191 from the prior year. This is due to proceeds from the sale of a lot in Opportunity Park.

The Debt Service Fund's fund balance decreased \$615,191 from operations as a result of the payment on refunded debt during the current year.

The Capital Project Fund's fund balance increased \$184,668 as a result of transfers in occurring from other funds to help fund the current year projects.

The Water Enterprise Fund's net position increased \$16,528 from the prior year. This increase is due primarily to minor increases in charges for services revenues.

The Sewer Enterprise Fund's net position increased \$2,163,503 primarily due to grant funding received for the Wastewater Treatment Facility project.

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

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

The Municipal Liquor Enterprise Fund's net position increased \$25,016. This increase is a result of increases in the City's gross profits and inventory levels for the store.

Revenues for the City's governmental funds were \$2,949,189, while total expenditures were \$3,464,049.

Governmental Funds				
2013				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 1,583,373	\$ 1,395,447	\$ (153,239)	\$ 34,687
Economic Development Revolving Loan	315,731	765,477	-	(449,746)
Economic Development Authority	19,049	61,241	333,383	291,191
Capital Project Fund	523,314	618,071	279,425	184,668
Debt Service Fund	460,660	574,854	(500,997)	(615,191)
Nonmajor Governmental Funds	47,062	48,959	3,200	1,303
Totals	\$ 2,949,189	\$ 3,464,049	\$ (38,228)	\$ (553,088)
2012				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 1,631,070	\$ 1,316,548	\$ (146,475)	\$ 168,047
Economic Development Revolving Loan	158,004	108,285	-	49,719
Economic Development Authority	1,234	380,153	25,268	(353,651)
Capital Project Fund	393,426	856,037	600,443	137,832
Debt Service Fund	295,892	618,363	540,491	218,020
Nonmajor Governmental Funds	38,459	36,956	(380,965)	(379,462)
Totals	\$ 2,518,085	\$ 3,316,342	\$ 638,762	\$ (159,495)

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

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 \$34,687 in 2013. The increase is due primarily to a reduction of transfers to other funds.

General Fund Budgetary Highlights

- Actual revenues were \$45,794 more than budget due primarily to the City receiving more charges for services for the Airport and additional fire state aid.
- Actual expenditures were \$11,299 more than budget due to over spending in the Airport.

CAPITAL ASSETS

By the end of 2013, the City had invested approximately \$40,700,000 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 \$641,493 (including the enterprise funds).

The City's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 969,977	\$ 872,445	\$ 848,462	\$ 848,462	\$ 1,818,439	\$ 1,720,907
Construction in Progress	2,675,520	2,689,948	6,005,722	1,710,835	8,681,242	4,400,783
Buildings and Improvements	1,351,451	1,380,583	294,211	316,440	1,645,662	1,697,023
Underground Mains	-	-	3,511,450	3,609,458	3,511,450	3,609,458
Wastewater Treatment Facility	-	-	796,896	861,436	796,896	861,436
Infrastructure - Streets	7,376,420	7,661,540	-	-	7,376,420	7,661,540
Infrastructure - Trails	803,782	827,204	-	-	803,782	827,204
Vehicles	279,131	249,834	-	-	279,131	249,834
Furniture and Equipment	55,664	61,933	10,336	12,041	66,000	73,974
Machinery and Equipment	368,200	119,081	175,104	183,361	543,304	302,442
Total Capital Assets	<u>\$ 13,880,145</u>	<u>\$ 13,862,568</u>	<u>\$ 11,642,181</u>	<u>\$ 7,542,033</u>	<u>\$ 25,522,326</u>	<u>\$ 21,404,601</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013**

LONG-TERM LIABILITIES

At year-end, the City had \$5,742,134 in long-term liabilities outstanding.

- The City's governmental activities total long-term debt decreased \$1,150,000, due to scheduled repayments on existing debt.
- The City's business-type activities total long-term debt increased \$3,012,134 due to issuance of the PFA G.O. Revenue Notes.

The City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
G.O. Bonds	\$ 2,730,000	\$ 3,880,000	\$ -	\$ -	\$ 2,730,000	\$ 3,880,000
PFA G.O. Revenue Notes	-	-	3,012,134	-	3,012,134	-
Total Outstanding Debt	<u>\$ 2,730,000</u>	<u>\$ 3,880,000</u>	<u>\$ 3,012,134</u>	<u>\$ -</u>	<u>\$ 5,742,134</u>	<u>\$ 3,880,000</u>

FACTORS BEARING ON THE CITY'S FUTURE

The Highway 23 bypass project, which opened on July 20, 2012, continues to give the City new challenges and opportunities. The City has continued to develop Opportunity Park and sold an additional 6,115 square feet and has a letter of intent for an additional 97,744 square feet. The City is close to completion on construction to improve the Wastewater Treatment Facility. The City has begun construction to improve the Water Treatment Facility for a cost of \$3.6 million. The City is also working to developing a plan for the 2014 street project.

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 POSITION
DECEMBER 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 3,917,564	\$ 4,896,047	\$ 8,813,611
Property Taxes Receivable	20,016	-	20,016
Accounts Receivable	25,164	236,234	261,398
Interest Receivable	51,666	-	51,666
Due from Other Governments	215,230	250,188	465,418
Special Assessments Receivable			
Delinquent	7,802	1,327	9,129
Deferred	821,077	22,524	843,601
Inventory	-	165,551	165,551
Prepaid Items	38,859	21,133	59,992
Loans Receivable, Net of Allowance	855,856	-	855,856
Internal Balance	(30,000)	30,000	-
Non-Depreciable Capital Assets			
Land	969,977	848,462	1,818,439
Construction in Progress	2,675,520	6,005,722	8,681,242
Depreciable Capital Assets (Net of Accumulated Depreciation)			
Buildings and Improvements	1,351,451	294,211	1,645,662
Furniture and Equipment	55,664	10,336	66,000
Machinery, Furniture and Equipment	368,200	175,104	543,304
Infrastructure - Streets	7,376,420	-	7,376,420
Infrastructure - Trails	803,782	-	803,782
Vehicles	279,131	-	279,131
Wastewater Treatment Facility	-	796,896	796,896
Underground Mains	-	3,511,450	3,511,450
Total Assets	19,803,379	17,265,185	37,068,564
LIABILITIES			
Accounts Payable	92,677	405,149	497,826
Contracts Payable	42,188	56,872	99,060
Salaries and Benefits Payable	14,456	6,344	20,800
Unearned Revenue	15,962	-	15,962
Interest Payable	23,375	-	23,375
OPEB Liability	4,317	5,469	9,786
Bond Principal Payable:			
Due Within One Year	480,000	150,871	630,871
Due in More Than One Year	2,198,072	2,861,263	5,059,335
Compensated Absences Payable			
Due Within One Year	29,055	17,034	46,089
Due in More Than One Year	12,915	-	12,915
Total Liabilities	2,913,017	3,503,002	6,416,019
NET POSITION			
Net Investment in Capital Assets	11,202,073	8,630,045	19,832,118
Restricted for			
Debt Service	1,001,782	-	1,001,782
Capital Projects	519,205	-	519,205
Economic Development Authority	914,148	-	914,148
Tax Increment Districts	11,053	-	11,053
Police Forfeitures	3,279	-	3,279
Unrestricted	3,238,822	5,132,138	8,370,960
Total Net Position	\$ 16,890,362	\$ 13,762,183	\$ 30,652,545

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		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	\$ 349,708	\$ 89,460	\$ -	\$ -	\$ (260,248)	\$ -	\$ (260,248)
Public Safety	636,417	221,180	65,363	21,622	(328,252)	-	(328,252)
Public Works	671,939	269,808	-	44,285	(357,846)	-	(357,846)
Culture and Recreation	239,987	-	16,999	49,058	(173,930)	-	(173,930)
Economic Development	824,875	21,369	819,930	-	16,424	-	16,424
Airport	190,737	133,341	-	37,592	(19,804)	-	(19,804)
Interest on Long-Term Debt	198,239	-	-	-	(198,239)	-	(198,239)
Total Governmental Activities	3,111,902	735,158	902,292	152,557	(1,321,895)	-	(1,321,895)
BUSINESS-TYPE ACTIVITIES							
Water	264,244	508,046	450	-	-	244,252	244,252
Sewer	557,399	785,313	-	1,945,627	-	2,173,541	2,173,541
Municipal Liquor	1,136,689	1,201,190	-	-	-	64,501	64,501
Total Business-Type Activities	1,958,332	2,494,549	450	1,945,627	-	2,482,294	2,482,294
Total Primary Government	\$ 5,070,234	\$ 3,229,707	\$ 902,742	\$ 2,098,184	(1,321,895)	2,482,294	1,160,399
GENERAL REVENUES							
Property Taxes					555,279	-	555,279
Franchise Fees					31,947	-	31,947
Tax Increments					38,665	-	38,665
Grants and Contributions not Restricted for a Particular Purpose					682,324	-	682,324
Investment Earnings (Losses)					(16,607)	12,772	(3,835)
Miscellaneous					23,897	63,426	87,323
Gain on Sale of Capital Assets					314,752	1,845	316,597
TRANSFERS					355,290	(355,290)	-
Total General Revenues and Transfers					1,985,547	(277,247)	1,708,300
CHANGE IN NET POSITION							
Net Position - Beginning of Year					16,262,410	11,557,136	27,819,546
Prior Period Adjustment (See Note 10)					(35,700)	-	(35,700)
Net Position - Beginning, as Restated					16,226,710	11,557,136	27,783,846
NET POSITION - END OF YEAR							
					\$ 16,890,362	\$ 13,762,183	\$ 30,652,545

See accompanying Notes to Financial Statements

FUND FINANCIAL STATEMENTS

**CITY OF PAYNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220
ASSETS			
Cash and Investments	\$ 1,341,348	\$ 92,511	\$ 100,778
Taxes Receivable - Delinquent	20,016	-	-
Special Assessments Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	24,144	1,020	-
Interest Receivable	51,666	-	-
Prepaid Items	38,859	-	-
Loans Receivable, Net of Allowance	-	855,856	-
Due from Other Funds	110,945	-	-
Advances to Other Funds	127,421	-	1,880
Due from Other Governments	6,538	60,000	-
	<u>1,720,937</u>	<u>1,009,387</u>	<u>102,658</u>
Total Assets	<u>\$ 1,720,937</u>	<u>\$ 1,009,387</u>	<u>\$ 102,658</u>
LIABILITIES			
Accounts Payable	\$ 51,135	\$ 294	\$ 49
Contracts Payable	-	-	16,161
Due to Other Funds	-	94,945	-
Advances from Other Funds	-	-	127,421
Salaries and Benefits Payable	14,042	-	414
Unearned Revenue	15,237	-	-
	<u>80,414</u>	<u>95,239</u>	<u>144,045</u>
Total Liabilities	80,414	95,239	144,045
DEFERRED INFLOWS OF RESOURCES			
Unavailable Taxes	20,017	-	-
Unavailable Special Assessments	-	-	-
Unavailable Grants	-	60,000	-
Unavailable Loans Receivable	-	855,856	-
	<u>20,017</u>	<u>915,856</u>	<u>-</u>
Total Deferred Inflows of Resources	20,017	915,856	-
FUND BALANCES			
Nonspendable for Prepaid Items	38,859	-	-
Nonspendable for Advances to Other Funds	127,421	-	1,880
Restricted for Debt Service	-	-	-
Restricted for Capital Projects	-	-	-
Restricted for Tax Increment Finance Districts	-	-	-
Restricted for Police Operations	-	-	-
Committed for Capital Projects	-	-	-
Unassigned	1,454,226	(1,708)	(43,267)
	<u>1,620,506</u>	<u>(1,708)</u>	<u>(41,387)</u>
Total Fund Balances	1,620,506	(1,708)	(41,387)
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,720,937</u>	<u>\$ 1,009,387</u>	<u>\$ 102,658</u>

See accompanying Notes to Financial Statements

Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 546,070	\$ 1,798,821	\$ 38,036	\$ 3,917,564
-	-	-	20,016
7,802	-	-	7,802
465,624	355,453	-	821,077
-	-	-	25,164
-	-	-	51,666
-	-	-	38,859
-	-	-	855,856
-	-	-	110,945
-	-	-	129,301
5,661	143,031	-	215,230
<u>\$ 1,025,157</u>	<u>\$ 2,297,305</u>	<u>\$ 38,036</u>	<u>\$ 6,193,480</u>
\$ -	\$ 19,375	\$ 21,824	\$ 92,677
-	26,027	-	42,188
-	16,000	-	110,945
-	30,000	1,880	159,301
-	-	-	14,456
-	725	-	15,962
-	92,127	23,704	435,529
-	-	-	20,017
473,426	355,453	-	828,879
-	-	-	60,000
-	-	-	855,856
473,426	355,453	-	1,764,752
-	-	-	38,859
-	-	-	129,301
551,731	-	-	551,731
-	163,752	-	163,752
-	-	12,126	12,126
-	-	3,279	3,279
-	1,715,218	-	1,715,218
-	(29,245)	(1,073)	1,378,933
<u>551,731</u>	<u>1,849,725</u>	<u>14,332</u>	<u>3,993,199</u>
<u>\$ 1,025,157</u>	<u>\$ 2,297,305</u>	<u>\$ 38,036</u>	<u>\$ 6,193,480</u>

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**CITY OF PAYNESVILLE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,993,199

Amounts reported for governmental activities in the statement of net position are different because:

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	\$ 19,803,891	
Less Accumulated Depreciation	<u>(5,923,746)</u>	
		13,880,145

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		1,764,752
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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	\$ (2,730,000)	
Discount on Bonds	51,928	
Other Postemployment Benefits	(4,317)	
Compensated Absences Payable	(41,970)	
Accrued Interest Payable	<u>(23,375)</u>	
		<u>(2,747,734)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 16,890,362

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220
REVENUES			
Property Taxes	\$ 341,057	\$ -	\$ -
Tax Increments	-	-	-
Franchise Taxes	31,947	-	-
Special Assessments	1,927	-	-
Licenses and Permits	186,982	-	-
Intergovernmental	768,146	-	18,773
Charges for Services	243,151	-	-
Fines and Forfeitures	10,600	-	-
Miscellaneous			
Investment Income (Losses)	(20,792)	184	276
Contributions and Donations	3,000	-	-
Other Interest Income	-	21,369	-
Loan Receipts	-	45,178	-
Reimbursements	1,983	249,000	-
Other	15,372	-	-
Total Revenues	<u>1,583,373</u>	<u>315,731</u>	<u>19,049</u>
EXPENDITURES			
CURRENT			
General Government	314,293	-	-
Public Safety	569,983	-	-
Public Works	193,275	-	-
Culture and Recreation	171,576	-	-
Economic Development	-	765,477	23,029
Airport	134,983	-	-
DEBT SERVICE			
Principal	-	-	-
Interest and Other Charges	-	-	-
CAPITAL OUTLAY			
General Government	1,491	-	-
Public Safety	5,644	-	-
Public Works	1,455	-	-
Culture and Recreation	2,670	-	-
Economic Development	-	-	38,212
Airport	77	-	-
Total Expenditures	<u>1,395,447</u>	<u>765,477</u>	<u>61,241</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	187,926	(449,746)	(42,192)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Assets	2,271	-	305,677
Payment on Refunded Bonds from Escrow	-	-	-
Transfers In	42,500	-	27,706
Transfers Out	(198,010)	-	-
Total Other Financing Sources (Uses)	<u>(153,239)</u>	<u>-</u>	<u>333,383</u>
NET CHANGE IN FUND BALANCES	34,687	(449,746)	291,191
Fund Balances (Deficit) - Beginning of Year	1,585,819	448,038	(332,578)
Prior Period Adjustment (see Note 10)	-	-	-
Fund Balances - Beginning, as Restated	<u>1,585,819</u>	<u>448,038</u>	<u>(332,578)</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 1,620,506</u>	<u>\$ (1,708)</u>	<u>\$ (41,387)</u>

See accompanying Notes to Financial Statements

Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 213,300	\$ -	\$ -	\$ 554,357
-	-	46,118	46,118
-	-	-	31,947
97,835	-	-	99,762
-	-	-	186,982
-	393,031	-	1,179,950
-	-	-	243,151
-	-	747	11,347
1,565	1,963	197	(16,607)
-	3,237	-	6,237
-	-	-	21,369
-	-	-	45,178
147,960	116,383	-	515,326
-	8,700	-	24,072
<u>460,660</u>	<u>523,314</u>	<u>47,062</u>	<u>2,949,189</u>
-	-	-	314,293
-	-	4,742	574,725
-	516	-	193,791
-	2,335	-	173,911
-	-	44,217	832,723
-	-	-	134,983
460,000	-	-	460,000
114,854	-	-	114,854
-	10,513	-	12,004
-	44,499	-	50,143
-	328,795	-	330,250
-	154,625	-	157,295
-	-	-	38,212
-	76,788	-	76,865
<u>574,854</u>	<u>618,071</u>	<u>48,959</u>	<u>3,464,049</u>
(114,194)	(94,757)	(1,897)	(514,860)
-	5,875	3,200	317,023
(690,000)	-	-	(690,000)
189,003	285,304	-	544,513
-	(11,754)	-	(209,764)
<u>(500,997)</u>	<u>279,425</u>	<u>3,200</u>	<u>(38,228)</u>
(615,191)	184,668	1,303	(553,088)
1,202,622	1,665,057	13,029	4,581,987
(35,700)	-	-	(35,700)
<u>1,166,922</u>	<u>1,665,057</u>	<u>13,029</u>	<u>4,546,287</u>
<u>\$ 551,731</u>	<u>\$ 1,849,725</u>	<u>\$ 14,332</u>	<u>\$ 3,993,199</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, 2013**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (553,088)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 447,207	
Depreciation Expense	<u>(429,630)</u>	
		17,577

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		141,555
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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.		(13,658)
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Other postemployment benefits are not reported in governmental funds.		(2,632)
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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 position. In the current period, this amount consists of:

Bond Principal Retirement	1,150,000	
Write-off of Bond Issuance Costs	(59,442)	
Bond Discount Amortization	(10,285)	
Compensated Absences Decrease	<u>(6,375)</u>	
		<u>1,073,898</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 663,652

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Water (110,111,113, 523)	Sewer (115,116,117, 118,380,570,575)	Municipal Liquor (105,106)	Total
ASSETS				
CURRENT ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 2,075,972	\$ 2,441,786	\$ 378,289	\$ 4,896,047
Special Assessments Receivable:				
Delinquent	675	652	-	1,327
Deferred	11,262	11,262	-	22,524
Accounts Receivable	90,976	145,258	-	236,234
Due from Other Governments	404	249,784	-	250,188
Advances to Other Funds	-	30,000	-	30,000
Inventories	-	-	165,551	165,551
Prepaid Items	5,907	11,397	3,829	21,133
Total Current Assets	<u>2,185,196</u>	<u>2,890,139</u>	<u>547,669</u>	<u>5,623,004</u>
NONCURRENT ASSETS				
Capital Assets:				
Land	100,546	747,916	-	848,462
Construction in Progress	398,375	5,607,347	-	6,005,722
Buildings and Improvements	461,240	424,095	-	885,335
Furniture and Equipment	-	-	46,022	46,022
Machinery and Equipment	534,324	486,371	-	1,020,695
Wastewater Treatment Facility	-	7,095,342	-	7,095,342
Underground Mains	2,550,920	2,472,181	-	5,023,101
Total Capital Assets	<u>4,045,405</u>	<u>16,833,252</u>	<u>46,022</u>	<u>20,924,679</u>
Less Accumulated Depreciation	<u>(1,586,062)</u>	<u>(7,660,750)</u>	<u>(35,686)</u>	<u>(9,282,498)</u>
Total Noncurrent Assets	<u>2,459,343</u>	<u>9,172,502</u>	<u>10,336</u>	<u>11,642,181</u>
Total Assets	<u>4,644,539</u>	<u>12,062,641</u>	<u>558,005</u>	<u>17,265,185</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	123,815	259,054	22,280	405,149
Contracts Payable	10,323	46,549	-	56,872
Salaries and Wages Payable	1,312	2,365	2,667	6,344
Compensated Absences Payable	4,339	7,572	5,123	17,034
General Obligation Bonds Payable	100,135	50,736	-	150,871
Total Current Liabilities	<u>239,924</u>	<u>366,276</u>	<u>30,070</u>	<u>636,270</u>
NONCURRENT LIABILITIES				
OPEB Liabilities	1,650	3,387	432	5,469
General Obligation Bonds Payable	158,048	2,703,215	-	2,861,263
Total Noncurrent Liabilities	<u>159,698</u>	<u>2,706,602</u>	<u>432</u>	<u>2,866,732</u>
Total Liabilities	<u>399,622</u>	<u>3,072,878</u>	<u>30,502</u>	<u>3,503,002</u>
NET POSITION				
Net Investment in Capital Assets	2,201,159	6,418,550	10,336	8,630,045
Unrestricted	2,043,758	2,571,213	517,167	5,132,138
Total Net Position	<u>\$ 4,244,917</u>	<u>\$ 8,989,763</u>	<u>\$ 527,503</u>	<u>\$ 13,762,183</u>

See accompanying Notes to Financial Statements

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CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013

	Water (110,111,113, 523)	Sewer (115,116,117, 118,380,570,575)	Municipal Liquor (105,106)	Total
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 1,201,303	\$ 1,201,303
Cost of Sales	-	-	938,395	938,395
Gross Profit	-	-	262,908	262,908
OPERATING REVENUES				
Charges For Services	502,582	695,560	-	1,198,142
Permits, Hookup Fees and Penalties	5,724	3,500	-	9,224
Total Operating Revenues	508,306	699,060	-	1,207,366
OPERATING EXPENSES				
Wages and Salaries	61,880	107,739	106,745	276,364
Materials and Supplies	12,256	6,032	5,426	23,714
Repairs and Maintenance	20,162	37,255	7,976	65,393
Professional Services	8,430	95,145	1,914	105,489
Insurance	9,002	22,920	4,757	36,679
Utilities	39,633	151,867	13,268	204,768
Rent	-	-	19,572	19,572
Depreciation	80,347	129,811	1,705	211,863
Miscellaneous	32,534	6,630	37,105	76,269
Total Operating Expenses	264,244	557,399	198,468	1,020,111
OPERATING INCOME	244,062	141,661	64,440	450,163
NONOPERATING REVENUES (EXPENSES)				
Investment Income	5,521	6,166	1,085	12,772
Special Assessments	36	901	-	937
Intergovernmental	-	1,945,627	-	1,945,627
Other Income	450	146,552	1,991	148,993
Gain on Disposal of Assets	-	1,845	-	1,845
Total Nonoperating Revenues (Expenses)	6,007	2,101,091	3,076	2,110,174
NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	250,069	2,242,752	67,516	2,560,337
Capital Contributions to Other Funds	(20,541)	-	-	(20,541)
Transfers In	-	3,001	-	3,001
Transfers Out	(213,000)	(82,250)	(42,500)	(337,750)
CHANGE IN NET POSITION	16,528	2,163,503	25,016	2,205,047
Net Position - Beginning of Year	4,228,389	6,826,260	502,487	11,557,136
NET POSITION - END OF YEAR	<u>\$ 4,244,917</u>	<u>\$ 8,989,763</u>	<u>\$ 527,503</u>	<u>\$ 13,762,183</u>

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	Water (110,111,113, 523)	Sewer (115,116,117, 118,380,570,575)	Municipal Liquor (105,106)	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 505,302	\$ 971,982	\$ 1,201,303	\$ 2,678,587
Payments to Suppliers	(8,949)	(1,094,203)	(1,035,696)	(2,138,848)
Payments to Employees	(64,022)	(112,050)	(106,524)	(282,596)
Net Cash Provided by Operating Activities	432,331	(234,271)	59,083	257,143
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Revenue	450	146,552	1,991	148,993
Transfer to Other Funds	(213,000)	(82,250)	(42,500)	(337,750)
Net Cash Provided (Used) by Noncapital Financing Activities	(212,550)	67,303	(40,509)	(185,756)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental	-	1,945,627	-	1,945,627
Proceeds from Issuance of Debt	258,183	2,753,951	-	3,012,134
Special Assessments	5,052	5,917	-	10,969
Acquisition of Capital Assets	(384,600)	(3,945,488)	-	(4,330,088)
Proceeds on Sale of Capital Assets	-	3,690	-	3,690
Net Cash Provided (Used) by Capital and Related Financing Activities	(121,365)	763,697	-	642,332
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	5,521	6,166	1,085	12,772
NET INCREASE IN CASH AND CASH EQUIVALENTS				
	103,937	602,895	19,659	726,491
Cash and Cash Equivalents - Beginning of Year	1,972,035	1,838,891	358,630	4,169,556
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,075,972	\$ 2,441,786	\$ 378,289	\$ 4,896,047

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	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	\$ 244,062	\$ 141,661	\$ 64,440	\$ 450,163
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	80,347	129,811	1,705	211,863
(Increase) Decrease in Assets:				
Accounts Receivable	(2,600)	(26,029)	-	(28,629)
Due from Other Governments	(404)	298,951	-	298,547
Prepaid Items	30	370	20	420
Inventory	-	-	(14,166)	(14,166)
Increase (Decrease) in Liabilities:				
Accounts Payable	113,038	(774,724)	6,863	(654,823)
Salaries Payable	(2,249)	(4,600)	18	(6,831)
OPEB Liability	286	587	75	948
Compensated Absences Payable	(179)	(298)	128	(349)
Total Adjustments	<u>188,269</u>	<u>(375,932)</u>	<u>(5,357)</u>	<u>(193,020)</u>
Net Cash Provided by Operating Activities	<u>\$ 432,331</u>	<u>\$ (234,271)</u>	<u>\$ 59,083</u>	<u>\$ 257,143</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Contribution of Capital Assets to Governmental Funds	<u>\$ (20,541)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,541)</u>

See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2013**

ASSETS

Cash and Investments	<u>\$ 35,833</u>
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LIABILITIES

Due to Other Governments - Deputy Registrar	<u>\$ 35,833</u>
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See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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). 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 the EDA is a legally separate entity and the 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 position 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, 2013**

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 position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. 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. The primary funding source for this blended component unit is grant revenues.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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. The original funding source for this fund was a grant. Ongoing revenues include loan repayments from local businesses.

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, 2013**

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

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are allocated to the respective funds on 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 funds, 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

3. 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 2012 which was collected during the year ended December 31, 2013. 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 inflows of resources 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 inflows of resources 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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Loans Receivable

Loans receivable represents the unpaid principal portions of loans made to local businesses 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 inflows of resources 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, 2013, 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 classified as nonspendable.

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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position 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

All employees, except the City Administrator, earn paid-time off (PTO) under the City's personnel policy. Under this policy, employees can accrue up to 325 hours of PTO and be paid out up to 175 hours upon resignation. The City Administrator earns sick and vacation time and can receive compensation of one-eighth of her unused sick leave up to a maximum of 100 hours and all of her unused vacation balance. Vacation and PTO 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 position. Bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year of issuance.

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

12. Deferred Outflows of Resources

The City would report decreases in net position or fund balance, that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statement of net position or governmental fund balance sheet. No deferred outflows of resources are reported in these financial statements in the current year.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Deferred Inflows of Resources

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

14. Fund Balance/Net Position

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 position represents the differences between assets and deferred outflows of resources less liabilities and deferred inflows of resources in the government-wide and proprietary financial statements. Net position – net investment in capital assets 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 position is reported as restricted in the financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues, Expenditures, and Expenses

1. Revenues

In the fund financial statements, property taxes are recognized to the extent they are collected and received in the current period or within 60 days after year-end. Portions paid by the State in the form of market value credit aid, and other state tax credits are included in intergovernmental revenues. Delinquent property taxes receivable which have not been recognized as revenue are equally offset in the financial statements by deferred inflows of resources. Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded as revenues measurable and available. Special assessments principal and interest earnings are recorded as revenues in the same manner as property taxes.

Property Tax Collection Calendar

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

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

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

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

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

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

2. Expenditures and Expenses

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

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The following funds had deficit fund balances as of December 31, 2013:

	<u>Total</u>
Economic Development Revolving Loan Fund	\$ (1,708)
Paynesville Economic Development Authority Fund	(41,387)
Nonmajor Governmental Funds	
Tax Increment Financing District No. 1-11 Fund	(56)
Tax Increment Financing District No. 1-12 Fund	(439)
Tax Increment Financing District No. 1-13 Fund	(432)
Tax Increment Financing District No. 1-14 Fund	(146)

Expenditures exceeded budgeted amounts in the following funds:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 1,395,447	\$ 1,384,148	\$ 11,299
Economic Development Authority Fund	61,241	24,608	36,633

The above overages in the General Fund were financed by existing fund balance. The overage in the Economic Development Authority Fund was financed by the sale of a plot in Opportunity Park.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

As of December 31, 2013, the City's deposit and investment balances were as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Deposits		
Checking Accounts	\$ 2,000,965	\$ 1,950,284
Certificates of Deposit	822,070	822,070
Cash on Hand	2,200	2,200
Total Deposits		<u>\$ 2,774,554</u>
Total Deposits and Investments		
Governmental Funds		\$ 3,917,564
Proprietary Funds		4,896,047
Agency Fund		35,833
Total		<u>\$ 8,849,444</u>
	<u>Amount</u>	
Deposits	\$ 2,774,554	
Investments	6,074,890	
Total	<u>\$ 8,849,444</u>	

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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						
Goldman Sachs Bank USA	N/R	N/A	N/A	2/6/2014	3.80%	\$ 96,268
Cit Bank	N/R	N/A	N/A	4/8/2014	3.50%	90,679
American Express Centurion Bank	N/R	N/A	N/A	5/19/2014	1.45%	50,174
Aurora Bank FSB	N/R	N/A	N/A	6/2/2014	1.50%	200,786
Banco Popular De Puerto	N/R	N/A	N/A	8/25/2014	1.20%	246,409
Barclays Bank Delaware	N/R	N/A	N/A	9/16/2014	3.15%	97,690
Ally Bank UT	N/R	N/A	N/A	11/12/2014	1.75%	97,096
GE Capital Retail Bank	N/R	N/A	N/A	11/19/2014	1.70%	96,864
Ally Bank UT	N/R	N/A	N/A	11/26/2014	1.75%	151,766
Capital One, N.A.	N/R	N/A	N/A	12/5/2014	4.85%	99,635
BMW Bank of North America	N/R	N/A	N/A	12/11/2014	3.00%	98,055
American Express Centurion Bank	N/R	N/A	N/A	12/16/2014	3.00%	98,081
Discover Bank	N/R	N/A	N/A	12/16/2014	2.95%	98,036
Midfirst Bank	N/R	N/A	N/A	1/6/2015	3.00%	98,214
BMW Bank of North America	N/R	N/A	N/A	1/14/2015	1.70%	151,976
Paragon Commercial Bank	N/R	N/A	N/A	1/15/2015	3.00%	98,245
Southwest Bank of St. Louis	N/R	N/A	N/A	2/9/2015	4.00%	99,420
Cit Bank- UT	N/R	N/A	N/A	5/18/2015	1.85%	152,384
Stockman Bank of Montana	N/R	N/A	N/A	10/26/2015	5.15%	103,224
Goldman Sachs Bank USA	N/R	N/A	N/A	8/24/2016	1.85%	152,681
GE Capital Financial Inc	N/R	N/A	N/A	8/26/2016	1.85%	55,909
GE Capital Financial Inc	N/R	N/A	N/A	1/9/2017	3.45%	101,893
World Financial Network Bank	N/R	N/A	N/A	1/9/2017	1.85%	246,762
Oriental B&T CD Hato	N/R	N/A	N/A	4/19/2017	0.90%	101,669
State Bank of India	N/R	N/A	N/A	7/25/2017	1.55%	247,325
Sallie Mae Bank-UT	N/R	N/A	N/A	9/19/2017	1.60%	150,606
Doral Bank	N/R	N/A	N/A	9/27/2017	1.25%	100,190
Comenity Bank Jumbo	N/R	N/A	N/A	12/19/2017	1.40%	93,653
GE Capital Bank	N/R	N/A	N/A	12/21/2017	1.05%	142,914
Bank Baroda New York	N/R	N/A	N/A	3/8/2018	1.30%	147,408
Discover BK Greenwood	N/R	N/A	N/A	4/17/2018	1.15%	148,743
Mercantile CD Coral Gables	N/R	N/A	N/A	6/28/2018	1.55%	240,845
Compass BK Birmingham	N/R	N/A	N/A	11/6/2018	1.90%	147,116
Sallie Mae Salt Lake	N/R	N/A	N/A	11/6/2018	2.10%	146,142
GE Capital Retail Bank	N/R	N/A	N/A	12/16/2019	2.00%	99,497
Wells Fargo Bank	N/R	N/A	N/A	12/16/2019	1.60%	95,607
First Business Madison	N/R	N/A	N/A	12/30/2019	2.00%	195,554
Stockman Bank Miles City	N/R	N/A	N/A	2/27/2020	1.75%	143,909
National Bank Superior	N/R	N/A	N/A	3/27/2020	1.70%	233,791
Firstbank CD Santurce	N/R	N/A	N/A	4/14/2020	2.70%	148,757

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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	% of Portfolio	Maturity Date	Interest Rate	
Bonds						
Federal National Mortgage	Moody	AAA	N/A	11/23/2013	1.50%	\$ 93,413
Federal National Mortgage	Moody	AAA	N/A	9/28/2022	1.50%	114,215
Federal National Mortgage	Moody	AAA	N/A	1/3/2023	1.50%	271,758
Federal Home Loan Bank Step	Moody	AAA	N/A	5/16/2023	1.50%	229,532
Total Investments						<u>\$ 6,074,890</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, 2013**

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 11.7 percent of their investments issued by the Federal National Mortgage Association. 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 percent 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, 2013, all City deposits were covered by insurance or collateral.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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, 2013 based on the specific identification method. The City had the following loans receivable as of December 31, 2013:

Interest Rate	Principal Balance 12/31/2013
3.5%	\$ 42,020
4.8%	8,736
3.5%	6,643
3.5%	48,816
3.5%	181,490
3.5%	44,766
3.5%	13,617
3.5%	281,768
3.5%	18,000
3.5%	230,000
Less: Allowance	(20,000)
Total	\$ 855,856

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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, 2013, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 872,445	\$ 97,532	\$ -	\$ 969,977
Construction in Progress	2,689,948	180,569	194,997	2,675,520
Total Capital Assets Not Being Depreciated	<u>3,562,393</u>	<u>278,101</u>	<u>194,997</u>	<u>3,645,497</u>
Capital Assets Being Depreciated				
Buildings and Improvements	1,926,486	19,450	-	1,945,936
Infrastructure - Streets	11,543,927	-	-	11,543,927
Infrastructure - Trails	932,408	-	-	932,408
Furniture and Equipment	197,346	-	-	197,346
Machinery and Equipment	456,824	274,610	38,000	693,434
Vehicles	829,000	70,043	53,700	845,343
Total Capital Assets Being Depreciated	<u>15,885,991</u>	<u>364,103</u>	<u>91,700</u>	<u>16,158,394</u>
Less: Accumulated Depreciation for				
Buildings and Improvements	545,903	48,582	-	594,485
Infrastructure - Streets	3,882,387	285,120	-	4,167,507
Infrastructure - Trails	105,204	23,422	-	128,626
Furniture and Equipment	135,413	6,269	-	141,682
Machinery and Equipment	337,743	25,491	38,000	325,234
Vehicles	579,166	40,746	53,700	566,212
Total Accumulated Depreciation	<u>5,585,816</u>	<u>429,630</u>	<u>91,700</u>	<u>5,923,746</u>
Total Capital Assets Being Depreciated, Net	<u>10,300,175</u>	<u>(65,527)</u>	<u>-</u>	<u>10,234,648</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,862,568</u>	<u>\$ 212,574</u>	<u>\$ 194,997</u>	<u>\$ 13,880,145</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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, 2013:

	Beginning Balance	Additions	Disposals	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 848,462	\$ -	\$ -	\$ 848,462
Construction in Progress	1,710,835	4,294,887	-	6,005,722
Total Capital Assets Not Being Depreciated	<u>2,559,297</u>	<u>4,294,887</u>	-	<u>6,854,184</u>
Capital Assets Being Depreciated				
Buildings and Improvements	885,335	-	-	885,335
Furniture and Equipment	46,022	-	-	46,022
Machinery and Equipment	1,003,571	17,124	-	1,020,695
Wastewater Treatment Facility	7,095,342	-	-	7,095,342
Underground Mains	5,023,101	-	-	5,023,101
Total Capital Assets Being Depreciated	<u>14,053,371</u>	<u>17,124</u>	-	<u>14,070,495</u>
Less: Accumulated Depreciation for				
Buildings and Improvements	568,895	22,229	-	591,124
Furniture and Equipment	33,981	1,705	-	35,686
Machinery, Furniture and Equipment	820,210	25,381	-	845,591
Wastewater Treatment Facility	6,233,906	64,540	-	6,298,446
Underground Mains	1,413,643	98,008	-	1,511,651
Total Accumulated Depreciation	<u>9,070,635</u>	<u>211,863</u>	-	<u>9,282,498</u>
Total Capital Assets Being Depreciated, Net	<u>4,982,736</u>	<u>(194,739)</u>	-	<u>4,787,997</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,542,033</u>	<u>\$ 4,100,148</u>	<u>\$ -</u>	<u>\$ 11,642,181</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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	\$	23,794
Public Safety		34,554
Public Works		303,974
Culture and Recreation		32,636
Airport		<u>34,672</u>
Total Depreciation Expense - Governmental Activities	<u>\$</u>	<u>429,630</u>
Business-Type Activities:		
Water	\$	80,347
Sewer		129,811
Liquor		<u>1,705</u>
Total Depreciation Expense - Business-Type Activities	<u>\$</u>	<u>211,863</u>

B. Interfund Receivables, Payables, and Transfers

1. Due to/from Other Funds

The amounts due to and due from other funds as of December 31, 2013 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	EDA Fund	\$ 94,945	Loan to TIF Fund in Prior Years
	Capital Projects Fund	<u>16,000</u>	Loan to cover negative balance until grant received
	Total	<u>\$ 110,945</u>	

2. Advances to/from Other Funds

The amounts of advances between funds as of December 31, 2013 are as follows:

	<u>Advances From</u>			
	<u>General</u>	<u>EDA Fund</u>	<u>Sewer</u>	<u>Total</u>
Advances To				
EDA Fund	\$ 127,421	\$ -	\$ -	\$ 127,421
Capital Projects	-	-	30,000	30,000
Nonmajor Governmental	<u>-</u>	<u>1,880</u>	<u>-</u>	<u>1,880</u>
Total	<u>\$ 127,421</u>	<u>\$ 1,880</u>	<u>\$ 30,000</u>	<u>\$ 159,301</u>

The balances above are to cover TIF expenses until increments begin, to loan the EDA Fund money until the City sells lots in the Opportunity Park Development, and for Highway 23 bypass that is not expected until 2015.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

3. Interfund Transfers

The composition of interfund transfers as of December 31, 2013 was as follows:

	Transfers Out						Total
	General	Debt Service	Capital Projects	Water	Sewer	Municipal Liquor	
Transfers In:							
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,500	\$ 42,500
Debt Service	-	-	8,753	98,000	82,250	-	189,003
Capital Projects	170,304	-	-	115,000	-	-	285,304
EDA Fund	27,706	-	-	-	-	-	27,706
Sewer	-	-	3,001	-	-	-	3,001
Total	<u>\$ 198,010</u>	<u>\$ -</u>	<u>\$ 11,754</u>	<u>\$ 213,000</u>	<u>\$ 82,250</u>	<u>\$ 42,500</u>	<u>\$ 547,514</u>

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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, 2013 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 Crossover Refunding Bonds

In 2012, the City issued G.O. Improvement Crossover Refunding Bonds; Series 2012A in the amount of \$420,000 with interest rates of 1.00 percent to 1.80 percent to crossover refund \$690,000 of the General Obligation Revenue Bonds of 2006 with a crossover date of December 1, 2013. The refunding bond proceeds, along with \$300,000 of the City's cash were placed in an escrow account and used to purchase U.S. Government Securities. The total cash flow savings to the City attributable to the refunding and defeasance of these bonds is \$50,669 with a net present value benefit of approximately \$50,669.

PFA General Obligation Sewer Revenue Note

In 2013, the City entered into a bond purchase and project loan agreement with Minnesota Public Facilities Authority (PFA). This note was issued for the purpose of constructing a new main lift station and rehabilitation of an aerated pond system, spray irrigation lift station and spray irrigation equipment. The total amount of funds to be received by the City is \$3,069,736. As the City expends funds on this project, they are reimbursed. The reimbursed funds are set up in the form of long-term debt.

PFA General Obligation Water Revenue Note

In 2013, the City entered into a bond purchase and project loan agreement with Minnesota Public Facilities Authority (PFA). This note was issued for the purpose of rehabilitating of the existing water treatment plant. The total amount of funds to be received by the City is \$3,615,135. As the City expends funds on this project, they are reimbursed. The reimbursed funds are set up in the form of long-term debt.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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 2008A	5/21/08	2.3%-3.7%	\$ 1,370,000	12/1/18	\$ 740,000	\$ 135,000
Series 2010A G.O. Improvement	5/1/10	2.0%-3.5%	1,235,000	12/1/20	750,000	100,000
Series 2010B G.O. Improvement	5/1/10	2.0%-3.5%	685,000	12/1/20	495,000	65,000
Series 2010C G.O. Improvement Crossover Refund	11/1/10	2.0%-2.3%	520,000	12/1/17	325,000	100,000
Series 2012A G.O. Improvement Crossover Refund	6/1/12	1.0%-1.8%	420,000	12/1/18	420,000	80,000
Total Governmental Activities Long- Term Debt					2,730,000	480,000
Less: Unamortized Discount					(51,928)	-
Total Governmental Activities Long- Term Debt, Net					<u>\$ 2,678,072</u>	<u>\$ 480,000</u>
BUSINESS-TYPE ACTIVITIES						
2013 PFA G.O. Sewer Revenue Note	2/12/13	1.0%	3,069,736	8/20/32	\$ 2,753,951	\$ 50,736
2013 PFA G.O. Water Revenue Note	11/14/13	1.0%	3,615,135	8/20/33	258,183	100,135
Total Business-Type Activities Long-Term Debt					3,012,134	150,871
Total Long-Term Debt					<u>\$ 5,690,206</u>	<u>\$ 630,871</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	\$ 3,880,000	\$ -	\$ 1,150,000	\$ 2,730,000	\$ 480,000
Other Postemployment Benefits	1,685	2,632	-	4,317	-
Compensated Absences	35,595	75,645	69,270	41,970	29,055
Total Governmental Activities	3,917,280	78,277	1,219,270	2,776,287	509,055
BUSINESS-TYPE ACTIVITIES					
PFA G.O. Revenue Notes	-	3,012,134	-	3,012,134	150,871
Other Postemployment Benefits	4,521	948	-	5,469	-
Compensated Absences	17,383	32,257	32,606	17,034	17,034
Total Business-Type Activities	21,904	3,045,339	32,606	3,034,637	167,905
Total Long-Term Liabilities	<u>\$ 3,939,184</u>	<u>\$ 3,123,616</u>	<u>\$ 1,251,876</u>	<u>\$ 5,810,924</u>	<u>\$ 676,960</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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	G.O. Bonds		PFA G.O. Revenue Notes	
	Principal	Interest	Principal	Interest
2014	\$ 480,000	\$ 74,498	\$ 150,871	\$ 57,738
2015	465,000	63,845	323,000	65,340
2016	485,000	52,773	326,000	62,110
2017	490,000	40,205	329,000	58,850
2018	430,000	26,290	333,000	55,560
2019-2022	380,000	19,570	1,714,000	227,210
2023-2028	-	-	1,800,000	139,790
2029-2032	-	-	1,709,000	47,970
Total	<u>\$ 2,730,000</u>	<u>\$ 277,181</u>	6,684,871	<u>\$ 714,568</u>
			(3,672,737)	
			<u>\$ 3,012,134</u>	

less: amount expected to be drawn down in future
Total

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, 2013. The future minimum lease payments for the leases are as follows:

Year Ended December 31,	Amount
2014	\$ 3,492
2015	850

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, 2013**

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 five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan Member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members 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, 2013**

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 percent and 6.25 percent, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.4 percent of their annual covered salary in 2013. The City of Paynesville is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan GERF members and 14.10 percent for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$28,837, \$34,195, and \$33,490, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$30,291, \$25,969, and \$32,900, 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

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, 2013**

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	\$ 2,702	\$ 974	\$ 3,676
Interest on Net OPEB Obligation	205	74	279
Adjustment to Annual Required Contribution	(275)	(100)	(375)
Annual OPEB Cost (Expense)	2,632	948	3,580
Contributions Made	-	-	-
Increase in Net OPEB Obligation	2,632	948	3,580
Net OPEB Obligation (Asset) - Beginning of Year	1,685	4,521	6,206
Net OPEB Obligation (Asset) - End of Year	<u>\$ 4,317</u>	<u>\$ 5,469</u>	<u>\$ 9,786</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, 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 5,512	81.5 %	\$ 2,570
December 31, 2012	3,637	-	6,206
December 31, 2013	3,580	-	9,786

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress

As of January 1, 2012, 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)
1/1/2012	\$ -	\$ 28,459	\$ 28,459	0.0%	\$ 554,634	5.1%

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, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent 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 healthcare trend rate was 8, reduced by decrements to an ultimate rate of 5 percent after six 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, 2012 does not exceed 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, 2013**

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, 2012, the most recent information available, was \$5,000. The Paynesville Fire Department Relief Association also receives funding from the State of Minnesota as a 2 percent fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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		5,000
Annual Pension Cost		5,000
Less Contribution Made		(5,000)
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	\$	-

The annual required contribution for the current year was determined as part of December 31, 2012, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5 percent 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
2012	\$ 5,000	100%	\$ -

Contributions Required and Made

The City makes contributions to the Relief Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was required to make a contribution of \$6,143 during 2013, \$5,000 during 2012 and \$8,372 during 2011.

Funding Progress

As of December 31, 2012 (the most recent available information), the plan was underfunded by \$44,887. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2012, 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, 2013**

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
Water Treatment Facility	\$ 3,128,700	\$ 196,136	\$ 2,932,564
Trail- Phase 7	504,589	494,508	10,081
Waste Water Treatment Facility	4,708,408	4,608,328	100,080
Opportunity Park Plat	337,472	307,065	30,407
Total			<u>\$ 3,073,132</u>

B. Contingencies

The City, in connection with the normal conduct of its affairs, is involved in one pending claim against the City. The claim has been taken over by the League of Minnesota Cities, the City's insurance company. The League has indicated that the City has coverage for the claims alleged and therefore, such claims will not materially affect the financial statements of the City.

NOTE 10 PRIOR PERIOD ADJUSTMENT

The Debt Service Fund's fund balance and Governmental Activities net position were restated at January 1, 2013 to reflect an overstatement of prior year cash with escrow agent by \$35,700 resulting from the cash held with the agent being used in prior years to pay off bond costs. This prior period adjustment would affect January 1, 2013 fund balance and net position as follows:

<u>Debt Service Fund</u>	
Balance - January 1, 2013, as Previously Reported	\$ 1,202,622
Prior Period Adjustment	<u>(35,700)</u>
Balance - January 1, 2013, as Restated	<u>\$ 1,166,922</u>

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
PROPERTY TAXES	\$ 340,700	\$ 340,700	\$ 341,057	\$ 357
FRANCHISE TAXES	30,735	30,735	31,947	1,212
SPECIAL ASSESSMENTS	-	-	1,927	1,927
LICENSES AND PERMITS	178,100	178,100	186,982	8,882
INTERGOVERNMENTAL REVENUE				
Local Government Aid	679,593	679,593	679,593	-
PERA Aid	2,731	2,731	2,731	-
Fire Aid	28,600	28,600	42,275	13,675
Police Aid	26,000	26,000	20,509	(5,491)
Other Grants and Aids	16,195	16,195	23,038	6,843
Total Intergovernmental Revenue	<u>753,119</u>	<u>753,119</u>	<u>768,146</u>	<u>15,027</u>
CHARGES FOR SERVICES				
General Government	5,700	5,700	5,632	(68)
Public Safety	82,875	82,875	95,816	12,941
Public Works	5,400	5,400	5,465	65
Culture and Recreation	11,000	11,000	16,692	5,692
Airport	90,750	90,750	119,546	28,796
Total Charges for Services	<u>195,725</u>	<u>195,725</u>	<u>243,151</u>	<u>47,426</u>
FINES AND FORFEITURES	14,000	14,000	10,600	(3,400)
MISCELLANEOUS REVENUES				
Investment Income	6,000	6,000	(20,792)	(26,792)
Contributions and Donations	3,000	3,000	3,000	-
Reimbursements	2,000	2,000	1,983	(17)
Other	14,200	14,200	15,372	1,172
Total Miscellaneous Revenues	<u>25,200</u>	<u>25,200</u>	<u>(437)</u>	<u>(25,637)</u>
Total Revenues	<u>1,537,579</u>	<u>1,537,579</u>	<u>1,583,373</u>	<u>45,794</u>

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Mayor and Council	\$ 36,158	\$ 36,158	\$ 30,984	\$ 5,174
Administrative and Finance	144,539	144,539	129,896	14,643
Other General Government	157,280	157,280	153,413	3,867
Capital Outlay	3,379	3,379	1,491	1,888
Total General Government	<u>341,356</u>	<u>341,356</u>	<u>315,784</u>	<u>25,572</u>
PUBLIC SAFETY				
Police				
Current	401,597	401,597	379,105	22,492
Capital Outlay	2,000	2,000	2,030	(30)
Fire				
Current	116,978	116,978	122,917	(5,939)
Capital Outlay	2,000	2,000	3,614	(1,614)
Other				
Current	46,546	46,546	67,961	(21,415)
Capital Outlay	2,150	2,150	-	2,150
Total Public Safety	<u>571,271</u>	<u>571,271</u>	<u>575,627</u>	<u>(4,356)</u>
PUBLIC WORKS				
Streets and Highways				
Street Maintenance and Storm Sewers	94,360	94,360	84,545	9,815
Snow and Ice Removal	63,695	63,695	54,914	8,781
Street Lighting	44,650	44,650	53,816	(9,166)
Street - Other Capital Outlay	2,000	2,000	1,455	545
Total Public Works	<u>204,705</u>	<u>204,705</u>	<u>194,730</u>	<u>9,975</u>
CULTURE AND RECREATION				
Libraries				
Current	7,995	7,995	8,289	(294)
Culture and Recreation				
Current	153,949	153,949	163,287	(9,338)
Capital Outlay	2,200	2,200	2,670	(470)
Total Culture and Recreation	<u>164,144</u>	<u>164,144</u>	<u>174,246</u>	<u>(10,102)</u>
AIRPORT				
Current	101,972	101,972	134,983	(33,011)
Capital Outlay	700	700	77	623
Total Airport	<u>102,672</u>	<u>102,672</u>	<u>135,060</u>	<u>(32,388)</u>
Total Expenditures	<u>1,384,148</u>	<u>1,384,148</u>	<u>1,395,447</u>	<u>(11,299)</u>

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 153,431	\$ 153,431	\$ 187,926	\$ 34,495
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	1,000	1,000	2,271	1,271
Transfers In	42,500	42,500	42,500	-
Transfers Out	(194,912)	(194,912)	(198,010)	(3,098)
Total Other Financing Sources (Uses)	(151,412)	(151,412)	(153,239)	(1,827)
NET CHANGE IN FUND BALANCE	\$ 2,019	\$ 2,019	34,687	\$ 32,668
Fund Balances - Beginning of Year			1,585,819	
FUND BALANCES - END OF YEAR			\$ 1,620,506	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY FUND
YEAR ENDED DECEMBER 31, 2013**

	<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				
INTERGOVERNMENTAL REVENUES				
Other Grants and Aids	\$ -	\$ -	\$ 18,773	\$ 18,773
MISCELLANEOUS REVENUES				
Investment Income	-	-	276	276
Total Revenues	-	-	19,049	19,049
EXPENDITURES				
ECONOMIC DEVELOPMENT				
Current	23,608	23,608	23,029	579
Capital Outlay	1,000	1,000	38,212	(37,212)
Total Expenditures	24,608	24,608	61,241	(36,633)
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	(24,608)	(24,608)	(42,192)	(17,584)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	-	305,677	305,677
Transfers In	24,608	24,608	27,706	3,098
Total Other Financing Sources (Uses)	24,608	24,608	333,383	308,775
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	291,191	<u>\$ 291,191</u>
Fund Balances - Beginning of Year			<u>(332,578)</u>	
FUND BALANCES - END OF YEAR			<u>\$ (41,387)</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2013**

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 fund, capital project fund, 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>
General Fund	\$ 1,395,447	\$ 1,384,148	\$ 11,299
Economic Development Authority	61,241	24,608	36,633

The above overage in the General Fund was financed by existing fund balance. The overage in the Economic Development Authority Fund was financed by the proceeds of sale of a plot in Opportunity Park.

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**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2013**

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
12/31/2012	\$ 649,727	\$ 694,614	\$ 44,887	93.54 %	\$ 2,000
12/31/2011	562,316	642,331	80,015	87.54	2,000
12/31/2010	568,139	605,414	37,275	93.84	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)
1/1/2012	\$ -	\$ 28,459	\$ 28,459	0.0%	\$ 554,634	5.1%
1/1/2009	-	45,768	45,768	0.0%	673,408	6.8%

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OTHER SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	Police Drug/DWI Forfeiture 205	Tax Increment Development District No. 1 255	Tax Increment Financing District No. 1-10 270	Tax Increment Financing District No. 1-11 272	Tax Increment Financing District No. 1-12 273	Tax Increment Financing District No. 1-13 274	Tax Increment Financing District No. 1-13 275	Total Nonmajor Funds
ASSETS								
Cash and Investments	\$ 3,279	\$ 15,569	\$ 14,841	\$ 3,924	\$ 1	\$ 68	\$ 354	\$ 38,036
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts Payable	\$ -	\$ 12,802	\$ 5,482	\$ 3,540	\$ -	\$ -	\$ -	\$ 21,824
Advances from Other Funds	-	-	-	440	440	500	500	1,880
Total Liabilities	-	12,802	5,482	3,980	440	500	500	23,704
FUND BALANCES								
Restricted	3,279	2,767	9,359	-	-	-	-	15,405
Unassigned	-	-	-	(56)	(439)	(432)	(146)	(1,073)
Total Fund Balances	3,279	2,767	9,359	(56)	(439)	(432)	(146)	14,332
Total Liabilities and Fund Balances	\$ 3,279	\$ 15,569	\$ 14,841	\$ 3,924	\$ 1	\$ 68	\$ 354	\$ 38,036

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	Police Drug/DWI Forfeiture 205	Tax Increment Development District No. 1 255	Tax Increment Financing District No. 1-10 270	Tax Increment Financing District No. 1-11 272	Tax Increment Financing District No. 1-12 273	Tax Increment Financing District No. 1-13 274	Tax Increment Financing District No. 1-13 275	Total Nonmajor Funds
REVENUES								
Tax Increments	\$ -	\$ 26,483	\$ 12,182	\$ 7,453	\$ -	\$ -	\$ -	\$ 46,118
Fines and Forfeitures	747	-	-	-	-	-	-	747
Miscellaneous								
Investment Income (Losses)	39	123	39	11	-	-	(15)	197
Total Revenues	<u>786</u>	<u>26,606</u>	<u>12,221</u>	<u>7,464</u>	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>47,062</u>
EXPENDITURES								
CURRENT								
Public Safety	4,742	-	-	-	-	-	-	4,742
Economic Development	-	25,609	10,965	7,080	-	432	131	44,217
Total Expenditures	<u>4,742</u>	<u>25,609</u>	<u>10,965</u>	<u>7,080</u>	<u>-</u>	<u>432</u>	<u>131</u>	<u>48,959</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,956)	997	1,256	384	-	(432)	(146)	(1,897)
OTHER FINANCING SOURCES (USES)								
Proceeds from Sale of Capital Assets	3,200	-	-	-	-	-	-	3,200
NET CHANGE IN FUND BALANCES	(756)	997	1,256	384	-	(432)	(146)	1,303
Fund Balances (Deficit) - Beginning of Year	4,035	1,770	8,103	(440)	(439)	-	-	13,029
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 3,279</u>	<u>\$ 2,767</u>	<u>\$ 9,359</u>	<u>\$ (56)</u>	<u>\$ (439)</u>	<u>\$ (432)</u>	<u>\$ (146)</u>	<u>\$ 14,332</u>

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2013**

	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	\$ 107,407	\$ 161,795	\$ 86,158	\$ 24,296	\$ 166,414	\$ 546,070
Special Assessments Receivable:						
Delinquent	3,474	-	3,268	-	1,060	7,802
Deferred	184,029	77,319	178,457	-	25,819	465,624
Due From Other Governments	2,471	781	897	-	1,512	5,661
Total Assets	<u>\$ 297,381</u>	<u>\$ 239,895</u>	<u>\$ 268,780</u>	<u>\$ 24,296</u>	<u>\$ 194,805</u>	<u>\$ 1,025,157</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Special Assessments	\$ 187,503	\$ 77,319	\$ 181,725	\$ -	\$ 26,879	\$ 473,426
FUND BALANCES						
Restricted for Debt Service	109,878	162,576	87,055	24,296	167,926	551,731
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 297,381</u>	<u>\$ 239,895</u>	<u>\$ 268,780</u>	<u>\$ 24,296</u>	<u>\$ 194,805</u>	<u>\$ 1,025,157</u>

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
DECEMBER 31, 2013**

	G.O. Water and Sewer Refunding Bonds 372	2006 Improvements Debt 520	2008 Improvements Debt 535	2010 G.O. Improvement Bonds, Series A 545
REVENUES				
Property Taxes	\$ -	\$ 40,000	\$ 81,000	\$ 50,000
Special Assessments	-	28,154	14,821	28,928
Miscellaneous				
Investment Income	334	257	368	166
Reimbursements	-	-	-	147,960
Total Revenues	<u>334</u>	<u>68,411</u>	<u>96,189</u>	<u>227,054</u>
EXPENDITURES				
DEBT SERVICE				
Principal	-	70,000	135,000	95,000
Interest and Other Charges	-	36,306	30,083	23,623
Total Expenditures	<u>-</u>	<u>106,306</u>	<u>165,083</u>	<u>118,623</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	334	(37,895)	(68,894)	108,431
OTHER FINANCING SOURCES (USES)				
Payment on Refunded Bonds from Escrow	-	(690,000)	-	-
Transfers In	-	22,500	46,500	93,257
Transfers Out	(57,254)	-	-	-
Total Other Financing Sources (Uses)	<u>(57,254)</u>	<u>(667,500)</u>	<u>46,500</u>	<u>93,257</u>
NET CHANGE IN FUND BALANCES	(56,920)	(705,395)	(22,394)	201,688
Fund Balances - Beginning of Year	92,620	815,273	184,970	(114,633)
Prior Period Adjustment (see Note 10)	<u>(35,700)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - Beginning of Year, as Restated	<u>56,920</u>	<u>815,273</u>	<u>184,970</u>	<u>(114,633)</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 109,878</u>	<u>\$ 162,576</u>	<u>\$ 87,055</u>

2010 G.O. Improvement Bonds, Series B 555	2010 G.O. Crossover Refunding Series C 585	Intrafund Activity	Total Debt Service Fund
\$ 34,500	\$ 7,800	\$ -	\$ 213,300
-	25,932	-	97,835
20	420	-	1,565
-	-	-	147,960
<u>34,520</u>	<u>34,152</u>	<u>-</u>	<u>460,660</u>
65,000	95,000	-	460,000
15,647	9,195	-	114,854
<u>80,647</u>	<u>104,195</u>	<u>-</u>	<u>574,854</u>
(46,127)	(70,043)	-	(114,194)
-	-	-	(690,000)
50,000	34,000	(57,254)	189,003
-	-	57,254	-
<u>50,000</u>	<u>34,000</u>	<u>-</u>	<u>(500,997)</u>
3,873	(36,043)	-	(615,191)
20,423	203,969	-	1,202,622
-	-	-	(35,700)
<u>20,423</u>	<u>203,969</u>	<u>-</u>	<u>1,166,922</u>
<u>\$ 24,296</u>	<u>\$ 167,926</u>	<u>\$ -</u>	<u>\$ 551,731</u>

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEET
CAPITAL PROJECT FUND
DECEMBER 31, 2013**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
ASSETS					
Cash and Investments	\$ 495,628	\$ 146,514	\$ 53,253	\$ 135,828	\$ 39,487
Special Assessments Receivable:					
Deferred	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Total Assets	\$ 495,628	\$ 146,514	\$ 53,253	\$ 135,828	\$ 39,487
LIABILITIES					
Accounts Payable	\$ 143	\$ -	\$ -	\$ -	\$ -
Contracts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Advances from Other Funds	-	-	-	-	-
Unearned Revenue	-	725	-	-	-
Total Liabilities	143	725	-	-	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable Special Assessments	-	-	-	-	-
FUND BALANCES (DEFICIT)					
Restricted for Capital Projects	-	-	-	-	-
Committed for Capital Projects	495,485	145,789	53,253	135,828	39,487
Unassigned	-	-	-	-	-
Total Fund Balances	495,485	145,789	53,253	135,828	39,487
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 495,628	\$ 146,514	\$ 53,253	\$ 135,828	\$ 39,487

Airport Capital Improvements 125	Fire Department Capital Improvements 126, 225	Lake Koronis Recreation Trail 127	Park Dedication 129	Airport Hangar 455	2015 Improvements 218	2014 Improvements 521	2008 Improvements 530
\$ 12,348	\$ 578,644	\$ 48,009	\$ 21,563	\$ (8,920)	\$ 468	\$ 49,709	\$ 120,207
-	-	-	-	-	-	-	-
129,400	-	-	-	-	-	-	-
-	-	-	-	143,031	-	-	-
<u>\$ 141,748</u>	<u>\$ 578,644</u>	<u>\$ 48,009</u>	<u>\$ 21,563</u>	<u>\$ 134,111</u>	<u>\$ 468</u>	<u>\$ 49,709</u>	<u>\$ 120,207</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49	\$ 19,183	\$ -
-	-	26,027	-	-	-	-	-
1,000	-	-	-	144,400	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,000	-	26,027	-	144,400	49	19,183	-
-	-	-	-	-	-	-	-
-	-	21,982	21,563	-	-	-	120,207
140,748	578,644	-	-	-	419	30,526	-
-	-	-	-	(10,289)	-	-	-
<u>140,748</u>	<u>578,644</u>	<u>21,982</u>	<u>21,563</u>	<u>(10,289)</u>	<u>419</u>	<u>30,526</u>	<u>120,207</u>
<u>\$ 141,748</u>	<u>\$ 578,644</u>	<u>\$ 48,009</u>	<u>\$ 21,563</u>	<u>\$ 134,111</u>	<u>\$ 468</u>	<u>\$ 49,709</u>	<u>\$ 120,207</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET (CONTINUED)
 CAPITAL PROJECT FUND
 DECEMBER 31, 2013**

	Heatherwood Plat Three 525	Highway 23 Construction 550	Intrafund Activity	Total Capital Project Fund
ASSETS				
Cash and Investments	\$ 95,039	\$ 11,044	\$ -	\$ 1,798,821
Special Assessments Receivable:				
Deferred	355,453	-	-	355,453
Due from Other Funds	-	-	(129,400)	-
Due from Other Governments	-	-	-	143,031
Total Assets	\$ 450,492	\$ 11,044	\$ (129,400)	\$ 2,297,305
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ 19,375
Contracts Payable	-	-	-	26,027
Due to Other Funds	-	-	(129,400)	16,000
Advances from Other Funds	-	30,000	-	30,000
Unearned Revenue	-	-	-	725
Total Liabilities	-	30,000	(129,400)	92,127
DEFERRED INFLOWS OF RESOURCES				
Unavailable Special Assessments	355,453	-	-	355,453
FUND BALANCES (DEFICIT)				
Restricted for Capital Projects	-	-	-	163,752
Committed for Capital Projects	95,039	-	-	1,715,218
Unassigned	-	(18,956)	-	(29,245)
Total Fund Balances	95,039	(18,956)	-	1,849,725
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 450,492	\$ 11,044	\$ (129,400)	\$ 2,297,305

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**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUND
YEAR ENDED DECEMBER 31, 2013**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
REVENUES					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous					
Investment Income (Losses)	1,228	377	145	379	101
Contributions and Donations	-	-	-	-	-
Reimbursements	116,383	-	-	-	-
Other	-	8,700	-	-	-
Total Revenues	<u>117,611</u>	<u>9,077</u>	<u>145</u>	<u>379</u>	<u>101</u>
EXPENDITURES					
CURRENT					
Public Works	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
CAPITAL OUTLAY					
General Government	-	10,513	-	-	-
Public Safety	-	-	38,068	-	-
Public Works	240,495	-	-	-	-
Culture and Recreation	-	-	-	117,831	-
Airport	-	-	-	-	-
Total Expenditures	<u>240,495</u>	<u>10,513</u>	<u>38,068</u>	<u>117,831</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(122,884)	(1,436)	(37,923)	(117,452)	101
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	-	-	5,875	-	-
Transfers In	82,804	4,000	5,000	15,000	1,000
Transfers Out	(5,000)	-	-	-	-
Total Other Financing Sources (Uses)	<u>77,804</u>	<u>4,000</u>	<u>10,875</u>	<u>15,000</u>	<u>1,000</u>
NET CHANGE IN FUND BALANCES	(45,080)	2,564	(27,048)	(102,452)	1,101
Fund Balances (Deficit) - Beginning of Year	<u>540,565</u>	<u>143,225</u>	<u>80,301</u>	<u>238,280</u>	<u>38,386</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 495,485</u>	<u>\$ 145,789</u>	<u>\$ 53,253</u>	<u>\$ 135,828</u>	<u>\$ 39,487</u>

Airport Capital Improvements 125	Fire Department Capital Improvements 126,225	Lake Koronis Recreation Trail 127	Park Dedication 129	Airport Hangar 455	2015 Improvements 518	2014 Improvements 521	2008 Improvements 530
\$ -	\$ -	\$ 250,000	\$ -	\$ 143,031	\$ -	\$ -	\$ -
207	(676)	(88)	57	(188)	-	(239)	314
-	2,930	307	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>207</u>	<u>2,254</u>	<u>250,219</u>	<u>57</u>	<u>142,843</u>	<u>-</u>	<u>(239)</u>	<u>314</u>
-	-	-	-	-	49	467	-
-	-	2,335	-	-	-	-	-
-	-	-	-	-	-	-	-
-	6,431	-	-	-	-	-	-
-	-	-	-	-	14,532	73,768	-
-	-	36,794	-	-	-	-	-
-	-	-	-	76,788	-	-	-
<u>-</u>	<u>6,431</u>	<u>39,129</u>	<u>-</u>	<u>76,788</u>	<u>14,581</u>	<u>74,235</u>	<u>-</u>
207	(4,177)	211,090	57	66,055	(14,581)	(74,474)	314
-	-	-	-	-	-	-	-
15,000	40,000	7,500	-	-	15,000	105,000	-
-	-	-	-	-	-	-	-
<u>15,000</u>	<u>40,000</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>105,000</u>	<u>-</u>
15,207	35,823	218,590	57	66,055	419	30,526	314
125,541	542,821	(196,608)	21,506	(76,344)	-	-	119,893
<u>\$ 140,748</u>	<u>\$ 578,644</u>	<u>\$ 21,982</u>	<u>\$ 21,563</u>	<u>\$ (10,289)</u>	<u>\$ 419</u>	<u>\$ 30,526</u>	<u>\$ 120,207</u>

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (CONTINUED)
CAPITAL PROJECT FUND
YEAR ENDED DECEMBER 31, 2013**

	Heatherwood Plat Three 525	2010 Improvements 540	Highway 23 Construction 550	Sewer Interceptor 560	Intrafund Activity	Total Capital Project Fund
REVENUES						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 393,031
Miscellaneous						
Investment Income (Losses)	248	51	30	17	-	1,963
Contributions and Donations	-	-	-	-	-	3,237
Reimbursements	-	-	-	-	-	116,383
Other	-	-	-	-	-	8,700
Total Revenues	<u>248</u>	<u>51</u>	<u>30</u>	<u>17</u>	<u>-</u>	<u>523,314</u>
EXPENDITURES						
CURRENT						
Public Works	-	-	-	-	-	516
Culture and Recreation	-	-	-	-	-	2,335
CAPITAL OUTLAY						
General Government	-	-	-	-	-	10,513
Public Safety	-	-	-	-	-	44,499
Public Works	-	-	-	-	-	328,795
Culture and Recreation	-	-	-	-	-	154,625
Airport	-	-	-	-	-	76,788
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>618,071</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	248	51	30	17	-	(94,757)
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Capital Assets	-	-	-	-	-	5,875
Transfers In	-	-	-	-	(5,000)	285,304
Transfers Out	-	(8,753)	-	(3,001)	5,000	(11,754)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(8,753)</u>	<u>-</u>	<u>(3,001)</u>	<u>-</u>	<u>279,425</u>
NET CHANGE IN FUND BALANCES	248	(8,702)	30	(2,984)	-	184,668
Fund Balances (Deficit) - Beginning of Year	<u>94,791</u>	<u>8,702</u>	<u>(18,986)</u>	<u>2,984</u>	<u>-</u>	<u>1,665,057</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 95,039</u>	<u>\$ -</u>	<u>\$ (18,956)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,849,725</u>