

**CITY OF BARRETT**

Financial Statements

For the Year Ended December 31, 2010

# CITY OF BARRETT

## Table of Contents

|   | Page    |
|---|---------|
| SECTION I - INTRODUCTION SECTION  |         |
| City Council  | 1       |
| SECTION II - FINANCIAL SECTION  |         |
| INDEPENDENT AUDITOR'S REPORT  | 2       |
| REQUIRED SUPPLEMENTARY INFORMATION  |         |
| Management's Discussion and Analysis  | 3 - 14  |
| BASIC FINANCIAL STATEMENTS  |         |
| Statement of Net Assets   | 15      |
| Statement of Activities   | 16      |
| Balance Sheet - Governmental Funds  | 17      |
| Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds   | 18      |
| Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds   | 19      |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to<br>Statement of Activities - Governmental Funds   | 20      |
| Statement of Net Assets - Proprietary Funds   | 21      |
| Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds  | 22      |
| Statement of Cash Flows - Proprietary Funds   | 23 - 24 |
| NOTES TO CITY FINANCIAL STATEMENTS  | 25 - 36 |
| REQUIRED SUPPLEMENTARY INFORMATION  |         |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance -<br>Budget and Actual - General Fund   | 37      |
| Notes to Schedule of Revenues, Expenditures and Changes in Fund Balance -<br>Budget and Actual  | 38      |
| OTHER REPORTS   |         |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON<br>COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL<br>STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING<br>STANDARDS | 39 - 40 |
| SUMMARY SCHEDULE OF AUDIT FINDINGS AND RESPONSES  | 41 - 43 |
| INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE  | 44      |

# CITY OF BARRETT

## City Council Year Ended December 31, 2010

### Term on Council Expires

|                     |            |                 |
|---------------------|------------|-----------------|
| Les Alvstad         | 12/31/2010 | Mayor           |
| Troy Johnson        | 12/31/2012 | Council Member  |
| Earl Janshen        | 12/31/2012 | Council Member  |
| Deborah Nelson-Pick | 12/31/2010 | Council Member  |
| Kathy Boys          | 12/31/2010 | Council Member  |
| Marita Rhude        |            | Clerk/Treasurer |

**FINANCIAL SECTION**

# DINHAM, FOLKERT & ASSOCIATES CHTD.

Certified Public Accountants

---

1309 Highway 29 North, P.O. Box 759 - Alexandria MN 56308  
(320) 763-5188 - Fax (320)763-5180- Email: dfasso@rea-alp.com

## INDEPENDENT AUDITOR'S REPORT

To the Mayor  
and Members of the City Council  
City of Barrett  
Barrett, 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 Barrett as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2009 financial statements and, in our report dated June 24, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2011, on our consideration of City of Barrett's internal control over financial reporting and 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 results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 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.



---

Dinham, Folkert & Associates Chtd.  
June 9, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# CITY OF BARRETT

## Management's Discussion and Analysis Year Ended December 31, 2010

This section of the City of Barrett's annual financial report presents the City's management discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2010. Please read it in conjunction with the City's financial statements, which immediately follows this section.

The Management's Discussion and analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designated to make annual reports easier for the public to understand and more useful to stockholder. Specifically, Statement No. 34 establishes new reporting requirements that include new financial statements, expanded disclosure and supplemental information, including the MD&A (this section).

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010 fiscal year include the following:

- Total net assets increased 6.7% over the prior year.
- Business-type activities have total net assets of \$2,307,116, of which there is \$2,000,985 invested in capital assets, net of related debt. Of the total net assets of Business-type activities there is a \$146,603 in unrestricted-undesignated fund balance.
- General Fund balance increased \$84,146 to \$458,398 which was a 22.5% increase.
- The City received intergovernmental revenue during 2010 of \$104,313 along with \$156,609 in capital grant funds that were used.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements, and supplemental information.

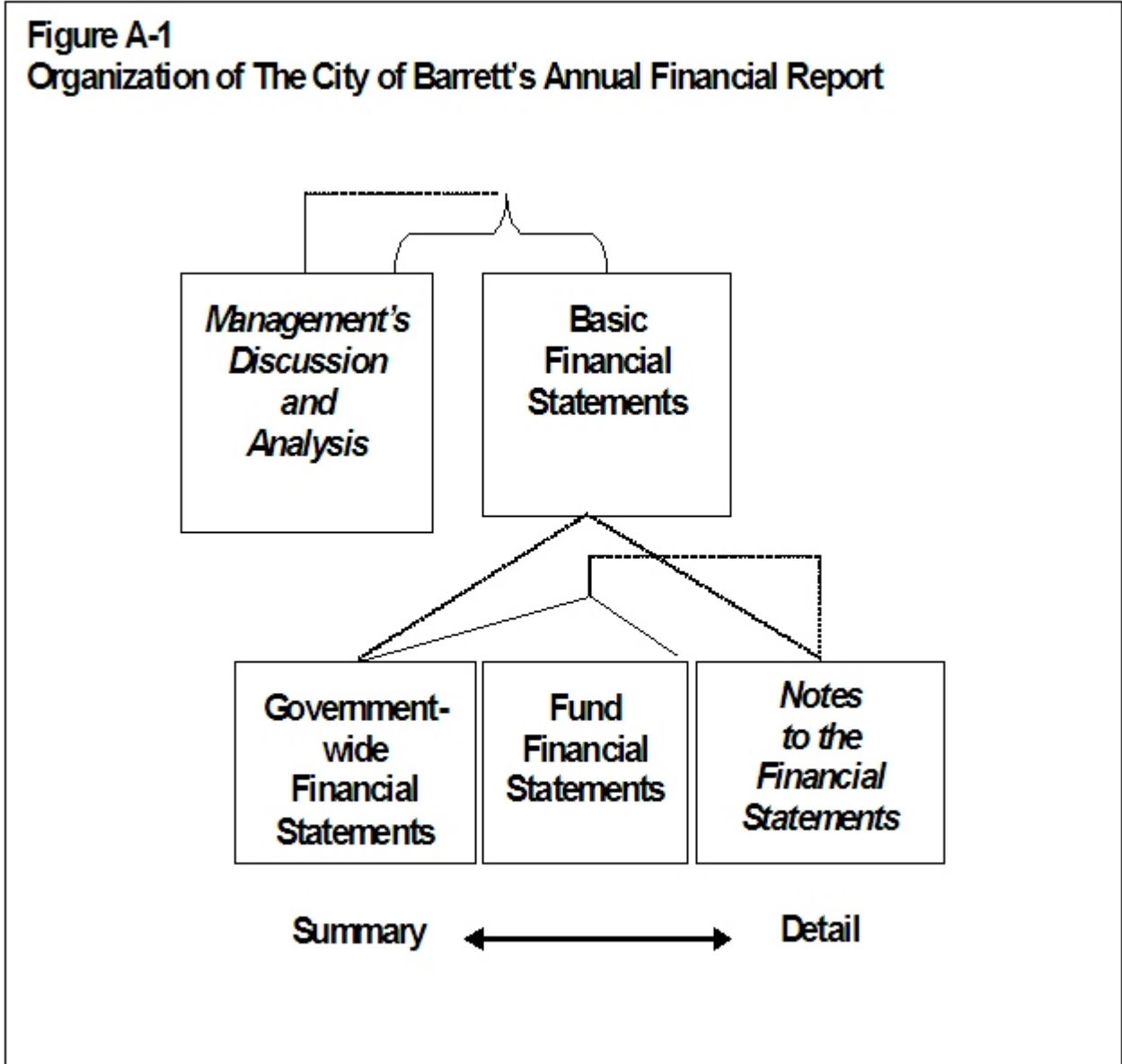
The basic financial statements include two kinds of statements that present different views of the City:

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

**CITY OF BARRETT**

Management's Discussion and Analysis  
Year Ended December 31, 2010

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.





## CITY OF BARRETT

### Management's Discussion and Analysis Year Ended December 31, 2010

Figure A-2 summarizes the major features of the City's financial statement, including the portion of the City's activities they cover and the types of information they contain. The remainder of the overview section of the MD&A highlights the structure and contents of each of the statements

| Figure A-2<br>Major Features of the Government-wide and Fund Financial Statements |   |   |
|---|---|---|
|   | Government-wide Statements  | Fund Financial Statements   |
|   |   | Governmental Funds  |
| Scope   | Entire City   | The activities of the City that are not proprietary or fiduciary, such as general government, special revenue, debt service   |
| Required financial statements   | <ul style="list-style-type: none"> <li>• Statements of net assets</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>                                    |
| Accounting Basis and measurements focus   | Accrual accounting and economic resources focus   | Modified accrual accounting and current financial focus   |
| Type of asset/liability information   | All assets and liabilities, both financial and capital, short-term and long-term                                | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included                     |
| 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 the related liability is due and payable |

#### **Government-wide Financial Statements - The Statement of Net Assets and The Statement of Activities**

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

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

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

# CITY OF BARRETT

## Management's Discussion and Analysis Year Ended December 31, 2010

### **Government-wide Financial Statements - The statement of Net Assets and the Statement of Activities (cont.)**

In the Government-wide financial statements, the City's activities are shown in two categories.

- Governmental activities - All of the City's basic services are included here, such as regular city services, debt service, and special revenue information. Property taxes, special assessments, and state aids and grants finance most of these activities.
- Business type activities - The City charges a fee to customers to cover all or most of cost of services it provides. The City's water and sewer operations are reported here.

### **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., grants).

The City has two kinds of funds:

- Governmental funds - Most of 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 (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detail short-term view that helps to determine whether there are more or fewer financial resources that can be spent in a new future to finance the City's programs. Because this information does not encompass the additional long-term focus of the Government-wide financial statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.
- Proprietary funds - When the City charges customers for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the City's enterprise fund presents the same information as the business-type activities in the government-wide financial statements but provides more detail and additional information, such as cash flows.

# CITY OF BARRETT

## Management's Discussion and Analysis Year Ended December 31, 2010

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

#### Net Assets

The City combined nets assets were \$3,503,069 on December 31, 2010. This was an increase of 6.7% from the prior year (see Table A-1).

|   | Governmental Activities  |                     | Business-Type Activities |                     | Total Primary Government |                     |
|---|--------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
|   | 2010                     | 2009                | 2010                     | 2009                | 2010                     | 2009                |
|   | Current and Other Assets | \$ 818,607          | \$ 748,089               | \$ 443,549          | \$ 234,623               | \$ 1,262,156        |
| Capital Assets                                  | 618,329                  | 596,306             | 3,720,871                | 3,706,126           | 4,339,200                | 4,302,432           |
| <b>Total Assets</b>                             | <b>1,436,936</b>         | <b>1,344,395</b>    | <b>4,164,420</b>         | <b>3,940,749</b>    | <b>5,601,356</b>         | <b>5,285,144</b>    |
| Long-term Liabilities                           | 185,761                  | 201,095             | 1,722,000                | 83,000              | 1,907,761                | 284,095             |
| Other Liabilities                               | 55,222                   | 54,875              | 135,304                  | 1,664,041           | 190,526                  | 1,718,916           |
| <b>Total Liabilities</b>                        | <b>240,983</b>           | <b>255,970</b>      | <b>1,857,304</b>         | <b>1,747,041</b>    | <b>2,098,287</b>         | <b>2,003,011</b>    |
| Net Assets                                      |                          |                     |                          |                     |                          |                     |
| Invested in capital assets, net of related debt | 395,960                  | 365,053             | 2,000,985                | 2,054,303           | 2,396,945                | 2,419,356           |
| Restricted for Debt Service                     | 330,783                  | 336,426             | 159,528                  | 57,786              | 490,311                  | 394,212             |
| Unrestricted - Undesignated                     | 469,210                  | 386,946             | 146,603                  | 81,619              | 615,813                  | 468,565             |
| <b>Total Net Assets</b>                         | <b>\$ 1,195,953</b>      | <b>\$ 1,088,425</b> | <b>\$ 2,307,116</b>      | <b>\$ 2,193,708</b> | <b>\$ 3,503,069</b>      | <b>\$ 3,282,133</b> |

# CITY OF BARRETT

## Management's Discussion and Analysis Year Ended December 31, 2010

The increase in net assets occurs as a result of the City's revenues being more than its expenses for the year ended December 31, 2010. A summary of the revenues and expenses is presented in Table A-2 below.

Table A-2  
City of Barrett  
Change in Net Assets

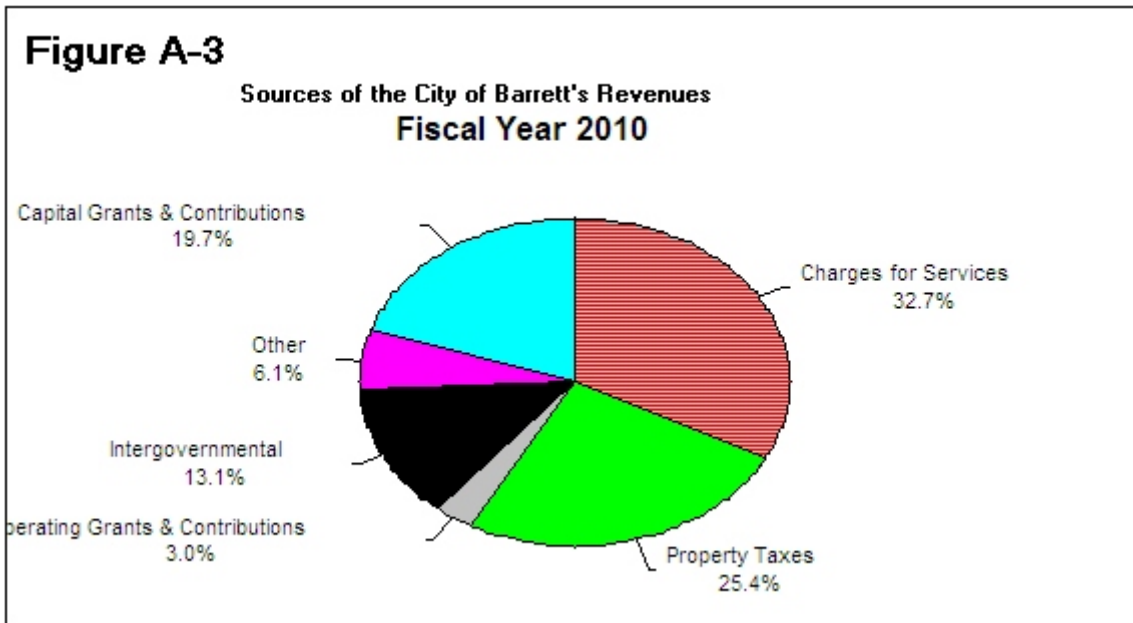
|  | Governmental Activities |                    | Business-Type Activities |                    | Total Primary Government |                    |
|--|-------------------------|--------------------|--------------------------|--------------------|--------------------------|--------------------|
|  | 2010                    | 2009               | 2010                     | 2009               | 2010                     | 2009               |
| <b>Revenues:</b>                               |                         |                    |                          |                    |                          |                    |
| Program revenues                               |                         |                    |                          |                    |                          |                    |
| Charges for Services                           | \$ 85,887               | \$ 85,797          | \$ 173,442               | \$ 177,439         | \$ 259,329               | \$ 263,236         |
| Operating Grants and Contributions             | 24,006                  | 46,909             | -0-                      | -0-                | 24,006                   | 46,909             |
| Capital Grants and Contributions               | 44,691                  | 69,214             | 111,918                  | -0-                | 156,609                  | 69,214             |
| General revenues                               |                         |                    |                          |                    |                          |                    |
| Property taxes                                 | 201,516                 | 202,907            | -0-                      | -0-                | 201,516                  | 202,907            |
| Special assessments                            | 15,609                  | 18,054             | -0-                      | -0-                | 15,609                   | 18,054             |
| Intergovernmental                              | 78,857                  | 92,110             | 25,456                   | 267,425            | 104,313                  | 359,535            |
| Interest earnings                              | 2,100                   | 2,527              | 1,445                    | 1,089              | 3,545                    | 3,616              |
| Miscellaneous                                  | 25,218                  | 24,031             | 3,867                    | 6,790              | 29,085                   | 30,821             |
| <b>Total Revenues</b>                          | <b>477,884</b>          | <b>541,549</b>     | <b>316,128</b>           | <b>452,743</b>     | <b>794,012</b>           | <b>994,292</b>     |
| <b>Expenses:</b>                               |                         |                    |                          |                    |                          |                    |
| Public Safety                                  | 84,484                  | 104,736            | -0-                      | -0-                | 84,484                   | 104,736            |
| General government                             | 141,402                 | 150,791            | -0-                      | -0-                | 141,402                  | 150,791            |
| Streets  | 56,795                  | 45,658             | -0-                      | -0-                | 56,795                   | 45,658             |
| Culture and recreation                         | 23,340                  | 27,451             | -0-                      | -0-                | 23,340                   | 27,451             |
| Sanitation                                     | 44,749                  | 47,447             | -0-                      | -0-                | 44,749                   | 47,447             |
| Interest                                       | 11,086                  | 15,732             | -0-                      | -0-                | 11,086                   | 15,732             |
| Water  | -0-                     | -0-                | 153,212                  | 108,152            | 153,212                  | 108,152            |
| Sewer  | -0-                     | -0-                | 58,008                   | 56,622             | 58,008                   | 56,622             |
| <b>Total Expenses</b>                          | <b>361,856</b>          | <b>391,815</b>     | <b>211,220</b>           | <b>164,774</b>     | <b>573,076</b>           | <b>556,589</b>     |
| <b>Increase in net assets before transfers</b> | <b>116,028</b>          | <b>149,734</b>     | <b>104,908</b>           | <b>287,969</b>     | <b>220,936</b>           | <b>437,703</b>     |
| <b>Transfers</b>                               | <b>(8,500)</b>          | <b>(8,500)</b>     | <b>8,500</b>             | <b>8,500</b>       | <b>-0-</b>               | <b>-0-</b>         |
| <b>Increase (Decrease) in Net Assets</b>       | <b>107,528</b>          | <b>141,234</b>     | <b>113,408</b>           | <b>296,469</b>     | <b>220,936</b>           | <b>437,703</b>     |
| <b>End of Year Net Assets</b>                  | <b>\$1,195,953</b>      | <b>\$1,088,425</b> | <b>\$2,307,116</b>       | <b>\$2,193,708</b> | <b>\$3,503,069</b>       | <b>\$3,282,133</b> |

# CITY OF BARRETT

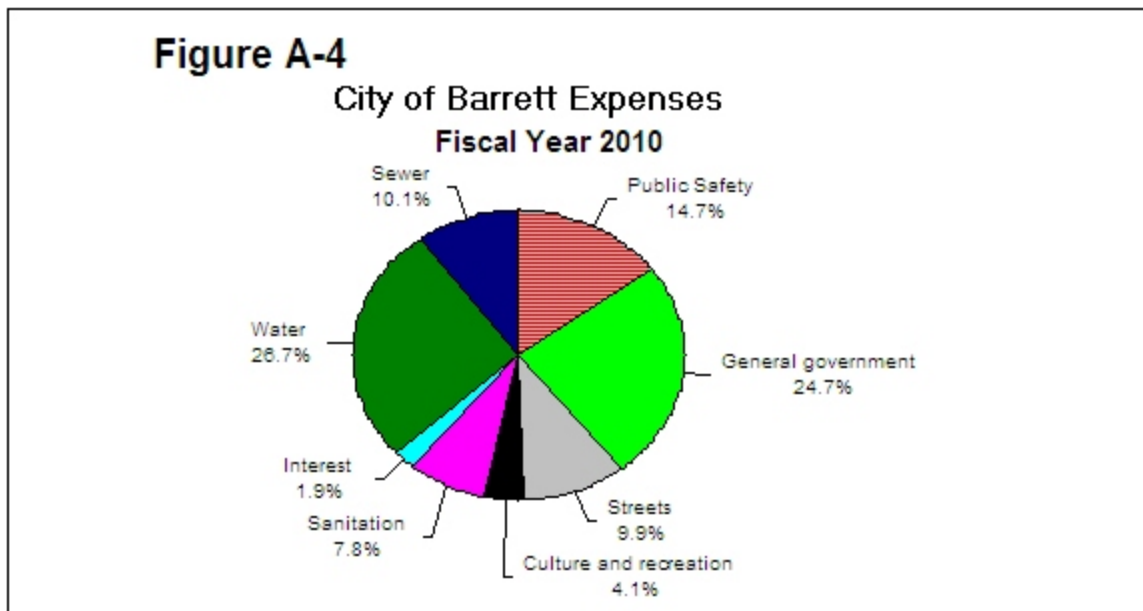
## Management's Discussion and Analysis Year Ended December 31, 2010

### Changes in net assets

The City's total revenues were \$794,012 for the year ended December 31, 2010. Property taxes and intergovernmental revenues accounted for 38.5% of total revenue for the year (see Figure A-3). Operating and capital grants and contributions were 22.7% with the remaining 32.7% and 6.1% resulted from charges for services and other revenues respectively.



The total cost of all programs and services was \$573,076. The City's expenses related to general government was 24.7% of expenses, public safety related expenses were 14.7%. Business type activity expenses for water and sewer were 26.7% and 10.1% respectively.



## CITY OF BARRETT

### Management's Discussion and Analysis Year Ended December 31, 2010

The net cost of governmental and business type activities are their total costs, less program revenues applicable to each category. Table A-3 presents these net costs for 2010.

| Table A-3<br>City of Barrett         |                        |            |                   |                      |             |                   |
|--------------------------------------|------------------------|------------|-------------------|----------------------|-------------|-------------------|
| Net Cost of Governmental Activities  | Total Cost of Services |            | Percentage Change | Net Cost of Services |             | Percentage Change |
|                                      | 2010                   | 2009       | 2009-2010         | 2010                 | 2009        | 2009-2010         |
| Public Safety                        | \$ 84,484              | \$ 104,736 | (19.3)%           | \$ 48,286            | \$ 2,762    | 1648.2%           |
| General Government                   | 141,402                | 150,791    | (6.2)%            | 96,775               | 145,788     | (33.6)%           |
| Streets                              | 56,795                 | 45,658     | 24.4%             | 56,795               | 45,658      | 24.4%             |
| Culture and Recreation               | 23,340                 | 27,451     | (15.0)%           | (666)                | (17,120)    | (96.1)%           |
| Sanitation                           | 44,749                 | 47,447     | (5.7)%            | (5,004)              | (2,925)     | 71.1%             |
| Interest                             | 11,086                 | 15,732     | (29.5)%           | 11,086               | 15,732      | (29.5)%           |
| Total                                | \$ 361,856             | \$ 391,815 | (7.6)%            | \$ 207,272           | \$ 189,895  | 9.2%              |
| Net Cost of Business Type Activities |                        |            |                   |                      |             |                   |
| Water                                | \$ 153,212             | \$ 108,152 | 41.7%             | \$ (71,805)          | \$ (9,487)  | 681.6%            |
| Sewer                                | 58,008                 | 56,622     | 2.4%              | (2,335)              | (3,178)     | (26.5)%           |
| Total                                | \$ 211,220             | \$ 164,774 | 28.2%             | \$ (74,140)          | \$ (12,665) | 499.6%            |

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial performance of the City as a whole is reflected in its governmental and proprietary funds as well. As the City completed the year, its governmental funds reported a combined fund balance \$543,033. This was up from \$433,013 at the end of the prior year, a increase of \$110,020. During 2010 the City's proprietary funds reported combined net income before contributions and transfers of \$104,908 which, in conjunction with a one time transfer from the general fund in the amount of \$8,500 resulted in an overall proprietary fund balance increase from \$2,193,708 to \$2,307,116.

## CITY OF BARRETT

### Management's Discussion and Analysis Year Ended December 31, 2010

#### GENERAL FUND

The General Fund includes the primary operations of the City in providing administrative services to the City for its recreational, public protection, street maintenance, and sanitation services to the residents of The City of Barrett.

The following schedule presents a summary of General Fund Revenues for 2010.

|                                   | Year Ended<br>December 31,<br>2010 | Year Ended<br>December 31,<br>2009 | Amount of<br>Increase<br>(Decrease) | Percentage of<br>Increase<br>(Decrease) |
|-----------------------------------|------------------------------------|------------------------------------|-------------------------------------|---|
| Local sources                     |                                    |                                    |                                     |   |
| Property taxes                    | \$ 204,147                         | \$ 194,425                         | \$ 9,722                            | 5.0%                                    |
| Licenses, Fees, and Fines         | 2,633                              | 2,665                              | (32)                                | (1.2)%                                  |
| State sources                     | 78,857                             | 92,110                             | (13,253)                            | (14.4)%                                 |
| Charges for Services              | 83,254                             | 83,131                             | 123                                 | 0.1%                                    |
| Grant Proceeds                    | 44,691                             | 71,552                             | (26,861)                            | (37.5)%                                 |
| Interest earnings                 | 713                                | 930                                | (217)                               | (23.3)%                                 |
| Public Donations                  | 24,006                             | 44,571                             | (20,565)                            | (46.1)%                                 |
| Rental Income                     | 11,264                             | 9,812                              | 1,452                               | 14.8%                                   |
| Other                             | 13,294                             | 14,048                             | (754)                               | 5.4%                                    |
| <b>Total General Fund Revenue</b> | <b>\$ 462,859</b>                  | <b>\$ 513,244</b>                  | <b>\$ (50,385)</b>                  | <b>(9.8)%</b>                           |

The following schedule presents a summary of General Fund Expenditures for 2010.

|   | Year Ended<br>December 31,<br>2010 | Year Ended<br>December 31,<br>2009 | Amount of<br>Increase<br>(Decrease) | Percentage of<br>Increase<br>(Decrease) |
|---|------------------------------------|------------------------------------|-------------------------------------|---|
| Current Expenditures                    |                                    |                                    |                                     |   |
| City Office Expenses                    | \$ 7,948                           | \$ 8,767                           | \$ (819)                            | (9.3)%                                  |
| Clerk/Treasurer & Board Payroll Expense | 65,994                             | 59,369                             | 6,625                               | 11.2%                                   |
| Insurance                               | 22,004                             | 20,643                             | 1,361                               | 6.6%                                    |
| Public Protection                       | 43,321                             | 42,691                             | 630                                 | 1.5%                                    |
| Fire Department Expenses                | 23,138                             | 47,767                             | (24,629)                            | (51.6)%                                 |
| Professional Services                   | 4,739                              | 22,772                             | (18,033)                            | (79.2)%                                 |
| Garbage Expenses                        | 44,749                             | 47,447                             | (2,698)                             | (5.7)%                                  |
| Street/Lighting Expenses                | 52,103                             | 45,658                             | 6,445                               | 14.1%                                   |
| Recreation & Culture Expenses           | 19,969                             | 24,080                             | (4,111)                             | (17.1)%                                 |
| Miscellaneous                           | 28,411                             | 24,475                             | 3,936                               | 16.1%                                   |
| <b>Total Current Expenditures</b>       | <b>312,376</b>                     | <b>343,669</b>                     | <b>(31,293)</b>                     | <b>(9.1)%</b>                           |
| Capital Outlay Expenditures             | 59,923                             | 139,079                            | (79,156)                            | (56.9)%                                 |
| Debt Service Expenditures               | 122,914                            | 17,568                             | 105,346                             | 599.6%                                  |
| <b>Total General Fund Expenditures</b>  | <b>\$ 495,213</b>                  | <b>\$ 500,316</b>                  | <b>\$ (5,103)</b>                   | <b>(1.0)%</b>                           |

# CITY OF BARRETT

## Management's Discussion and Analysis Year Ended December 31, 2010

### GENERAL FUND (cont.)

In 2010, General Fund expenditures exceeded revenues by \$17,424. Therefore, total fund balance decreased to \$356,828 before transfers out of \$8,500 and transfers in of \$110,070 that brought the fund balance to \$458,398.

| Unreserved - Undesignated | 2010 |         | 2009 |         |
|---------------------------|------|---------|------|---------|
|                           |      |         |      |         |
| Fund Balance              | \$   | 458,398 | \$   | 374,252 |
| % Increase (Decrease)     |      | 22.5%   |      | 1.2%    |

### BUDGETARY HIGHLIGHTS

#### General Fund

The City did not revise its initial adopted budget during the year. The City had revenue over budget of \$36,067 and expenditures exceeded budget by \$108,110.

#### Debt Service Funds

The City did not adopt a budget for the Sewer Debt Service Fund or the G.O. Capital Improvement Bond of 2010A Debt Service Fund because it was not legally obligated and, therefore, presentation of budgetary information is not required.

### DEBT SERVICE FUNDS

The Sewer Debt Service Fund revenue exceeded expenditures by \$25,874 in 2010. The remaining fund balance of \$84,635 at December 31, 2010 is available for meeting future debt service obligations.

G.O. Capital Improvement Bonds of 2010A Debt Service Fund revenues equaled its expenditures. Proceeds from the \$125,000 bond were used to pay off the note and to make capital improvements for the office building.

### PROPRIETARY FUNDS

Water and Sewer operations comprise the City's proprietary funds. Water and sewer net income before contributions and transfers for 2010 were \$100,459 and \$4,449 respectively. The water fund's net assets increased from \$1,089,084 to \$1,220,743 and the sewer fund's net assets decreased from \$1,104,624 to \$1,086,373 after net transfers in the water and sewer funds of \$31,200 and \$(22,700) respectively.

### CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of 2010, the City had invested over \$5,010,000 in capital assets, (see Table A-4). More detailed information about capital assets can be found in Note 4 to the financial statements. Accumulated depreciation on these assets is \$670,898. The City has elected to add only assets acquired after 2002 in implementing GASB 34 with the exception of the sewer and water enterprise fund capital assets which were added from inception.



## CITY OF BARRETT

### Management's Discussion and Analysis Year Ended December 31, 2010

| <b>Table A-4</b>              |                     |                     |             | Total Percentage<br>Change<br>2009 - 2010 |
|-------------------------------|---------------------|---------------------|-------------|---|
|                               | 2010                | 2009                |             |   |
| Buildings                     | \$ 367,758          | \$ 307,834          | 19.5%       |   |
| City Equipment                | 19,742              | 19,742              | 0.0%        |   |
| Fire Equipment                | 180,252             | 180,252             | 0.0%        |   |
| Infrastructure                | 142,512             | 142,512             | 0.0%        |   |
| Parks and Recreation          | 67,421              | 67,421              | 0.0%        |   |
| Sewer and Water               | 4,232,413           | 3,151,420           | 34.3%       |   |
| Construction in Progress      | -0-                 | 992,410             | (100.0)%    |   |
| Less Accumulated Depreciation | (670,898)           | (559,159)           | 20.0%       |   |
| <b>Total</b>                  | <b>\$ 4,339,200</b> | <b>\$ 4,302,432</b> | <b>0.9%</b> |   |

#### **Debt Administration**

At December 31, 2010, the City had debt obligations of \$1,947,369. The bonds are General Obligation Revenue Bonds issued in 2001 and 2007, General Obligation Bonds issued in 1999, and General Obligation Capital Improvement Plan Bonds issued in 2010. The City also has a capital lease which has been included as long term debt.

#### **Construction - Next Five Years**

None planned

#### **Long-term Liabilities**

At year-end, the City had \$1,947,369 in total debt outstanding, which is an increase of \$64,292 from last year. Permanent financing on the 1.642 million GO bond along with the capital lease on the City's office building, were obtained in early 2010. More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

#### **FACTORS BEARING ON THE CITY'S FUTURE**

The City of Barrett's population has seen a significant increase after a number of years with slight decreases each previous year. For a number of years the population was decreasing because of the boom of homes on the lakes and other homes in the city selling to people who use them for seasonal recreation and not as their principal residence. There were also a number of empty homes in town either for sale or in foreclosure, and this still exists. Also, a great number of homes were occupied by older single residents which have since sold to younger families with children. With the school in Barrett and current gas prices the City is attracting more families with children to move into town.

# **CITY OF BARRETT**

## **Management's Discussion and Analysis Year Ended December 31, 2010**

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marita Rhude, Clerk/Treasurer, PO Box 155, Barrett, MN 56311-0155 or phone 320-528-2440.

## **BASIC FINANCIAL STATEMENTS**

## CITY OF BARRETT

Statement of Net Assets  
Year Ended December 31, 2010  
(with partial comparative information as of December 31, 2009)

|   | Primary Government         |                             |                         | Primary<br>Government<br>2009 |
|---|----------------------------|-----------------------------|-------------------------|-------------------------------|
|   | Governmental<br>Activities | Business Type<br>Activities | Total                   |                               |
| <b>ASSETS</b>                           |                            |                             |                         |                               |
| Cash and cash equivalents               | \$ 493,304                 | \$ 362,732                  | \$ 856,036              | \$ 666,345                    |
| Receivables:                            |                            |                             |                         |                               |
| Current property taxes                  | 13,963                     | -0-                         | 13,963                  | 5,747                         |
| Delinquent property taxes               | 15,850                     | -0-                         | 15,850                  | 15,481                        |
| Special assessments                     | 243,585                    | -0-                         | 243,585                 | 279,631                       |
| Other receivables                       | <u>47,018</u>              | <u>75,703</u>               | <u>122,721</u>          | <u>12,508</u>                 |
| Total Current & Other Assets            | 813,720                    | 438,435                     | 1,252,155               | 982,712                       |
| <br>Unamortized bond issuance costs     | <br>4,887                  | <br>5,114                   | <br>10,001              | <br>-0-                       |
| Capital Assets:                         |                            |                             |                         |                               |
| Buildings                               | 367,758                    | -0-                         | 367,758                 | 307,834                       |
| City Equipment                          | 19,742                     | -0-                         | 19,742                  | 19,742                        |
| Fire Equipment                          | 180,252                    | -0-                         | 180,252                 | 180,252                       |
| Infrastructure                          | 142,512                    | -0-                         | 142,512                 | 142,512                       |
| Parks & Recreation                      | 67,421                     | -0-                         | 67,421                  | 67,421                        |
| Sewer & Water                           | -0-                        | 4,232,413                   | 4,232,413               | 3,151,420                     |
| Sewer & Water-Construction in Progress  | -0-                        | -0-                         | -0-                     | 992,410                       |
| Less accumulated depreciation           | <u>(159,356)</u>           | <u>(511,542)</u>            | <u>(670,898)</u>        | <u>(559,159)</u>              |
| Total Net Capital Assets                | 618,329                    | 3,720,871                   | 4,339,200               | 4,302,432                     |
| <br>TOTAL ASSETS                        | <br><u>\$ 1,436,936</u>    | <br><u>\$ 4,164,420</u>     | <br><u>\$ 5,601,356</u> | <br><u>\$ 5,285,144</u>       |
| <b>LIABILITIES</b>                      |                            |                             |                         |                               |
| Payroll liabilities payable             | 4,028                      | -0-                         | 4,028                   | 3,600                         |
| Sales tax payable                       | 987                        | -0-                         | 987                     | 958                           |
| Accounts payable                        | 6,237                      | 77,078                      | 83,315                  | 41,387                        |
| Accrued interest payable                | 7,362                      | 55,226                      | 62,588                  | 73,989                        |
| Current portion long-term liabilities   | <u>36,608</u>              | <u>3,000</u>                | <u>39,608</u>           | <u>1,598,982</u>              |
| Total Current Liabilities               | 55,222                     | 135,304                     | 190,526                 | 1,718,916                     |
| Long-term Liabilities:                  |                            |                             |                         |                               |
| Notes payable                           | 222,369                    | 1,725,000                   | 1,947,369               | 1,883,077                     |
| Less current portion                    | <u>(36,608)</u>            | <u>(3,000)</u>              | <u>(39,608)</u>         | <u>(1,598,982)</u>            |
| Total Long-term Liabilities             | 185,761                    | 1,722,000                   | 1,907,761               | 284,095                       |
| <br>TOTAL LIABILITIES                   | <br><u>240,983</u>         | <br><u>1,857,304</u>        | <br><u>2,098,287</u>    | <br><u>2,003,011</u>          |
| <b>Net Assets:</b>                      |                            |                             |                         |                               |
| Invested in capital assets, net of debt | 395,960                    | 2,000,985                   | 2,396,945               | 2,419,356                     |
| Restricted-Debt Service                 | 330,783                    | 159,528                     | 490,311                 | 394,212                       |
| Unrestricted                            | <u>469,210</u>             | <u>146,603</u>              | <u>615,813</u>          | <u>468,565</u>                |
| Total Net Assets                        | 1,195,953                  | 2,307,116                   | 3,503,069               | 3,282,133                     |
| <br>TOTAL LIABILITIES<br>AND NET ASSETS | <br><u>\$ 1,436,936</u>    | <br><u>\$ 4,164,420</u>     | <br><u>\$ 5,601,356</u> | <br><u>\$ 5,285,144</u>       |

See accompanying notes to financial statements

# CITY OF BARRETT

## Statement of Activities Year Ended December 31, 2010

(with partial comparative information for the year ended December 31, 2009)

|                                     | Program Revenues |   |  |  |                          | Net (Expense) Revenue<br>Changes in Net Assets |               |               |
|-------------------------------------|------------------|---|--|--|--------------------------|--|---------------|---------------|
|                                     | Expenses         | Fines, Fees,<br>and Charges<br>for Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Government<br>Activities | Business<br>Type<br>Activities                 | 2010<br>Total | 2009<br>Total |
| <b>GOVERNMENTAL</b>                 |                  |   |  |  |                          |  |               |               |
| Public Safety                       | \$ 84,484        | \$ 33,501                                   | -0-                                      | \$ 2,697                               | \$ (48,286)              | -0-  | \$ (48,286)   | \$ (2,762)    |
| General Government                  | 141,402          | 2,633                                       | -0-                                      | 41,994                                 | (96,775)                 | -0-  | (96,775)      | (145,788)     |
| Streets                             | 56,795           | -0-   | -0-                                      | -0-                                    | (56,795)                 | -0-  | (56,795)      | (45,658)      |
| Culture and Recreation              | 23,340           | -0-   | 24,006                                   | -0-                                    | 666                      | -0-  | 666           | 17,120        |
| Sanitation                          | 44,749           | 49,753                                      | -0-                                      | -0-                                    | 5,004                    | -0-  | 5,004         | 2,925         |
| Interest                            | 11,086           | -0-   | -0-                                      | -0-                                    | (11,086)                 | -0-  | (11,086)      | (15,732)      |
| Total Governmental Activities       | \$ 361,856       | \$ 85,887                                   | \$ 24,006                                | \$ 44,691                              | \$ (207,272)             | -0-  | \$ (207,272)  | \$ (189,895)  |
| <b>BUSINESS TYPE</b>                |                  |   |  |  |                          |  |               |               |
| Water                               | 153,212          | 113,099                                     | -0-                                      | 111,918                                | -0-                      | 71,805   | 71,805        | 9,487         |
| Sewer                               | 58,008           | 60,343                                      | -0-                                      | -0-                                    | -0-                      | 2,335  | 2,335         | 3,178         |
| Total Business Type                 | \$ 211,220       | \$ 173,442                                  | -0-                                      | \$ 111,918                             | -0-                      | \$ 74,140                                      | \$ 74,140     | \$ 12,665     |
| General revenues:                   |                  |   |  |  |                          |  |               |               |
|                                     |                  |   |  |  | \$ 201,516               | -0-  | \$ 201,516    | \$ 202,907    |
|                                     |                  |   |  |  | 15,609                   | -0-  | 15,609        | 18,054        |
|                                     |                  |   |  |  | 78,857                   | 25,456   | 104,313       | 359,535       |
|                                     |                  |   |  |  | 2,100                    | 1,445  | 3,545         | 3,616         |
|                                     |                  |   |  |  | 25,218                   | 3,867  | 29,085        | 30,821        |
| Transfers                           |                  |   |  |  | (8,500)                  | 8,500  | -0-           | -0-           |
| Total General Revenue and Transfers |                  |   |  |  | 314,800                  | 39,268   | 354,068       | 614,933       |
| Changes in Net Assets               |                  |   |  |  | 107,528                  | 113,408  | 220,936       | 437,703       |
| Net assets - beginning of year      |                  |   |  |  | 1,088,425                | 2,193,708                                      | 3,282,133     | 2,844,430     |
| Net assets - end of year            |                  |   |  |  | \$ 1,195,953             | \$ 2,307,116                                   | \$ 3,503,069  | \$ 3,282,133  |

See accompanying notes to financial statements

## CITY OF BARRETT

Balance Sheet  
Governmental Funds  
Year Ended December 31, 2010

(with partial comparative information for the year ended December 31, 2009)

|   | General    | G. O. Capital<br>Improvement Bonds of<br>2010A Debt Service | Sewer Debt<br>Service | Total<br>Governmental<br>2010 | Total<br>Governmental<br>2009 |
|---|------------|---|-----------------------|-------------------------------|-------------------------------|
| <b>ASSETS</b>                               |            |   |                       |                               |                               |
| Cash and cash equivalents                   | \$ 412,594 | -0-   | \$ 80,710             | \$ 493,304                    | \$ 431,722                    |
| Receivables:                                |            |   |                       |                               |                               |
| Current property taxes                      | 10,038     | -0-   | 3,925                 | 13,963                        | 5,747                         |
| Delinquent property taxes receivable        | 9,111      | -0-   | 6,739                 | 15,850                        | 18,481                        |
| Special assessments                         | -0-        | -0-   | 243,585               | 243,585                       | 279,631                       |
| Other receivables                           | 47,018     | -0-   | -0-                   | 47,018                        | 12,508                        |
| Total receivables                           | 66,167     | -0-   | 254,249               | 320,416                       | 316,367                       |
| Due from other funds                        | -0-        | -0-   | -0-                   | -0-                           | -0-                           |
| Total Assets                                | \$ 478,761 | -0-   | \$ 334,959            | \$ 813,720                    | \$ 748,089                    |
| <b>LIABILITIES AND EQUITY FUND BALANCES</b> |            |   |                       |                               |                               |
| <b>Liabilities</b>                          |            |   |                       |                               |                               |
| Payroll liabilities payable                 | 4,028      | -0-   | -0-                   | 4,028                         | 3,600                         |
| Sales tax payable                           | 987        | -0-   | -0-                   | 987                           | 958                           |
| Account payable                             | 6,237      | -0-   | -0-                   | 6,237                         | 12,406                        |
| Deferred revenue                            | 9,111      | -0-   | 250,324               | 259,435                       | 298,112                       |
| Total Liabilities                           | 20,363     | -0-   | 250,324               | 270,687                       | 315,076                       |
| <b>Equity Fund Balances</b>                 |            |   |                       |                               |                               |
| Reserved                                    | -0-        | -0-   | -0-                   | -0-                           | -0-                           |
| Unreserved Major Fund:                      |            |   |                       |                               |                               |
| Undesignated                                | 458,398    | -0-   | 84,635                | 543,033                       | 433,013                       |
| Total Equity Fund Balances                  | 458,398    | -0-   | 84,635                | 543,033                       | 433,013                       |
| Total Liabilities and Equity Fund Balances  | \$ 478,761 | -0-   | \$ 334,959            | \$ 813,720                    | \$ 749,089                    |

See accompanying notes to financial statements

## CITY OF BARRETT

### Reconciliation of the Balance Sheet to the Statement of Net Assets Governmental Funds Year Ended December 31, 2010 (with partial comparative information for the year ended December 31, 2009)

|   | 2010         | 2009         |
|---|--------------|--------------|
| Total Fund Balance - Governmental Funds   | \$ 543,033   | \$ 433,013   |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p>   |              |              |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>   |              |              |
| Cost of capital assets  | 777,685      | 717,761      |
| Less: accumulated depreciation  | (159,356)    | (121,455)    |
| <p>Notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>   |              |              |
|   | (222,369)    | (231,254)    |
| <p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>   |              |              |
|   | 15,850       | 18,481       |
| <p>Special assessments receivable are collected in future years and therefore are deferred in the funds.</p>  |              |              |
|   | 243,585      | 279,631      |
| <p>Governmental funds do not report a liability for accrued interest until due and payable.</p>   |              |              |
|   | (7,362)      | (7,752)      |
| <p>Governmental funds report debt issuance premiums, discounts and costs as another financing source or use at the time of issuance. Premiums, discounts and costs are reported as an amortized asset or liability in the Government-wide financial statements.</p> |              |              |
| Bond issuance costs   | 5,380        | -0-          |
| Less: Accumulated amortization bond issuance costs  | (493)        | -0-          |
| Total Net Assets - Governmental Funds   | \$ 1,195,953 | \$ 1,088,425 |

See accompanying notes to financial statements

## CITY OF BARRETT

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 Year Ended December 31, 2010  
 (with partial comparative information for the year end December 31, 2009)

|   | General           | G.O. Capital<br>Improvement<br>Bonds of 2010A<br>Debt Service | Sewer<br>Debt Service | Total<br>Governmental<br>2010 | Total<br>Governmental<br>2009 |
|---|-------------------|---|-----------------------|-------------------------------|-------------------------------|
| <b>Revenues</b>                                     |                   |   |                       |                               |                               |
| Local property tax levies                           | \$ 204,147        | \$ -0-  | \$ -0-                | \$ 204,147                    | \$ 194,425                    |
| Special assessments                                 | -0-               | -0-   | 51,655                | 51,655                        | 53,342                        |
| Licenses, fees and fines                            | 2,633             | -0-   | -0-                   | 2,633                         | 2,665                         |
| Revenues from state sources                         | 78,857            | -0-   | -0-                   | 78,857                        | 92,110                        |
| Charges for services                                | 83,254            | -0-   | -0-                   | 83,254                        | 83,131                        |
| Grant proceeds                                      | 44,691            | -0-   | -0-                   | 44,691                        | 71,552                        |
| Investment income                                   | 713               | -0-   | 1,387                 | 2,100                         | 2,527                         |
| Public donations                                    | 24,006            | -0-   | -0-                   | 24,006                        | 44,571                        |
| Rental income                                       | 11,264            | -0-   | -0-                   | 11,264                        | 9,812                         |
| Other   | 13,294            | -0-   | 660                   | 13,954                        | 14,220                        |
| Total Revenues                                      | <u>462,859</u>    | <u>-0-</u>  | <u>53,702</u>         | <u>516,561</u>                | <u>568,355</u>                |
| <b>Expenditures</b>                                 |                   |   |                       |                               |                               |
| Current   |                   |   |                       |                               |                               |
| Public Safety                                       | 66,459            | -0-   | -0-                   | 66,459                        | 90,458                        |
| Governmental  | 129,096           | -0-   | -0-                   | 129,096                       | 136,026                       |
| Sanitation  | 44,749            | -0-   | -0-                   | 44,749                        | 47,447                        |
| Culture and Recreation                              | 19,969            | -0-   | -0-                   | 19,969                        | 24,080                        |
| Streets   | 52,103            | -0-   | -0-                   | 52,103                        | 45,658                        |
| Total Current                                       | <u>312,376</u>    | <u>-0-</u>  | <u>-0-</u>            | <u>312,376</u>                | <u>353,669</u>                |
| Capital Outlay                                      | 50,373            | 9,550   | -0-                   | 59,923                        | 139,079                       |
| <b>Debt Service:</b>                                |                   |   |                       |                               |                               |
| Principal   | 112,531           | -0-   | 21,355                | 133,886                       | 75,543                        |
| Interest  | 5,003             | -0-   | 6,473                 | 11,476                        | 18,115                        |
| Bond Issuance costs                                 | -0-               | 5,380   | -0-                   | 5,380                         | -0-                           |
| Total Debt Service                                  | <u>117,534</u>    | <u>5,380</u>  | <u>27,828</u>         | <u>150,742</u>                | <u>93,658</u>                 |
| Total Expenditures                                  | 480,283           | 14,930  | 27,828                | 523,041                       | 576,406                       |
| Excess (deficiency) of revenue<br>over expenditures | (17,424)          | (14,930)  | 25,874                | (6,480)                       | (8,051)                       |
| <b>Other financing sources (uses)</b>               |                   |   |                       |                               |                               |
| Transfers out                                       | (8,500)           | (110,070)   | -0-                   | (118,570)                     | (8,500)                       |
| Transfers in  | 110,070           | -0-   | -0-                   | 110,070                       | -0-                           |
| Debt proceeds                                       | -0-               | 125,000   | -0-                   | 125,000                       | -0-                           |
| Total other financing sources (uses)                | <u>101,570</u>    | <u>14,930</u>   | <u>-0-</u>            | <u>116,500</u>                | <u>(8,500)</u>                |
| Net changes in fund balances                        | 84,146            | -0-   | 25,874                | 110,020                       | (16,551)                      |
| Fund Balances - Beginning of Year                   | 374,252           | -0-   | 58,761                | 433,013                       | 449,564                       |
| Fund Balances - End of year                         | <u>\$ 458,398</u> | <u>\$ -0-</u>   | <u>\$ 84,635</u>      | <u>\$ 543,033</u>             | <u>\$ 433,013</u>             |

See accompanying notes to financial statements



## CITY OF BARRETT

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to Statement of Activities  
Governmental Funds  
Year Ended December 31, 2010  
(with partial comparative information for the year ended December 31, 2009)

|   | 2010       | 2009        |
|---|------------|-------------|
| Total Net Change in Fund Balance - Governmental Funds   | \$ 110,020 | \$ (16,551) |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p>   |            |             |
| <p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>  |            |             |
| Capital outlays   | 59,923     | 139,079     |
| Depreciation expense  | (37,901)   | (32,415)    |
| <p>Debt proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>  |            |             |
| Debt Proceeds   | (125,000)  | -0-         |
| Debt repayment  | 133,886    | 75,543      |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>  |            |             |
| Delinquent property tax revenue   | (2,631)    | 8,482       |
| Special assessment revenue  | (36,046)   | (35,288)    |
| <p>Debt issuance costs and bond premiums are reported as another financing uses at the time of issuance. Discounts and premiums are amortized over the term of the debt instrument in the statement of activities.</p>  |            |             |
| Amortization of bond issuance costs   | (493)      | -0-         |
| Bond issuance costs   | 5,380      | -0-         |
| <p>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 the 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.</p> |            |             |
|   | 390        | 2,384       |
| Total Change in Net Assets - Governmental Funds   | \$ 107,528 | \$ 141,234  |

See accompanying notes to financial statements

## CITY OF BARRETT

### Statement of Net Assets Proprietary Funds December 31, 2010 (with partial comparative information for December 31, 2009)

|   | Business Type Activities - Enterprise Fund |                            |                            |                            |
|---|--|----------------------------|----------------------------|----------------------------|
|   | Water                                      | Sewer                      | 2010 Totals                | 2009 Totals                |
| <b>ASSETS:</b>  |  |                            |                            |                            |
| <b>Current Assets:</b>  |  |                            |                            |                            |
| Cash and Cash Equivalents   | \$ 302,086                                 | \$ 60,646                  | \$ 362,732                 | \$ 234,623                 |
| Accounts Receivable, net  | <u>75,703</u>                              | <u>-0-</u>                 | <u>75,703</u>              | <u>-0-</u>                 |
| Total Current Assets  | <u>377,789</u>                             | <u>60,646</u>              | <u>438,435</u>             | <u>234,623</u>             |
| <b>Noncurrent Assets:</b>   |  |                            |                            |                            |
| <b>Capital Assets:</b>  |  |                            |                            |                            |
| Treatment Plant and Mains   | 2,897,712                                  | -0-                        | 2,897,712                  | 1,816,719                  |
| Lift Station, Lines and Sewer Ponds   | -0-  | 1,334,701                  | 1,334,701                  | 1,334,701                  |
| Construction in Progress  | -0-  | -0-                        | -0-                        | 992,410                    |
| Less Accumulated Depreciation   | <u>(203,237)</u>                           | <u>(308,305)</u>           | <u>(511,542)</u>           | <u>(437,704)</u>           |
| Capital Assets, Net   | <u>2,694,475</u>                           | <u>1,026,396</u>           | <u>3,720,871</u>           | <u>3,706,126</u>           |
| <b>Other Assets:</b>  |  |                            |                            |                            |
| Unamortized debt issuance costs   | <u>5,114</u>                               | <u>-0-</u>                 | <u>5,114</u>               | <u>-0-</u>                 |
| Total Noncurrent Assets   | <u>2,699,589</u>                           | <u>1,026,396</u>           | <u>3,725,985</u>           | <u>3,706,126</u>           |
| <b>Total Assets</b>   | <u><u>3,077,378</u></u>                    | <u><u>1,087,042</u></u>    | <u><u>4,164,420</u></u>    | <u><u>3,940,749</u></u>    |
| <b>LIABILITIES:</b>   |  |                            |                            |                            |
| <b>Current Liabilities:</b>   |  |                            |                            |                            |
| Accounts Payable  | 76,409                                     | 669                        | 77,078                     | 28,981                     |
| Accrued Interest  | 55,226                                     | -0-                        | 55,226                     | 66,237                     |
| Current Maturities of GO Water Revenue Bonds of 2001  | 3,000                                      | -0-                        | 3,000                      | 3,000                      |
| Current Maturities of General Obligation Water Revenue Bond, Anticipation Master Note of 2007 | <u>-0-</u>                                 | <u>-0-</u>                 | <u>-0-</u>                 | <u>1,565,823</u>           |
| Total Current Liabilities   | <u>134,635</u>                             | <u>669</u>                 | <u>135,304</u>             | <u>1,664,041</u>           |
| <b>Noncurrent Liabilities:</b>  |  |                            |                            |                            |
| General Obligation Water Revenue Bonds of 2001  | 80,000                                     | -0-                        | 80,000                     | 83,000                     |
| General Obligation Water Revenue Bond of 2010   | <u>1,642,000</u>                           | <u>-0-</u>                 | <u>1,642,000</u>           | <u>-0-</u>                 |
| Total Noncurrent Liabilities  | <u>1,722,000</u>                           | <u>-0-</u>                 | <u>1,722,000</u>           | <u>83,000</u>              |
| <b>Total Liabilities</b>  | <u><u>1,856,635</u></u>                    | <u><u>669</u></u>          | <u><u>1,857,304</u></u>    | <u><u>1,747,041</u></u>    |
| <b>NET ASSETS:</b>  |  |                            |                            |                            |
| Invested in Capital Assets, Net of Related Debt   | 974,589                                    | 1,026,396                  | 2,000,985                  | 2,054,303                  |
| Restrict - Debt Services - Expendable   | 159,528                                    | -0-                        | 159,528                    | 57,786                     |
| Unrestricted  | <u>86,626</u>                              | <u>59,977</u>              | <u>146,603</u>             | <u>81,619</u>              |
| <b>Total Net Assets</b>   | <u><u>1,220,743</u></u>                    | <u><u>1,086,373</u></u>    | <u><u>2,307,116</u></u>    | <u><u>2,193,708</u></u>    |
| <b>Total Liabilities and Net Assets</b>   | <u><u>\$ 3,077,378</u></u>                 | <u><u>\$ 1,087,042</u></u> | <u><u>\$ 4,164,420</u></u> | <u><u>\$ 3,940,749</u></u> |

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Proprietary Funds  
 For the Year Ended December 31, 2010  
 (with partial comparative information for the year ended December 31, 2009)

|  | Business Type Activities - Enterprise Funds |                     |                     |                     |
|--|---|---------------------|---------------------|---------------------|
|  | Water                                       | Sewer               | 2010 Totals         | 2009 Totals         |
| <b>Operating Revenues:</b>                           |   |                     |                     |                     |
| Charges for Services                                 | \$ 112,075                                  | \$ 60,343           | \$ 172,418          | \$ 176,403          |
| Connection Fees                                      | 1,024                                       | -0-                 | 1,024               | 1,036               |
| Miscellaneous  | 2,018                                       | 1,849               | 3,867               | 6,790               |
| Total Operating Revenues                             | 115,117                                     | 62,192              | 177,309             | 184,229             |
| <b>Operating Expenses:</b>                           |   |                     |                     |                     |
| Personal Services                                    | 14,052                                      | 14,052              | 28,104              | 27,238              |
| Professional Fees                                    | 12,262                                      | -0-                 | 12,262              | -0-                 |
| Utilities  | 7,360                                       | 1,854               | 9,214               | 8,628               |
| Repairs and Maintenance                              | 7,897                                       | 5,418               | 13,315              | 16,244              |
| Supplies   | 3,533                                       | 6,800               | 10,333              | 10,756              |
| Other Expenses                                       | 1,577                                       | 3,190               | 4,767               | 4,666               |
| Depreciation   | 47,144                                      | 26,694              | 73,838              | 63,028              |
| Total Operating Expenses                             | 93,825                                      | 58,008              | 151,833             | 130,560             |
| Operating Income (Loss)                              | 21,292                                      | 4,184               | 25,476              | 53,669              |
| <b>Nonoperating Revenues (Expenses):</b>             |   |                     |                     |                     |
| Interest and Investment Revenues                     | 1,180                                       | 265                 | 1,445               | 1,089               |
| Intergovernmental Revenue                            | 25,456                                      | -0-                 | 25,456              | 267,425             |
| Grant Contributions                                  | 111,918                                     | -0-                 | 111,918             | -0-                 |
| Interest Expense                                     | (59,311)                                    | -0-                 | (59,311)            | (34,214)            |
| Amortization Bond issuance costs                     | (76)  | -0-                 | (76)                | -0-                 |
| Total Nonoperating Revenues (Expenses)               | 79,167                                      | 265                 | 79,432              | 234,300             |
| Net Income (Loss) Before Contributions and Transfers | 100,459                                     | 4,449               | 104,908             | 287,969             |
| Transfers In   | 31,200                                      | 8,500               | 39,700              | 37,500              |
| Transfers Out  | -0-   | (31,200)            | (31,200)            | (29,000)            |
| Change in Net Assets                                 | 131,659                                     | (18,251)            | 113,408             | 296,469             |
| Total Net Assets - Beginning                         | 1,089,084                                   | 1,104,624           | 2,193,708           | 1,897,239           |
| Total Net Assets - Ending                            | <u>\$ 1,220,743</u>                         | <u>\$ 1,086,373</u> | <u>\$ 2,307,116</u> | <u>\$ 2,193,708</u> |

See accompanying notes to financial statements

## CITY OF BARRETT

### Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2010

(with partial comparative information for the year ended December 31, 2009)

|   | Business Type Activities - Enterprise Funds |           |             |             |
|---|---|-----------|-------------|-------------|
|   | Water                                       | Sewer     | 2010 Totals | 2009 Totals |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |   |           |             |             |
| Receipts from Customers   | \$ 115,117                                  | \$ 62,192 | \$ 177,309  | \$ 184,229  |
| Payments to Suppliers   | (32,166)                                    | (16,760)  | (48,926)    | (40,339)    |
| Payments to Employees   | (14,052)                                    | (14,052)  | (28,104)    | (27,238)    |
| Net Cash Provided by Operating Activities                               | 68,899                                      | 31,380    | 100,279     | 116,652     |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                  |   |           |             |             |
| Transfers From (To) Other Funds   | 31,200                                      | 8,500     | 39,700      | 37,500      |
| Payments to other funds   | -0-   | (31,200)  | (31,200)    | (29,000)    |
| Net cash provided (used) from non capital financing activities          | 31,200                                      | (22,700)  | 8,500       | 8,500       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>         |   |           |             |             |
| Proceeds from Capital Debt  | 1,642,000                                   | -0-       | 1,642,000   | 729,397     |
| Principal paid on Capital Debt  | (1,568,823)                                 | -0-       | (1,568,823) | (4,100)     |
| Interest paid on Capital Debt   | (70,322)                                    | -0-       | (70,322)    | (4,282)     |
| Purchases of Capital Assets   | (41,449)                                    | -0-       | (41,449)    | (987,031)   |
| Bond issuance costs   | (5,190)                                     | -         | (5,190)     | -0-         |
| Intergovernmental Revenue   | 8,413                                       | -0-       | 8,413       | 267,425     |
| Grant Contributions   | 53,257                                      | -0-       | 53,257      | -0-         |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | 17,886                                      | -0-       | 17,886      | 1,409       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |   |           |             |             |
| Interest and Dividends  | 1,180                                       | 264       | 1,444       | 1,089       |
| Net Cash Provided by Investing Activities                               | 1,180                                       | 264       | 1,444       | 1,089       |
| Net Increase (Decrease) in Cash and Deposits                            | 119,165                                     | 8,944     | 128,109     | 127,650     |
| Balances - Beginning of the Year  | 182,921                                     | 51,702    | 234,623     | 106,973     |
| Balances - End of the Year  | 302,086                                     | 60,646    | 362,732     | 234,623     |
| Cash and Cash Equivalents   |   |           |             |             |
| Current Assets  | 302,086                                     | 60,646    | 362,732     | 234,623     |
| Restricted Assets   | -0-   | -0-       | -0-         | -0-         |
| Total Cash and Cash Equivalents - End of Year                           | \$ 302,086                                  | \$ 60,646 | \$ 362,732  | \$ 234,623  |

See accompanying notes to Financial Statements.

## CITY OF BARRETT

### Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2010

(with partial comparative information for the year ended December 31, 2009)

| RECONCILIATION OF OPERATING INCOME TO<br>NET CASH FLOWS FROM OPERATING ACTIVITIES        | Business Type Activities - Enterprise Funds |           |             |             |
|--|---|-----------|-------------|-------------|
|  | Water                                       | Sewer     | 2010 Totals | 2009 Totals |
| Operating Income (loss)  | \$ 21,292                                   | \$ 4,184  | \$ 25,476   | \$ 53,669   |
| Adjustments to reconcile operating income to net<br>cash flows from operating activities |   |           |             |             |
| Depreciation and amortization  | 47,144                                      | 26,694    | 73,838      | 63,028      |
| Changes in assets and liabilities  |   |           |             |             |
| Receivables  | -0-   | -0-       | -0-         | -0-         |
| Accounts Payable   | 463   | 502       | 965         | (45)        |
| NET CASH FLOWS FROM<br>OPERATING ACTIVITIES  | \$ 68,899                                   | \$ 31,380 | \$ 100,279  | \$ 116,652  |

See accompanying notes to Financial Statements.

**NOTES TO CITY FINANCIAL STATEMENTS**

# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

#### A. Basis of Presentation

The financial statements of the City of Barrett have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated December 31, 2005. This codification and subsequent GASB pronouncement are recognized as U.S. generally accepted accounting principles for state and local government.

This financial report has been prepared in conformity with GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statements No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus and Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, all issued in June 1999.

#### B. Reporting Entity

The government is a city governed under a mayor-council form of government. The mayor and four council members are voting members. The clerk/treasurer is a non-voting member.

The City's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the City is considered to be financially accountable.

Component units are legally separate entities for which the City (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for the component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will and the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the City.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no blended component units.

#### C. Basic Financial Statement Presentation

The City-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the City.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, service, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operation; or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The City applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available. Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter fund activity has been removed from the Government-wide financial statements.

# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (cont.)

#### C. Basic Financial Statement Presentation (cont.)

Separate Fund financial statements are provided for governmental funds. Aggregated information for the remaining non-major governmental funds is report in a single column in the fund financial statements. For the City of Barrett, all funds are considered major governmental funds.

It is the City's policy to apply all FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

#### D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide 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 generally recognized as revenue in fiscal year for which they are levied. Grants are similar items are recognized when 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. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period and soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue and special assessments are generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issued are recognized on their due dates.

### GOVERNMENTAL FUND TYPES

#### Description of Funds

Fund Accounting - The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. For the purpose of these financial statements, all funds listed below are treated as being major funds. The various funds are in the financial statement sin this report as follows:

General Fund - General Fund accounts for all financial resources and transactions except those required to be accounted for in other funds or account groups.



# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (cont.)

#### GOVERNMENTAL FUNDS TYPES (cont.)

**Debt Service Funds** - Debt Service Funds are used to account for the accumulation of resources for the payment of principal, interest and related costs on general long-term debt and special assessment debt. Components of the Debt Service Fund are described below:

**G. O. Sewer Investment Debt Service Fund** - The GO Sewer Investment Debt Service Fund is used to account for the accumulation of resources for repayment of the 1999 Sewer project.

**G. O Capital Improvement Bonds of 2010A Debt Service Fund** - The GO Capital Improvement Bonds of 2010A Debt Services Fund is used to account for the issuance and accumulation of resources for repayment of the purchase and improvement to the City office building.

#### ENTERPRISE FUNDS

**Water Fund** - The Water Fund is used to account for the operations of the City's water distribution system.

**Sewer Fund** - The Sewer Fund is used to account for the operations of the City's sewer system.

#### E. Cash and Investments

Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. For purposes of the statement of cash flows, all cash deposits with an original maturity of three months or less when acquired are considered to be cash equivalents.

State Statutes authorize investments which are direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less, general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers; acceptances of United States' banks eligible for purchase of by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories, repurchase or reserve purchase agreements and securities lending agreements with financial institutions qualifies as a "depository" by the Township entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U. S. Government securities to Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City had no investments as of December 31, 2010.

#### F. Taxes Receivable

Taxes receivable represents taxes levied in 2010 which are not received until early 2011.

#### G. Property Taxes

Property tax levies are set by the City Council in September of each year, and are certified to the County for collections in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spread all levies over taxable property. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts four times a year, in February, April, June and November.

# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (cont.)**

#### **G. Property Taxes (cont.)**

Taxes which remain unpaid at December 31 are classified as delinquent taxes received and are fully offset by deferred revenue in the governmental funds because they are not known to be available to finance current expenditures. No allowances for uncollectible taxes has been provided because such amounts are not expected to be material.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

#### **H. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost of assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

Capital assets are recorded in the Government-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for the immaterial amount when declared as no longer needed by the City, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 15 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required. The City elected to implement the general provisions of GASB Statement No. 34 in 2007 and implemented the optional retroactive infrastructure provisions so only assets purchased or completed after 2002 are included in capital assets, with the exception of enterprise fund capital assets which were capitalized since the inception of those funds.

#### **I. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **J. Fund Equity**

Reservations of fund balances are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. Undesignated fund balance represent that portion of fund equity which is available for budgeting in future periods.

# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (cont.)**

#### **K. Net Assets**

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

#### **L. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period actual results could differ from those estimates.

#### **M. Deferred Revenue**

All City funds and the government-wide statements defer revenue for resources that have been received, but not yet earned. Governmental funds also reported deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

#### **N. Restricted Assets**

Certain funds of the City are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, applicable laws and regulations limit their use.

#### **O. Operating Revenues - Proprietary Funds**

Operating revenues of the proprietary funds are defined as charges for services provided to customers and corresponding fees related to those services.

#### **P. Special Assessments**

The City levied special assessments to landowners for the sewer project at the time of the improvement. Landowners have the option of paying the special off when assessed, or financing the special at the terms of that special, as set up by the City. This special is then added to the landowners property taxes with interest each year until paid. Revenues for these specials are recognized in the year of the assessment. In Minnesota, counties act as collection agents for all special assessment property taxes. Real property taxes may be paid by tax payers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and January 30. The County provides tax settlements to Cities and other taxing districts four times a year, in February, April, June and November.

### **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **A. Deficit Fund Equity**

There were no funds with deficit equity at December 31, 2010.

#### **B. Excess of Expenditures over Appropriations**

The city had expenditures over budget of \$108,110 in the General Fund.

# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### NOTE 3 - DEPOSITS AND INVESTMENTS

#### A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with provisions of state law.

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the Board.

Minnesota Statutes require that all city deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.

#### B. Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: Direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a static rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptance of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

Interest rate risk: As a means of limiting the City's exposure of fair value losses arising from rising interest rates, the City's investment policy requires maturities to be laddered to avoid undue concentration of assets in a specific maturity section.

The City has no assets as of December 31, 2010 that it considers to be investments.

#### C. Cash and Investment Balances

Cash and investment balances at year-end are as follows:

| Deposits/Investments       | Maturity | Credit Rating |     |       | Fair Value     | % of Total     |
|----------------------------|----------|---------------|-----|-------|----------------|----------------|
|                            |          | S & P         | MDY | Fitch |                |                |
| Bank Deposits              |          |               |     |       |                |                |
| Bank                       | N/A      | N/A           | N/A | N/A   | 855,556        | 99.94%         |
| Cash on hand               |          |               |     |       |                |                |
| Undeposited funds          | N/A      | N/A           | N/A | N/A   | 480            | 0.06%          |
| Total cash and investments |          |               |     |       | <u>856,036</u> | <u>100.00%</u> |

Cash and investments are included on the basic financial statements as follows:

Cash and cash equivalents – Statements of Net Assets \$ 856,036

**CITY OF BARRETT**

Notes to City Financial Statements  
December 31, 2010

**NOTE 4 - CAPITAL ASSETS**

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

|  | Balance             |                     |                   | Balance             |  |
|--|---------------------|---------------------|-------------------|---------------------|--|
|  | December 31, 2009   | Additions           | Dispositions      | December 31, 2010   |  |
| Governmental Activities                  |                     |                     |                   |                     |  |
| Buildings                                | \$ 307,834          | \$ 59,924           | -0-               | \$ 367,758          |  |
| City Equipment                           | 19,742              | -0-                 | -0-               | 19,742              |  |
| Fire Equipment                           | 180,252             | -0-                 | -0-               | 180,252             |  |
| Infrastructure                           | 142,512             | -0-                 | -0-               | 142,512             |  |
| Parks & Recreation                       | 67,421              | -0-                 | -0-               | 67,421              |  |
| Total Governmental Activities            | 717,761             | 59,924              | -0-               | 777,685             |  |
| Business-Type Activities                 |                     |                     |                   |                     |  |
| Sewer & Water                            | 3,151,420           | 1,080,993           | -0-               | 4,232,413           |  |
| Sewer & Water - Construction in Progress | 992,410             | -0-                 | 992,410           | -0-                 |  |
| Total Business-type Activities           | 4,143,830           | 1,080,993           | 992,410           | 4,232,413           |  |
| Total Capital Asset Activities           | <u>\$ 4,861,591</u> | <u>\$ 1,140,917</u> | <u>\$ 992,410</u> | <u>\$ 5,010,098</u> |  |

Since sewer and water construction in progress has yet to be placed in service, it is currently not being depreciated.

Accumulated depreciation activity for the year ended December 31, 2010, is as follows:

|                               | Balance           |                   |              | Balance           |  |
|-------------------------------|-------------------|-------------------|--------------|-------------------|--|
|                               | December 31, 2009 | Additions         | Dispositions | December 31, 2010 |  |
| Governmental Activities       |                   |                   |              |                   |  |
| Buildings                     | \$ 21,131         | \$ 7,864          | -0-          | \$ 28,995         |  |
| City Equipment                | 13,820            | 3,949             | -0-          | 17,769            |  |
| Fire Equipment                | 68,779            | 18,025            | -0-          | 86,804            |  |
| Infrastructure                | 8,618             | 4,692             | -0-          | 13,310            |  |
| Parks & Recreation            | 9,107             | 3,371             | -0-          | 12,478            |  |
| Total Governmental Activities | 121,455           | 37,901            | -0-          | 159,356           |  |
| Business-Type Activities      |                   |                   |              |                   |  |
| Sewer & Water                 | 437,704           | 73,838            | -0-          | 511,542           |  |
| Total Depreciation Activity   | <u>\$ 559,159</u> | <u>\$ 111,739</u> | <u>-0-</u>   | <u>\$ 670,898</u> |  |

Depreciation expense of \$111,739 for the year ended December 31, 2010, was charged to the following functions:

|                            |                  |
|----------------------------|------------------|
| Governmental Public Safety |                  |
| Public Safety              | \$ 18,025        |
| General Governmental       | 16,505           |
| Culture and Recreation     | 3,371            |
| Enterprise                 |                  |
| Water                      | 47,144           |
| Sewer                      | <u>26,694</u>    |
|                            | <u>\$111,739</u> |

**CITY OF BARRETT**

Notes to City Financial Statements  
December 31, 2010

**NOTE 5 - INTEREST EXPENSES**

Total interest paid for the City during 2010 was \$90,544. Interest accrued on the G.O. Water Revenue Bonds, Anticipation Master Note of 2007 was capitalized to construction costs in the amount of \$8,747 during 2010. All other interest costs were charged to expense in 2010. The total amount of interest expense was \$11,086 as reported in the statement of activities and \$59,311 as reported in the statement of revenues, expenses and changes in net assets - proprietary funds.

**NOTE 6 - LONG-TERM LIABILITIES**

**A. Components of Long-Term Liabilities**

| Issue                                     | Issue Date | Interest Rates | Original Issue | Final Maturity | Principal Outstanding |
|---|------------|----------------|----------------|----------------|-----------------------|
| General Obligation Bonds,                 |            |                |                |                |                       |
| G O Bonds, Series 1999                    | 3/30/99    | 4.75%          | \$ 840,000     | 1/1/29         | \$ 88,580             |
| G O Water Revenue Bond of 2001            | 7/30/01    | 4.75%          | 110,990        | 1/1/31         | 83,000                |
| G O Water Revenue Bond, of 2010           | 3/22/10    | 4.0%           | 1,642,000      | 1/1/50         | 1,642,000             |
| G O Capital Improvement Plan Bonds, 2010A | 2/9/10     | 4.5%           | 125,000        | 2/1/20         | 125,000               |
| Total General Obligation Bonds            |            |                |                |                | 1,938,580             |
| Fire Equipment Capital Lease              | 4/4/07     | 5.7%           | 22,500         | 4/4/12         | 8,789                 |
| Total Long-term Liability                 |            |                |                |                | <u>\$ 1,947,369</u>   |

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term liabilities segregated between governmental activities and business-type activities as of December 31, 2010:

|                   | G.O. Bond Series, 1999 | Fire Equipment Capital Lease | G. O. Capital Improvement Plan Bonds 2010A | Total Governmental Activity Long-Term Debt | G.O. Water Revenue Bonds of 2001 | G.O. Water Revenue Bonds, of 2010 | Total Business-type Activities Long-Term Debt | Total               |
|-------------------|------------------------|------------------------------|--|--|----------------------------------|-----------------------------------|---|---------------------|
| Current Portion   | \$ 22,336              | \$ 4,272                     | \$ 10,000                                  | \$ 36,608                                  | \$ 3,000                         | \$-0-                             | \$ 3,000                                      | \$ 39,608           |
| Long-term Portion | 66,244                 | 4,517                        | 115,000                                    | 185,761                                    | 80,000                           | 1,642,000                         | 1,722,000                                     | 1,907,761           |
| Total             | <u>\$ 88,580</u>       | <u>\$ 8,789</u>              | <u>\$ 125,000</u>                          | <u>\$ 222,369</u>                          | <u>\$ 83,000</u>                 | <u>\$ 1,642,000</u>               | <u>\$ 1,725,000</u>                           | <u>\$ 1,947,369</u> |

**CITY OF BARRETT**

Notes to City Financial Statements  
December 31, 2010

**NOTE 6 - LONG-TERM LIABILITIES (cont.)**

**B. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire long-term liabilities:

| Year Ending   | GO Bond Series, 1999 |                  | GO Water Revenue Bonds of 2001 |                  | GO Water Revenue Bond of 2010 |                     | Fire Equipment Capital Lease |               | G.O. Capital Improvement Plan Bonds of 2010A |                  | Total               |                     |
|---------------|----------------------|------------------|--------------------------------|------------------|-------------------------------|---------------------|------------------------------|---------------|--|------------------|---------------------|---------------------|
|               | Principal            | Interest         | Principal                      | Interest         | Principal                     | Interest            | Principal                    | Interest      | Principal                                    | Interest         | Principal           | Interest            |
| December 31,  |                      |                  |                                |                  |                               |                     |                              |               |  |                  |                     |                     |
| 2011          | \$ 22,336            | \$ 4,176         | \$ 3,000                       | \$ 3,942         | \$ 0                          | \$ 51,284           | \$ 4,272                     | \$ 504        | \$ 10,000                                    | \$ 5,400         | \$ 39,608           | \$ 65,306           |
| 2012          | 23,397               | 3,147            | 3,000                          | 3,800            | 18,000                        | 65,680              | 4,517                        | 259           | 11,000                                       | 4,927            | 59,914              | 77,813              |
| 2013          | 24,509               | 2,035            | 3,000                          | 3,658            | 19,000                        | 64,960              |                              |               | 11,000                                       | 4,433            | 57,509              | 75,086              |
| 2014          | 18,338               | 871              | 3,000                          | 3,515            | 20,000                        | 64,200              |                              |               | 12,000                                       | 3,915            | 53,338              | 72,501              |
| 2015          |                      |                  | 3,000                          | 3,372            | 20,000                        | 63,400              |                              |               | 12,000                                       | 3,375            | 35,000              | 70,147              |
| 2016 - 2020   |                      |                  | 20,000                         | 14,250           | 115,000                       | 304,200             |                              |               | 69,000                                       | 7,988            | 204,000             | 326,438             |
| 2021 - 2025   |                      |                  | 25,000                         | 9,025            | 140,000                       | 279,200             |                              |               |  |                  | 165,000             | 288,225             |
| 2026 - 2030   |                      |                  | 23,000                         | 2,660            | 170,000                       | 248,960             |                              |               |  |                  | 193,000             | 251,620             |
| 2031 - 2035   |                      |                  |                                |                  | 207,000                       | 212,120             |                              |               |  |                  | 207,000             | 212,120             |
| 2036 - 2040   |                      |                  |                                |                  | 251,000                       | 167,240             |                              |               |  |                  | 251,000             | 167,240             |
| 2041 - 2045   |                      |                  |                                |                  | 307,000                       | 112,760             |                              |               |  |                  | 307,000             | 112,760             |
| 2046 - 2050   |                      |                  |                                |                  | 375,000                       | 46,200              |                              |               |  |                  | 375,000             | 46,200              |
| <b>Totals</b> | <b>\$ 88,580</b>     | <b>\$ 10,229</b> | <b>\$ 83,000</b>               | <b>\$ 44,222</b> | <b>\$ 1,642,000</b>           | <b>\$ 1,680,204</b> | <b>\$ 8,789</b>              | <b>\$ 763</b> | <b>\$ 125,000</b>                            | <b>\$ 30,038</b> | <b>\$ 1,947,369</b> | <b>\$ 1,765,456</b> |

**CITY OF BARRETT**

Notes to City Financial Statements  
December 31, 2010

**NOTE 6 - LONG-TERM LIABILITIES (cont.)**

**C. Description of Long-Term Liabilities**

**General Obligation Bonds** - These obligations were issued to finance acquisition and/or construction of the City's water distribution and waste water treatment facilities. Special assessments, together with sewer and water revenue, are dedicated for the retirement of these obligations.

The G.O. Bond Series 1999 and the G.O. Water Revenue Bond of 2001 were issued to finance the construction of a sewer treatment and water disbursement system. The details of those Bonds are described in A and B of Note 6 above.

The G.O. Water Revenue Bond of 2010 issued in the amount of \$1,642,000 for permanent financing of the G. O. Water Revenue Bond Anticipation Master Note of 2007 used to finance water improvements for the City. Details of this Bond is described in A and B of Note 6 above.

G. O. Capital Improvement Plan Bonds of 2010A issued in the amount of \$125,000 for permanent financing and additional capital improvements of the City offices. The details of this Bond is described in A and B of Note 6 above.

**Capital Leases** - A fire equipment capital lease was entered into in 2007. This lease was used to finance turn out gear to be used by the City of Barrett's Fire Department.

**D. Changes in Long-Term Liabilities**

|   | Balance<br>December 31, 2009 | Additions           | Retirement          | Balance<br>December 31, 2010 |
|---|------------------------------|---------------------|---------------------|------------------------------|
| G. O. Bond Series, 1999                       | \$ 109,935                   | -0-                 | \$ 21,355           | \$ 88,580                    |
| G. O. Water Revenue Bonds of 2001             | 86,000                       | -0-                 | 3,000               | 83,000                       |
| G. O. Water Revenue Bonds of 2010             | -0-                          | 1,642,000           | -0-                 | 1,642,000                    |
| G. O. Water Revenue Bonds Ant., Master 2007   | 1,565,823                    | -0-                 | 1,565,823           | -0-                          |
| G. O. Capital Improvement Plan Bonds of 2010A | -0-                          | 125,000             | -0-                 | 125,000                      |
| Fire Equipment Lease                          | 12,828                       | -0-                 | 4,039               | 8,789                        |
| Office building - contract for deed           | 108,491                      | -0-                 | 108,491             | -0-                          |
| <b>Total</b>                                  | <b>\$ 1,883,077</b>          | <b>\$ 1,767,000</b> | <b>\$ 1,702,708</b> | <b>\$ 1,947,369</b>          |

**NOTE 7 - INTERFUND TRANSFERS**

The General Fund transferred \$8,500 to the Sewer Enterprise Fund. During 2010 there also was \$31,200 transferred from the Sewer Enterprise Fund to the Water Enterprise fund for the Sewer Fund's contribution to payoff the Water Revenue Bond of 2010.

The G. O. Capital Improvement Bonds of 2010A Debt Service Fund transferred \$110,070 to the General Fund in 2010 for the retirement of the office building contract for deed.



# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### NOTE 8 - DEFINED CONTRIBUTION PLAN

#### A. Plan Description

The Clerk/Treasurer and public works superintendent of the City are covered by the defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF). This plan is 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 of the City PERA participants are members in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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 Plan members. The retiring members receives the higher of two step rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% of average salary for Coordinated Plan members for each year of service.

For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of services equal 90. Normal retirement age is 65 for Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the 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.

The benefits provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements are required supplementary information for PERF. That report may be obtained on the web at [www.mn.pera.org](http://www.mn.pera.org). A copy of the report may also be obtained on by writing PERA, 60 Empire Drive, #200, St Paul, MN 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

#### B. Funding Policy

*Minnesota Statutes* Chapter 353 set the rates for the employee and employer 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 the state statutes. GERF Coordinated Plan members are required to contribute 6.0%, of their annual covered salary in 2010. The City is required to contribute 7% for Coordinated Plan members of the annual covered payroll. The City contributions for coordinated plan members annual covered payroll for 2009 and 2010 was \$4,394 and \$5,157 respectively.

# CITY OF BARRETT

## Notes to City Financial Statements December 31, 2010

### NOTE 9 - CONTINGENCIES AND COMMITMENTS

#### A. Contracts

In August 2008 the council approved a three year contract with the Grant County Sheriff's office for police protection. The amounts contracted for these services for the years 2009, 2010, and 2011 are for \$28,532, \$29,531, and \$30,564 respectively.

#### B. Federal Revenue

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

### NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' health and life; natural disasters, and worker's compensation for which the City carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past two fiscal years. There were no significant reductions in the City's insurance coverage in 2010.

### NOTE 11 - LEASES

Capital Leases: The City entered into a capital lease of fire equipment during 2007. The lease of that equipment is reported as long-term debt and is reported further in note 7.

Leasing - Lessor: The city leases a portion of its office building as office space to an unrelated party. The lease is a 10 year lease with the option to renew for five one year periods. The following is a schedule by years of future minimum rentals under the lease at December 31, 2010:

| Year ending December 31, |               |
|--------------------------|---------------|
| 2011                     | 5,844         |
| 2012                     | 6,144         |
| 2013                     | 6,144         |
| 2014                     | 6,294         |
| 2015                     | 6,444         |
| 2016 - 2019              | <u>16,110</u> |
|                          | <u>46,980</u> |

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF BARRETT**

Schedule of Revenues, Expenditures and Changes in Fund Balances - General Fund  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended December 31, 2010

|  | Budgeted Amounts<br>Original & Final | Actual General Fund | Variances with Final<br>Budget Favorable<br>(unfavorable) |
|--|--------------------------------------|---------------------|---|
| <b>Revenues</b>                                  |                                      |                     |   |
| Local property tax levies                        | \$ 213,796                           | \$ 203,539          | \$ (10,257)   |
| Licenses, fees and fines                         | 2,420                                | 2,633               | 213   |
| Revenues from state sources                      | 80,220                               | 76,966              | (3,254)   |
| Charges for services                             | 80,694                               | 84,512              | 3,818   |
| Grand proceeds                                   | -0-                                  | 10,814              | 10,814  |
| Public donations                                 | -0-                                  | 24,006              | 24,006  |
| Other  | 14,544                               | 25,271              | 10,727  |
| Total Revenues                                   | \$ 391,674                           | \$ 427,741          | \$ 36,067   |
| <b>Expenditures</b>                              |                                      |                     |   |
| <b>Current:</b>                                  |                                      |                     |   |
| Public Safety                                    | 74,759                               | 66,459              | (8,300)   |
| Governmental                                     | 132,490                              | 140,097             | 7,607   |
| Sanitation                                       | 49,575                               | 44,749              | (4,826)   |
| Culture and recreation                           | 29,600                               | 19,969              | (9,631)   |
| Streets  | 81,250                               | 52,103              | (29,147)  |
| Total Current                                    | \$ 367,674                           | \$ 323,377          | \$ (44,297)   |
| Capital Outlay                                   | -0-                                  | 50,373              | 50,373  |
| Debt Services                                    | 15,500                               | 117,534             | 102,034   |
| Total Expenditures                               | 383,174                              | 491,284             | 108,110   |
| Excess (deficiency) of revenue over expenditures | 8,500                                | (63,543)            | (72,043)  |
| <b>Other financing sources (uses)</b>            |                                      |                     |   |
| Transfers out                                    | (8,500)                              | (8,500)             | -0-   |
| Transfers in                                     | -0-                                  | 110,070             | 110,070   |
| Total other financing sources (uses)             | (8,500)                              | 101,570             | 110,070   |
| Net change in Fund Balance                       | -0-                                  | 38,027              | 38,027  |
| Fund Balances - Beginning of Year                | 374,252                              | 374,252             | -0-   |
| Fund Balances - End of year                      | \$ 374,252                           | \$ 412,279          | \$ 38,027   |
| Reconciliation of budgetary Basis to GAAP Basis: |                                      | -0-                 |   |
| Budgetary Basis Fund Balance - End of Year       |                                      | 412,279             |   |
| Revenue Accruals                                 |                                      | 35,118              |   |
| Expenditure Accruals                             |                                      | 11,001              |   |
| GAAP Basis Fund Balance - End of Year            |                                      | \$ 458,398          |   |

See accompanying notes to the required supplementary information

# CITY OF BARRETT

## Notes of Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual Year Ended December 31, 2010

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Basis of Accounting policies

The budget for the General fund is prepared on the budgetary basis of accounting. This basis is other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements. Each March the City Council adopts an annual budget for the following fiscal year for the General Fund. The city did not adopt a budget for both the Sewer Debt Service Fund and G.O. Capital Improvement Plan Bonds 2010A Debt Service Fund because it was not legally obligated and, therefore, presentation of budgetary information is not required.

Formal budgetary integration is employed as a management control device during the year for the General Fund and all special revenue funds.

No encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to serve that portion of the applicable appropriations, is employed by the City to assure effective budgetary control and to facilitate effective cash planning and control. Encumbrance information has not been incorporated into the financial statement, however.

Schedules of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual present the General Fund.

The General Fund has excess expenditures over appropriations on the budgetary basis of \$108,110 in 2010.

# DINHAM, FOLKERT & ASSOCIATES CHTD.

Certified Public Accountants

---

1309 Highway 29 North, P.O. Box 759 - Alexandria MN 56308

(320) 763-5188 - Fax (320)763-5180- Email: [dfasso@rea-alp.com](mailto:dfasso@rea-alp.com)

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and Members of City Council  
City of Barrett  
Barrett Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Barrett, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 2011. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Barrett's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Barrett's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Barrett's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses 2010-1 and 2010-2 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses 2010-3 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to those charged with governance of the City of Barrett in a separate letter dated June 9, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, Rural Development and other state agencies, the federal cognizant audit agency and other federal agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Dinham, Folkert & Associates Chtd.*

---

Dinham, Folkert & Associates Chtd.  
June 9, 2011

# CITY OF BARRETT

## Summary Schedule of Audit Findings and Responses Year Ended December 31, 2010

The following significant deficiency findings have been identified as material weaknesses.

### **Finding 2010-1 Separation of Duties**

**Condition:** The same person makes deposits, records transactions, draft disbursements and does the bank reconciliations.

**Criteria:** The City should have sufficient separation of duties in place to prevent one person from having control of the receipt and disbursement process.

**Effect:** No effect on the financial statements.

**Cause:** The City has not adequately separated duties among its personnel.

**Recommendation:** We recommend that these duties continue to be monitored closely by the City Council and Mayor. We also recommend that the bank statement and its contents, along with the reconciliation, continue to be reviewed by someone not involved in the reconciliation process and signed off as being reviewed.

### **CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** City does not dispute the finding. Resources do not allow hiring additional personnel.

**Actions Planned in Response to Finding:** City management will continue to have oversight of bank statements and reconciliations with a designated council member reviewing and signing off.

**Official Responsible for Ensuring CAP:** Clerk/Treasurer

**Planned Completion Date for CAP:** Ongoing

**Plan to Monitor Completion of CAP:** Clerk/Treasurer will review the bank statements and reconciliation each month, with the sign off by the designated council member.



## CITY OF BARRETT

### Summary Schedule of Audit Findings and Responses (continued) Year Ended December 31, 2010

#### **Finding 2010-2 Financial Oversight & Monitoring Controls**

**Condition:** The audit firm proposed, and the City posted to its general ledger journal entries to correct material misstatements that were not initially identified by the City's internal control procedures. These adjustments were mostly related to the City's change to the modified accrual basis of accounting.

**Criteria:** The City should have controls in place to prevent and detect material misstatements in the financial statements in a timely manner.

**Context:** Due to lack of personnel the City may continue to rely upon the audit firm to propose audit adjustments.

**Effect:** These instances resulted in proposed and accepted audit adjustments that materially effected the financial statements.

**Cause:** The City has not established controls to insure that all accounts are adjusted to their appropriate year end balances.

**Recommendation:** We recommend the City evaluate its oversight and monitoring controls to help reduce the possibility that any of the financial accounts are materially misstated. This may not be practical for every financial account; nevertheless, these types of controls are essential to ensure that the information contained in the financial statements is materially correct.

#### **CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** City does not dispute the finding.

**Actions Planned in Response to Finding: Official Responsible for Ensuring CAP:** Clerk/Treasurer will monitor account balances especially related to accruals.

**Official Responsible for Ensuring CAP:** Clerk/Treasurer

**Planned Completion Date for CAP:** Ongoing

**Plan to Monitor Completion of CAP:** Clerk/Treasurer will monitor account balances.

# CITY OF BARRETT

## Summary Schedule of Audit Findings and Responses (continued) Year Ended December 31, 2010

The following findings have been identified as significant deficiencies:

### **Finding 2010-3 Period End Financial Reporting Process**

**Condition:** Personnel responsible for financial reporting have time and monetary constraints that require assistance in preparing the financial statements and related footnotes in accordance with GAAP.

**Criteria:** Initial controls should be in place to provide reasonable assurance to the City that management prepare, monitor, and report annual financial activities without auditor intervention.

**Context:** The City will continue to rely upon the audit firm to assist in drafting the financial statements and footnotes. Management will review and approve.

**Effect:** No effect on financial statement balances.

**Cause:** The City personnel do not have the time, money, or resources to prepare the financial statements and related footnotes in accordance with GAAP.

**Recommendation:** Due to time and monetary constraints we recommend the City get limited additional training annually to stay updated with GAAP changes; but continue to rely on the audit firm to assist in the preparation of financial statements and footnotes.

### **CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** City does not dispute the findings.

**Actions Planned in Response to Finding:** City personnel will get additional training on GAAP requirements and continue to utilize auditing firm to prepare financial statements and footnotes.

**Official Responsible for Ensuring CAP:** Clerk/Treasurer

**Planned Completion Date for CAP:** Ongoing

**Plan to Monitor Completion of CAP:** City personnel will get additional training on GAAP requirements through League of Minnesota Cities support organization and continue to work with the auditing firm to prepare financial statement and footnotes.

# DINHAM, FOLKERT & ASSOCIATES CHTD.

Certified Public Accountants

---

1309 Highway 29 North, P.O. Box 759 - Alexandria MN 56308  
(320) 763-5188 - Fax (320)763-5180- Email: [dfasso@rea-alp.com](mailto:dfasso@rea-alp.com)

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Mayor and Members of the City Council  
City of Barrett  
Barrett, Minnesota

We have audited the financial statements of the City of Barrett, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 9, 2011.

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because it did not apply.

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

This report is intended solely for the information and use of the City, and other state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



---

Dinham Folkert & Associates Chtd  
June 9, 2011