

CITY OF BARRETT

Financial Statements

For the Year Ended December 31, 2013

CITY OF BARRETT

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CITY OF BARRETT

City Council
Year Ended December 31, 2013

Term on Council Expires

Troy Johnson	12/31/2014	Mayor
Derek Getz	12/31/2014	Council Member
Todd Lang	12/31/2014	Council Member
Jason Wendt	12/31/2016	Council Member
Kathy Wevley	12/31/2016	Council Member
Marita Rhude		Clerk/Treasurer

FINANCIAL SECTION



Desautels Bartosiewski & Associates, CPAs, LLC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Barrett as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-15 and 41-42 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 regarding 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the year ended December 31, 2013, the City adopted the provisions of Governmental Accounting Standard No 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

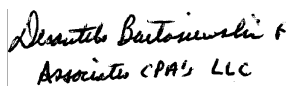
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Barrett's basic financial statements. The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2014, on our consideration of the City of Barrett's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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* in considering City of Barrett's internal control over financial reporting and compliance.



Desautels Bartosiewski &
Associates CPAs LLC

Desautels Bartosiewski & Associates CPAs LLC
Alexandria Minnesota
June 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

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, 2013. 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 2013 fiscal year include the following:

- Total net position increased 0.6% over the prior year.
- Business-type activities have total net position of \$2,519,567, of which there is \$2,120,176 invested in capital assets, net of related debt. Of the total net position of Business-type activities there is a balance of \$165,421 in unrestricted fund balance.
- General Fund balance increased by \$57,311 to \$599,107 which was a 10.6% increase.
- The City received intergovernmental revenue during 2013 of \$70,086 along with \$229,841 in Property Tax 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.

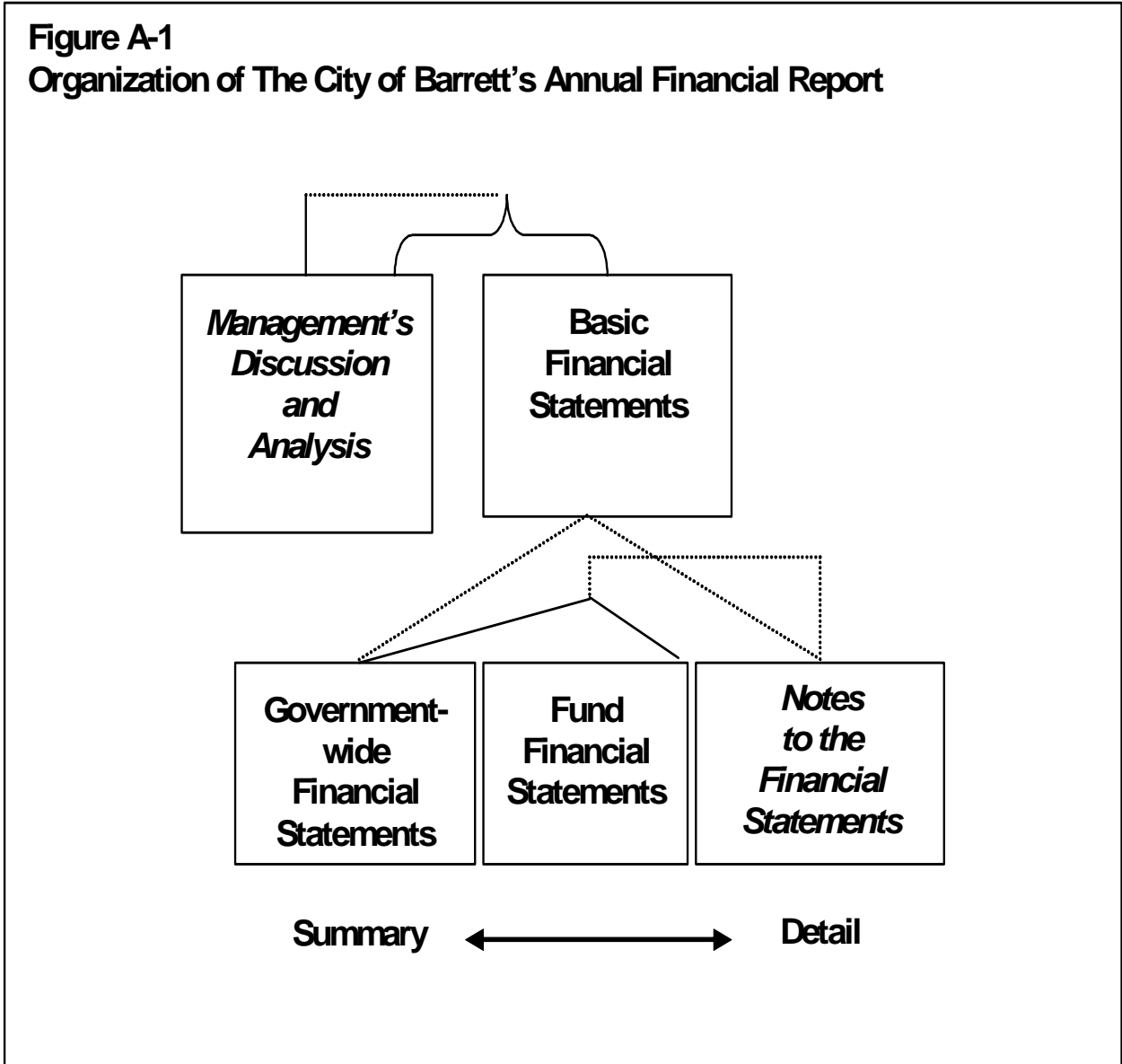
The basic financial statements include two kinds of statements that present different views of the City:

- 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, 2013

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-I 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, 2013

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 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"> • Statements of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
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 Position 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 position and how they have changed. Net position (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 position 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, 2013

Government-wide Financial Statements - The Statement of Net Position 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, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City combined net position was \$3,602,418 on December 31, 2013. This was an increase of 0.6% from the prior year (see Table A-1). The reduction in Governmental and increase in Business type current and other assets is due mainly to the transfer of special assessments receivable from the closed out Sewer Debt Service Fund to the debt account of the Water Enterprise Fund.

Table A-1
City of Barrett
Combined

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 628,867	\$ 567,870	\$ 458,107	\$ 494,895	\$ 1,086,974	\$ 1,062,765
Capital Assets	590,465	626,915	3,526,886	3,612,799	4,117,351	4,239,714
Total Assets	1,219,332	1,194,785	3,984,993	4,107,694	5,204,325	5,302,479
Long-term Liabilities	94,902	118,619	1,327,210	1,474,900	1,422,112	1,593,519
Other Liabilities	41,579	38,880	138,216	89,203	179,795	128,083
Total Liabilities	136,481	157,499	1,465,426	1,564,103	1,601,907	1,721,602
Net Position						
Net investment in capital assets	477,945	490,679	2,120,176	2,120,754	2,598,121	2,611,433
Restricted for Debt Service	-0-	-0-	233,970	251,477	233,970	251,477
Unrestricted	604,906	546,607	165,421	171,360	770,327	717,967
Total Net Position	\$1,082,851	\$1,037,286	\$2,519,567	\$2,543,591	\$ 3,602,418	\$ 3,580,877

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

The increase in net position occurs as a result of the City's revenues being more than its expenses for the year ended December 31, 2013. A summary of the revenues and expenses is presented in Table A-2 below.

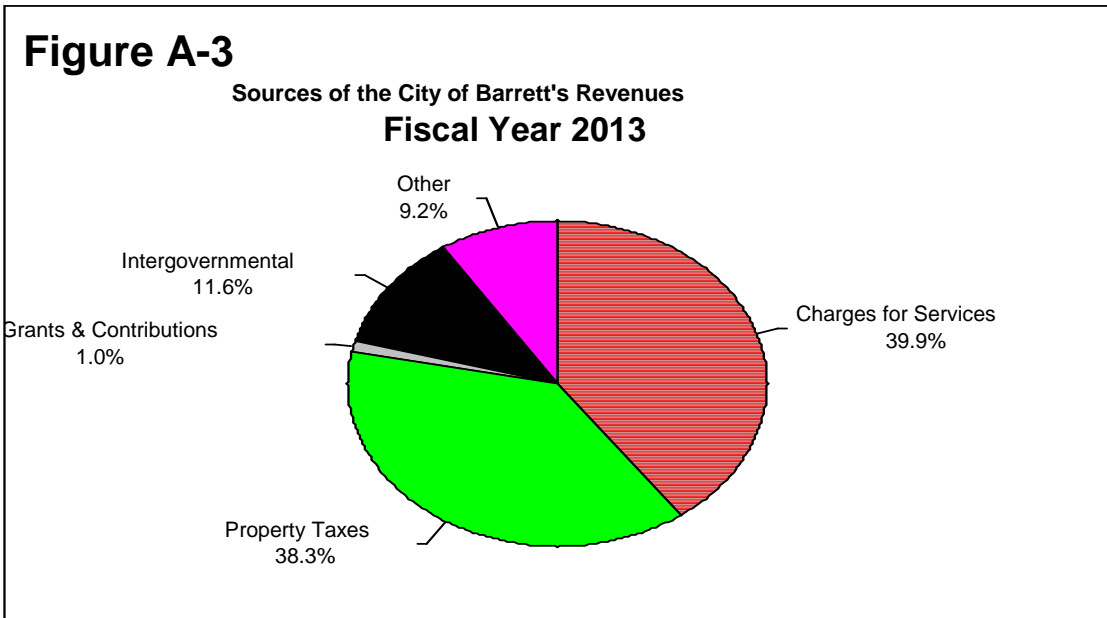
Table A-2 City of Barrett Change in Net Position						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for Services	\$ 82,368	\$ 98,920	\$ 159,158	\$ 160,394	\$ 241,526	\$ 259,314
Operating Grants and Contributions	6,175	1,705	-0-	-0-	6,175	1,705
Capital Grants and Contributions	-0-	-0-	-0-	-0-	-0-	-0-
General revenues						
Property taxes	231,558	225,535	-0-	-0-	231,558	225,535
Special assessments	-0-	-0-	16,865	11,081	16,865	11,081
Intergovernmental	70,086	69,649	-0-	-0-	70,086	69,649
Interest earnings	446	587	2,826	1,226	3,272	1,813
Other	33,872	42,705	1,500	3,711	35,372	46,416
Total Revenues	424,505	439,101	180,349	176,412	604,854	615,513
Expenses:						
Public Safety	106,091	101,269	-0-	-0-	106,091	101,269
General government	132,979	141,498	-0-	-0-	132,979	141,498
Streets	44,505	50,852	-0-	-0-	44,505	50,852
Culture and recreation	22,193	18,754	-0-	-0-	22,193	18,754
Sanitation	49,973	49,479	-0-	-0-	49,973	49,479
Interest	6,199	5,791	-0-	-0-	6,199	5,791
Water	-0-	-0-	157,382	158,599	157,382	158,599
Sewer	-0-	-0-	63,991	68,650	63,991	68,650
Total Expenses	361,940	367,643	221,373	227,249	583,313	594,892
Increase in net position before transfers	62,565	71,458	(41,024)	(50,837)	21,541	20,621
Transfers	(17,000)	(257,536)	17,000	257,536	-0-	-0-
Increase (Decrease) in Net Position	45,565	(186,078)	(24,024)	206,699	21,541	20,621
End of Year Net Position	\$ 1,082,851	\$ 1,037,286	\$ 2,519,567	\$ 2,543,591	\$ 3,602,418	\$ 3,580,877

CITY OF BARRETT

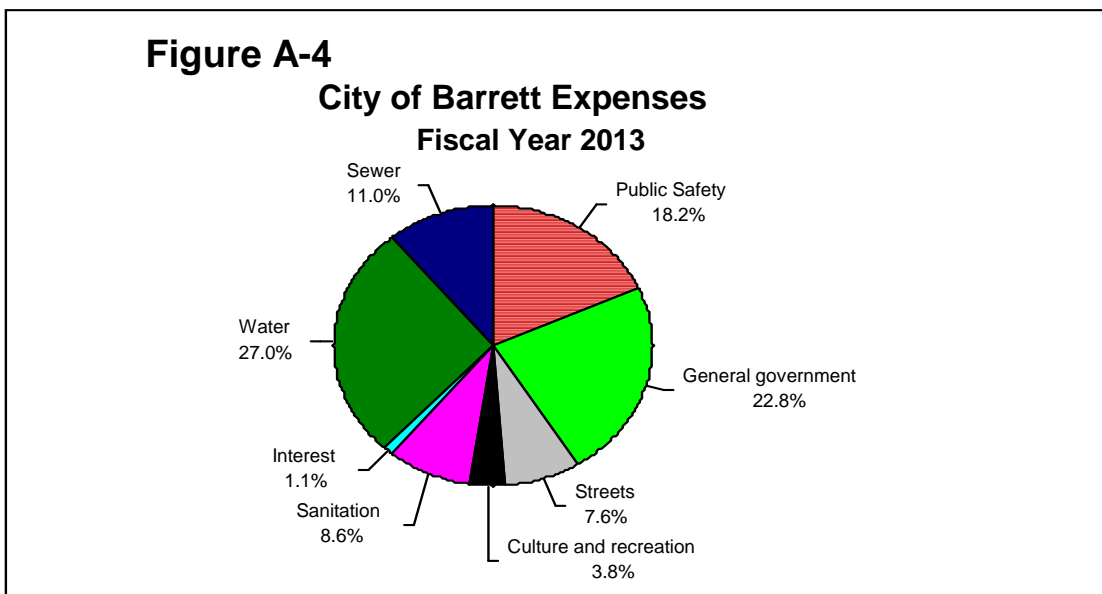
Management's Discussion and Analysis Year Ended December 31, 2013

Changes in net assets

The City's total revenues were \$604,854 for the year ended December 31, 2013. Property taxes accounted for 38.3% of total revenue for the year (see Figure A-3). Charges for services were 39.9% with the remaining 11.6% and 9.2% resulted from intergovernmental revenues and other revenues respectively.



The total cost of all programs and services was \$583,313. The City's expenses related to general government were 22.8% of expenses, public safety related expenses were 18.2%. Business type activity expenses for water and sewer were 27.0% and 11.0% respectively.



CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

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 2013.

Table A-3 City of Barrett						
Net Cost of Governmental Activities	Total Cost of Services		Percentage Change 2012-2013	Net Revenue (Cost) of Services		Percentage Change 2012-2013
	2013	2012		2013	2012	
Public Safety	\$ 106,091	\$ 101,269	4.8%	\$ (70,367)	\$ (59,842)	17.6%
General Government	132,979	142,036	(6.4)%	(130,226)	(139,601)	(6.7)%
Streets	44,505	50,852	(12.5)%	(44,505)	(50,852)	(12.5)%
Culture and Recreation	22,193	18,754	18.3%	(16,018)	(17,049)	(6.0)%
Sanitation	49,973	49,479	1.0%	(6,082)	5,579	(209.0)%
Interest	6,199	5,791	7.0%	(6,199)	(5,791)	7.0%
Total	\$ 361,940	\$ 368,181	(1.7)%	\$ (273,397)	\$ (267,556)	2.2%
Net Cost of Business Type Activities						
Water	\$ 157,382	\$ 158,599	(0.8)%	\$ (59,718)	\$ (53,878)	10.8%
Sewer	63,991	68,650	(6.8)%	(2,497)	(13,107)	(80.9)%
Total	\$ 221,373	\$ 227,249	(2.6)%	\$ (62,215)	\$ (66,985)	(7.1)%

FINANCIAL ANALYSIS OF THE CITY AT THE FUND LEVEL

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 \$599,107.

The General Fund's fund balance increased \$57,311 from the prior year. This is primarily due to again this year total revenues being more than total expenditures and transfers out.

The Water Enterprise Fund's net position increased \$5,245 from the prior year. This increase is due primarily to \$17,000 transferred in from the General Fund and \$27,000 from the Sewer Enterprise Fund.

The Sewer Enterprise Fund's net position decreased \$29,269 primarily due to transfers out to the Water Enterprise Fund.

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

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 2013.

	Year Ended December 31, 2013	Year Ended December 31, 2012	Amount of Increase (Decrease)	Percentage of Increase (Decrease)
Local sources				
Property taxes	\$ 229,841	\$ 229,988	\$ (147)	(0.1)%
Licenses, Fees, and Fines	2,753	2,435	318	13.1%
State sources	70,086	69,649	437	0.6%
Charges for Services	79,615	96,485	(16,870)	(17.5)%
Interest earnings	446	570	(124)	(21.8)%
Public Donations	6,175	1,705	4,470	262.2%
Rental Income	14,374	10,629	3,745	35.2%
Other	19,498	17,453	2,045	11.7%
Total General Fund Revenue	\$ 422,788	\$ 428,914	\$ (6,126)	(1.4)%

The following schedule presents a summary of General Fund Expenditures for 2013.

	Year Ended December 31, 2013	Year Ended December 31, 2012	Amount of Increase (Decrease)	Percentage of Increase (Decrease)
Current Expenditures				
City Office Expenses	\$ 6,911	\$ 8,969	\$ (2,058)	(22.9)%
Clerk/Treasurer & Board Payroll Expense	66,217	66,707	(490)	(0.7)%
Insurance	18,393	19,711	(1,318)	(6.7)%
Public Protection	48,762	49,392	(630)	(1.3)%
Fire Department Expenses	40,336	31,368	8,968	28.6%
Professional Services	14,446	16,044	(1,598)	(10.0)%
Garbage Expenses	39,813	46,160	(6,347)	(13.8)%
Street/Lighting Expenses	49,973	49,479	494	1.0%
Recreation & Culture Expenses	16,882	13,443	3,439	25.6%
Miscellaneous	17,558	20,613	(3,055)	(14.8)%
Total Current Expenditures	319,291	321,886	(2,595)	(0.8)%
Capital Outlay Expenditures	-0-	-0-	-0-	-0-
Debt Service Expenditures	13,754	24,402	(10,648)	(43.6)%
Total General Fund Expenditures	\$ 333,045	\$ 346,288	\$ (13,243)	(3.8)%

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

GENERAL FUND (cont.)

Total General Fund expenditures decreased \$13,243 or 3.8% from the previous year. The decrease is mainly due to no capital assets being added during 2013. In 2013, General Fund revenues exceeded expenditures by \$89,743. Total fund balance increased to \$599,107 after transfers out of \$32,432.

General Fund	2013		2012	
Fund Balance	\$	599,107	\$	541,796
% Increase (Decrease)		10.6%		17.6%
Expenditures	\$	333,045	\$	346,288
% Increase (Decrease)		(3.8)%		(25.2)%

BUDGETARY HIGHLIGHTS

General Fund

The City did not revise its initial adopted budget during the year. The City had revenue over budget of \$23,970 and expenditures under budget by \$61,934. Revenue exceeded budget mainly due to revenues from state sources and other sources being greater than budgeted amounts. Expenditures were under budget due to street expenditures that were budgeted for that did not occur in 2013.

Debt Service Funds

The City did not adopt a budget for 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

G.O. Capital Improvement Bonds of 2010A Debt Service Fund revenues equaled its expenditures. Transfers from the General Fund finance payments of principal and interest for this debt service fund.

PROPRIETARY FUNDS

Water and Sewer operations comprise the City's proprietary funds. Water and sewer net losses before contributions and transfers for 2013 were \$38,755 and \$2,269 respectively. The water fund's net position increased from \$1,519,426 to \$1,524,671 and the sewer fund's net position decreased from \$1,024,165 to \$994,896 after net transfers in the water and sewer funds of \$44,000 and \$(27,000) respectively.

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of 2013, the City had invested over \$5,100,000 in capital assets, (see Table A-4). More detailed information about capital assets can be found in Note 3 to the financial statements. Accumulated depreciation on these assets is \$1,045,774. 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.

Table A-4				Total Percentage Change 2012 - 2013
	2013		2012	
Buildings	\$ 378,163	\$	378,163	0.0%
City Equipment	19,742		19,742	0.0%
Fire Equipment	240,252		240,252	0.0%
Infrastructure	142,512		142,512	0.0%
Parks and Recreation	86,816		86,816	0.0%
Sewer and Water	4,295,640		4,295,640	0.0%
Less Accumulated Depreciation	(1,045,774)		(923,411)	13.3%
Total	\$ 4,117,351	\$	4,239,714	(2.9)%

Debt Administration

At December 31, 2013, the City had debt obligations of \$1,519,230. The bonds are General Obligation Revenue Bonds issued in 2010, and General Obligation Capital Improvement Plan Bonds issued in 2010. The City also has a promissory note which has been included as long term debt.

Construction - Next Five Years

None planned

Long-term Liabilities

At year-end, the City had \$1,519,230 in total debt outstanding, which is a decrease of \$113,907 from last year. More detailed information about the City's long-term liabilities is presented in Note 5 to the financial statements.

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2013

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.

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 Position Year Ended December 31, 2013 (with partial comparative information as of December 31, 2012)

	Primary Government			Primary Government 2012
	Governmental Activities	Business Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 597,229	\$ 316,302	\$ 913,531	\$ 854,139
Receivables:				
Current property taxes	6,772	-0-	6,772	4,733
Delinquent property taxes	7,619	-0-	7,619	5,902
Special assessments-deferred	-0-	135,323	135,323	174,358
Special assessments-delinquent	-0-	6,482	6,482	5,300
Other receivables	17,247	-0-	17,247	18,333
Total Current & Other Assets	628,867	458,107	1,086,974	1,062,765
Depreciable Capital Assets:				
Buildings	378,163	-0-	378,163	378,163
City Equipment	19,742	-0-	19,742	19,742
Fire Equipment	240,252	-0-	240,252	240,252
Infrastructure	142,512	-0-	142,512	142,512
Parks & Recreation	86,816	-0-	86,816	86,816
Sewer & Water	-0-	4,295,640	4,295,640	4,295,640
Less accumulated depreciation	(277,020)	(768,754)	(1,045,774)	(923,411)
Total Net Depreciable Capital Assets	590,465	3,526,886	4,117,351	4,239,714
TOTAL ASSETS	\$ 1,219,332	\$ 3,984,993	\$ 5,204,325	\$ 5,302,479
LIABILITIES				
Payroll liabilities payable	2,473	-0-	2,473	3,007
Sales tax payable	442	-0-	442	1,350
Accounts payable	19,226	2,041	21,267	22,759
Accrued interest payable	1,820	56,675	58,495	61,349
Current portion long-term liabilities	17,618	79,500	97,118	39,618
Total Current Liabilities	41,579	138,216	179,795	128,083
Long-term Liabilities:				
Long-term debt payable	112,520	1,406,710	1,519,230	1,633,137
Less current portion	(17,618)	(79,500)	(97,118)	(39,618)
Total Long-term Liabilities	94,902	1,327,210	1,422,112	1,593,519
TOTAL LIABILITIES	136,481	1,465,426	1,601,907	1,721,602
NET POSITION				
Net investment in capital assets	477,945	2,120,176	2,598,121	2,611,433
Restricted-Debt Service	-0-	233,970	233,970	251,477
Unrestricted	604,906	165,421	770,327	717,967
TOTAL NET POSITION	1,082,851	2,519,567	3,602,418	3,580,877
TOTAL LIABILITIES AND NET POSITION	\$ 1,219,332	\$ 3,984,993	\$ 5,204,325	\$ 5,302,479

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Activities Year Ended December 31, 2013

(with partial comparative information for the year ended December 31, 2012)

	Program Revenues				Net (Expense) Revenue Changes in Net Position			
	Expenses	Fines, Fees, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business Type Activities	2013 Total	2012 Total
GOVERNMENTAL								
Public Safety	\$ 106,091	\$ 35,724	-0-	-0-	\$ (70,367)	-0-	\$ (70,367)	\$ (59,842)
General Government	132,979	2,753	-0-	-0-	(130,226)	-0-	(130,226)	(139,601)
Streets	44,505	-0-	-0-	-0-	(44,505)	-0-	(44,505)	(50,852)
Culture and Recreation	22,193	-0-	6,175	-0-	(16,018)	-0-	(16,018)	(17,049)
Sanitation	49,973	43,891	-0-	-0-	(6,082)	-0-	(6,082)	5,579
Interest	6,199	-0-	-0-	-0-	(6,199)	-0-	(6,199)	(5,791)
Total Governmental Activities	\$ 361,940	\$ 82,368	\$ 6,175	\$ -0-	\$ (273,397)	-0-	\$ (273,397)	\$ (267,556)
BUSINESS TYPE								
Water	157,382	97,664	-0-	-0-	-0-	\$ (59,718)	\$ (59,718)	(53,878)
Sewer	63,991	61,494	-0-	-0-	-0-	(2,497)	(2,497)	(13,107)
Total Business Type	\$ 221,373	\$ 159,158	-0-	-0-	-0-	\$ (62,215)	\$ (62,215)	\$ (66,985)
General revenues:								
					\$ 231,558	-0-	\$ 231,558	\$225,535
					-0-	16,865	16,865	11,081
					70,086	-0-	70,086	69,649
					446	2,826	3,272	1,813
					33,872	1,500	35,372	31,867
					-0-	-0-	-0-	14,549
Transfers					(17,000)	17,000	-0-	-0-
Total General Revenue and Transfers					318,962	38,191	357,153	354,494
Changes in Net Position					45,565	(24,024)	21,541	19,953
Net Position - beginning of year					1,037,286	2,543,591	3,580,877	3,560,924
Net Position - end of year					\$ 1,082,851	\$ 2,519,567	\$ 3,602,418	\$ 3,580,877

See accompanying notes to financial statements

CITY OF BARRETT

Balance Sheet Governmental Funds

Year Ended December 31, 2013

(with partial comparative information for the year ended December 31, 2012)

	General	G. O. Capital Improvement Bonds of 2010A Debt Service	Total Governmental 2013	Total Governmental 2012
ASSETS				
Cash and cash equivalents	\$ 597,229	\$ -0-	\$ 597,229	\$ 538,902
Receivables:				
Current property taxes	6,772	-0-	6,772	4,733
Delinquent property taxes receivable	7,619	-0-	7,619	5,902
Special assessments	-0-	-0-	0	-0-
Other receivables	17,247	-0-	17,247	18,333
Total receivables	31,638	-0-	31,638	28,968
Total Assets	<u>\$ 628,867</u>	<u>\$ -0-</u>	<u>\$ 628,867</u>	<u>\$ 567,870</u>
LIABILITIES				
Payroll liabilities payable	2,473	-0-	2,473	3,007
Sales tax payable	442	-0-	442	1,350
Accounts payable	19,226	-0-	19,226	15,815
Total Liabilities	22,141	-0-	22,141	20,172
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenue - Delinquent taxes	7,619	-0-	7,619	5,902
Total Deferred Inflows of Resources	7,619	-0-	7,619	5,902
FUND BALANCES				
Assigned for:				
Fire Department	5,845	-0-	5,845	5,652
Fire Department - Grain Tube Pavilion	256	-0-	256	256
Parks	1,235	-0-	1,235	1,235
Old Time Photos	252	-0-	252	252
Streets	147	-0-	147	147
Unassigned	140,351	-0-	140,351	108,738
Total Fund Balances	451,021	-0-	451,021	425,516
Total Fund Balances	599,107	-0-	599,107	541,796
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 628,867</u>	<u>\$ -0-</u>	<u>\$ 628,867</u>	<u>\$ 567,870</u>

See accompanying notes to financial statements

CITY OF BARRETT

Reconciliation of the Balance Sheet to the Statement of Net Position
 Governmental Funds
 Year Ended December 31, 2013
 (with partial comparative information for the year ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Total Fund Balance - Governmental Funds	\$ 599,107	\$ 541,796
<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	867,485	867,485
Less: accumulated depreciation	(277,020)	(240,570)
Notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(112,520)	(136,237)
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.	7,619	5,902
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(1,820)</u>	<u>(1,090)</u>
Total Net Position - Governmental Funds	<u><u>\$ 1,082,851</u></u>	<u><u>\$ 1,037,286</u></u>

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2013
 (with partial comparative information for the year end December 31, 2012)

	G.O. Capital Improvement Bonds of 2010A		Total Governmental 2013	Total Governmental 2012
	General	Debt Service		
Revenues				
Local property tax levies	\$ 229,841	\$ -0-	\$ 229,841	\$ 229,988
Licenses, fees and fines	2,753	-0-	2,753	2,435
Revenues from state sources	70,086	-0-	70,086	69,649
Charges for services	79,615	-0-	79,615	96,485
Investment income	446	-0-	446	587
Public donations	6,175	-0-	6,175	1,705
Rental income	14,374	-0-	14,374	10,629
Other	19,498	-0-	19,498	17,453
Total Revenues	422,788	-0-	422,788	428,931
Expenditures				
Current				
Public Safety	89,098	-0-	89,098	80,760
Governmental	123,525	-0-	123,525	132,044
Sanitation	39,813	-0-	39,813	46,160
Culture and Recreation	16,882	-0-	16,882	13,443
Streets	49,973	-0-	49,973	49,479
Total Current	319,291	-0-	319,291	321,886
Capital Outlay	-0-	-0-	-0-	-0-
Debt Service:				
Principal	12,717	11,000	23,717	74,555
Interest	1,037	4,432	5,469	9,077
Total Debt Service	13,754	15,432	29,186	83,632
Total Expenditures	333,045	15,432	348,477	405,518
Excess (deficiency) of revenue over expenditures	89,743	(15,432)	74,311	23,413
Other financing sources (uses)				
Sale of equipment	-0-	-0-	-0-	14,549
Transfers out	(32,432)	-0-	(32,432)	(15,928)
Transfers in	-0-	15,432	15,432	15,928
Residual equity transfer out	-0-	-0-	-0-	(45,471)
Total other financing sources (uses)	(32,432)	15,432	(17,000)	(30,922)
Net changes in fund balances	57,311	-0-	57,311	(7,509)
Fund Balances - Beginning of Year	541,796	-0-	541,796	549,305
Fund Balances - End of year	\$ 599,107	\$ -0-	\$ 599,107	\$ 541,796

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, 2013
(with partial comparative information for the year ended December 31, 2012)

	2013	2012
Total Net Change in Fund Balance - Governmental Funds	\$ 57,311	\$ (7,509)
<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>		
Depreciation expense	(36,450)	(39,966)
<p>Debt proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Debt repayment	23,717	74,555
<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	1,717	(4,379)
Special assessment revenue	-0-	(204,575)
Delinquent special assessment revenue	-0-	(7,490)
<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>		
	(730)	3,286
Total Change in Net Position - Governmental Funds	\$ 45,565	\$ (186,078)

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Net Position
Proprietary Funds
December 31, 2013

(with partial comparative information for December 31, 2012)

	Business Type Activities - Enterprise Fund			
	Water	Sewer	2013 Totals	2012 Totals
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 267,688	\$ 48,614	\$ 316,302	\$ 315,237
Current Special Assessments Receivable	809	197	1,006	2,121
Delinquent Special Assessments Receivable	<u>6,482</u>	<u>-0-</u>	<u>6,482</u>	<u>5,300</u>
Total Current Assets	<u>274,979</u>	<u>48,811</u>	<u>323,790</u>	<u>322,658</u>
Noncurrent Assets:				
Capital Assets:				
Treatment Plant and Mains	2,960,939	-0-	2,960,939	2,960,939
Lift Station, Lines and Sewer Ponds	-0-	1,334,701	1,334,701	1,334,701
Less Accumulated Depreciation	<u>(380,367)</u>	<u>(388,387)</u>	<u>(768,754)</u>	<u>(682,841)</u>
Capital Assets, Net	2,580,572	946,314	3,526,886	3,612,799
Other Assets:				
Special Assessments Receivable	<u>134,317</u>	<u>-0-</u>	<u>134,317</u>	<u>172,237</u>
Total Noncurrent Assets	<u>2,714,889</u>	<u>946,314</u>	<u>3,661,203</u>	<u>3,785,036</u>
Total Assets	<u><u>2,989,868</u></u>	<u><u>995,125</u></u>	<u><u>3,984,993</u></u>	<u><u>4,107,694</u></u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	1,812	229	2,041	6,944
Accrued Interest	56,675	-0-	56,675	60,259
Current Portion of Long Term Liabilities	<u>79,500</u>	<u>-0-</u>	<u>79,500</u>	<u>22,000</u>
Total Current Liabilities	137,987	229	138,216	89,203
Noncurrent Liabilities:				
Long-Term Debt Payable	1,406,710	-0-	1,406,710	1,496,900
Less Current Portion	<u>(79,500)</u>	<u>-0-</u>	<u>(79,500)</u>	<u>(22,000)</u>
Total Noncurrent Liabilities	1,327,210	-0-	1,327,210	1,474,900
Total Liabilities	<u>1,465,197</u>	<u>229</u>	<u>1,465,426</u>	<u>1,564,103</u>
NET POSITION:				
Net Investment in Capital Assets	1,173,862	946,314	2,120,176	2,120,754
Restrict - Debt Services - Expendable	233,970	-0-	233,970	251,477
Unrestricted	<u>116,839</u>	<u>48,582</u>	<u>165,421</u>	<u>171,360</u>
Total Net Position	<u>1,524,671</u>	<u>994,896</u>	<u>2,519,567</u>	<u>2,543,591</u>
Total Liabilities and Net Position	<u><u>\$ 2,989,868</u></u>	<u><u>\$ 995,125</u></u>	<u><u>\$ 3,984,993</u></u>	<u><u>\$ 4,107,694</u></u>

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Proprietary Funds
 For the Year Ended December 31, 2013
 (with partial comparative information for the year ended December 31, 2012)

	Business Type Activities - Enterprise Funds			
	Water	Sewer	2013 Totals	2012 Totals
Operating Revenues:				
Charges for Services	\$ 96,648	\$ 61,494	\$ 158,142	\$ 159,376
Connection Fees	1,016	-0-	1,016	1,018
Miscellaneous	1,500	-0-	1,500	3,711
Total Operating Revenues	99,164	61,494	160,658	164,105
Operating Expenses:				
Personnel Services	15,100	15,100	30,200	29,506
Utilities	7,920	1,924	9,844	8,132
Repairs and Maintenance	4,692	9,784	14,476	25,465
Supplies & Small Equipment	8,204	7,371	15,575	12,124
Other Expenses	5,572	3,118	8,690	5,850
Depreciation	59,219	26,694	85,913	85,913
Total Operating Expenses	100,707	63,991	164,698	166,990
Operating Income (Loss)	(1,543)	(2,497)	(4,040)	(2,885)
Nonoperating Revenues (Expenses):				
Interest and Investment Revenues	2,792	34	2,826	1,226
Special Assessments	16,671	194	16,865	11,081
Interest Expense	(56,675)	-0-	(56,675)	(60,259)
Total Nonoperating Revenues (Expenses)	(37,212)	228	(36,984)	(47,952)
Net Income (Loss) Before Contributions and Transfers	(38,755)	(2,269)	(41,024)	(50,837)
Transfers In	44,000	-0-	44,000	27,000
Transfers Out	-0-	(27,000)	(27,000)	(27,000)
Residual Equity Transfer In	-0-	-0-	-0-	257,536
Change in Net Position	5,245	(29,269)	(24,024)	206,699
Total Net Position - Beginning	1,519,426	1,024,165	2,543,591	2,336,892
Total Net Position - Ending	\$ 1,524,671	\$ 994,896	\$ 2,519,567	\$ 2,543,591

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2013

(with partial comparative information for the year ended December 31, 2012)

	Business Type Activities - Enterprise Funds			
	Water	Sewer	2013 Totals	2012 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 99,164	\$ 61,494	\$ 160,658	\$ 164,105
Payments to Suppliers	(31,326)	(22,162)	(53,488)	(51,683)
Payments to Employees	(15,100)	(15,100)	(30,200)	(29,506)
Net Cash Provided by Operating Activities	52,738	24,232	76,970	82,916
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers From (To) Other Funds	44,000	(27,000)	17,000	45,471
Net cash provided (used) from non capital financing activities	44,000	(27,000)	17,000	45,471
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special Assessments	54,571	147	54,718	43,580
Principal paid on Capital Debt	(90,190)	-0-	(90,190)	(88,600)
Interest paid on Capital Debt	(60,259)	-0-	(60,259)	(64,189)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(95,878)	147	(95,731)	(109,209)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends	2,792	34	2,826	1,226
Net Cash Provided by Investing Activities	2,792	34	2,826	1,226
Net Increase (Decrease) in Cash and Deposits	3,652	(2,587)	1,065	20,404
Balances - Beginning of the Year	264,036	51,201	315,237	294,833
Balances - End of the Year	267,688	48,614	316,302	315,237
Cash and Cash Equivalents				
Current Assets	267,688	48,614	316,302	315,237
Restricted Assets	-0-	-0-	-0-	-0-
Total Cash and Cash Equivalents - End of Year	\$ 267,688	\$ 48,614	\$ 316,302	\$ 315,237

See accompanying notes to Financial Statements.

CITY OF BARRETT

Statement of Cash Flows
Proprietary Funds

For the Year Ended December 31, 2013

(with partial comparative information for the year ended December 31, 2012)

	<u>Business Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>2013 Totals</u>	<u>2012 Totals</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (loss)	\$ (1,543)	\$ (2,497)	\$ (4,040)	\$ (2,885)
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	59,219	26,694	85,913	85,913
Changes in assets and liabilities				
Accounts Payable	<u>(4,938)</u>	<u>35</u>	<u>(4,903)</u>	<u>(112)</u>
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 52,738</u>	 <u>\$ 24,232</u>	 <u>\$ 76,970</u>	 <u>\$ 82,916</u>

See accompanying notes to Financial Statements.

NOTES TO CITY FINANCIAL STATEMENTS

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

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.

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 government-wide financial statements (i.e. the Statement of Net Position 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, 2013

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, 2013

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 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, 2013.

F. Taxes Receivable

Taxes receivable represents taxes levied in 2013 which are not received until early 2014.

G. Property Taxes

Property tax levies are set by the City Council in September of each year, and are certified to Grant County, Minnesota 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, 2013

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

G. Property Taxes (cont.)

Current year property tax revenues represent the tax levy certified to the County Auditor in December of 2012 which was collected during the year ended December 31, 2013. Any adjustments or abatements to either the current, or any prior year, levy are adjusted through the current year general property tax revenues. Property taxes not collected by the County and remitted to the City within 60 days of year end are classified as delinquent and not considered measurable and available and are fully offset by deferred revenue in the governmental fund financial statements. Delinquent taxes receivable represent the past six years of uncollected tax years. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

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.

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.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

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

J. Fund Equity

The City implemented GASB 54 Fund Balance reporting and fund type definitions starting the year ended December 31, 2012. In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items. There were no fund balances classified as nonspendable as of December 31, 2013 or 2012.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the City Council. There were no fund balances classified as committed as of December 31, 2013 or 2012.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

K. Net Position

Net position represent the difference between assets and liabilities in the Government-wide financial statements. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is 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 only the debt service accounts within the Water Enterprise Fund have restricted net position items.

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.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

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

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 Position Items

Certain funds of the City are classified as restricted on the statement of net position 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

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

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. During 2012 the debt to be paid with these special assessment funds was paid off. The remaining unpaid special assessments related to the original sewer project were transferred to the water debt account of the Water Enterprise Fund and will be utilized there to assist in the payoff of that long term debt.

NOTE 2 - DEPOSITS

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.

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2013

NOTE 2 - DEPOSITS (con't)

B. Deposits Balances

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

	Bank Balance	Book Balance
Deposits		
Checking Accounts	\$ 913,623	\$ 913,531
Total Deposits	\$ 913,623	\$ 913,531

Deposits are included on the basic financial statements as follows:

Cash and Cash Equivalents	
Governmental Funds	\$ 597,229
Propriety Funds	\$ 316,302
Total	\$ 913,531

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 is as follows:

	Balance			Balance
	December 31, 2012	Additions	Dispositions	December 31, 2013
Governmental Activities				
Buildings	\$ 378,163	\$ -0-	\$ -0-	\$ 378,163
City Equipment	19,742	-0-	-0-	19,742
Fire Equipment	240,252	-0-	-0-	240,252
Infrastructure	142,512	-0-	-0-	142,512
Parks & Recreation	86,816	-0-	-0-	86,816
Total Governmental Activities	867,485	-0-	-0-	867,485
Business-Type Activities				
Sewer & Water	4,295,640	-0-	-0-	4,295,640
Total Business-type Activities	4,295,640	-0-	-0-	4,295,640
Total Capital Asset Activities	\$ 5,163,125	\$ -0-	\$ -0-	\$ 5,163,125

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

NOTE 3 - CAPITAL ASSETS (con't)

Accumulated depreciation activity for the year ended December 31, 2013, is as follows:

	Balance December 31, 2012	Additions	Dispositions	Balance December 31, 2013
Governmental Activities				
Buildings	\$ 47,665	\$ 9,454	-0-	\$ 57,119
City Equipment	19,743	-0-	-0-	19,743
Fire Equipment	128,338	16,993	-0-	145,331
Infrastructure	22,694	4,692	-0-	27,386
Parks & Recreation	22,130	5,311	-0-	27,441
Total Governmental Activities	240,570	36,450	-0-	277,020
Business-Type Activities				
Sewer & Water	682,841	85,913	-0-	768,754
Total Depreciation Activity	<u>\$ 923,411</u>	<u>\$ 122,363</u>	<u>-0-</u>	<u>\$ 1,045,774</u>

Depreciation expense of \$122,363 for the year ended December 31, 2013, was charged to the following functions:

Governmental	
Public Safety	\$ 16,993
General Governmental	9,454
Culture and Recreation	4,692
Streets	5,311
Enterprise	
Water	59,219
Sewer	<u>26,694</u>
	<u>\$122,363</u>

NOTE 4 - INTEREST EXPENSES

Total interest expense for the City during 2013 was \$62,874. All interest costs were charged to expense in 2013. The total amount of interest expense was \$6,199 as reported in the statement of activities and \$56,675 as reported in the statement of revenues, expenses and changes in net position - proprietary funds.

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2013

NOTE 5 - 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 Water Revenue Bond, of 2010	3/22/10	4.0%	1,642,000	1/1/50	1,406,710
G O Capital Improvement Plan Bonds, 2010A	2/9/10	4.5%	125,000	2/1/20	93,000
Total General Obligation Bonds					<u>1,499,710</u>
Fire Equipment Capital Lease	4/4/07	5.7%	22,500	4/4/12	-0-
Fire Truck Promissory Note	11/28/11	3.75%	50,000	11/28/18	19,520
Total Long-term Liability					<u><u>\$ 1,519,230</u></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, 2013:

	Fire Truck Promissory Note	G. O. Capital Improve-ment Plan Bonds 2010A	Total Governmental Activity Long-Term Debt	G.O. Water Revenue Bonds, of 2010	Total Business-type Activities Long-Term Debt	Total
Current Portion	\$ 6,618	\$ 11,000	\$ 17,618	\$ 79,500	\$ 79,500	\$ 97,118
Long-term Portion	12,902	82,000	94,902	1,327,210	1,327,210	1,422,112
Total	<u>\$ 19,520</u>	<u>\$ 93,000</u>	<u>\$ 112,520</u>	<u>\$ 1,406,710</u>	<u>\$ 1,406,710</u>	<u>\$ 1,519,230</u>

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2013

NOTE 5 - LONG-TERM LIABILITIES (cont.)

B. Minimum Debt Payments

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

Year Ending	GO Water Revenue Bond of 2010		Fire Truck Promissory Note		G.O. Capital Improvement Plan Bonds of 2010A		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
December 31,								
2014	\$ 79,500	\$ 56,675	\$ 6,618	\$ 732	\$ 11,000	\$ 4,185	\$ 97,118	\$ 61,592
2015	20,000	53,088	6,867	484	12,000	3,690	38,867	57,262
2016	20,000	52,289	6,035	226	12,000	3,150	38,035	55,664
2017	21,000	51,488			13,000	2,610	34,000	54,098
2018	22,000	50,649			13,000	2,025	35,000	52,673
2019 - 2023	125,000	239,242			32,000	2,430	157,000	241,672
2024 - 2028	151,000	212,242					151,000	212,242
2029 - 2033	184,000	179,522					184,000	179,522
2034 - 2038	224,000	139,642					224,000	139,642
2039 - 2043	272,000	91,202					272,000	91,202
2044 - 2048	288,210	32,162					288,210	32,162
Totals	\$ 1,406,710	\$ 1,158,201	\$ 19,520	\$ 1,442	\$ 93,000	\$ 18,090	\$ 1,519,230	\$ 1,177,731

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2013

NOTE 5 - 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. 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 5 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 5 above.

Promissory Notes - A promissory note in the amount of \$50,000 was entered into during 2011 to finance the purchase of a fire truck. Details of this note are described in A & B of Note 5 above.

D. Changes in Long-Term Liabilities

	Balance December 31, 2012	Additions	Retirement	Balance December 31, 2013
G. O. Water Revenue Bonds of 2001	29,900	-0-	29,900	-0-
G. O. Water Revenue Bonds of 2010	1,467,000	-0-	60,290	1,406,710
G. O. Capital Improvement Plan Bonds of 2010A	104,000	-0-	11,000	93,000
Fire Truck Promissory Note	32,237	-0-	12,717	19,520
Total	\$ 1,633,137	\$-0-	\$ 113,907	\$ 1,519,230

NOTE 6 - INTERFUND TRANSFERS

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

	Transfers Out		Total
	General	Sewer	
Transfers In:			
2010 A Debt Service	\$ 15,432	\$ -0-	\$ 15,432
Water	17,000	27,000	44,000
Total	\$ 32,432	\$ 27,000	\$ 59,432

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

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. Plan Description

The Clerk/Treasurer and public works superintendent of the City are covered by the defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. 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 state statute and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring members receives the higher of a step rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a 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 available 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at www.mnpera.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 6.25%, of their annual covered salary in 2013. The City is required to contribute 7.25% for Coordinated Plan members of the annual covered payroll. The City contributions for coordinated plan members annual covered payroll for 2013 and 2012 was \$5,716 and \$5,567 respectively.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

NOTE 8 - CONTINGENCIES AND COMMITMENTS

A. Contracts

In August 2011 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 2012, 2013, and 2014 are for \$30,870, \$31,487, and \$32,117 respectively.

In August 2013 the City entered into a contract with a construction contractor for improvements to the City's streets in the amount of \$98,597. This construction project will be completed in 2014.

A contract was entered into in October 2013 for snow removal in the City limits. The contract runs from October 2013 to April 2014 and totals \$18,000 plus \$400 per inch of snow over 45 inches.

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 9 - 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 2013.

NOTE 10 - LEASES

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, 2013:

Year ending December 31,	
2014	6,294
2015	6,444
2016	6,444
2017	6,444
2018	<u>3,222</u>
	<u>28,848</u>

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

NOTE 11 - RELATED ORGANIZATIONS

Barrett Fire Department Relief Association

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

NOTE 12 - RELATED ORGANIZATION PENSION

Barrett Fire Relief Association (Relief Association)

Plan Description

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

The Relief Association provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with state statute, and vest after twenty years of credited service. Retirement benefits are based on a member's years of service. Benefit provisions can be amended by the Relief Association within the parameters provided by state statutes.

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

Funding Policy

Minnesota Statutes Chapter 69.77 sets the minimum contributions that may be required from the City on an annual basis. These minimum contributions are determined based on the amount required to meet the normal cost plus amortizing any prior year's service cost over a ten year period. The City's contribution for December 31, 2013 was \$2,000. The Barrett Fire Department Relief Association also receives funding from the State of Minnesota as a 2% fire premium tax. The City receives the contributions and is required by statute to pass this through as payment to the Fire Relief Association. Investment earnings also add to the resources available for benefits.

Contributions Required and Made

The City makes contributions to the Relief Association annually in an amount equal to the fire aid received from the State of Minnesota as required by state statutes. The City is required to make additional contributions to the Association in the following year if the following years anticipated administrative expenses plus the anticipated increase in the required reserves plus amortization of the original unfunded accrued liability exceeds the anticipated revenues. The City made a contribution of \$2,000 during 2013. There were no required contributions in excess of fire aid for 2013 and 2012.

Related-Party Investments

As of December 31, 2013, and for the year then ended, the Relief Association held no securities issued by the City or other related-parties.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2013

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65 "Items Previously Reported as Assets and Liabilities". This standard required retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2013 financial statements.

The following Schedule reconciles the previously reported December 31, 2012 balances to the amounts reported in the December 31, 2013 financial statements.

Activities/Fund	Net Position December 31, 2012 as Previously Reported	Restatement for Write-off of Unamortized Bond Issuance Costs	Net Position December 31, 2012 as Restated
Governmental Activities	\$1,041,097	(\$3,811)	\$1,037,286
Business-Type Activities	2,548,446	(4,855)	2,543,591
Proprietary Funds:			
Water Fund	1,524,281	(4,855)	1,519,426

NOTE 14 - ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

GASB 68, *Accounting and Financial Reporting for Pensions* will be effective for the City beginning with its year ending December 31, 2015. This statement requires the reporting of unfunded pension liabilities in the government-wide and proprietary financial statements. Management has not determined the impact adoption of this new standard will have on the City's financial position.

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, 2013

	Budgeted Amounts Original & Final		Actual General Fund		Variances with Final Budget Favorable (unfavorable)
Revenues					
Local property tax levies	\$	231,000	\$	226,085	\$ (4,915)
Licenses, fees and fines		2,370		2,753	383
Revenues from state sources		60,245		69,260	9,015
Charges for services		80,901		78,389	(2,512)
Public donations		-0-		6,175	6,175
Other		18,494		34,318	15,824
Total Revenues	\$	393,010	\$	416,980	\$ 23,970
Expenditures					
Current:					
Public Safety		83,314		89,098	(5,784)
Governmental		131,969		121,556	10,413
Sanitation		47,900		39,813	8,087
Culture and recreation		23,660		16,882	6,778
Streets		90,735		49,973	40,762
Total Current	\$	377,578	\$	317,322	\$ 60,256
Capital Outlay		-0-		-0-	-0-
Debt Services		15,432		13,754	1,678
Total Expenditures		393,010		331,076	61,934
Excess (deficiency) of revenue over expenditures		-0-		85,904	85,904
Other financing sources (uses)					
Transfers out		-0-		(32,432)	(32,432)
Transfers in		-0-		-0-	-0-
Total other financing sources (uses)		-0-		(32,432)	(32,432)
Net change in Fund Balance		-0-		53,472	53,472
Fund Balances - Beginning of Year		541,796		541,796	-0-
Fund Balances - End of year	\$	541,796	\$	595,268	\$ 53,472
Reconciliation of budgetary Basis to GAAP Basis:				-0-	
Budgetary Basis Fund Balance - End of Year				595,268	
Revenue Accruals				5,808	
Expenditure Accruals				(1,969)	
GAAP Basis Fund Balance - End of Year	\$		\$	599,107	

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, 2013

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.



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INDEPENDENT AUDITOR'S 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, 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 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, (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weakness and 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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, as items 2013-1 and 2013-2 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 deficiency described in the accompanying schedule of findings and responses, item 2013-3, to be a significant deficiency.

Compliance and Other Matters

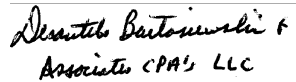
As part of obtaining reasonable assurance about whether the financial statements of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

City of Barrett, Minnesota Response to Findings

The City's responses to the findings identified in our audit have been included in the schedule of findings and responses. The City's responses were not subject to the auditing procedures applies in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A rectangular box containing a handwritten signature in cursive script that reads "Desautels Bartosiewski & Associates CPAs LLC".

Desautels Bartosiewski &
Associates CPAs LLC

Desautels Bartosiewski & Associates CPAs LLC
June 19, 2014

CITY OF BARRETT

Summary Schedule of Audit Findings and Responses Year Ended December 31, 2013

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

Finding 2013-1 Separation of Duties

Condition: The same person makes deposits, records transactions, drafts 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, 2013

Finding 2013-2 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, 2013

The following finding had been identified as a significant deficiencies:

Finding 2013-3 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.

CITY OF BARRETT

Summary Schedule of Audit Findings and Responses (continued) Year Ended December 31, 2013

The following finding has been identified as a Minnesota Compliance finding:

Finding 2013-4 Collateral

Condition: Minnesota Statute § 118A.03 requires that if a city's deposits exceeds federal insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for all of the City of Barrett deposit accounts at December 31, 2013.

Criteria: Minnesota Statute § 118A.03.

Context: The bank accounts the City holds were not entirely collateralized at 110 percent as required by Minnesota Statutes. At December 31, 2013 the City's collateral coverage was short by \$99,618. This is a current year finding.

Cause: The City's local bank did not have sufficient collateral or federal deposit insurance coverage on December 31, 2013.

Effect: The City was not in compliance with the state legal requirements. Deposits exceeding federal deposit insurance coverage or proper collateral may be lost in the event of a bank failure.

Recommendation: We recommend that the City obtain corporate surety bonds or collateral that has a market value of at least 110 percent of the City's deposits that exceed federal deposit insurance coverage.

CORRECTIVE ACTION PLAN (CAP):

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

Actions Planned in Response to Finding: Clerk/Treasurer will work with their local bank to monitor bank account balances and collateral provided to ensure the City complies with Minnesota Statutes § 118A.03.

Official Responsible for Ensuring CAP: Clerk/Treasurer

Planned Completion Date for CAP: Ongoing

Plan to Monitor Completion of CAP: Clerk/Treasurer will monitor bank account balances and related collateral.



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**INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

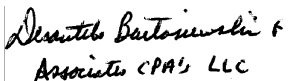
To the Mayor and Members of the City Council
City of Barrett
Barrett, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Barrett, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65, contains 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 audit considered all of the listed categories, except that we did not test for compliance with tax increment financing because it did not apply to the City of Barrett.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Barrett failed to comply with the provisions of The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Responses as item 2013-4. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, enclosed in a rectangular box. The signature reads "Desautels Bartosiewski & Associates, CPAs, LLC".

Desautels Bartosiewski & Associates, CPAs, LLC
June 19, 2014