

CITY OF PAYNESVILLE, MINNESOTA
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2012

**CITY OF PAYNESVILLE, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF PAYNESVILLE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2012**

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

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paynesville, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the entity'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.

Honorable Mayor and
Members of the City Council
City of Paynesville

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, 2012, 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.

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 schedule 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 28, 2013, 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 28, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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, 2012, and the prior year, 2011, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2012 include the following:

- The assets of the City's general fund exceeded its liabilities at the close of the most recent fiscal year by \$1,585,819. 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 \$1,441,187.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,581,987, a decrease of \$159,495 from the previous year due to the improvements made to Opportunity Park.

OVERVIEW OF THE FINANCIAL STATEMENTS

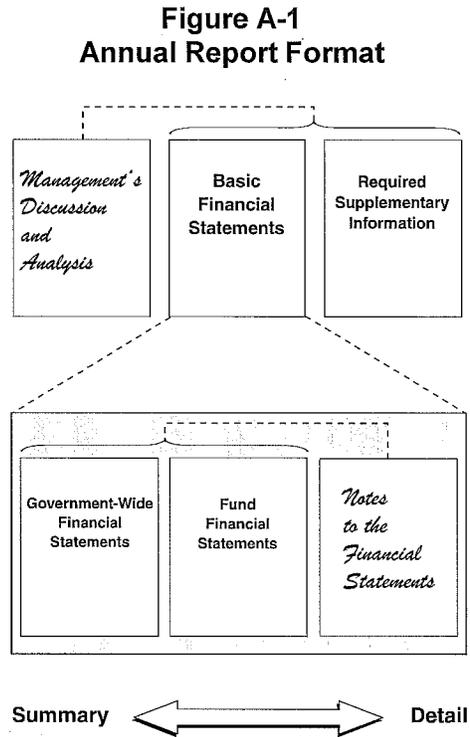
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include 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, 2012**

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, 2012**

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/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

City-Wide Statements

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

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

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

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

City-Wide Statements (Continued)

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

- Governmental activities – The City's basic services are included here. Property taxes, special assessments and state aids finance most of these activities.
- Business-type activities – The City's enterprise fund operations (water, sewer, and municipal liquor) are included here. Charges for services and sales finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or "major" funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The City has three kinds of funds:

- Governmental Funds – The City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for future operations. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the city-wide statements, we provide additional information after the governmental funds statements that explain the relationship (or differences) between them.
- Proprietary Funds – The City reports three proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and municipal liquor operations. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.
- Fiduciary Funds – The City is the fiscal agent, or fiduciary, for assets that belong to the State of Minnesota Deputy Registrar. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in a separate statement of fiduciary net 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, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's overall net position was \$27,819,546 on December 31, 2012.

The City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 6,398,698	\$ 6,363,981	\$ 5,162,717	\$ 4,313,603	\$ 11,561,415	\$ 10,677,584
Capital Assets	13,862,568	13,949,292	7,542,033	6,060,261	21,404,601	20,009,553
Total Assets	<u>20,261,266</u>	<u>20,313,273</u>	<u>12,704,750</u>	<u>10,373,864</u>	<u>32,966,016</u>	<u>30,687,137</u>
Long-Term Liabilities	2,678,910	3,443,465	-	706	2,678,910	3,444,171
Other Liabilities	1,319,946	804,431	1,147,614	60,176	2,467,560	864,607
Total Liabilities	<u>3,998,856</u>	<u>4,247,896</u>	<u>1,147,614</u>	<u>60,882</u>	<u>5,146,470</u>	<u>4,308,778</u>
Net Position						
Invested in Capital Assets, Net of Related Debt	10,739,190	9,821,790	7,542,033	6,060,261	18,281,223	15,882,051
Restricted	2,426,652	2,755,319	-	-	2,426,652	2,755,319
Unrestricted	3,096,568	3,488,268	4,015,103	4,252,721	7,111,671	7,740,989
Total Net Position	<u>\$ 16,262,410</u>	<u>\$ 16,065,377</u>	<u>\$ 11,557,136</u>	<u>\$ 10,312,982</u>	<u>\$ 27,819,546</u>	<u>\$ 26,378,359</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City-wide total revenues were \$5,693,185 for the year ended December 31, 2012. The City-wide cost of all activities this year was \$4,251,998. Total revenues surpassed expenses, increasing net position \$1,441,187 over last year.

The City's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue:						
Program Revenues:						
Charges for Services	\$ 468,539	\$ 473,261	\$ 2,413,609	\$ 2,300,544	\$ 2,882,148	\$ 2,773,805
Operating Grants and Contributions	180,239	82,595	17,121	500	197,360	83,095
Capital Grants and Contributions	556,221	221,581	548,735	-	1,104,956	221,581
General Revenues:						
Property Taxes	544,426	472,429	-	-	544,426	472,429
Franchise Fees	31,530	33,643	-	-	31,530	33,643
Tax Increments	38,151	38,591	-	-	38,151	38,591
Intergovernmental	682,485	697,381	-	-	682,485	697,381
Other Revenue	10,821	13,704	9,562	222,692	20,383	236,396
Investment Income	108,688	151,943	83,058	98,220	191,746	250,163
Total Revenues	2,621,100	2,185,128	3,072,085	2,621,956	5,693,185	4,807,084
Expenses:						
General Government	364,336	482,337	-	-	364,336	482,337
Public Safety	544,147	608,054	-	-	544,147	608,054
Public Works	503,195	469,259	-	-	503,195	469,259
Culture and Recreation	327,778	192,662	-	-	327,778	192,662
Economic Development	182,182	131,955	-	-	182,182	131,955
Interest on Long-Term Debt	115,613	178,195	-	-	115,613	178,195
Airport	300,403	138,588	-	-	300,403	138,588
Water	-	-	265,721	281,834	265,721	281,834
Sewer	-	-	580,630	566,234	580,630	566,234
Municipal Liquor	-	-	1,067,993	1,063,372	1,067,993	1,063,372
Total Expenses	2,337,654	2,201,050	1,914,344	1,911,440	4,251,998	4,112,490
Change in Net Position before Transfers						
Transfers	283,446	(15,922)	1,157,741	710,516	1,441,187	694,594
Transfers	(86,413)	(557,326)	86,413	557,326	-	-
Change in Net Position	197,033	(573,248)	1,244,154	1,267,842	1,441,187	694,594
Net Position, Beginning of Year	16,065,377	16,638,625	10,312,982	9,045,140	26,378,359	25,683,765
Net Position, End of Year	\$ 16,262,410	\$ 16,065,377	\$ 11,557,136	\$ 10,312,982	\$ 27,819,546	\$ 26,378,359

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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		
	2012	2011		2012	2011	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 364,336	\$ 482,337	(24.5)%	\$ (277,957)	\$ (300,238)	7.4 %
Public Safety	544,147	608,054	(10.5)	(264,065)	(285,407)	7.5
Public Works	503,195	469,259	7.2	(437,323)	(371,724)	(17.6)
Culture and Recreation	327,778	192,662	70.1	(67,995)	(172,038)	60.5
Economic and Community Development	182,182	131,955	38.1	(56,761)	(94,183)	39.7
Airport	300,403	138,588	116.8	87,059	(21,828)	498.8
Interest	115,613	178,195	(35.1)	(115,613)	(178,195)	35.1
Total	<u>\$ 2,337,654</u>	<u>\$ 2,201,050</u>	6.2	<u>\$ (1,132,655)</u>	<u>\$ (1,423,613)</u>	20.4
BUSINESS-TYPE ACTIVITIES						
Water	\$ 265,721	\$ 281,834	(5.7)%	\$ 246,455	\$ 162,580	51.6 %
Sewer	580,630	566,234	2.5	756,111	220,013	243.7
Municipal Liquor	1,067,993	1,063,372	0.4	62,555	7,011	792.2
Total	<u>\$ 1,914,344</u>	<u>\$ 1,911,440</u>	0.2	<u>\$ 1,065,121</u>	<u>\$ 389,604</u>	173.4

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

The financial performance of the City as a whole is reflected in its governmental funds as well. As the City completed the year, its governmental funds reported a combined fund balance of \$4,741,482.

The General Fund's fund balance increased \$168,047 from the prior year. This is primarily due to a conscious effort by staff to reduce expenditures below the revenues collected for 2012.

The Economic Development Revolving Loan Fund's fund balance increased \$49,719 as a result of businesses paying back their outstanding loan balances to the City.

The Economic Development Authority Fund's fund balance decreased \$353,651 from the prior year. This is due to the City's capital outlay expenditures for the Opportunity Park Development during the year.

The Debt Service Fund's fund balance increased \$137,832 as a result of the issuance of refunding bonds during the year.

The Capital Project Fund's fund balance increased \$218,020 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 \$186,983 from the prior year. This increase is due primarily to a slight decrease in the amount transferred out to other funds along with minor increases in charges for services revenues.

The Sewer Enterprise Fund's net position increased \$1,026,857 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, 2012**

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

The Municipal Liquor Enterprise Fund's net position increased \$30,314. 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 \$2,518,085, while total expenditures were \$3,316,342.

Governmental Funds				
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	295,892	618,363	540,491	218,020
Debt Service Fund	393,426	856,037	600,443	137,832
Nonmajor Governmental Funds	38,459	36,956	(380,965)	(379,462)
Totals	<u>\$ 2,518,085</u>	<u>\$ 3,316,342</u>	<u>\$ 638,762</u>	<u>\$ (159,495)</u>
2011				
	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 1,812,950	\$ 1,276,101	\$ (371,349)	\$ 165,500
Economic Development Revolving Loan	113,704	11,092	-	102,612
Economic Development Authority	1,285	49,592	26,994	(21,313)
Capital Project Fund	406,676	548,714	289,427	147,389
Debt Service Fund	196,692	1,291,197	314,792	(779,713)
Nonmajor Governmental Funds	48,751	39,354	33,656	43,053
Totals	<u>\$ 2,580,058</u>	<u>\$ 3,216,050</u>	<u>\$ 293,520</u>	<u>\$ (342,472)</u>

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

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 \$168,047 in 2012. The increase is due primarily to a reduction of transfers to other funds.

General Fund Budgetary Highlights

- Actual revenues were \$129,098 more than budget due primarily to the City receiving more grant revenue and investment income than what was budgeted.
- Actual expenditures were \$39,949 less than budget due to vacancies in staff positions during the year.

CAPITAL ASSETS

By the end of 2012, the City had invested approximately \$36,000,000 in a broad range of capital assets, including: buildings, improvements, equipment, and infrastructure. More detailed information about capital assets can be found in the Note 3.A.3 to the financial statements. Total depreciation expense for the year was \$637,099 (including the enterprise funds).

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 872,445	\$ 872,445	\$ 848,462	\$ 848,462	\$ 1,720,907	\$ 1,720,907
Construction in Progress	2,689,948	2,523,074	1,710,835	24,000	4,400,783	2,547,074
Buildings and Improvements	1,380,583	1,429,166	316,440	338,325	1,697,023	1,767,491
Underground Mains	-	-	3,609,458	3,708,038	3,609,458	3,708,038
Wastewater Treatment Facility	-	-	861,436	925,978	861,436	925,978
Infrastructure - Streets	7,661,540	7,946,660	-	-	7,661,540	7,946,660
Infrastructure - Trails	827,204	698,700	-	-	827,204	698,700
Vehicles	249,834	288,235	-	-	249,834	288,235
Furniture and Equipment	61,933	74,717	12,041	13,746	73,974	88,463
Machinery and Equipment	119,081	116,295	183,361	201,712	302,442	318,007
Total Capital Assets	\$ 13,862,568	\$ 13,949,292	\$ 7,542,033	\$ 6,060,261	\$ 21,404,601	\$ 20,009,553

**CITY OF PAYNESVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

LONG-TERM LIABILITIES

At year-end, the City had \$3,880,000 in long-term liabilities outstanding.

- The City's governmental activities total long-term debt decreased \$320,000, due to scheduled repayments on existing debt.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
G.O. Bonds	\$ 3,880,000	\$ 4,125,000	\$ -	\$ -	\$ 3,880,000	\$ 4,125,000
G.O. Revenue Bonds	-	75,000	-	-	-	75,000
Total Outstanding Debt	<u>\$ 3,880,000</u>	<u>\$ 4,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,880,000</u>	<u>\$ 4,200,000</u>

FACTORS BEARING ON THE CITY'S FUTURE

With the state's continued budget crisis, it is probable there will continue to be unallotments in the City's local government aid which is undetermined at this time. The potential maximum loss in state aids could be \$100,000. The City continues to incorporate a contingency plan in its budget to mitigate the lost revenue from the state. The Highway 23 bypass project opened on July 20, 2012, which will give the city some new challenges and opportunities. The City did develop Opportunity Park on the west end of town for commercial and retail business and sold 52,000 square feet within the development. The City is platting the remaining land into five lots to be sold. The City started construction to improve the Wastewater Treatment Facility for a cost of \$5.3 million after being awarded a grant in the amount of \$2.4 million. The City is developing a plan to improve the Water Treatment Facility in 2013.

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, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Including Cash Equivalents)	\$ 3,858,575	\$ 4,169,556	\$ 8,028,131
Cash with Fiscal Agent	35,700	-	35,700
Cash with Escrow	694,409	-	694,409
Property Taxes Receivable	19,094	-	19,094
Accounts Receivable	20,018	207,605	227,623
Interest Receivable	75,612	-	75,612
Due from Other Governments	330,029	548,735	878,764
Special Assessments Receivable			
Delinquent	7,960	1,657	9,617
Deferred	898,102	32,226	930,328
Deferred Debt Issuance Costs	59,442	-	59,442
Inventory	-	151,385	151,385
Prepaid Expenses	39,652	21,553	61,205
Loans Receivable, Net of Allowance	390,105	-	390,105
Internal Balance	(30,000)	30,000	-
Non-Depreciable Capital Assets			
Land	872,445	848,462	1,720,907
Construction in Progress	2,689,948	1,710,835	4,400,783
Depreciable Capital Assets (Net of Accumulated Depreciation)			
Buildings and Improvements	1,380,583	316,440	1,697,023
Furniture and Equipment	61,933	12,041	73,974
Machinery, Furniture and Equipment	119,081	183,361	302,442
Infrastructure - Streets	7,661,540	-	7,661,540
Infrastructure - Trails	827,204	-	827,204
Vehicles	249,834	-	249,834
Wastewater Treatment Facility	-	861,436	861,436
Underground Mains	-	3,609,458	3,609,458
Total Assets	20,261,266	12,704,750	32,966,016
LIABILITIES			
Accounts Payable	81,516	1,059,972	1,141,488
Contracts Payable	30,176	52,563	82,739
Salaries and Benefits Payable	14,720	13,175	27,895
Unearned Revenue	7,660	-	7,660
Interest Payable	9,717	-	9,717
OPEB Liability	1,685	4,521	6,206
Bond Principal Payable:			
Due Within One Year	1,150,000	-	1,150,000
Due in More Than One Year	2,667,787	-	2,667,787
Compensated Absences Payable			
Due Within One Year	24,472	17,383	41,855
Due in More Than One Year	11,123	-	11,123
Total Liabilities	3,998,856	1,147,614	5,146,470
NET POSITION			
Invested in Capital Assets, Net of Related Debt	10,739,190	7,542,033	18,281,223
Restricted for			
Debt Service	1,743,514	-	1,743,514
Capital Projects	164,544	-	164,544
Economic Development Authority	505,565	-	505,565
Tax Increment Districts	8,994	-	8,994
Police Forfeitures	4,035	-	4,035
Unrestricted	3,096,568	4,015,103	7,111,671
Total Net Position	\$ 16,262,410	\$ 11,557,136	\$ 27,819,546

See accompanying Notes to Financial Statements

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**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 364,336	\$ 86,379	\$ -	\$ -	\$ (277,957)	\$ -	\$ (277,957)
Public Safety	544,147	217,993	59,018	3,071	(264,065)	-	(264,065)
Public Works	503,195	6,091	1,000	58,781	(437,323)	-	(437,323)
Culture and Recreation	327,778	-	15,998	243,785	(67,995)	-	(67,995)
Economic Development	182,182	20,726	104,223	472	(56,761)	-	(56,761)
Airport	300,403	137,350	-	250,112	87,059	-	87,059
Interest on Long-Term Debt	115,613	-	-	-	(115,613)	-	(115,613)
Total Governmental Activities	2,337,654	468,539	180,239	556,221	(1,132,655)	-	(1,132,655)
BUSINESS-TYPE ACTIVITIES							
Water	265,721	495,055	17,121	-	-	246,455	246,455
Sewer	580,630	788,006	-	548,735	-	756,111	756,111
Municipal Liquor	1,067,993	1,130,548	-	-	-	62,555	62,555
Total Business-Type Activities	1,914,344	2,413,609	17,121	548,735	-	1,065,121	1,065,121
Total Primary Government	\$ 4,251,998	\$ 2,882,148	\$ 197,360	\$ 1,104,956	(1,132,655)	1,065,121	(67,534)
GENERAL REVENUES							
Property Taxes					544,426	-	544,426
Franchise Fees					31,530	-	31,530
Tax Incentments					38,151	-	38,151
Grants and Contributions not Restricted for a Particular Purpose					682,485	-	682,485
Investment Earnings					108,688	83,058	191,746
Miscellaneous					10,821	5,872	16,693
Gain on Sale of Capital Assets					-	3,690	3,690
TRANSFERS					(86,413)	86,413	-
Total General Revenues and Transfers					1,329,688	179,033	1,508,721
CHANGE IN NET POSITION					197,033	1,244,154	1,441,187
Net Position - Beginning of Year					16,065,377	10,312,982	26,378,359
NET POSITION - END OF YEAR					\$ 16,262,410	\$ 11,557,136	\$ 27,819,546

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FUND FINANCIAL STATEMENTS

**CITY OF PAYNESVILLE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220
ASSETS			
Cash and Investments	\$ 811,534	\$ 551,996	\$ 112,416
Cash with Fiscal Agent	-	-	-
Cash with Escrow	-	-	-
Taxes Receivable - Delinquent	19,094	-	-
Special Assessments Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	10,576	1,139	-
Interest Receivable	75,612	-	-
Prepaid Expenses	39,652	-	-
Loans Receivable, Net of Allowance	-	390,105	-
Due from Other Funds	254,782	-	-
Advances to Other Funds	430,000	-	880
Due from Other Governments	20,285	-	-
	<u>\$ 1,661,535</u>	<u>\$ 943,240</u>	<u>\$ 113,296</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 33,020	\$ 315	\$ 974
Contracts Payable	-	-	14,567
Due to Other Funds	-	104,782	-
Advances from Other Funds	-	-	430,000
Salaries and Benefits Payable	14,387	-	333
Deferred Revenue-Unavailable	20,649	390,105	-
Unearned Revenue	7,660	-	-
	<u>75,716</u>	<u>495,202</u>	<u>445,874</u>
FUND BALANCES			
Nonspendable for Prepaid Expenses	39,652	-	-
Nonspendable for Advances to Other Funds	430,000	-	-
Restricted for Economic Development Authority	-	448,038	-
Restricted for Debt Service	-	-	-
Restricted for Capital Projects	-	-	-
Restricted for Tax Increment Finance Districts	-	-	-
Restricted for Police Operations	-	-	-
Committed for Capital Projects	-	-	-
Unassigned	1,116,167	-	(332,578)
	<u>1,585,819</u>	<u>448,038</u>	<u>(332,578)</u>
Total Fund Balances	<u>\$ 1,585,819</u>	<u>\$ 448,038</u>	<u>\$ (332,578)</u>
Total Liabilities and Fund Balances	<u>\$ 1,661,535</u>	<u>\$ 943,240</u>	<u>\$ 113,296</u>

See accompanying Notes to Financial Statements

Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 576,350	\$ 1,792,370	\$ 13,909	\$ 3,858,575
35,700	-	-	35,700
694,409	-	-	694,409
-	-	-	19,094
7,960	-	-	7,960
542,649	355,453	-	898,102
7,800	503	-	20,018
-	-	-	75,612
-	-	-	39,652
-	-	-	390,105
-	115,000	-	369,782
-	-	-	430,880
3,363	306,381	-	330,029
<u>\$ 1,868,231</u>	<u>\$ 2,569,707</u>	<u>\$ 13,909</u>	<u>\$ 7,169,918</u>

\$ -	\$ 47,207	\$ -	\$ 81,516
-	15,609	-	30,176
115,000	180,000	-	399,782
-	-	880	430,880
-	-	-	14,720
550,609	661,834	-	1,623,197
-	-	-	7,660
665,609	904,650	880	2,587,931
-	-	-	39,652
-	-	-	430,000
-	-	-	448,038
1,317,255	-	-	1,317,255
-	150,101	-	150,101
-	-	8,994	8,994
-	-	4,035	4,035
-	1,806,894	-	1,806,894
(114,633)	(291,938)	-	377,018
<u>1,202,622</u>	<u>1,665,057</u>	<u>13,029</u>	<u>4,581,987</u>
<u>\$ 1,868,231</u>	<u>\$ 2,569,707</u>	<u>\$ 13,909</u>	<u>\$ 7,169,918</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, 2012**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 4,581,987**

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	\$ 19,448,384	
Less Accumulated Depreciation	<u>(5,585,816)</u>	
		13,862,568

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 1,623,197

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	(3,880,000)	
Bond Issuance Costs	59,442	
Discount on Bonds	62,213	
Other Postemployment Benefits	(1,685)	
Compensated Absences Payable	(35,595)	
Accrued Interest Payable	<u>(9,717)</u>	
		<u>(3,805,342)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 16,262,410**

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	General Fund 100	Economic Development Revolving Loan 210	Paynesville Economic Development Authority 220
REVENUES			
Property Taxes	\$ 329,894	\$ -	\$ -
Tax Increments	-	-	-
Franchise Taxes	31,530	-	-
Special Assessments	2,342	-	-
Licenses and Permits	180,170	-	-
Intergovernmental	766,815	-	-
Charges for Services	244,831	-	-
Fines and Forfeitures	13,542	-	-
Miscellaneous			
Investment Income	35,513	11,536	1,234
Contributions and Donations	3,200	-	-
Other Interest Income	-	20,726	-
Loan Receipts	-	125,742	-
Reimbursements	3,258	-	-
Other	19,975	-	-
Total Revenues	<u>1,631,070</u>	<u>158,004</u>	<u>1,234</u>
EXPENDITURES			
CURRENT			
General Government	314,812	-	-
Public Safety	511,399	-	-
Public Works	189,581	-	-
Culture and Recreation	148,937	-	-
Economic Development	-	108,285	25,996
Airport	125,591	-	-
DEBT SERVICE			
Principal	-	-	-
Interest and Other Charges	-	-	-
CAPITAL OUTLAY			
General Government	10,901	-	-
Public Safety	11,509	-	-
Public Works	1,650	-	-
Culture and Recreation	2,168	-	-
Economic Development	-	-	354,157
Airport	-	-	-
Total Expenditures	<u>1,316,548</u>	<u>108,285</u>	<u>380,153</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	314,522	49,719	(378,919)
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	-	-	-
Bond Premium	-	-	-
Transfers In	40,000	-	25,268
Transfers Out	(186,475)	-	-
Total Other Financing Sources (Uses)	<u>(146,475)</u>	<u>-</u>	<u>25,268</u>
NET CHANGE IN FUND BALANCES	168,047	49,719	(353,651)
Fund Balances - Beginning of Year	<u>1,417,772</u>	<u>398,319</u>	<u>21,073</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 1,585,819</u>	<u>\$ 448,038</u>	<u>\$ (332,578)</u>

See accompanying Notes to Financial Statements

Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 212,300	\$ -	\$ -	\$ 542,194
-	-	38,151	38,151
-	-	-	31,530
159,898	55,835	-	218,075
-	-	-	180,170
-	144,680	-	911,495
-	-	-	244,831
-	-	-	13,542
21,228	38,862	308	108,681
-	575	-	3,775
-	-	-	20,726
-	-	-	125,742
-	46,540	-	49,798
-	9,400	-	29,375
<u>393,426</u>	<u>295,892</u>	<u>38,459</u>	<u>2,518,085</u>
-	-	-	314,812
-	-	-	511,399
-	-	-	189,581
-	298	-	149,235
-	-	36,956	171,237
-	141,432	-	267,023
700,000	-	-	700,000
156,037	-	-	156,037
-	146	-	11,047
-	10,539	-	22,048
-	23,352	-	25,002
-	299,106	-	301,274
-	-	-	354,157
-	143,490	-	143,490
<u>856,037</u>	<u>618,363</u>	<u>36,956</u>	<u>3,316,342</u>
(462,611)	(322,471)	1,503	(798,257)
420,000	-	-	420,000
193	-	-	193
180,250	542,172	-	787,690
-	(1,681)	(380,965)	(569,121)
<u>600,443</u>	<u>540,491</u>	<u>(380,965)</u>	<u>638,762</u>
137,832	218,020	(379,462)	(159,495)
<u>1,064,790</u>	<u>1,447,037</u>	<u>392,491</u>	<u>4,741,482</u>
<u>\$ 1,202,622</u>	<u>\$ 1,665,057</u>	<u>\$ 13,029</u>	<u>\$ 4,581,987</u>

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**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, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (159,495)

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	\$ 339,113	
Depreciation Expense	<u>(425,837)</u>	(86,724)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		103,015
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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.		2,008
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Other postemployment benefits are not reported in governmental funds.		(2,673)
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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:

Proceeds on Bonds	(420,000)	
Bond Issuance Costs	20,260	
Bond Principal Retirement	740,000	
Deferred Bond Issuance Cost Amortization	(11,752)	
Bond Discount Amortization	(10,285)	
Compensated Absences Decrease	<u>22,679</u>	
		<u>340,902</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 197,033

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	Water (110,111,113)	Sewer (115,116,117, 118,380,570)	Municipal Liquor (105,106)	Total
ASSETS				
CURRENT ASSETS				
Cash and Investments (Including Cash Equivalents)	\$ 1,972,035	\$ 1,838,891	\$ 358,630	\$ 4,169,556
Special Assessments Receivable:				
Delinquent	840	817	-	1,657
Deferred	16,113	16,113	-	32,226
Accounts Receivable	88,376	119,229	-	207,605
Due from Other Funds	-	30,000	-	30,000
Due from Other Governments	-	548,735	-	548,735
Inventories	-	-	151,385	151,385
Prepaid Expenses	5,937	11,767	3,849	21,553
Total Current Assets	<u>2,083,301</u>	<u>2,565,552</u>	<u>513,864</u>	<u>5,162,717</u>
NONCURRENT ASSETS				
Capital Assets:				
Land	100,546	747,916	-	848,462
Construction in Progress	24,000	1,686,835	-	1,710,835
Buildings and Improvements	461,240	424,095	-	885,335
Furniture and Equipment	-	-	46,022	46,022
Machinery and Equipment	534,324	469,247	-	1,003,571
Wastewater Treatment Facility	-	7,095,342	-	7,095,342
Underground Mains	2,550,920	2,472,181	-	5,023,101
Total Capital Assets	<u>3,671,030</u>	<u>12,895,616</u>	<u>46,022</u>	<u>16,612,668</u>
Less Accumulated Depreciation	<u>(1,505,722)</u>	<u>(7,530,932)</u>	<u>(33,981)</u>	<u>(9,070,635)</u>
Total Noncurrent Assets	<u>2,165,308</u>	<u>5,364,684</u>	<u>12,041</u>	<u>7,542,033</u>
Total Assets	<u>4,248,609</u>	<u>7,930,236</u>	<u>525,905</u>	<u>12,704,750</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	10,777	1,033,778	15,417	1,059,972
Contracts Payable	-	52,563	-	52,563
Salaries and Wages Payable	3,561	6,965	2,649	13,175
Compensated Absences Payable-Due Within One Year	4,518	7,870	4,995	17,383
Total Current Liabilities	<u>18,856</u>	<u>1,101,176</u>	<u>23,061</u>	<u>1,143,093</u>
NONCURRENT LIABILITIES				
OPEB Liabilities	<u>1,364</u>	<u>2,800</u>	<u>357</u>	<u>4,521</u>
Total Liabilities	<u>20,220</u>	<u>1,103,976</u>	<u>23,418</u>	<u>1,147,614</u>
NET POSITION				
Invested in Capital Assets, Net of Related Debt	2,165,308	5,364,684	12,041	7,542,033
Unrestricted	<u>2,063,081</u>	<u>1,461,576</u>	<u>490,446</u>	<u>4,015,103</u>
Total Net Position	<u>\$ 4,228,389</u>	<u>\$ 6,826,260</u>	<u>\$ 502,487</u>	<u>\$ 11,557,136</u>

See accompanying Notes to Financial Statements

CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	Water (110,111,113)	Sewer (115,116,117, 118,380,570)	Municipal Liquor (105,106)	Total
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 1,130,998	\$ 1,130,998
Cost of Sales	-	-	883,128	883,128
Gross Profit	-	-	247,870	247,870
OPERATING REVENUES				
Charges For Services	490,986	704,621	-	1,195,607
Permits, Hookup Fees and Penalties	4,397	778	-	5,175
Total Operating Revenues	495,383	705,399	-	1,200,782
OPERATING EXPENSES				
Wages and Salaries	68,619	119,623	102,940	291,182
Materials and Supplies	12,138	6,376	4,574	23,088
Repairs and Maintenance	20,141	41,186	4,496	65,823
Professional Services	7,240	145,257	1,558	154,055
Insurance	8,456	17,587	3,086	29,129
Utilities	38,736	115,367	11,900	166,003
Rent	-	-	18,101	18,101
Depreciation	80,916	128,641	1,705	211,262
Miscellaneous	29,475	6,593	36,890	72,958
Total Operating Expenses	265,721	580,630	185,250	1,031,601
OPERATING INCOME (LOSS)	229,662	124,769	62,620	417,051
NONOPERATING REVENUES (EXPENSES)				
Investment Income	37,143	38,413	7,502	83,058
Special Assessments	1,057	940	-	1,997
Intergovernmental	16,346	548,735	-	565,081
Other Income	775	85,897	192	86,864
Gain/(Loss) on Disposal of Assets	-	3,690	-	3,690
Total Nonoperating Revenues (Expenses)	55,321	677,675	7,694	740,690
NET INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	284,983	802,444	70,314	1,157,741
Capital Contributions	-	304,982	-	304,982
Transfers In	-	1,681	-	1,681
Transfers Out	(98,000)	(82,250)	(40,000)	(220,250)
CHANGE IN NET POSITION	186,983	1,026,857	30,314	1,244,154
Net Position - Beginning of Year	4,041,406	5,799,403	472,173	10,312,982
NET POSITION - END OF YEAR	<u>\$ 4,228,389</u>	<u>\$ 6,826,260</u>	<u>\$ 502,487</u>	<u>\$ 11,557,136</u>

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Water (110,111,113)	Sewer (115,116,117, 118,380)	Municipal Liquor (105,106)	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 475,412	\$ 157,637	\$ 1,130,998	\$ 1,764,047
Payments to Suppliers	(110,241)	694,963	(994,481)	(409,759)
Payments to Employees	(67,095)	(116,791)	(100,192)	(284,078)
Net Cash Provided by Operating Activities	298,076	735,809	36,325	1,070,210
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental	16,346	-	-	16,346
Miscellaneous Revenue	775	85,897	192	86,864
Transfer to Other Funds	(98,000)	(82,250)	(40,000)	(220,250)
Net Cash Provided (Used) by Noncapital Financing Activities	(80,879)	5,328	(39,808)	(115,359)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessments	10,720	10,593	-	21,313
Acquisition of Capital Assets	-	(1,388,052)	-	(1,388,052)
Proceeds on Sale of Capital Assets	-	3,690	-	3,690
Net Cash Provided (Used) by Capital and Related Financing Activities	10,720	(1,373,769)	-	(1,363,049)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income Received	37,143	38,413	7,502	83,058
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	265,060	(594,219)	4,019	(325,140)
Cash and Cash Equivalents - Beginning of Year	1,706,975	1,831,812	354,611	3,893,398
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,972,035	\$ 1,237,593	\$ 358,630	\$ 3,568,258

See accompanying Notes to Financial Statements

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Water (110,111,113)	Sewer (115,116,117, 118,380)	Municipal Liquor (105,106)	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 229,662	\$ 124,769	\$ 62,620	\$ 417,051
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	80,916	128,641	1,705	211,262
(Increase) Decrease in Assets:				
Accounts Receivable	(20,418)	973	-	(19,445)
Due from Other Governments	447	(548,735)	-	(548,288)
Prepaid Items	(664)	(855)	(1,468)	(2,987)
Inventory	-	-	(21,552)	(21,552)
Increase (Decrease) in Liabilities:				
Accounts Payable	6,609	1,028,184	(7,728)	1,027,065
Salaries Payable	2,533	5,189	884	8,606
OPEB Liability	291	596	76	963
Compensated Absences Payable	(1,300)	(2,953)	1,788	(2,465)
Total Adjustments	68,414	611,040	(26,295)	653,159
Net Cash Provided (Used) by Operating Activities	\$ 298,076	\$ 735,809	\$ 36,325	\$ 1,070,210

See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

ASSETS

Cash and Investments	<u>\$ 55,755</u>
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LIABILITIES

Due to Other Governments - Deputy Registrar	<u>\$ 55,755</u>
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See accompanying Notes to Financial Statements.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012**

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) invested in capital assets, net of related debt; (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, 2012**

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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and compensated absences, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

D. Use of Estimates

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

E. Assets, Liabilities, and Net 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 fund cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months.

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, 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 2011 which was collected during the year ended December 31, 2012. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred revenue in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

4. Accounts Receivable

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary. Write-offs are done on a case-by-case basis.

5. Special Assessments

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

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Loans Receivable

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

The City has provided an allowance for uncollectable loans receivable based the specific identification method. An allowance is estimated for these loans based on the historical experience of the City and knowledge about the loan payment schedules. At December 31, 2012, 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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, 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

During 2012, all employees, except the City Administrator, converted to a paid-time off (PTO) 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 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. 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 liabilities in the government-wide and proprietary financial statements. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire capital assets. Net 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.

F. Revenues, Expenditures, and Expenses

1. Revenues

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

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

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues, Expenditures, and Expenses (Continued)

1. Revenues (Continued)

Property Tax Collection Calendar

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

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

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

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

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

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

2. Expenditures

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

3. Expenses

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget

The budget was prepared for the general and economic development authority fund on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. The budget presented in this report along with the budget to actual is presented in accordance with generally accepted accounting principles. The Economic Development Authority Fund reported expenditures of \$380,153, exceeding the budget of \$25,268 by \$354,885. Overages were funded by existing fund balance.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

As of December 31, 2012, the City's deposit and investment balances were as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Deposits		
Checking Accounts	\$ 1,784,706	\$ 1,472,642
Cash with Fiscal Agent	35,700	35,700
Cash on Hand	600	600
Cash with Escrow Agent	694,409	694,409
Total Deposits		<u>\$ 2,203,351</u>
 Total Deposits and Investments		
Governmental Funds		\$ 4,588,684
Proprietary Funds		4,169,556
Agency Fund		55,755
Total		<u>\$ 8,813,995</u>
 Deposits	 2,203,351	
Investments	<u>6,610,644</u>	
Total	<u>\$ 8,813,995</u>	

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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						
M & I Bank FSB	N/R	N/A	N/A	1/16/2013	4.60%	\$ 96,132
Wachovia Mortgage, FSB	N/R	N/A	N/A	2/6/2013	3.65%	96,206
Oriental Bank & Trust	N/R	N/A	N/A	4/11/2013	4.25%	96,980
Discover Bank	N/R	N/A	N/A	4/15/2013	3.25%	96,756
National City Bank	N/R	N/A	N/A	4/16/2013	4.25%	97,031
Sallie Mae Bank	N/R	N/A	N/A	5/20/2013	3.35%	97,063
Firstbank of Puerto Rico	N/R	N/A	N/A	7/3/2013	5.00%	98,127
American Express Centurion Bank	N/R	N/A	N/A	12/24/2013	4.75%	99,848
Goldman Sachs Bank USA	N/R	N/A	N/A	2/6/2014	3.80%	99,291
Cit Bank	N/R	N/A	N/A	4/8/2014	3.50%	93,141
American Express Centurion Bank	N/R	N/A	N/A	5/19/2014	1.45%	50,489
Aurora Bank FSB	N/R	N/A	N/A	6/2/2014	1.50%	202,048
Banco Popular De Puerto	N/R	N/A	N/A	8/25/2014	1.20%	247,443
Barclays Bank Delaware	N/R	N/A	N/A	9/16/2014	3.15%	99,651
Ally Bank UT	N/R	N/A	N/A	11/12/2014	1.75%	97,858
GE Captial Retail Bank	N/R	N/A	N/A	11/19/2014	1.70%	97,864
Ally Bank UT	N/R	N/A	N/A	11/26/2014	1.75%	152,919
Capital One, N.A.	N/R	N/A	N/A	12/5/2014	4.85%	103,053
BMW Bank of North America	N/R	N/A	N/A	12/11/2014	3.00%	99,708
American Express Centurion Bank	N/R	N/A	N/A	12/16/2014	3.00%	99,724
Discover Bank	N/R	N/A	N/A	12/16/2014	2.95%	99,632
Midfirst Bank	N/R	N/A	N/A	1/6/2015	3.00%	99,852
BMW Bank of North America	N/R	N/A	N/A	1/14/2015	1.70%	152,981
Paragon Commercial Bank	N/R	N/A	N/A	1/15/2015	3.00%	99,833
Southwest Bank of St. Louis	N/R	N/A	N/A	2/9/2015	4.00%	101,898
Cit Bank- UT	N/R	N/A	N/A	5/18/2015	1.85%	150,000
Stockman Bank of Montana	N/R	N/A	N/A	10/26/2015	5.15%	106,396
Goldman Sachs Bank USA	N/R	N/A	N/A	8/24/2016	1.85%	153,195
GE Capital Financial Inc	N/R	N/A	N/A	8/26/2016	1.85%	55,915
GE Capital Financial Inc	N/R	N/A	N/A	1/9/2017	3.45%	103,431
World Financial Network Bank	N/R	N/A	N/A	1/9/2017	1.85%	99,150
State Bank of India	N/R	N/A	N/A	7/25/2017	1.55%	247,492
Sallie Mae Bank-UT	N/R	N/A	N/A	9/19/2017	1.60%	150,575
Doral Bank	N/R	N/A	N/A	9/27/2017	1.25%	246,269
Comenity Bank Jumbo	N/R	N/A	N/A	12/19/2017	1.40%	96,933
GE Capital Bank	N/R	N/A	N/A	12/21/2017	1.05%	95,577
GE Captial Retail Bank	N/R	N/A	N/A	12/16/2019	2.00%	148,209
Wells Fargo Bank	N/R	N/A	N/A	12/16/2019	1.60%	154,748
Bank of America-NC	N/R	N/A	N/A	4/25/2022	2.00%	150,806

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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	
Bonds						
Federal National Mortgage	Moody	AAA	N/A	11/13/2020	2.00%	\$ 300,441
Federal National Mortgage	Moody	AAA	N/A	2/15/2022	2.00%	300,438
Federal National Mortgage	Moody	AAA	N/A	3/21/2022	2.00%	150,462
Federal Home Loan Bank Step	Moody	AAA	N/A	9/28/2022	1.50%	125,081
Central Minnesota Federal Credit Union						
Certificate of Deposit	N/R	N/A	N/A	7/1/2013	1.90%	100,000
Certificate of Deposit	N/R	N/A	N/A	7/1/2013	1.90%	100,000
Certificate of Deposit	N/R	N/A	N/A	9/10/2013	1.80%	200,000
Certificate of Deposit	N/R	N/A	N/A	9/10/2013	1.80%	200,000
Certificate of Deposit	N/R	N/A	N/A	8/27/2014	2.00%	200,000
Certificate of Deposit	N/R	N/A	N/A	9/10/2014	2.00%	200,000
Total Investments						<u>\$ 6,610,644</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, 2012**

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 13.26% 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% 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, 2012, all City deposits were covered by insurance or collateral.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012 based on the specific identification method. The City had the following loans receivable as of December 31, 2012:

Interest Rate	Principal Balance 12/31/2012
4.8%	\$ 9,918
3.5%	98,000
3.5%	200,051
3.5%	50,921
3.5%	43,650
3.5%	7,565
Less: Allowance	<u>(20,000)</u>
Total	<u><u>\$ 390,105</u></u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 872,445	\$ -	\$ -	\$ 872,445
Construction in Progress	2,523,074	623,600	456,726	2,689,948
Total Capital Assets Not Being Depreciated	3,395,519	623,600	456,726	3,562,393
Capital Assets Being Depreciated				
Buildings and Improvements	1,926,486	-	-	1,926,486
Infrastructure - Streets	11,543,927	-	-	11,543,927
Infrastructure - Trails	780,664	151,744	-	932,408
Furniture and Equipment	197,346	-	-	197,346
Machinery and Equipment	436,329	20,495	-	456,824
Vehicles	829,000	-	-	829,000
Total Capital Assets Being Depreciated	15,713,752	172,239	-	15,885,991
Less: Accumulated Depreciation for				
Buildings and Improvements	497,320	48,583	-	545,903
Infrastructure - Streets	3,597,267	285,120	-	3,882,387
Infrastructure - Trails	81,964	23,240	-	105,204
Furniture and Equipment	122,629	12,784	-	135,413
Machinery and Equipment	320,034	17,709	-	337,743
Vehicles	540,765	38,401	-	579,166
Total Accumulated Depreciation	5,159,979	425,837	-	5,585,816
Total Capital Assets Being Depreciated, Net	10,553,773	(253,598)	-	10,300,175
Governmental Activities Capital Assets, Net	<u>\$ 13,949,292</u>	<u>\$ 370,002</u>	<u>\$ 456,726</u>	<u>\$ 13,862,568</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012:

	Beginning Balance	Additions	Disposals	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated				
Land	\$ 848,462	\$ -	\$ -	\$ 848,462
Construction in Progress	24,000	1,686,835	-	1,710,835
Total Capital Assets Not Being Depreciated	872,462	1,686,835	-	2,559,297
Capital Assets Being Depreciated				
Buildings and Improvements	885,335	-	-	885,335
Furniture and Equipment	46,022	-	-	46,022
Machinery and Equipment	1,008,238	6,199	10,866	1,003,571
Wastewater Treatment Facility	7,095,342	-	-	7,095,342
Underground Mains	5,023,101	-	-	5,023,101
Total Capital Assets Being Depreciated	14,058,038	6,199	10,866	14,053,371
Less: Accumulated Depreciation for				
Buildings and Improvements	547,010	21,885	-	568,895
Furniture and Equipment	32,276	1,705	-	33,981
Machinery, Furniture and Equipment	806,526	24,550	10,866	820,210
Wastewater Treatment Facility	6,169,364	64,542	-	6,233,906
Underground Mains	1,315,063	98,580	-	1,413,643
Total Accumulated Depreciation	8,870,239	211,262	10,866	9,070,635
Total Capital Assets Being Depreciated, Net	5,187,799	(205,063)	-	4,982,736
Business-Type Activities Capital Assets, Net	<u>\$ 6,060,261</u>	<u>\$ 1,481,772</u>	<u>\$ -</u>	<u>\$ 7,542,033</u>

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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	\$ 30,310
Public Safety	36,595
Public Works	297,953
Culture and Recreation	31,875
Airport	<u>29,104</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 425,837</u></u>

Business-Type Activities:

Water	\$ 80,915
Sewer	128,642
Liquor	<u>1,705</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 211,262</u></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, 2012 are as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Capital Projects Funds	\$ 150,000	Loan to Cover Until Grant is Received in 2013
	EDA Fund	104,782	Loan to TIF Fund in Prior Years
Capital Projects Funds	Debt Service Funds	115,000	Loan to Cover Until Grant is Received in 2013
Sewer Fund	Capital Projects Funds	<u>30,000</u>	Loan for Highway 23 Bypass Until Paid Back in 2013
	Total	<u><u>\$ 399,782</u></u>	

2. Advances to/from Other Funds

The amounts of advances between funds as of December 31, 2012 are as follows:

Advances From :	Advances To		
	General	EDA Fund	Total
EDA Fund	\$ 430,000	\$ -	\$ 430,000
Nonmajor Governmental	<u>-</u>	<u>880</u>	<u>880</u>
Total	<u><u>\$ 430,000</u></u>	<u><u>\$ 880</u></u>	<u><u>\$ 430,880</u></u>

The balances above are to cover TIF expenses until increments begin and to loan the EDA Fund money until the City sells lots in the Opportunity Park Development.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012 was as follows:

	Transfers Out						Total
	General	Nonmajor Governmental	Capital Projects	Water	Sewer	Municipal Liquor	
Transfers In:							
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,000	\$ 40,000
Debt Service	-	-	-	98,000	82,250	-	180,250
Capital Projects	161,207	380,965	-	-	-	-	542,172
EDA Fund	25,268	-	-	-	-	-	25,268
Sewer	-	-	1,681	-	-	-	1,681
Total	<u>\$ 186,475</u>	<u>\$ 380,965</u>	<u>\$ 1,681</u>	<u>\$ 98,000</u>	<u>\$ 82,250</u>	<u>\$ 40,000</u>	<u>\$ 789,371</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, 2012**

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, 2012 was Moody's Investor A3.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General Obligation Revenue Bonds

The City issues general obligation Revenue bonds to provide funds for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds have been issued for both the water and sewer proprietary activities. Bonds issued to provide funds for proprietary activities are reported in proprietary funds if they are expected to be repaid from proprietary revenues.

General obligation and general obligation revenue bonds are direct obligations and pledge the full faith and credit of the City. Assets of the debt service fund, together with scheduled future ad valorem tax levies, tax increments, special assessments and water and sewer revenues are dedicated for the retirement of these bonds.

General Obligation Crossover Refunding Bonds

In 2012, the City issued G.O. Improvement Crossover Refunding Bonds; Series 2012A in the amount of \$420,000 with interest rates of 1.00% to 1.80% 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.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Components of Long-Term Debt

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds, Including Refunding Bonds						
Series 2006A	4/1/06	3.4%-4.25%	\$ 1,140,000	12/1/21	\$ 760,000	\$ 760,000
Series 2008A	5/21/08	2.3%-3.7%	1,370,000	12/1/18	875,000	135,000
Series 2010A GO Improvement	5/1/10	2.0%-3.5%	1,235,000	12/1/20	845,000	95,000
Series 2010B GO Improvement	5/1/10	2.0%-3.5%	685,000	12/1/20	560,000	65,000
Series 2010C GO Improvement Crossover Refund	11/1/10	2.0%-2.3%	520,000	12/1/17	420,000	95,000
Series 2012A GO Improvement Crossover Refund	6/1/12	1.0%-1.8%	420,000	12/1/18	420,000	-
Total Governmental Activities Long-Term Debt					3,880,000	1,150,000
Less: Unamortized Discount					(62,213)	-
Total Governmental Activities Long-Term Debt, Net					<u>\$ 3,817,787</u>	<u>\$ 1,150,000</u>

3. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
G.O. Improvement Bonds, Including Refunding Bonds	\$ 4,125,000	\$ 420,000	\$ 665,000	\$ 3,880,000	\$ 1,150,000
G.O. Revenue Bonds	75,000	-	75,000 *	-	-
Total Bonds Payable	4,200,000	420,000	740,000	3,880,000	1,150,000
Other Postemployment Benefits	-	1,685	-	1,685	-
Compensated Absences	58,273	18,113	40,791	35,595	24,472
Total Governmental Activities	4,258,273	439,798	780,791	3,917,280	1,174,472
BUSINESS-TYPE ACTIVITIES					
Other Postemployment Benefits	3,558	963	-	4,521	-
Compensated Absences	19,848	17,816	20,281	17,383	17,383
Total Business-Type Activities	23,406	18,779	20,281	21,904	17,383
Total Long-Term Liabilities	<u>\$ 4,281,679</u>	<u>\$ 458,577</u>	<u>\$ 801,072</u>	<u>\$ 3,939,184</u>	<u>\$ 1,191,855</u>

*: The reduction to the G.O. Revenue Bonds do not tie to the current year principal expenditures as the payment is due one day after year-end. The reductions above reflect both the 2012 and January 1, 2013 principal payments made during 2012 in order to reduce the liability at year-end to zero.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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	
	Principal	Interest
2013	\$ 1,150,000	\$ 116,586
2014	480,000	74,498
2015	465,000	63,845
2016	485,000	52,773
2017	490,000	40,205
2018-2021	810,000	34,015
Total	<u>\$ 3,880,000</u>	<u>\$ 381,922</u>

D. Operating Lease

The City leases a postage meter and copier under noncancelable operating leases. Total cost for these leases were \$4,020 for the year ended December 31, 2012. The future minimum lease payments for the leases are as follows:

Year Ended December 31,	Amount
2013	\$ 4,020
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, 2012**

NOTE 4 PENSION PLANS

A. Plan Description

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

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

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

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 GERS. 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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.4% of their annual covered salary in 2012. The City of Paynesville, Minnesota is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members, 7.25% for Coordinated Plan GERS members and 14.10% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$34,195, \$33,490, and \$34,702, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$25,969, \$32,900, and \$31,276, 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, 2012**

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	(114)	30	(84)
Adjustment to Annual Required Contribution	85	(41)	44
Annual OPEB Cost (Expense)	2,673	963	3,636
Contributions Made	-	-	-
Increase in Net OPEB Obligation	2,673	963	3,636
Net OPEB Obligation (Asset) - Beginning of Year	(988)	3,558	2,570
Net OPEB Obligation (Asset) - End of Year	\$ 1,685	\$ 4,521	\$ 6,206

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, 2012 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, 2010	\$ 5,512	102.1 %	\$ 95
December 31, 2011	5,513	81.5	2,570
December 31, 2012	3,637	-	6,206

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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% 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% 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, 2012**

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, 2011, the most recent information available, was \$8,372. The Paynesville Fire Department Relief Association also receives funding from the State of Minnesota as a 2% fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

**CITY OF PAYNESVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 8 RELATED-ORGANIZATION PENSION (CONTINUED)

**Paynesville Fire Relief Association (Relief Association) (Continued)
Funding Policy (Continued)**

Annual Pension Cost and Net Pension Obligation

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

Annual Required Contribution	\$	-
Interest on Net Pension Obligation		-
Adjustment to Annual Required Contribution		<u>8,372</u>
Annual Pension Cost		8,372
Less Contribution Made		<u>(8,372)</u>
Increase (Decrease) in Net Pension Obligation		-
Net Pension Obligation - Beginning of Year		-
Net Pension Obligation - End of Year	\$	<u><u>-</u></u>

The annual required contribution for the current year was determined as part of December 31, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return and (b) age and service retirement was assumed to occur at age 50. Pension benefit obligations on an actuarial basis are not calculated for individual volunteer fire relief associations since state statutes permit alternate calculation of required reserves based on overall actuarial assumptions.

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>December 31,</u> 2011	\$ 8,372	100%	\$ -

Contributions Required and Made

The City makes contributions to the Relief Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City was required to make a contribution of \$8,372 during 2011. There were no required contributions in excess of fire aid for 2010 and 2009.

Funding Progress

As of December 31, 2011 (the most recent available information), the plan was underfunded by \$80,015. Additional information on the funding progress is included in the required supplementary information section of this report.

Related-Party Investments

As of December 31, 2011, 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, 2012**

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
Lighting at Airport	\$ 147,700	\$ 93,528	\$ 54,172
Trail- Phase 7	504,589	203,027	301,562
Waste Water Treatment Facility	4,708,408	998,688	3,709,720
Opportunity Park Plat	337,472	276,772	60,700
Total			<u>\$ 4,126,154</u>

B. Contingencies

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

NOTE 10 SUBSEQUENT EVENTS

On January 23, 2013, the City Council accepted \$321,277 as the sale price for a lot in the Opportunity Park development. The proceeds from the sale of this land will be used to help the City recover a portion of the costs for the infrastructure improvements previously incurred.

In February 2013, the City Council signed a loan agreement with the Minnesota Public Facilities Authority in the amount of \$3,069,736 to be used for the Wastewater Treatment Facility project. The loan has an interest rate of 1.0% and a maturity date of August of 2032.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

**CITY OF PAYNESVILLE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
PROPERTY TAXES	\$ 330,645	\$ 330,645	\$ 329,894	\$ (751)
FRANCHISE TAXES	33,235	33,235	31,530	(1,705)
SPECIAL ASSESSMENTS	-	-	2,342	2,342
LICENSES AND PERMITS	171,816	171,816	180,170	8,354
INTERGOVERNMENTAL REVENUE				
Local Government Aid	629,593	629,593	679,593	50,000
PERA Aid	2,731	2,731	2,692	(39)
Fire Aid	28,845	28,845	30,567	1,722
Police Aid	26,000	26,000	25,890	(110)
Other Grants and Aids	15,195	15,195	28,073	12,878
Total Intergovernmental Revenue	<u>702,364</u>	<u>702,364</u>	<u>766,815</u>	<u>64,451</u>
CHARGES FOR SERVICES				
General Government	7,712	7,712	6,418	(1,294)
Public Safety	117,875	117,875	95,043	(22,832)
Public Works	5,400	5,400	5,391	(9)
Culture and Recreation	15,500	15,500	15,663	163
Airport	80,425	80,425	122,316	41,891
Total Charges for Services	<u>226,912</u>	<u>226,912</u>	<u>244,831</u>	<u>17,919</u>
FINES AND FORFEITURES	15,000	15,000	13,542	(1,458)
MISCELLANEOUS REVENUES				
Investment Income	2,000	2,000	35,513	33,513
Contributions and Donations	3,000	3,000	3,200	200
Reimbursements	2,000	2,000	3,258	1,258
Other	15,000	15,000	19,975	4,975
Total Miscellaneous Revenues	<u>22,000</u>	<u>22,000</u>	<u>61,946</u>	<u>39,946</u>
Total Revenues	1,501,972	1,501,972	1,631,070	129,098

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Mayor and Council	\$ 33,119	\$ 33,119	\$ 33,674	\$ (555)
Administrative and Finance	151,967	151,967	139,433	12,534
Other General Government	145,171	145,171	141,705	3,466
Capital Outlay	1,800	1,800	10,901	(9,101)
Total General Government	<u>332,057</u>	<u>332,057</u>	<u>325,713</u>	<u>6,344</u>
PUBLIC SAFETY				
Police				
Current	393,054	393,054	357,625	35,429
Capital Outlay	2,000	2,000	2,776	(776)
Fire				
Current	116,635	116,635	117,039	(404)
Capital Outlay	2,000	2,000	4,897	(2,897)
Other				
Current	36,969	36,969	36,735	234
Capital Outlay	2,650	2,650	3,836	(1,186)
Total Public Safety	<u>553,308</u>	<u>553,308</u>	<u>522,908</u>	<u>30,400</u>
PUBLIC WORKS				
Streets and Highways				
Street Maintenance and Storm Sewers	97,353	97,353	89,774	7,579
Snow and Ice Removal	66,984	66,984	54,135	12,849
Street Lighting	42,350	42,350	45,672	(3,322)
Street - Other Capital Outlay	2,000	2,000	1,650	350
Total Public Works	<u>208,687</u>	<u>208,687</u>	<u>191,231</u>	<u>17,456</u>
CULTURE AND RECREATION				
Libraries				
Current	8,530	8,530	6,048	2,482
Culture and Recreation				
Current	150,411	150,411	142,889	7,522
Capital Outlay	2,200	2,200	2,168	32
Total Culture and Recreation	<u>161,141</u>	<u>161,141</u>	<u>151,105</u>	<u>10,036</u>
AIRPORT				
Current	100,604	100,604	125,591	(24,987)
Capital Outlay	700	700	-	700
Total Airport	<u>101,304</u>	<u>101,304</u>	<u>125,591</u>	<u>(24,287)</u>
Total Expenditures	<u>1,356,497</u>	<u>1,356,497</u>	<u>1,316,548</u>	<u>39,949</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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 145,475	\$ 145,475	\$ 314,522	\$ 169,047
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	1,000	1,000	-	(1,000)
Transfers In	40,000	40,000	40,000	-
Transfers Out	(186,475)	(186,475)	(186,475)	-
Total Other Financing Sources (Uses)	<u>(145,475)</u>	<u>(145,475)</u>	<u>(146,475)</u>	<u>(1,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	168,047	<u>\$ 168,047</u>
Fund Balances - Beginning of Year			<u>1,417,772</u>	
FUND BALANCES - END OF YEAR			<u>\$ 1,585,819</u>	

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, 2012**

	<u>Budgeted</u>	<u>Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
MISCELLANEOUS REVENUES				
Investment Income	\$ -	\$ -	\$ 1,234	\$ 1,234
EXPENDITURES				
ECONOMIC DEVELOPMENT				
Current	24,148	24,148	25,996	(1,848)
Capital Outlay	<u>1,120</u>	<u>1,120</u>	<u>354,157</u>	<u>(353,037)</u>
Total Expenditures	<u>25,268</u>	<u>25,268</u>	<u>380,153</u>	<u>(354,885)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(25,268)	(25,268)	(378,919)	(353,651)
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>25,268</u>	<u>25,268</u>	<u>25,268</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	(353,651)	<u>\$ (353,651)</u>
Fund Balances - Beginning of Year			<u>21,073</u>	
FUND BALANCES - END OF YEAR			<u>\$ (332,578)</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, 2012**

I. BUDGETARY INFORMATION

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

- a. Prior to September 15 of each year, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. The City adopts the proposed budget as amended and adjusted by the Council and certifies the proposed property tax levy to the County Auditor according to Minnesota Statutes.
- b. Public hearings on the City's budget are conducted at the Council's Chambers at City Hall.
- c. On or before December 28, the final budget is legally enacted by Council resolution and the final property tax levy is certified to the County Auditor.
- d. Management is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Reported budget amounts are as originally adopted or amended by the City Council.
- e. The City has legally adopted budgets for the general fund and certain special revenue funds. The City also adopts budgets for the debt service funds, capital project funds, and enterprise funds. Expenditures may not legally exceed budgeted appropriations at the total fund level. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services, supplies, miscellaneous services and charges, and capital outlay) within each program. All amounts over budget have been approved by the City Council through the disbursement process. The City is not legally required to adopt an annual budget for the capital projects. Project-length financial plans are adopted for the capital projects funds.
- f. Budgets for the general, certain special revenue funds, and the debt service fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

II. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded budgeted amounts in the following funds:

	Expenditures	Budget	Excess
Economic Development Authority	\$ 380,153	\$ 25,268	\$ 354,885

The above overage in the Economic Development Authority Fund was financed by an interfund loan from the General Fund and was due to the City developing Opportunity Park.

**CITY OF PAYNESVILLE, MINNESOTA
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2012**

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
12/31/2011	\$ 562,316	\$ 642,331	\$ 80,015	87.54 %	\$ 2,000
12/31/2010	568,139	605,414	37,275	93.84	2,000
12/31/2009	550,748	612,254	61,506	89.95	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%

OTHER SUPPLEMENTARY INFORMATION

**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	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	Total Nonmajor Funds
ASSETS						
Cash and Investments	\$ 4,035	\$ 1,770	\$ 8,103	\$ -	\$ 1	\$ 13,909
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Advances from Other Funds	\$ -	\$ -	\$ -	\$ 440	\$ 440	\$ 880
FUND BALANCES						
Restricted	4,035	1,770	8,103	(440)	(439)	13,029
Total Liabilities and Fund Balances	\$ 4,035	\$ 1,770	\$ 8,103	\$ -	\$ 1	\$ 13,909

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2012**

	<u>Police Drug/DWI Forfeiture 205</u>	<u>Tax Increment Development District No. 1 255</u>
REVENUES		
Tax Increments	\$ -	\$ 26,005
Miscellaneous		
Investment Income	71	68
Total Revenues	<u>71</u>	<u>26,073</u>
EXPENDITURES		
CURRENT		
Economic Development	<u>-</u>	<u>25,145</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	71	928
OTHER FINANCING SOURCES (USES)		
Transfers Out	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	71	928
Fund Balances (Deficit) - Beginning of Year	<u>3,964</u>	<u>842</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u><u>\$ 4,035</u></u>	<u><u>\$ 1,770</u></u>

Fire Reserve 225	Tax Increment Financing District No. 1-10 270	Tax Increment Financing District No. 1-11 272	Tax Increment Financing District No. 1-12 273	Total Nonmajor Funds
\$ -	\$ 12,146	\$ -	\$ -	\$ 38,151
-	168	-	1	308
-	12,314	-	1	38,459
-	10,931	440	440	36,956
-	1,383	(440)	(439)	1,503
(380,965)	-	-	-	(380,965)
(380,965)	1,383	(440)	(439)	(379,462)
380,965	6,720	-	-	392,491
\$ -	\$ 8,103	\$ (440)	\$ (439)	\$ 13,029

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**CITY OF PAYNESVILLE, MINNESOTA
COMBINING BALANCE SHEETS
DEBT SERVICE FUNDS
DECEMBER 31, 2012**

	G.O. Water and Sewer Refunding Bonds 372	2006 Improvements Debt 520	2008 Improvements Debt 535	2010 G.O. Improvement Bonds, Series A 545	2010 G.O. Improvement Bonds, Series B 555	2010 G.O. Improvement Bonds, Series C 585	Total Debt Service Fund
ASSETS							
Cash and Investments	\$ 56,920	\$ 111,422	\$ 184,970	\$ 367	\$ 20,423	\$ 202,248	\$ 576,350
Cash with Fiscal Agent	35,700	-	-	-	-	-	35,700
Cash with Escrow	-	694,409	-	-	-	-	694,409
Special Assessments Receivable:							
Delinquent	-	3,727	-	2,888	-	1,345	7,960
Deferred	-	206,249	88,008	199,648	-	48,744	542,649
Accounts Receivable	-	7,800	-	-	-	-	7,800
Due From Other Governments	-	1,642	-	-	-	1,721	3,363
Total Assets	\$ 92,620	\$ 1,025,249	\$ 272,978	\$ 202,903	\$ 20,423	\$ 254,058	\$ 1,868,231
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Due to Other Funds	\$ -	\$ -	\$ -	\$ 115,000	\$ -	\$ -	\$ 115,000
Deferred Revenue	-	209,976	88,008	202,536	-	50,089	550,609
Total Liabilities	-	209,976	88,008	317,536	-	50,089	665,609
FUND BALANCES							
Restricted for Debt Service	92,620	815,273	184,970	-	20,423	203,969	1,317,255
Unassigned	-	-	-	(114,633)	-	-	(114,633)
Total Liabilities and Fund Balances	\$ 92,620	\$ 1,025,249	\$ 272,978	\$ 202,903	\$ 20,423	\$ 254,058	\$ 1,868,231

CITY OF PAYNESVILLE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2012

	G.O. Water and Sewer Refunding Bonds 372	2006 Improvements Debt 520	2008 Improvements Debt 535
REVENUES			
Property Taxes	\$ -	\$ 45,000	\$ 77,000
Special Assessments	-	66,772	27,858
Miscellaneous			
Investment Income	1,821	5,687	5,073
Total Revenues	<u>1,821</u>	<u>117,459</u>	<u>109,931</u>
EXPENDITURES			
DEBT SERVICE			
Principal	35,000	70,000	130,000
Interest and Other Charges	7,160	57,328	33,853
Total Expenditures	<u>42,160</u>	<u>127,328</u>	<u>163,853</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(40,339)	(9,869)	(53,922)
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	-	420,000	-
Bond Discount on Bonds Issued	-	193	-
Transfers In	-	22,500	46,500
Total Other Financing Sources (Uses)	<u>-</u>	<u>442,693</u>	<u>46,500</u>
NET CHANGE IN FUND BALANCES	(40,339)	432,824	(7,422)
Fund Balances - Beginning of Year	<u>132,959</u>	<u>382,449</u>	<u>192,392</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 92,620</u>	<u>\$ 815,273</u>	<u>\$ 184,970</u>

2010 G.O. Improvement Bonds, Series A 545	2010 G.O. Improvement Bonds, Series B 555	2010 G.O. Crossover Refunding Series C 585	Total Debt Service Fund
\$ 48,000	\$ 34,500	\$ 7,800	\$ 212,300
26,536	-	38,732	159,898
2,507	1,076	5,064	21,228
<u>77,043</u>	<u>35,576</u>	<u>51,596</u>	<u>393,426</u>
300,000	65,000	100,000	700,000
29,623	16,948	11,125	156,037
<u>329,623</u>	<u>81,948</u>	<u>111,125</u>	<u>856,037</u>
(252,580)	(46,372)	(59,529)	(462,611)
-	-	-	420,000
-	-	-	193
27,250	50,000	34,000	180,250
<u>27,250</u>	<u>50,000</u>	<u>34,000</u>	<u>600,443</u>
(225,330)	3,628	(25,529)	137,832
110,697	16,795	229,498	1,064,790
<u>\$ (114,633)</u>	<u>\$ 20,423</u>	<u>\$ 203,969</u>	<u>\$ 1,202,622</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET
 CAPITAL PROJECT FUNDS
 DECEMBER 31, 2012**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
ASSETS					
Cash and Investments	\$ 425,765	\$ 143,225	\$ 80,301	\$ 238,280	\$ 38,386
Special Assessments Receivable:					
Deferred	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Due from Other Funds	115,000	-	-	-	-
Due from Other Governments	-	-	-	-	-
	\$ 540,765	\$ 143,225	\$ 80,301	\$ 238,280	\$ 38,386
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 200	\$ -	\$ -	\$ -	\$ -
Contracts Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
	200	-	-	-	-
FUND BALANCES (DEFICIT)					
Restricted for Capital Projects	-	-	-	-	-
Committed for Capital Projects	540,565	143,225	80,301	238,280	38,386
Unassigned	-	-	-	-	-
	540,565	143,225	80,301	238,280	38,386
Total Fund Balances	540,565	143,225	80,301	238,280	38,386
Total Liabilities and Fund Balances (Deficit)	\$ 540,765	\$ 143,225	\$ 80,301	\$ 238,280	\$ 38,386

Airport Capital Improvements 125	Fire Department Capital Improvements 126, 225	Lake Koronis Recreation Trail 127	Park Dedication 129	Airport Hangar 455	2008 Improvements 530	Heatherwood Plat Three 525	2010 Improvements 540	Highway 23 Construction 550
\$ 50,541	\$ 542,821	\$ 9,796	\$ 21,506	\$ 4,365	\$ 119,893	\$ 94,791	\$ 8,702	\$ 11,014
-	-	-	-	-	-	355,453	-	-
-	-	-	-	503	-	-	-	-
75,000	-	-	-	-	-	-	-	-
-	-	200,942	-	105,439	-	-	-	-
<u>\$ 125,541</u>	<u>\$ 542,821</u>	<u>\$ 210,738</u>	<u>\$ 21,506</u>	<u>\$ 110,307</u>	<u>\$ 119,893</u>	<u>\$ 450,244</u>	<u>\$ 8,702</u>	<u>\$ 11,014</u>
\$ -	\$ -	\$ 45,718	\$ -	\$ 1,289	\$ -	\$ -	\$ -	\$ -
-	-	10,686	-	4,923	-	-	-	-
-	-	150,000	-	75,000	-	-	-	30,000
-	-	200,942	-	105,439	-	355,453	-	-
-	-	407,346	-	186,651	-	355,453	-	30,000
-	-	-	21,506	-	119,893	-	8,702	-
125,541	542,821	-	-	-	-	94,791	-	-
-	-	(196,608)	-	(76,344)	-	-	-	(18,986)
<u>125,541</u>	<u>542,821</u>	<u>(196,608)</u>	<u>21,506</u>	<u>(76,344)</u>	<u>119,893</u>	<u>94,791</u>	<u>8,702</u>	<u>(18,986)</u>
<u>\$ 125,541</u>	<u>\$ 542,821</u>	<u>\$ 210,738</u>	<u>\$ 21,506</u>	<u>\$ 110,307</u>	<u>\$ 119,893</u>	<u>\$ 450,244</u>	<u>\$ 8,702</u>	<u>\$ 11,014</u>

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**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING BALANCE SHEET (CONTINUED)
 CAPITAL PROJECT FUNDS
 DECEMBER 31, 2012**

	Sewer Interceptor 560	Intrafund Activity	Total Capital Project Fund
ASSETS			
Cash and Investments	\$ 2,984	\$ -	\$ 1,792,370
Special Assessments Receivable:			
Deferred	-	-	355,453
Accounts Receivable	-	-	503
Due from Other Funds	-	(75,000)	115,000
Due from Other Governments	-	-	306,381
	<u>\$ 2,984</u>	<u>\$ (75,000)</u>	<u>\$ 2,569,707</u>
Total Assets			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 47,207
Contracts Payable	-	-	15,609
Due to Other Funds	-	(75,000)	180,000
Deferred Revenue	-	-	661,834
	<u>-</u>	<u>(75,000)</u>	<u>904,650</u>
Total Liabilities			
FUND BALANCES (DEFICIT)			
Restricted for Capital Projects	-	-	150,101
Committed for Capital Projects	2,984	-	1,806,894
Unassigned	-	-	(291,938)
	<u>2,984</u>	<u>-</u>	<u>1,665,057</u>
Total Fund Balances			
Total Liabilities and Fund Balances (Deficit)	<u>\$ 2,984</u>	<u>\$ (75,000)</u>	<u>\$ 2,569,707</u>

**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2012**

	Street and Sidewalk Improvements 120	General Improvements 121	Police Improvements 122	Park Improvements 123	Emergency Services Improvements 124
REVENUES					
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Miscellaneous					
Investment Income	10,272	2,757	1,603	4,807	794
Contributions and Donations	-	-	-	50	-
Reimbursements	-	-	-	-	-
Other	700	8,700	-	-	-
Total Revenues	<u>10,972</u>	<u>11,457</u>	<u>1,603</u>	<u>4,857</u>	<u>794</u>
EXPENDITURES					
CURRENT					
Culture and Recreation	-	-	-	-	-
Airport	-	-	-	-	-
CAPITAL OUTLAY					
General Government	-	146	-	-	-
Public Safety	-	-	3,187	-	3,302
Public Works	15,957	-	-	-	-
Culture and Recreation	-	-	-	20,495	-
Airport	-	-	-	-	-
Total Expenditures	<u>15,957</u>	<u>146</u>	<u>3,187</u>	<u>20,495</u>	<u>3,302</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,985)	11,311	(1,584)	(15,638)	(2,508)
OTHER FINANCING SOURCES (USES)					
Transfers In	79,907	3,800	5,000	15,000	1,000
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>79,907</u>	<u>3,800</u>	<u>5,000</u>	<u>15,000</u>	<u>1,000</u>
NET CHANGE IN FUND BALANCES	74,922	15,111	3,416	(638)	(1,508)
Fund Balances (Deficit) - Beginning of Year	465,643	128,114	76,885	238,918	39,894
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 540,565</u>	<u>\$ 143,225</u>	<u>\$ 80,301</u>	<u>\$ 238,280</u>	<u>\$ 38,386</u>

Airport Capital Improvements 125	Fire Department Capital Improvements 126,225	Lake Koronis Recreation Trail 127	Park Dedication 129	Airport Hangar 455	2008 Improvements 530	Heatherwood Plat Three 525
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,835
-	-	-	-	144,673	-	-
2,702	11,566	82	430	(329)	2,402	1,255
-	240	285	-	-	-	-
-	-	42,843	-	3,697	-	-
-	-	-	-	-	-	-
<u>2,702</u>	<u>11,806</u>	<u>43,210</u>	<u>430</u>	<u>148,041</u>	<u>2,402</u>	<u>57,090</u>
-	-	298	-	-	-	-
-	-	-	-	141,432	-	-
-	-	-	-	-	-	-
-	4,050	-	-	-	-	-
-	-	-	-	-	-	-
-	-	278,611	-	-	-	-
-	-	-	-	143,490	-	-
-	<u>4,050</u>	<u>278,909</u>	-	<u>284,922</u>	-	-
2,702	7,756	(235,699)	430	(136,881)	2,402	57,090
9,000	420,965	7,500	-	48,503	-	-
(48,503)	-	-	-	-	-	-
<u>(39,503)</u>	<u>420,965</u>	<u>7,500</u>	-	<u>48,503</u>	-	-
(36,801)	428,721	(228,199)	430	(88,378)	2,402	57,090
<u>162,342</u>	<u>114,100</u>	<u>31,591</u>	<u>21,076</u>	<u>12,034</u>	<u>117,491</u>	<u>37,701</u>
<u>\$ 125,541</u>	<u>\$ 542,821</u>	<u>\$ (196,608)</u>	<u>\$ 21,506</u>	<u>\$ (76,344)</u>	<u>\$ 119,893</u>	<u>\$ 94,791</u>

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**CITY OF PAYNESVILLE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES (CONTINUED)
 CAPITAL PROJECT FUNDS
 YEAR ENDED DECEMBER 31, 2012**

	2010 Improvements 540	Highway 23 Construction 550	Sewer Interceptor 560	Wastewater Facility Plan 570	Intrafund Activity	Total Capital Project Fund
REVENUES						
Special Assessments						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,835
Miscellaneous	-	-	7	-	-	144,680
Investment Income						
Contributions and Donations	175	293	53	-	-	38,862
Reimbursements	-	-	-	-	-	575
Other	-	-	-	-	-	46,540
Total Revenues	-	-	-	-	-	9,400
	175	293	60	-	-	295,892
EXPENDITURES						
CURRENT						
Public Works						
Culture and Recreation	-	-	-	-	-	298
Airport	-	-	-	-	-	141,432
CAPITAL OUTLAY						
General Government	-	-	-	-	-	146
Public Safety	-	-	-	-	-	10,539
Public Works	-	7,395	-	-	-	23,352
Culture and Recreation	-	-	-	-	-	299,106
Airport	-	-	-	-	-	143,490
Total Expenditures	-	7,395	-	-	-	618,363
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	175	(7,102)	60	-	-	(322,471)
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	-	-	(48,503)	542,172
Transfers Out	-	-	-	(1,681)	48,503	(1,681)
Total Other Financing Sources (Uses)	-	-	-	(1,681)	-	540,491
NET CHANGE IN FUND BALANCES	175	(7,102)	60	(1,681)	-	218,020
Fund Balances (Deficit) - Beginning of Year	8,527	(11,884)	2,924	1,681	-	1,447,037
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 8,702	\$ (18,986)	\$ 2,984	\$ -	\$ -	\$ 1,665,057

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