

CITY OF BARRETT

Financial Statements

For the Year Ended December 31, 2015

CITY OF BARRETT

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CITY OF BARRETT

City Council
Year Ended December 31, 2015

Term on Council Expires

Les Alvstad	12/31/2016	Mayor
Brian Tucker	12/31/2018	Council Member
Todd Lang	12/31/2018	Council Member
Jason Wendt	12/31/2016	Council Member
Kathy Wevley	12/31/2016	Council Member
Marita Rhude		Clerk/Treasurer

FINANCIAL SECTION



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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, Minnesota (the City) as of and for the year ended December 31, 2015, 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 City'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 City'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.

Basis for Qualified Opinion

The City has not adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the Volunteer Fire Department Relief Association, in the governmental activities, and, accordingly, has not shown activity related to this standard. Accounting principles generally accepted in the United States of America require that pension balances be shown, which would report deferred outflows of resources, deferred inflows of resources and liabilities or assets, while changing the net position in the applicable statements.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion", the financial statements referred to above present fairly, in all material respects, the respective financial position, of the governmental activities of the City as of December 31, 2015, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, of the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and cash flows, were applicable, thereof, and for the year ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Standards

As described in Note 13 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended December 31, 2015. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, starting on page 4, Budgetary Comparison information, starting on page 43, and the Schedule of Employer's Share of PERA Net Pension Liability and Schedule of Employer's PERA Contributions, on page 45, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

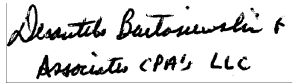
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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 20, 2016, on our consideration of the City'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's internal control over financial reporting and compliance.



Desautels Bartosiewski &
Associates CPAs LLC

Desautels Bartosiewski & Associates CPAs LLC
Alexandria Minnesota
June 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2015

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, 2015. 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 2015 fiscal year include the following:

- Total net position decreased 1.4% over the prior year.
- Business-type activities have total net position of \$2,424,883, of which there is \$2,130,730 invested in capital assets, net of related debt. Of the total net position of Business-type activities there is a balance of \$129,541 in unrestricted fund balance.
- General Fund balance increased by \$73,107 to \$659,598 which was a 12.5% increase.
- The City received intergovernmental revenue during 2015 of \$100,753 along with \$214,863 in Property Tax levies that were used to pay for the City's expenses.

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:

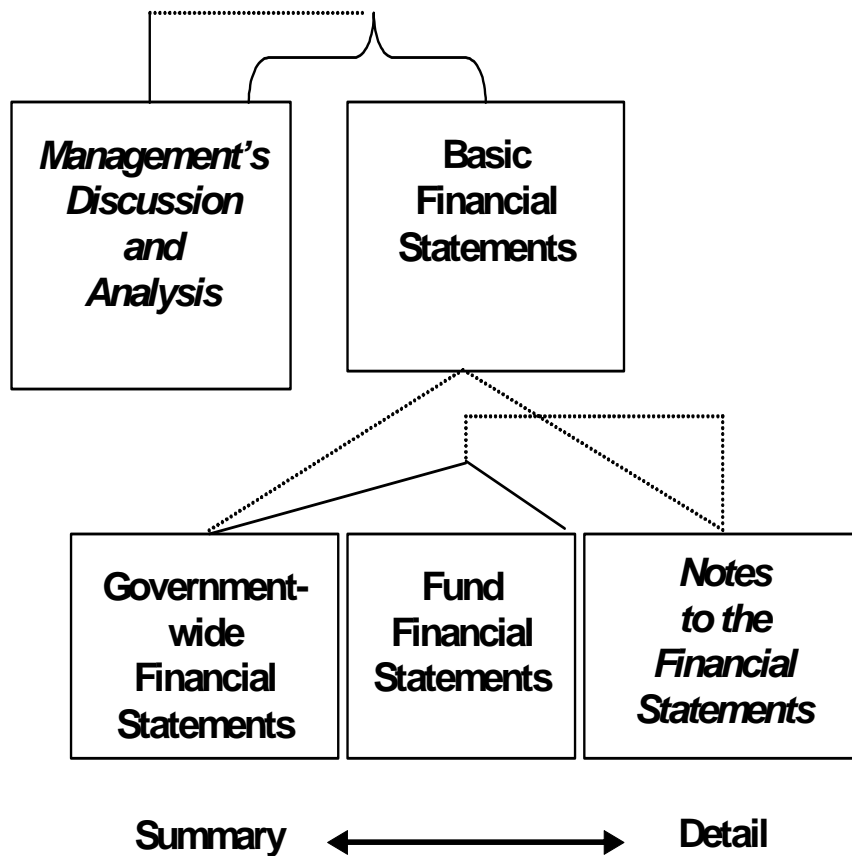
- The first statements are government-wide financial statements that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more 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, 2015

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.

Figure A-1
Organization of The City of Barrett's Annual Financial Report



CITY OF BARRETT

Management’s Discussion and Analysis Year Ended December 31, 2015

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, 2015

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, 2015

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

	Governmental Activities			Business-type Activities		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
		\$	\$	\$	\$	\$
Current and Other Assets	675,947	603,181	72,766	346,855	416,547	(69,692)
Capital Assets	591,541	624,706	(33,165)	3,383,940	3,440,973	(57,033)
Total Assets	1,267,488	1,227,887	39,601	3,730,795	3,857,520	(126,725)
Deferred outflows of resources	10,126	-0-	10,126	-0-	-0-	-0-
Long-term Liabilities	129,555	71,032	58,523	1,177,710	1,253,210	(75,500)
Other Liabilities	23,904	36,826	(12,922)	128,202	130,566	(2,364)
Total Liabilities	153,459	107,858	45,601	1,305,912	1,383,776	(77,864)
Deferred inflows of resources	7,181	-0-	7,181	-0-	-0-	-0-
Net Position						
Net investment in capital assets	519,543	531,708	(12,165)	2,130,730	2,113,763	16,967
Restricted for Debt Service	-0-	-0-	-0-	164,612	198,499	(33,887)
Unrestricted	597,431	588,321	9,110	129,541	161,482	(31,941)
Total Net Position	\$ 1,116,974	\$ 1,120,029	\$ (3,055)	\$ 2,424,883	\$ 2,473,744	\$ (48,861)

The City's combined net position was \$3,541,857 on December 31, 2015. This was a decrease of 1.4% from the prior year (see Table A-1).

Long term liabilities increased in the governmental activities during 2015 due to PERA pension liabilities that are required to be reported after the City implemented GASB Statement No. 68 as described further in Note 7.

Decrease in current and other assets in the Business-type activities was due to a decrease in cash during 2015 along with special assessments receivables decreasing as they were paid off during the year.

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2015

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		
	2015	2014	Increase (Decrease)	2015	2014	Increase (Decrease)
Revenues:						
Program revenues						
Charges for Services	\$ 87,276	\$ 78,326	\$ 8,950	\$ 174,228	\$ 159,614	\$ 14,614
Operating Grants and Contributions	9,650	10,075	(425)	-0-	-0-	-0-
Capital Grants and Contributions	-0-	-0-	-0-	-0-	-0-	-0-
General revenues						
Property taxes	217,211	218,700	(1,489)	-0-	-0-	-0-
Special assessments	-0-	-0-	-0-	7,017	10,743	(3,726)
Intergovernmental	100,753	87,818	12,935	-0-	-0-	-0-
Interest earnings	333	339	(6)	821	1,463	(642)
Other	32,855	27,210	5,645	-0-	-0-	-0-
Total Revenues	448,078	422,468	25,610	182,066	171,820	10,246
Expenses:						
Public Safety	101,999	100,634	1,365	-0-	-0-	-0-
General government	135,759	146,991	(11,232)	-0-	-0-	-0-
Streets	65,324	48,717	16,607	-0-	-0-	-0-
Culture and recreation	24,499	23,525	974	-0-	-0-	-0-
Sanitation	44,122	52,527	(8,405)	-0-	-0-	-0-
Interest	3,459	4,396	(937)	-0-	-0-	-0-
Water	-0-	-0-	-0-	171,902	153,926	17,976
Sewer	-0-	-0-	-0-	67,525	72,217	(4,692)
Total Expenses	375,162	376,790	(1,628)	239,427	226,143	13,284
Change in net position before transfers	72,916	45,678	27,238	(57,361)	(54,323)	(3,038)
Transfers	(8,500)	(8,500)	-0-	8,500	8,500	-0-
Change in net position	64,416	37,178	27,238	(48,861)	(45,823)	(3,038)
Net Position - January 1 as restated (Note 13)	1,052,558	1,082,851	(30,293)	2,473,744	2,519,567	(45,823)
Net Position - December 31	\$ 1,116,974	\$ 1,120,029	\$ (3,055)	\$ 2,424,883	\$ 2,473,744	\$ (48,861)

Governmental activities increased the City's net position by \$64,416 during 2015 which is \$27,238 more of an increase than in 2014 mostly due to increases in charges for services and additional revenue from the State of Minnesota.

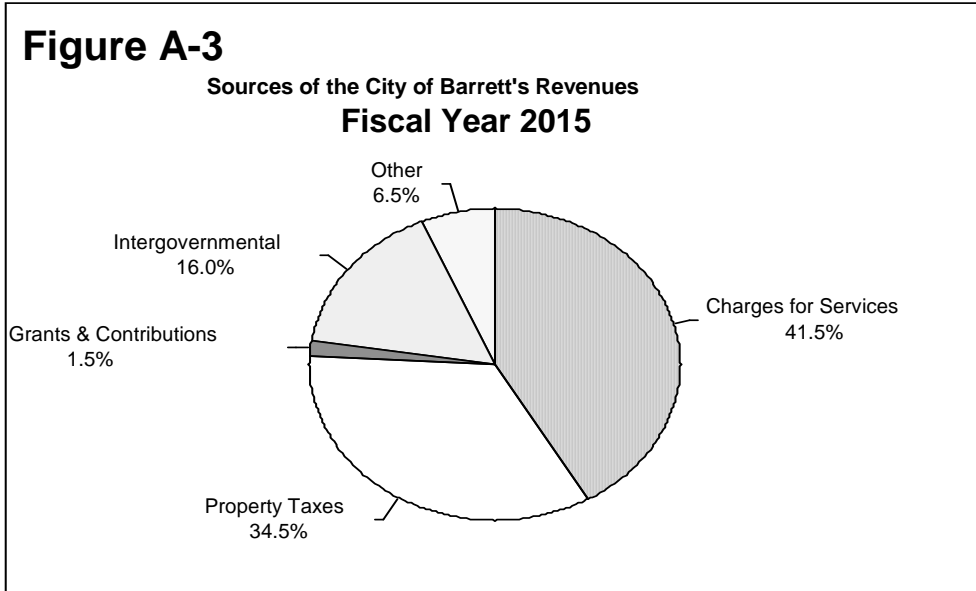
Business-type activities had a decrease in net position of \$48,861 during 2015 even after charges for services income increased by \$14,614 from the prior year.

CITY OF BARRETT

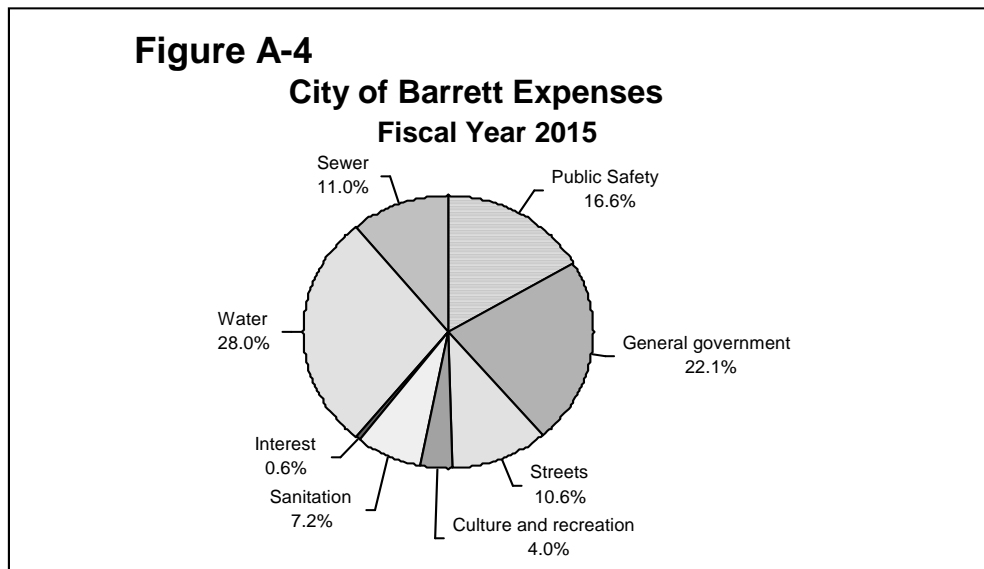
Management's Discussion and Analysis Year Ended December 31, 2015

Changes in net assets

The City's total revenues were \$630,144 for the year ended December 31, 2015. Property taxes accounted for 34.5% of total revenue for the year (see Figure A-3). Charges for services were 41.5% with the remaining 16.0% and 6.5% resulted from intergovernmental revenues and other revenues respectively.



The total cost of all programs and services was \$614,589. The City's expenses related to general government were 22.1% of expenses, public safety related expenses were 16.6%. Business type activity expenses for water and sewer were 28.0% and 11.0% respectively.



CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2015

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 2015.

Table A-3 City of Barrett						
Net Cost of Governmental Activities	Total Cost of Services		Percentage Change 2014-2015	Net Revenue (Cost) of Services		Percentage Change 2014-2015
	2015	2014		2015	2014	
Public Safety	\$ 101,999	\$ 100,634	1.4%	\$ (63,302)	\$ (68,670)	(7.8)%
General Government	135,759	146,991	(7.6)%	(132,114)	(144,223)	(8.4)%
Streets	65,324	48,717	34.1%	(65,324)	(48,717)	34.1%
Culture and Recreation	24,499	23,525	4.1%	(14,849)	(13,450)	10.4%
Sanitation	44,122	52,527	(16.0)%	812	(8,933)	(109.1)%
Interest	3,459	4,396	(21.3)%	(3,459)	(4,396)	(21.3)%
Total	\$ 375,162	\$ 376,790	(0.4)%	\$ (278,236)	\$ (288,389)	(3.5)%
Net Cost of Business Type Activities						
Water	\$ 171,902	\$ 153,926	11.7%	\$ (65,004)	\$ (54,980)	18.2%
Sewer	67,525	72,217	(6.5)%	(195)	(11,549)	(98.3)%
Total	\$ 239,427	\$ 226,143	5.9%	\$ (65,199)	\$ (66,529)	(2.0)%

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 \$659,598.

The General Fund's fund balance increased \$73,107 from the prior year. This is primarily due to no street capital project undertaken in 2015 and more revenue received from state sources during 2015.

The Water Enterprise Fund's net position decreased \$21,693 from the prior year. This decrease is due primarily to a increase in repair and maintenance expenses for 2015.

The Sewer Enterprise Fund's net position decreased \$27,168 primarily due to transfers out to the Water Enterprise Fund in the amount of \$27,000 during 2015.

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2015

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 2015.

	Year Ended December 31, 2015	Year Ended December 31, 2014	Amount of Increase (Decrease)	Percentage of Increase (Decrease)
Local sources				
Property taxes	\$ 214,863	\$ 222,920	\$ (8,057)	(3.6)%
Licenses, Fees, and Fines	3,645	2,768	877	31.7%
State sources	100,753	87,818	12,935	14.7%
Charges for Services	83,631	75,558	8,073	10.7%
Interest earnings	333	339	(6)	(1.8)%
Public Donations	9,650	10,075	(425)	(4.2)%
Rental Income	15,832	13,313	2,519	18.9%
Other	17,023	13,897	3,126	22.5%
Total General Fund Revenue	\$ 445,730	\$ 426,688	\$ 19,042	4.5%

The following schedule presents a summary of General Fund Expenditures for 2015.

	Year Ended December 31, 2015	Year Ended December 31, 2014	Amount of Increase (Decrease)	Percentage of Increase (Decrease)
Current Expenditures				
City Office Expenses	\$ 7,135	\$ 7,713	\$ (578)	(7.5)%
Clerk/Treasurer & Board Payroll Expense	72,763	69,262	3,501	5.1%
Insurance	11,064	17,033	(5,969)	(35.0)%
Public Protection	51,521	50,719	802	1.6%
Fire Department Expenses	34,369	33,514	855	2.6%
Professional Services	17,824	15,834	1,990	12.6%
Garbage Expenses	44,122	43,137	985	2.3%
Street/Lighting Expenses	57,082	52,527	4,555	8.7%
Recreation & Culture Expenses	19,188	18,214	974	5.3%
Miscellaneous	15,381	27,694	(12,313)	(44.5)%
Total Current Expenditures	330,449	335,647	(5,198)	(1.5)%
Capital Outlay Expenditures	5,950	70,988	(65,038)	(91.6)%
Debt Service Expenditures	12,349	8,254	4,095	49.6%
Total General Fund Expenditures	\$ 348,748	\$ 414,889	\$ (66,141)	(15.9)%

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2015

GENERAL FUND (cont.)

Total General Fund expenditures decreased \$66,141 or 15.9% from the previous year. The decrease is mainly due to a capital street project that was expended for in 2014 with no comparable expenditure in 2015. In 2015, General Fund revenues exceeded expenditures by \$96,982. Total fund balance increased to \$659,598 after transfers out of \$23,875.

General Fund	2015		2014	
Fund Balance	\$	659,598	\$	586,491
% Increase (Decrease)		12.5%		(2.1)%
Expenditures	\$	348,748	\$	414,889
% Increase (Decrease)		(15.9)%		24.6%

BUDGETARY HIGHLIGHTS

General Fund

The City did not revise its initial adopted budget during the year. The City had revenue over budget of \$42,974 and expenditures under budget by \$49,778. Revenue exceeded budget mainly due to revenues from state sources and other sources being greater than budgeted amounts. Expenditures were under budget due to capital outlay for street expenditures that were less than the amount budgeted along with insurance expenses being under budget in the general governmental expenditures.

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 2015 were \$57,193 and \$168 respectively. The water fund's net position decreased from \$1,517,376 to \$1,495,683 and the sewer fund's net position decreased from \$956,368 to \$929,200 after net transfers in the water and sewer funds of \$35,500 and \$(27,000) respectively.

CITY OF BARRETT

Management's Discussion and Analysis Year Ended December 31, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of 2015, the City had invested over \$5,200,000 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 \$1,294,982. 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			
	2015	2014	Total Percentage Change 2014 - 2015
Buildings	\$ 378,163	\$ 378,163	0.0%
City Equipment	19,742	19,742	0.0%
Fire Equipment	246,202	240,252	2.5%
Infrastructure	213,500	213,500	0.0%
Parks and Recreation	86,816	86,816	0.0%
Sewer and Water	4,326,040	4,295,640	0.7%
Less Accumulated Depreciation	(1,294,982)	(1,168,434)	10.8%
Total	\$ 3,975,481	\$ 4,065,679	(2.2)%

Debt Administration

At December 31, 2015, the City had debt obligations of \$1,394,765. The bonds are General Obligation Revenue Bonds issued in 2010, and General Obligation Capital Improvement Plan Bonds issued in 2010.

Construction - Next Five Years

The City of Barrett is in the planning stage of a water/sewer improvement project. The City still has some old clay sewer lines that are in very poor condition and repairs are needed before they collapse. Plans include replacing both sewer and water mains and installing storm sewer as part of the project.

Long-term Liabilities

In addition to the debt referred to above, the City has a long term pension liability for PERA in the amount of \$72,555. 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, 2015

FACTORS BEARING ON THE CITY'S FUTURE

The City of Barrett's population has remained steady for the last six years. With the WCA School in Barrett the housing stock has stayed full with more families helping the population remain steady, where prior it had many single person homes.

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, 2015

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 654,100	\$ 279,675	\$ 933,775
Receivables:			
Current property taxes	5,104	-0-	5,104
Delinquent property taxes	5,747	-0-	5,747
Special assessments-deferred	-0-	62,036	62,036
Special assessments-delinquent	-0-	5,144	5,144
Other receivables	10,996	-0-	10,996
Total Current & Other Assets	675,947	346,855	1,022,802
Depreciable Capital Assets:			
Buildings	378,163	-0-	378,163
City Equipment	19,742	-0-	19,742
Fire Equipment	246,202	-0-	246,202
Infrastructure	213,500	-0-	213,500
Parks & Recreation	86,816	-0-	86,816
Sewer & Water	-0-	4,326,040	4,326,040
Less accumulated depreciation	(352,882)	(942,100)	(1,294,982)
Total Net Depreciable Capital Assets	591,541	3,383,940	3,975,481
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension resources	10,126	-0-	10,126
TOTAL ASSETS	\$ 1,277,614	\$ 3,730,795	\$ 5,008,409
LIABILITIES			
Payroll liabilities payable	3,594	-0-	3,594
Sales tax payable	1,344	-0-	1,344
Accounts payable	5,664	2,485	8,149
Accrued interest payable	1,302	50,217	51,519
Current portion long-term liabilities	12,000	75,500	87,500
Total Current Liabilities	23,904	128,202	152,106
Long-term Liabilities:			
Long-term debt payable	141,555	1,253,210	1,394,765
Less current portion	(12,000)	(75,500)	(87,500)
Total Long-term Liabilities	129,555	1,177,710	1,307,265
TOTAL LIABILITIES	153,459	1,305,912	1,459,371
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	7,181	-0-	7,181
NET POSITION			
Net investment in capital assets	519,543	2,130,730	2,650,273
Restricted-Debt Service	-0-	164,612	164,612
Unrestricted	597,431	129,541	726,972
TOTAL NET POSITION	1,116,974	2,424,883	3,541,857
TOTAL LIABILITIES AND NET POSITION	\$ 1,277,614	\$ 3,730,795	\$ 5,008,409

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Activities Year Ended December 31, 2015

	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	2015 Total
GOVERNMENTAL							
Public Safety	\$ 101,999	\$ 38,697	-0-	-0-	\$ (63,302)	-0-	\$ (63,302)
General Government	135,759	3,645	-0-	-0-	(132,114)	-0-	(132,114)
Streets	65,324	-0-	-0-	-0-	(65,324)	-0-	(65,324)
Culture and Recreation	24,499	-0-	9,650	-0-	(14,849)	-0-	(14,849)
Sanitation	44,122	44,934	-0-	-0-	812	-0-	812
Interest	3,459	-0-	-0-	-0-	(3,459)	-0-	(3,459)
Total Governmental Activities	\$ 375,162	\$ 87,276	\$ 9,650	\$ -0-	\$ (278,236)	-0-	\$ (278,236)
BUSINESS TYPE							
Water	171,902	106,898	-0-	-0-	-0-	\$ (65,004)	\$ (65,004)
Sewer	67,525	67,330	-0-	-0-	-0-	(195)	(195)
Total Business Type	\$ 239,427	\$ 174,228	-0-	-0-	-0-	\$ (65,199)	\$ (65,199)
General revenues:							
					\$ 217,211	-0-	\$ 217,211
					-0-	7,017	7,017
					100,753	-0-	100,753
					333	821	1,154
					32,855	-0-	32,855
					(8,500)	8,500	-0-
Total General Revenue and Transfers					342,652	16,338	358,990
Changes in Net Position					64,416	(48,861)	15,555
Net Position - beginning of year as restated (Note 13)					1,052,558	2,473,744	3,526,302
Net Position - end of year					\$ 1,116,974	\$ 2,424,883	\$ 3,541,857

See accompanying notes to financial statements

CITY OF BARRETT

Balance Sheet Governmental Funds

Year Ended December 31, 2015

(with partial comparative information for the year ended December 31, 2014)

	General	G. O. Capital Improvement Bonds of 2010A Debt Service	Total Governmental 2015	Total Governmental 2014
ASSETS				
Cash and cash equivalents	\$ 654,100	\$ -0-	\$ 654,100	\$ 582,435
Receivables:				
Current property taxes	5,104	-0-	5,104	5,713
Delinquent property taxes receivable	5,747	-0-	5,747	3,399
Special assessments	-0-	-0-	-0-	-0-
Other receivables	10,996	-0-	10,996	11,634
Total receivables	21,847	-0-	21,847	20,746
Total Assets	\$ 675,947	\$ -0-	\$ 675,947	\$ 603,181
LIABILITIES				
Payroll liabilities payable	3,594	-0-	3,594	2,818
Sales tax payable	1,344	-0-	1,344	1,336
Accounts payable	5,664	-0-	5,664	9,137
Total Liabilities	10,602	-0-	10,602	13,291
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenue - Delinquent taxes	5,747	-0-	5,747	3,399
Total Deferred Inflows of Resources	5,747	-0-	5,747	3,399
FUND BALANCES				
Assigned for:				
Fire Department	11,285	-0-	11,285	9,142
Fire Department - Grain Tube	256	-0-	256	256
Pavilion	1,235	-0-	1,235	1,235
Parks	252	-0-	252	252
Old Time Photos	147	-0-	147	147
Streets	116,054	-0-	116,054	94,442
Unassigned	530,369	-0-	530,369	481,017
Total Fund Balances	659,598	-0-	659,598	586,491
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 675,947	\$ -0-	\$ 675,947	\$ 603,181

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, 2015

	<u>2015</u>
Total Fund Balance - Governmental Funds	\$ 659,598
 Amounts reported for governmental activities in the statement of net assets are different because:	
 Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	944,423
Less: accumulated depreciation	(352,882)
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
G.O. Capital Improvement Bonds	(69,000)
Pension Liability	(72,555)
 Long-term assets are not available to pay current-period expenditures and therefore are unavailable in the funds.	
Delinquent property taxes receivable	5,747
 Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	10,126
Deferred inflows of pension resources	(7,181)
 Governmental funds do not report a liability for accrued interest until due and payable.	
	<u>(1,302)</u>
 Total Net Position - Governmental Funds	 <u><u>\$ 1,116,974</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, 2015
 (with partial comparative information for the year end December 31, 2014)

	G.O. Capital Improvement Bonds of 2010A		Total Governmental	Total Governmental
	General	Debt Service	2015	2014
Revenues				
Local property tax levies	\$ 214,863	\$ -0-	\$ 214,863	\$ 222,920
Licenses, fees and fines	3,645	-0-	3,645	2,768
Revenues from state sources	100,753	-0-	100,753	87,818
Charges for services	83,631	-0-	83,631	75,558
Investment income	333	-0-	333	339
Public donations	9,650	-0-	9,650	10,075
Rental income	15,832	-0-	15,832	13,313
Other	<u>17,023</u>	<u>-0-</u>	<u>17,023</u>	<u>13,897</u>
Total Revenues	445,730	-0-	445,730	426,688
Expenditures				
Current				
Public Safety	85,890	-0-	85,890	84,232
Governmental	124,167	-0-	124,167	137,537
Sanitation	44,122	-0-	44,122	43,137
Culture and Recreation	19,188	-0-	19,188	18,214
Streets	<u>57,082</u>	<u>-0-</u>	<u>57,082</u>	<u>52,527</u>
Total Current	330,449	-0-	330,449	335,647
Capital Outlay	5,950	-0-	5,950	70,988
Debt Service:				
Principal	11,998	12,000	23,998	19,522
Interest	<u>351</u>	<u>3,375</u>	<u>3,726</u>	<u>4,647</u>
Total Debt Service	<u>12,349</u>	<u>15,375</u>	<u>27,724</u>	<u>24,169</u>
Total Expenditures	348,748	15,375	364,123	430,804
Excess (deficiency) of revenue over expenditures	96,982	(15,375)	81,607	(4,116)
Other financing sources (uses)				
Transfers out	(23,875)	-0-	(23,875)	(24,415)
Transfers in	<u>-0-</u>	<u>15,375</u>	<u>15,375</u>	<u>15,915</u>
Total other financing sources (uses)	<u>(23,875)</u>	<u>15,375</u>	<u>(8,500)</u>	<u>(8,500)</u>
Net changes in fund balances	73,107	-0-	73,107	(12,616)
Fund Balances - Beginning of Year	586,491	-0-	586,491	599,107
Fund Balances - End of year	<u>\$ 659,598</u>	<u>\$ -0-</u>	<u>\$ 659,598</u>	<u>\$ 586,491</u>

See accompanying notes to financial statements

CITY OF BARRETT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities Governmental Funds Year Ended December 31, 2015

	2015
Total Net Change in Fund Balance - Governmental Funds	\$ 73,107
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital Outlays	5,950
Depreciation expense	(39,116)
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.	
Debt repayment	23,998
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Delinquent property tax revenue	2,348
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.	
	267
Long-term pension activity is not reported in governmental funds.	
Pension expense	(2,138)
Total Change in Net Position - Governmental Funds	\$ 64,416

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Net Position Proprietary Funds December 31, 2015

(with partial comparative information for December 31, 2014)

	Business Type Activities - Enterprise Fund			
	Water	Sewer	2015 Totals	2014 Totals
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 270,463	\$ 9,212	\$ 279,675	\$ 308,980
Current Special Assessments Receivable	1,529	-0-	1,529	558
Delinquent Special Assessments Receivable	5,144	-0-	5,144	5,122
Total Current Assets	277,136	9,212	286,348	314,660
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-	1,365,101	1,365,101	1,334,701
Less Accumulated Depreciation	(498,804)	(443,296)	(942,100)	(854,667)
Capital Assets, Net	2,462,135	921,805	3,383,940	3,440,973
Other Assets:				
Special Assessments Receivable	60,507	-0-	60,507	101,887
Total Noncurrent Assets	2,522,642	921,805	3,444,447	3,542,860
Total Assets	2,799,778	931,017	3,730,795	3,857,520
LIABILITIES:				
Current Liabilities:				
Accounts Payable	668	1,817	2,485	3,373
Accrued Interest	50,217	-0-	50,217	53,193
Current Portion of Long Term Liabilities	75,500	-0-	75,500	74,000
Total Current Liabilities	126,385	1,817	128,202	130,566
Noncurrent Liabilities:				
Long-Term Debt Payable	1,253,210	-0-	1,253,210	1,327,210
Less Current Portion	(75,500)	-0-	(75,500)	(74,000)
Total Noncurrent Liabilities	1,177,710	-0-	1,177,710	1,253,210
Total Liabilities	1,304,095	1,817	1,305,912	1,383,776
NET POSITION:				
Net Investment in Capital Assets	1,208,925	921,805	2,130,730	2,113,763
Restrict - Debt Services - Expendable	164,612	-0-	164,612	198,499
Unrestricted	122,146	7,395	129,541	161,482
Total Net Position	1,495,683	929,200	2,424,883	2,473,744
Total Liabilities and Net Position	\$ 2,799,778	\$ 931,017	\$ 3,730,795	\$ 3,857,520

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, 2015
 (with partial comparative information for the year ended December 31, 2014)

	Business Type Activities - Enterprise Funds			
	Water	Sewer	2015 Totals	2014 Totals
Operating Revenues:				
Charges for Services	\$ 102,404	\$ 67,330	\$ 169,734	\$ 158,604
Connection Fees	1,015	-0-	1,015	1,010
Miscellaneous	3,479	-0-	3,479	-0-
Total Operating Revenues	106,898	67,330	174,228	159,614
Operating Expenses:				
Personnel Services	15,929	15,929	31,858	30,811
Utilities	6,835	2,463	9,298	9,632
Repairs and Maintenance	22,952	7,427	30,379	24,862
Supplies & Small Equipment	12,139	8,459	20,598	15,909
Other Expenses	4,611	5,033	9,644	5,823
Depreciation	59,219	28,214	87,433	85,913
Total Operating Expenses	121,685	67,525	189,210	172,950
Operating Income (Loss)	(14,787)	(195)	(14,982)	(13,336)
Nonoperating Revenues (Expenses):				
Interest and Investment Revenues	794	27	821	1,463
Special Assessments	7,017	-0-	7,017	10,743
Interest Expense	(50,217)	-0-	(50,217)	(53,193)
Total Nonoperating Revenues (Expenses)	(42,406)	27	(42,379)	(40,987)
Net Income (Loss) Before Contributions and Transfers	(57,193)	(168)	(57,361)	(54,323)
Transfers In	35,500	-0-	35,500	35,500
Transfers Out	-0-	(27,000)	(27,000)	(27,000)
Change in Net Position	(21,693)	(27,168)	(48,861)	(45,823)
Total Net Position - Beginning	1,517,376	956,368	2,473,744	2,519,567
Total Net Position - Ending	\$ 1,495,683	\$ 929,200	\$ 2,424,883	\$ 2,473,744

See accompanying notes to financial statements

CITY OF BARRETT

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2015

(with partial comparative information for the year ended December 31, 2014)

	Business Type Activities - Enterprise Funds			
	Water	Sewer	2015 Totals	2014 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 106,898	\$ 67,330	\$ 174,228	\$ 159,614
Payments to Suppliers	(47,358)	(23,277)	(70,635)	(54,895)
Payments to Employees	(15,929)	(15,929)	(31,858)	(30,810)
Net Cash Provided by Operating Activities	43,611	28,124	71,735	73,909
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers From (To) Other Funds	35,500	(27,000)	8,500	8,500
Net cash provided (used) from non capital financing activities	35,500	(27,000)	8,500	8,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	-0-	(30,400)	(30,400)	-0-
Special Assessments	47,232	-0-	47,232	44,981
Principal paid on Capital Debt	(74,000)	-0-	(74,000)	(79,500)
Interest paid on Capital Debt	(53,193)	-0-	(53,193)	(56,675)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(79,961)	(30,400)	(110,361)	(91,194)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and Dividends	794	27	821	1,463
Net Cash Provided by Investing Activities	794	27	821	1,463
Net Increase (Decrease) in Cash and Deposits	(56)	(29,249)	(29,305)	(7,322)
Balances - Beginning of the Year	270,519	38,461	308,980	316,302
Balances - End of the Year	270,463	9,212	279,675	308,980
Cash and Cash Equivalents				
Current Assets	270,463	9,212	279,675	308,980
Total Cash and Cash Equivalents - End of Year	\$ 270,463	\$ 9,212	\$ 279,675	\$ 308,980

See accompanying notes to Financial Statements.

CITY OF BARRETT

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2015

(with partial comparative information for the year ended December 31, 2014)

RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	Business Type Activities - Enterprise Funds			
	Water	Sewer	2015 Totals	2014 Totals
Operating Income (loss)	\$ (14,787)	\$ (195)	\$ (14,982)	\$ (13,336)
Adjustments to reconcile operating income to net cash flows from operating activities				
Depreciation and amortization	59,219	28,214	87,433	85,913
Changes in assets and liabilities				
Accounts Payable	(821)	105	(716)	1,332
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 43,611	\$ 28,124	\$ 71,735	\$ 73,909

See accompanying notes to Financial Statements.

NOTES TO CITY FINANCIAL STATEMENTS

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

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, 2015

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, 2015

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, 2015.

F. Taxes Receivable

Taxes receivable represents taxes levied in 2015 which are not received until early 2016.

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, 2015

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 2014 which was collected during the year ended December 31, 2015. 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. Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

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

K. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

L. Deferred inflows of resources

In addition to liabilities, the statement of financial position and fund financial statements will sometime report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies as needing to be reported in this category. Accordingly, the item, unearned revenue-delinquent taxes, is reported only in the governmental funds balance sheet. The governmental funds report revenue unavailable from taxes in the balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

M. 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, 2015 or 2014.

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, 2015 or 2014.

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.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

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

N. 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.

O. 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.

P. 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.

Q. 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.

R. 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.

S. 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.

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2015

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.

B. Deposits Balances

As of December 31, 2015 the City’s deposit balances were as follows:

	Bank Balance	Book Balance
Deposits		
Checking Accounts	\$ 951,984	\$ 933,775
Total Deposits	\$ 951,984	\$ 933,775

Deposits are included on the basic financial statements as follows:

Cash and Cash Equivalents		
Governmental Funds		\$ 654,100
Propriety Funds		\$ 279,675
Total		\$ 933,775

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 is as follows:

	Balance			Balance
	December 31, 2014	Additions	Dispositions	December 31, 2015
Governmental Activities				
Buildings	\$ 378,163	\$ -0-	\$ -0-	\$ 378,163
City Equipment	19,742	-0-	-0-	19,742
Fire Equipment	240,252	5,950	-0-	246,202
Infrastructure	213,500	-0-	-0-	213,500
Parks & Recreation	86,816	-0-	-0-	86,816
Total Governmental Activities	938,473	5,950	-0-	944,423
Business-Type Activities				
Sewer & Water	4,295,640	30,400	-0-	4,326,040
Total Business-type Activities	4,295,640	30,400	-0-	4,326,040
Total Capital Asset Activities	\$ 5,234,113	\$ 36,350	\$ -0-	\$ 5,270,463

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

NOTE 3 - CAPITAL ASSETS (con't)

Accumulated depreciation activity for the year ended December 31, 2015, is as follows:

	Balance December 31, 2014	Additions	Dispositions	Balance December 31, 2015
Governmental Activities				
Buildings	\$ 66,573	\$ 9,454	-0-	\$ 76,027
City Equipment	19,743	-0-	-0-	19,743
Fire Equipment	161,733	16,109	-0-	177,842
Infrastructure	32,966	8,242	-0-	41,208
Parks & Recreation	32,751	5,311	-0-	38,062
Total Governmental Activities	313,766	39,116	-0-	352,882
Business-Type Activities				
Sewer & Water	854,667	87,433	-0-	942,100
Total Depreciation Activity	\$ 1,168,434	\$ 126,549	-0-	\$ 1,294,983

Depreciation expense of \$126,549 for the year ended December 31, 2015, was charged to the following functions:

Governmental	
Public Safety	\$ 16,109
General Governmental	9,454
Culture and Recreation	5,311
Streets	8,242
Enterprise	
Water	59,219
Sewer	<u>28,214</u>
	\$126,549

NOTE 4 - INTEREST EXPENSES

Total interest expense for the City during 2015 was \$53,676. All interest costs were charged to expense in 2015. The total amount of interest expense was \$3,459 as reported in the statement of activities and \$50,217 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, 2015

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	1,253,210
G O Capital Improvement Plan Bonds, 2010A	2/9/10	4.5%	125,000	2/1/20	69,000
Total General Obligation Bonds					<u>1,322,210</u>
Total Long-term Liability					<u><u>\$ 1,322,210</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, 2015:

	G. O. Capital Improvement 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	\$ 12,000	\$ 12,000	\$ 75,500	\$ 75,500	\$ 87,500
Long-term Portion	57,000	57,000	1,177,710	1,177,710	1,234,710
Total	<u>\$ 69,000</u>	<u>\$ 69,000</u>	<u>\$ 1,253,210</u>	<u>\$ 1,253,210</u>	<u>\$ 1,322,210</u>

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2015

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		G.O. Capital Improvement Plan Bonds of 2010A		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31, 2016	\$ 75,500	\$ 50,217	\$ 12,000	\$ 3,105	\$ 87,500	\$ 53,322
2017	21,000	49,328	13,000	2,565	34,000	51,893
2018	22,000	48,488	13,000	1,980	35,000	50,468
2019	23,000	47,608	14,000	1,395	37,000	49,003
2020	24,000	46,688	14,000	765	38,000	47,453
2021 - 2025	135,000	218,242	3,000	135	138,000	218,377
2026 - 2030	163,000	189,122			163,000	189,122
2031 - 2035	199,000	153,722			199,000	153,722
2036 - 2040	242,000	110,562			242,000	110,562
2041 - 2045	295,000	58,202			295,000	58,202
2046	53,710	4,280			53,710	4,280
Totals	\$ 1,253,210	\$ 976,459	\$ 69,000	\$ 9,945	\$ 1,322,210	\$ 986,404

CITY OF BARRETT

Notes to City Financial Statements
December 31, 2015

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.

D. Changes in Long-Term Liabilities

	Balance December 31, 2014	Additions	Retirement	Balance December 31, 2015
G. O. Water Revenue Bonds of 2010	1,327,210	-0-	74,000	1,253,210
G. O. Capital Improvement Plan Bonds of 2010A	81,000	-0-	12,000	69,000
Fire Truck Promissory Note	11,998	-0-	11,998	-0-
Pension Liability - GERP	-0-	77,200 *	4,645	72,555
Total	\$ 1,420,208	\$ 77,200	\$ 102,643	\$ 1,394,765

* Includes January 1, 2015 pension liability balance related to GASB Statement No. 68 implementation. See Note 7 for further details.

NOTE 6 - INTERFUND TRANSFERS

The composition of interfund transfers as of December 31, 2015 was as follows:

	<u>Transfers Out</u>		<u>Total</u>
	<u>General</u>	<u>Sewer</u>	
Transfers In:			
Water	8,500	27,000	35,500

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, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City of Barrett participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Barrett are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2 the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

B. Contribution

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2015. The City of Barrett was required to contribute 7.50% for Coordinated Plan members in calendar year 2015. The City of Barrett's contributions to the GERF for the year ended December 31, 2015, were \$6,411. The City of Barrett's contributions were equal to the required contributions as set by state statute.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLANS (cont'd)

C. Pension Costs

GERF Pension Costs

At December 31, 2015, the City of Barrett reported a liability of \$72,555 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Barrett's proportion of the net pension liability was based on the City of Barrett's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Barrett's proportion share was 0.0014% which was a decrease of 0.0001% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City of Barrett recognized pension expense of \$4,697 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City of Barrett reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -0-	\$ 3,658
Changes in actuarial assumptions	-0-	-0-
Difference between projected and actual investment earnings	6,868	-0-
Changes in proportion	-0-	3,523
Contributions paid to PERA subsequent to the measurement date	3,258	-0-
Total	\$ 10,126	\$ 7,181

\$3,258 reported as deferred outflows of resources related to pensions resulting from City of Barrett contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ (676)
2017	(676)
2018	(676)
2019	1,718
2020	-0-
Thereafter	-0-

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLANS (cont'd)

D. Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disability were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERP and PEPFF, and 2.5% for all years (PECF).

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009. Experience studies have not been prepared for the PECF, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on the assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

NOTE 7 - DEFINED BENEFIT PENSION PLANS (cont'd)

F. Pension Liability Sensitivity

The following presents the City of Barrett's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Barrett's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City of Barrett's Proportionate Share of the GERS Net Pension Liability:	114,083	72,555	38,260

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

A. Contracts

In September 2014 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 2016 and 2017 are for \$33,743 and \$34,586 respectively.

A contract was entered into in October 2015 for snow removal in the City limits. The contract runs from October 2015 to April 2016 and totals \$18,000 up to 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 2015.

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, 2015:

Year ending December 31,	
2016	6,444
2017	6,444
2018	<u>3,222</u>
	<u>16,110</u>

CITY OF BARRETT

Notes to City Financial Statements December 31, 2015

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, 2015 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 2015. There were no required contributions in excess of fire aid for 2015 and 2014.

Related-Party Investments

As of December 31, 2015, 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, 2015

NOTE 13 - CHANGES IN ACCOUNTING STANDARDS

During 2015, the City implemented several new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - and Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended December 31, 2015. These standards required retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2014 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 7.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2014 balances to the December 31, 2015 financial statements:

Fund	December 31, 2015		
	Net Position January 1, 2015 as Previously Reported	Prior Period Restatement (1)	Net Position January 1, 2015 as Restated
Governmental activities	\$ 1,120,029	\$ (67,471)	\$ 1,052,558

(1) To record beginning net pension liability, deferred inflows of resources and deferred outflow of resources and to eliminate other postemployment benefits liability at December 31, 2014.

NOTE 14 - SUBSEQUENT EVENTS

In May 2016 the City resolved to issue General Obligation Water Revenue Refunding Bonds, Series 2016A in the amount of \$1,215,000, the proceeds of which will be used to refund the General Obligation Water Revenue Bonds of 2010.

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, 2015

	Budgeted Amounts Original & Final		Actual General Fund		Variances with Final Budget Favorable (unfavorable)
Revenues					
Local property tax levies	\$	215,000	\$	212,684	\$ (2,316)
Licenses, fees and fines		2,470		3,645	1,175
Revenues from state sources		77,463		100,753	23,290
Charges for services		84,838		84,269	(569)
Public donations		-0-		9,650	9,650
Other		21,444		33,188	11,744
Total Revenues	\$	401,215	\$	444,189	\$ 42,974
Expenditures					
Current:					
Public Safety		87,237		85,890	1,347
Governmental		138,093		126,856	11,237
Sanitation		51,760		44,122	7,638
Culture and recreation		25,150		19,188	5,962
Streets		78,600		57,082	21,518
Total Current	\$	380,840	\$	333,138	\$ 47,702
Capital Outlay		5,000		5,950	(950)
Debt Services		15,375		12,349	3,026
Total Expenditures		401,215		351,437	49,778
Excess (deficiency) of revenue over expenditures		-0-		92,752	92,752
Other financing sources (uses)					
Transfers out		-0-		(23,875)	(23,875)
Transfers in		-0-		-0-	-0-
Total other financing sources (uses)		-0-		(23,875)	(23,875)
Net change in Fund Balance		-0-		68,877	68,877
Fund Balances - Beginning of Year		589,133		589,133	-0-
Fund Balances - End of year	\$	589,133	\$	658,010	\$ 68,877
Reconciliation of budgetary Basis to GAAP Basis:				-0-	
Budgetary Basis Fund Balance - End of Year				658,010	
Revenue Accruals				(1,101)	
Expenditure Accruals				2,689	
GAAP Basis Fund Balance - End of Year	\$		\$	659,598	

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, 2015

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 major funds: the General Fund.

CITY OF BARRETT

Required Supplementary Information
For the Year Ended December 31, 2015

Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/15	0.0014%	\$ 72,555	\$ -0-	\$ 72,555	\$ 85,479	84.9%	78.2%

Schedule of employer's PERA contributions - General Employees Retirement Fund

Required Supplementary Information						
Year Ending	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll	
12/31/15	\$ 6,411	\$ 6,411	\$ -0-	\$ 85,479	7.5%	



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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 were engaged to audit, in accordance with the 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, Minnesota (the City), as of and for the year ended December 31, 2015, 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 20, 2016.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the City, 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 weaknesses 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 2015-1 and 2015-2 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 2015-3, to be a significant deficiency.

Compliance and Other Matters

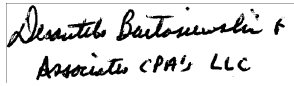
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

Response to Findings

The City's responses to the findings identified in our engagement 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 engagement to perform an audit 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
Alexandria, Minnesota
June 20, 2016

CITY OF BARRETT

Summary Schedule of Audit Findings and Responses Year Ended December 31, 2015

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

Finding 2015-1 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, 2015

Finding 2015-2 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, 2015

The following findings have been identified as significant deficiencies:

Finding 2015-3 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.



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

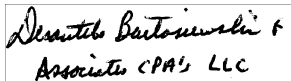
To the Mayor and Members of the City Council
City of Barrett
Barrett, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Barrett, Minnesota (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, 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 failed to comply with the provisions of The *Minnesota Legal Compliance Audit Guide for Cities*. 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.


Desautels Bartosiewski &
Associates, CPAs, LLC

Desautels Bartosiewski & Associates, CPAs, LLC
Alexandria, Minnesota
June 20, 2016