



Financial Statements  
December 31, 2010

# City of Blue Earth

**INTRODUCTORY SECTION**

Officials.....I

**FINANCIAL SECTION**

Independent Auditor’s Report..... II

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets ..... 1  
Statement of Activities..... 2

Fund Financial Statements:

Balance Sheet – Governmental Funds ..... 3  
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets ..... 4  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds ..... 5  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities ..... 6  
Statement of Net Assets – Proprietary Funds ..... 7  
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds ..... 8  
Statement of Cash Flows – Proprietary Funds ..... 9  
Notes to Financial Statements ..... 10

Required Supplementary Information

Budgetary Comparison Schedule – General Fund ..... 33  
Budgetary Comparison Schedule – Housing Loan Fund ..... 35  
Budgetary Comparison Schedule – Airport Fund ..... 36  
Notes to the Required Supplementary Information..... 37

Supplemental Schedules and Related Information:

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds ..... 38  
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds ..... 42

**MINNESOTA COMPLIANCE SECTION**

Independent Auditor’s Report on Minnesota Legal Compliance ..... 49

**ADDITIONAL REPORTS AND SCHEDULE**

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* ..... 50

Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program’s Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards ..... 52

**AUDIT OF FEDERAL AWARDS SECTION**

Schedule of Expenditures of Federal Awards ..... 54  
Notes to Schedule of Expenditures of Federal Awards..... 55  
Summary of Audit Results, Findings and Questioned Costs ..... 56

**CITY COUNCIL**

Rod Hammond	Mayor
John Gartzke	Councilor
Allen Aukes	Councilor
Glenn Gaylord	Councilor
John Huisman	Councilor
Richard Scholtes	Councilor
Russ Erichsrud	Councilor

**ADMINISTRATION**

Kathy Bailey	City Administrator/EDA Director
Nancy Thompson	City Clerk
Dean Vereide	Police Chief
Roger Davis	Fire Chief
Dick LaMont	Public Works Supervisor
Don Adams	Liquor Manager
Michelle Hall	Fitness Center and Pool Director
Middy Thomas	Senior Center Director
Steve Anderson	Building Inspector
Eva Gaydon	Library Director
Tim Steier	Airport Manager
Barb Steier	Airport Manager



## Independent Auditor's Report

Honorable Mayor and City Council  
City of Blue Earth  
Blue Earth, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota as of and for the year ended December 31, 2010, which collectively comprise the City of Blue Earth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Blue Earth, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Board of Public Works Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011 on our consideration of the City of Blue Earth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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 and the other auditors 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Blue Earth, Minnesota's financial statements as a whole. The introductory section and combining and individual fund statements and schedules for the year ended December 31, 2010, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the City. The combining and individual fund statements and schedules and schedule of expenditures of federal awards for the year ended December 31, 2010, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.



Mankato, Minnesota  
June 30, 2011

City of Blue Earth  
Statement of Net Assets  
December 31, 2010

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Cash and investments	\$ 5,357,671	\$ 1,248,494	\$ 6,606,165	\$ 1,854,152
Receivables:				
Taxes	76,932	-	76,932	-
Special assessments	868,875	944	869,819	77,515
Accounts	91,421	237,085	328,506	710,513
Interest	22,754	-	22,754	-
Notes	565,962	-	565,962	46,340
Due from other funds	334,844	-	334,844	-
Prepaid items	25,000	-	25,000	418,455
Due from other governments	284,454	-	284,454	-
Inventory	-	261,867	261,867	487,424
Deferred charges	244,293	129,265	373,558	52,785
Bond issue costs (net)	-	26,080	26,080	-
Restricted cash and investments:				
Revenue bond current debt	500,000	99,298	599,298	558,994
Investment in joint venture	-	-	-	244,552
Capital assets:				
Land and construction in progress	2,351,086	1,641,344	3,992,430	182,806
Road network	16,464,083	-	16,464,083	-
Distribution System	-	-	-	22,526,941
Buildings and equipment	9,192,719	5,876,813	15,069,532	-
Vehicles	1,624,297	5,695,271	7,319,568	-
Less accumulated depreciation	(10,602,735)	(4,694,362)	(15,297,097)	(11,157,899)
Total assets	<u>27,401,656</u>	<u>10,522,099</u>	<u>37,923,755</u>	<u>16,002,578</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	411,998	313,256	725,254	451,012
Other payables	16,301	-	16,301	273,617
Accrued vacation and sick leave	2,228	25,852	28,080	-
Accrued salaries and wages	44,218	-	44,218	-
Unearned revenue	-	52,294	52,294	185,794
Interest payable	80,081	19,850	99,931	-
<b>Long-Term Liabilities:</b>				
Due within one year	1,008,274	458,000	1,466,274	448,961
Due in more than one year	7,847,317	4,802,004	12,649,321	2,786,501
Total liabilities	<u>9,410,417</u>	<u>5,671,256</u>	<u>15,081,673</u>	<u>4,145,885</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	10,418,152	1,846,833	12,264,985	8,431,789
Restricted for:				
Debt service	3,262,819	-	3,262,819	532,950
Other purposes	2,601,072	-	2,601,072	26,044
Unrestricted	1,709,196	3,004,010	4,713,206	2,865,910
Total Net Assets	<u>\$ 17,991,239</u>	<u>\$ 4,850,843</u>	<u>\$ 22,842,082</u>	<u>\$ 11,856,693</u>

City of Blue Earth  
Statement of Activities  
Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit Business-type Activities
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals December 31, 2010	
<b>PRIMARY GOVERNMENT</b>							
Governmental Activities							
General government	\$ 384,462	\$ 840,869	\$ -	\$ 456,407	\$ -	\$ 456,407	
Public safety	487,545	43,697	53,086	(390,762)	-	(390,762)	
Public works	37,653	-	-	(37,653)	-	(37,653)	
Miscellaneous	104,807	73,015	-	(31,792)	-	(31,792)	
Culture and recreation	575,735	-	-	(575,735)	-	(575,735)	
Housing and economic development	326,202	45,586	-	(280,616)	-	(280,616)	
Interest and other charges on long-term debt	427,887	-	-	(427,887)	-	(427,887)	
Total governmental activities	<u>2,344,291</u>	<u>1,003,167</u>	<u>53,086</u>	<u>(1,288,038)</u>	<u>-</u>	<u>(1,288,038)</u>	
Business-Type Activities							
Sewer	744,052	898,254	-	-	154,202	154,202	
Liquor	1,316,481	1,382,416	-	-	65,935	65,935	
Fitness Center	83,603	106,296	-	-	22,693	22,693	
Total business-type activities	<u>2,144,136</u>	<u>2,386,966</u>	<u>-</u>	<u>-</u>	<u>242,830</u>	<u>242,830</u>	
Total Primary Government	<u>4,488,427</u>	<u>3,390,133</u>	<u>53,086</u>	<u>(1,288,038)</u>	<u>242,830</u>	<u>(1,045,208)</u>	
Component Units							
Electric	5,260,225	5,449,491	-				189,266
Water	623,145	596,189	-				(26,956)
	<u>\$ 5,883,370</u>	<u>\$ 6,045,680</u>	<u>\$ -</u>				<u>\$ 162,310</u>
General Revenues							
Taxes							
Property taxes				1,115,635	-	1,115,635	-
Special assessments				761,217	-	761,217	-
State aid				1,784,485	-	1,784,485	-
Franchise tax				257,256	-	257,256	-
Fees and fines				4,181	-	4,181	-
License and permits				28,456	-	28,456	-
Earnings on investments				38,921	3,717	42,638	15,778
Contributed capital				-	247,269	247,269	-
Gain on sale of assets				8,382	-	8,382	49
Miscellaneous				508,616	37,633	546,249	11,449
Total general revenues				<u>4,507,149</u>	<u>288,619</u>	<u>4,795,768</u>	<u>27,276</u>
Changes in Net Assets				3,219,111	531,449	3,750,560	189,586
Net Assets - Beginning				14,772,128	4,319,394	19,091,522	11,667,107
Net Assets - Ending				<u>\$ 17,991,239</u>	<u>\$ 4,850,843</u>	<u>\$ 22,842,082</u>	<u>\$ 11,856,693</u>

City of Blue Earth  
Balance Sheet – Governmental Funds  
December 31, 2010

	General Fund	Housing Loan Fund	Airport	General Obligation 2010A	TIF 5-5	2001 & 2009A	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash and investments	\$ 1,385,617	\$ 1,264,463	\$ -	\$ 96,943	\$ 176,458	\$ 224,626	\$ 2,209,564	\$ 5,357,671
Restricted cash	-	-	-	-	500,000	-	-	500,000
Receivables:								
Taxes	24,034	977	931	-	-	7,782	43,208	76,932
Special assessments	70,941	-	-	323,643	-	93,847	380,444	868,875
Interest	13,279	-	-	-	-	-	9,475	22,754
Accounts	49,849	350	394	26,453	-	-	14,375	91,421
Notes	-	248,234	-	-	-	-	317,728	565,962
Due from other funds	343,068	-	-	244,345	-	-	90,499	677,912
Due from other governments	-	-	284,454	-	-	-	-	284,454
Other Assets	-	-	-	-	-	-	25,000	25,000
Total Assets	<u>\$ 1,886,788</u>	<u>\$ 1,514,024</u>	<u>\$ 285,779</u>	<u>\$ 691,384</u>	<u>\$ 676,458</u>	<u>\$ 326,255</u>	<u>\$ 3,090,293</u>	<u>\$ 8,470,981</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable	107,496	388	\$ 88,584	67,463	-	-	148,067	\$ 411,998
Other payables	16,055	92	-	-	-	-	154	16,301
Due to other funds	-	-	222,208	-	-	-	120,860	343,068
Accrued vacation and sick leave	1,150	404	-	-	-	-	674	2,228
Accrued wages and salaries	44,218	-	-	-	-	-	-	44,218
Deferred revenue	99,146	249,015	285,171	567,988	-	99,957	821,463	2,122,740
Total liabilities	<u>268,065</u>	<u>249,899</u>	<u>595,963</u>	<u>635,451</u>	<u>-</u>	<u>99,957</u>	<u>1,091,218</u>	<u>2,940,553</u>
<b>Fund Balances</b>								
Reserved for:								
Debt service	-	-	-	55,933	676,458	226,298	1,189,212	2,147,901
Unreserved - designated	\$ 913,041	-	-	-	-	-	25,000	938,041
Unreserved - undesignated	705,682	-	-	-	-	-	-	705,682
Unreserved - undesignated special revenue	-	1,264,125	(310,184)	-	-	-	793,536	1,747,477
Unreserved - undesignated capital project	-	-	-	-	-	-	(8,673)	(8,673)
Total fund balances	<u>1,618,723</u>	<u>1,264,125</u>	<u>(310,184)</u>	<u>55,933</u>	<u>676,458</u>	<u>226,298</u>	<u>1,999,075</u>	<u>5,530,428</u>
Total Liabilities and Fund Balances	<u>\$ 1,886,788</u>	<u>\$ 1,514,024</u>	<u>\$ 285,779</u>	<u>\$ 691,384</u>	<u>\$ 676,458</u>	<u>\$ 326,255</u>	<u>\$ 3,090,293</u>	<u>\$ 8,470,981</u>

See NOTES to Financial Statements



City of Blue Earth  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets  
 December 31, 2010

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Total Fund Balances for Governmental Funds		\$ 5,530,428
<p>Amounts reported for governmental activities          in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$29,632,185 and the accumulated depreciation is \$10,602,735.</p>		19,029,450
<p>Some of the City's property taxes and loans will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds.</p>		2,122,740
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$80,081.</p>		(80,081)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:</p>		
General obligation bonds payable	\$ 6,356,156	
Revenue bonds	1,070,000	
General obligation tax increment bonds	1,260,000	
Note payable	169,435	
		(8,855,591)
<p>Expenses that were paid for the issuance of long-term debt, bond issuance costs and underwriter fees are amortized over the term of the debt. The total deferred charge assets are \$548,252 and the accumulated amortization is \$303,959.</p>		244,293
Total Net Assets for Governmental Activities		\$ 17,991,239

City of Blue Earth  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2010

	General Fund	Housing Loan Fund	Airport	General Obligation 2010A	TIF 5-5	2001 & 2009A	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Property taxes	\$ 367,835	\$ 12,779	\$ 14,049	\$ -	\$ -	\$ 112,561	\$ 608,411	\$ 1,115,635
Franchise taxes	257,256	-	-	-	-	-	-	257,256
Special assessments	-	-	-	71,592	-	11,322	123,614	206,528
Fees and fines	4,181	-	-	-	-	-	-	4,181
Licenses and permits	28,456	-	-	-	-	-	-	28,456
Intergovernmental	1,611,662	795	150,527	-	-	6,980	67,607	1,837,571
Charges for services	152,261	-	45,508	-	497,397	-	308,001	1,003,167
Investment earnings	23,157	3,653	63	3,918	2,310	374	5,446	38,921
Miscellaneous	132,950	2,700	33	-	-	-	372,933	508,616
Total revenue	<u>2,577,758</u>	<u>19,927</u>	<u>210,180</u>	<u>75,510</u>	<u>499,707</u>	<u>131,237</u>	<u>1,486,012</u>	<u>5,000,331</u>
<b>Expenditures</b>								
<b>Current:</b>								
General government	402,114	-	-	-	-	-	-	402,114
Capital outlay	8,390	-	-	-	-	-	-	8,390
Public safety	681,970	-	-	-	-	-	-	681,970
Capital outlay	16,548	-	-	-	-	-	-	16,548
Public works	661,822	-	-	-	-	-	-	661,822
Capital outlay	257,916	-	-	-	-	-	395,076	652,992
Culture and recreation	376,454	-	70,831	-	-	-	-	447,285
Capital outlay	8,135	-	449,524	-	-	-	-	457,659
Economic development	-	21,966	-	-	-	-	320,590	342,556
Miscellaneous	67,073	-	-	-	317	317	208,857	276,564
Capital outlay	27,251	-	-	-	-	-	6,139	33,390
<b>Debt Services:</b>								
Principal	10,565	-	-	-	335,000	1,390,000	706,038	2,441,603
Bond issuance costs	-	-	-	-	-	-	750	750
Interest and other charges	14,229	-	207	-	79,115	32,478	331,597	457,626
Total expenditures	<u>2,532,467</u>	<u>21,966</u>	<u>520,562</u>	<u>-</u>	<u>414,432</u>	<u>1,422,795</u>	<u>1,969,047</u>	<u>6,881,269</u>
Excess (deficiency) of revenues over expenditures	<u>45,291</u>	<u>(2,039)</u>	<u>(310,382)</u>	<u>75,510</u>	<u>85,275</u>	<u>(1,291,558)</u>	<u>(483,035)</u>	<u>(1,880,938)</u>
<b>Other Financing Sources (Uses)</b>								
Sale of capital assets	6,791	-	-	-	-	-	495,150	501,941
Bond proceeds	-	-	-	-	-	-	1,320,655	1,320,655
Transfers in	302,067	-	-	-	-	-	47,016	349,083
Transfers out	-	-	-	(19,577)	-	-	(329,506)	(349,083)
Total other financing sources (uses)	<u>308,858</u>	<u>-</u>	<u>-</u>	<u>(19,577)</u>	<u>-</u>	<u>-</u>	<u>1,533,315</u>	<u>1,822,596</u>
Net change in fund balances	354,149	(2,039)	(310,382)	55,933	85,275	(1,291,558)	1,050,280	(58,342)
Fund Balances - Beginning of Year	<u>1,264,574</u>	<u>1,266,164</u>	<u>198</u>	<u>-</u>	<u>591,183</u>	<u>1,517,856</u>	<u>948,795</u>	<u>5,588,770</u>
Fund Balances - End of Year	<u>\$ 1,618,723</u>	<u>\$ 1,264,125</u>	<u>\$ (310,184)</u>	<u>\$ 55,933</u>	<u>\$ 676,458</u>	<u>\$ 226,298</u>	<u>\$ 1,999,075</u>	<u>\$ 5,530,428</u>

City of Blue Earth

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended December 31, 2010

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Total Net Change in Fund Balances - Governmental Funds \$ (58,342)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$2,405,724) exceeds depreciation expense (\$690,821) in the current period. 2,061,956

The net effect of miscellaneous transactions involving capital assets such as sales and trade-ins is to decrease net assets. (493,559)

In governmental funds, issuance of new debt is reported as a source of financing in the amount of net proceeds received. However, in the statement of activities, a new debt issuance is not revenue, rather it constitutes a long-term liability in the statement of net assets. (1,320,655)

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences. 2,930

Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Delinquent taxes and deferred and delinquent special assessment receivables increased by \$269,939, deferred notes receivable increased by \$42,656, miscellaneous deferred receivables decreased by \$42,360 and due from other governments increased \$284,454. 554,689

The governmental funds report repayment of bond principal (\$2,498,603) as an expenditure. In the statement of net assets, however, repayment of principal reduces the liability. 2,441,603

Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$80,081 and \$110,570 of accrued interest at December 31, 2010 and 2009, respectively. 30,489

Change in Net Assets of Governmental Activities \$ 3,219,111

City of Blue Earth  
Statement of Net Assets – Proprietary Funds  
December 31, 2010

	Sewer	Liquor	Fitness Center	Total
<b>Assets</b>				
Cash and investments	\$ 631,964	\$ 556,585	\$ 59,945	\$ 1,248,494
Receivables:				
Special assessments	944	-	-	944
Accounts	236,383	702	-	237,085
Inventory	-	261,867	-	261,867
Total current assets	<u>869,291</u>	<u>819,154</u>	<u>59,945</u>	<u>1,748,390</u>
<b>Noncurrent Assets:</b>				
Restricted cash:				
Revenue bond current debt	-	99,298	-	99,298
Deferred charges	129,265	-	-	129,265
Bond issue costs (net)	7,226	18,854	-	26,080
Capital assets:				
Land	103,035	100,000	-	203,035
Construction in progress	1,438,309	-	-	1,438,309
Buildings and distribution systems	5,167,354	506,247	203,212	5,876,813
Machinery and equipment	5,448,746	203,274	43,251	5,695,271
Less accumulated depreciation	<u>(4,358,786)</u>	<u>(201,375)</u>	<u>(134,201)</u>	<u>(4,694,362)</u>
Total noncurrent assets	<u>7,935,149</u>	<u>726,298</u>	<u>112,262</u>	<u>8,773,709</u>
 Total assets	 <u>8,804,440</u>	 <u>1,545,452</u>	 <u>172,207</u>	 <u>10,522,099</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	179,718	131,583	1,955	313,256
Accrued vacation	11,149	11,996	2,707	25,852
Deferred revenue	52,294	-	-	52,294
Bonds payable - current	423,000	35,000	-	458,000
Interest payable	19,850	-	-	19,850
Total current liabilities	<u>686,011</u>	<u>178,579</u>	<u>4,662</u>	<u>869,252</u>
<b>Noncurrent Liabilities:</b>				
Bonds payable	<u>4,382,004</u>	<u>420,000</u>	<u>-</u>	<u>4,802,004</u>
Total noncurrent liabilities	<u>4,382,004</u>	<u>420,000</u>	<u>-</u>	<u>4,802,004</u>
 Total liabilities	 <u>5,068,015</u>	 <u>598,579</u>	 <u>4,662</u>	 <u>5,671,256</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,562,571	172,000	112,262	1,846,833
Unrestricted	<u>2,173,854</u>	<u>774,873</u>	<u>55,283</u>	<u>3,004,010</u>
 Total Net Assets	 <u>\$ 3,736,425</u>	 <u>\$ 946,873</u>	 <u>\$ 167,545</u>	 <u>\$ 4,850,843</u>

City of Blue Earth  
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds  
Year Ended December 31, 2010

	Sewer	Liquor	Fitness Center	Total
<b>Operating Revenues</b>				
Service and fees	\$ 898,254	\$ -	\$ 106,296	\$ 1,004,550
Sales	-	1,382,416	-	1,382,416
Total operating revenues	<u>898,254</u>	<u>1,382,416</u>	<u>106,296</u>	<u>2,386,966</u>
<b>Operating Expenses</b>				
Salaries and benefits	222,956	165,595	33,486	422,037
Costs of goods sold	-	1,033,176	-	1,033,176
Supplies	21,341	3,343	9,029	33,713
Utilities	100,807	17,489	11,735	130,031
Other services and charges	25,644	3,738	1,719	31,101
Repairs and maintenance	37,791	5,462	2,832	46,085
Depreciation	239,427	25,700	9,173	274,300
Miscellaneous	39,140	37,950	15,629	92,719
Total operating expenses	<u>687,106</u>	<u>1,292,453</u>	<u>83,603</u>	<u>2,063,162</u>
Operating income	<u>211,148</u>	<u>89,963</u>	<u>22,693</u>	<u>323,804</u>
<b>Nonoperating Revenues (Expenses)</b>				
Grants	32,733	-	-	32,733
Interest and investment revenue	1,878	1,725	114	3,717
Amortization expense	(1,700)	(1,950)	-	(3,650)
Interest expense	(55,246)	(22,078)	-	(77,324)
Miscellaneous revenue	-	3,803	1,097	4,900
Total nonoperating revenues (expenses)	<u>(22,335)</u>	<u>(18,500)</u>	<u>1,211</u>	<u>(39,624)</u>
Income before contributions and transfers	188,813	71,463	23,904	284,180
Contributed capital	<u>247,269</u>	<u>-</u>	<u>-</u>	<u>247,269</u>
Change in net assets	436,082	71,463	23,904	531,449
Total Net Assets - Beginning of Year	<u>3,300,343</u>	<u>875,410</u>	<u>143,641</u>	<u>4,319,394</u>
Total Net Assets - End of Year	<u>\$ 3,736,425</u>	<u>\$ 946,873</u>	<u>\$ 167,545</u>	<u>\$ 4,850,843</u>

City of Blue Earth  
Statement of Cash Flows – Proprietary Funds  
Year Ended December 31, 2010

	Sewer	Liquor	Fitness Center	Total
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,055,407	\$ 1,382,241	\$ 111,236	\$ 2,548,884
Payments to employees	(223,413)	(177,814)	(34,273)	(435,500)
Payments to suppliers	(236,293)	(1,071,795)	(48,125)	(1,356,213)
Net cash provided by operating activities	<u>595,701</u>	<u>132,632</u>	<u>28,838</u>	<u>757,171</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Miscellaneous receipts	-	3,803	1,097	4,900
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from issuance of long-term debt	2,000,703	-	-	2,000,703
Payments on long-term debt	(296,248)	(35,000)	-	(331,248)
Purchase of capital assets	(2,271,808)	-	(5,850)	(2,277,658)
Interest paid on debt	(51,405)	(22,078)	-	(73,483)
Grants	32,733	-	-	32,733
Net cash (used by) capital and related financing activities	<u>(586,025)</u>	<u>(57,078)</u>	<u>(5,850)</u>	<u>(648,953)</u>
<b>Cash Flows from Investing Activities</b>				
Earnings on investments and cash	1,878	1,725	114	3,717
Net increase in cash	11,554	81,082	24,199	116,835
Balances - beginning of the year (including \$99,012 for the liquor fund reported as restricted)	<u>620,410</u>	<u>574,801</u>	<u>35,746</u>	<u>1,230,957</u>
Balances - end of the year (including \$99,298 for the liquor fund reported as restricted)	<u>\$ 631,964</u>	<u>\$ 655,883</u>	<u>\$ 59,945</u>	<u>\$ 1,347,792</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating income	\$ 211,148	\$ 89,963	\$ 22,693	\$ 323,804
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	239,427	25,700	9,173	274,300
Decrease (increase) in assets:				
Accounts receivable	(13,799)	(175)	4,940	(9,034)
Inventory	-	(201)	-	(201)
Special assessments	(49,418)	-	-	(49,418)
Due from other governments	184,079	-	-	184,079
Due from other funds	36,291	-	-	36,291
Increase (decrease) in liabilities:				
Accounts payable	(57,479)	29,564	(7,181)	(35,096)
Accrued expense	(457)	(12,219)	(787)	(13,463)
Due to other funds	(6,385)	-	-	(6,385)
Deferred revenue	52,294	-	-	52,294
Net Cash Provided by Operating Activities	<u>\$ 595,701</u>	<u>\$ 132,632</u>	<u>\$ 28,838</u>	<u>\$ 757,171</u>

The City had the following non-cash transactions for the year ended December 31, 2010.

Other funds contributed capital assets in the following amounts to the respective fund:  
Sewer Fund \$ 247,269

## **Note 1 - Summary of Significant Accounting Policies**

The City of Blue Earth (City) is a municipal corporation governed by a mayor and a six member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City applies all relevant GASB pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City has elected not to follow subsequent private-sector guidance. The significant City accounting policies are described below.

### **A. Financial Reporting Entity**

GASB Statement No. 14 "The Financial Reporting Entity" and GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" established standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB pronouncement's, since mayor and council members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In conformity with generally accepted accounting principles, the financial statements also include the City's component unit, the Blue Earth Board of Public Works which is also a calendar year end. The Board of Public Works financial statements are included in the City's reporting entity discretely because of the significance of its operational relationship with the City. Separate financial statements are issued for the Blue Earth Board of Public Works and the complete audited financial statements may be obtained by contacting the City of Blue Earth.

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

## **B. Government-wide and Fund Financial Statements - Continued**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational 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*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Housing Loan* special revenue fund which accounts for residential home improvement loans.

The *Airport* special revenue fund which accounts for activity of the City's municipal airport.

The *General Obligation 2010A Bond* debt service fund which accounts for servicing the debt issue of 2010A.

The *TIF 5-5* debt service fund which accounts for services the debt issue of the 1997 tax increment bonds.

The *2001 and 2009A Bond* debt service fund which accounts for servicing the debt issue of the 2001 and 2009A bond.



### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued**

The government reports the following major proprietary funds:

The *Sewer fund* accounts for the activities of the government's sewage treatment plant, sewage pumping stations, and collection systems.

The *Liquor fund* accounts for the activities of the government's off sale liquor operations.

The *Fitness center fund* accounts for the activities of the government's fitness center facilities.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

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

### **D. Assets, Liabilities, and Net Assets or Equity**

#### **1. Cash and Investments**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits, certificates of deposit, as well as short-term investments with an original maturity date within three months of the date acquired by the City. For the purposes of the statement of cash flows, cash for each fund includes demand deposit account balances, certificates of deposit, and restricted assets.

## 2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”.

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The City has determined that no portion of receivables is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

Property Taxes. On or before September 15th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

Beginning on November 29th and through December 20th of each year, the City is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the City Council certifies its final adopted property taxes payable the following year to the county auditor. If the City has not certified its final property tax by this time, its property tax shall be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities three times a year, in January, June, and November.

## 3. Inventories and Prepaid Items

All inventories are valued at cost using the average cost method. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### 4. Contract Negotiation Expenses

The cost of negotiating the contract extension with Alliant Energy is being amortized on the straight line method, over the life of the contract extension, which runs through April 2018. The balance as of December 31, 2010 was \$342,782.

#### 5. Restricted Assets

Certain resources in the Liquor Fund have been set aside as a reserve. Money in the reserve account is to be used only to pay for principal and interest on the Liquor Store Revenue Bonds, Series 2005A, and monies in the reserve account are used only when other monies in the fund are insufficient. This reserve is required as security for future payments.

Certain resources in the TIF 5-5 fund have been set aside as a reserve for a leasing arrangement. If the tenant defaults on its obligations to the City in accordance with the agreement, the reserve may be used to reimburse the City. Upon termination of the lease, the City must refund the balance of the reserve to the tenant.

#### 6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Primary Government</u>	<u>Years</u>
Buildings	7-40
Streets, bridges and improvements	20-50
Land Improvements	5-30
Collection and distribution	25-50
Vehicles	3-50
Machinery and equipment	5-40
Land	Not Depreciated
 <u>Component Unit</u>	 <u>Years</u>
Buildings and structures	20-50
Generation	20-33
Transmission system	20-33
Distribution system	25-50
General equipment	5-20
Vehicles	7-20

### **7. Vacation and Sick Leave**

Vacation and sick leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees. Employees are allowed to accrue vacation leave up to a maximum of one and a half times their annual accrual rate. Upon termination of employment, an employee shall received payment on their earned, but unused, vacation at their current regular rate of pay. Costs for governmental compensated absences will be liquidated from the general fund.

### **8. Compensated Absences**

The Board of Public Works has early retirement agreements with two former employees. The agreements include payouts of accumulated vacation and sick leave on the termination date, as well as continuation of medical insurance until age 65 (currently through August 2018). Insurance benefits are capped at \$450 per month (\$550 per month for one employee beginning in the calendar year 2010), and were discounted to present value using a three percent interest rate.

### **9. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at face value and bond premiums, discounts, and issuance costs are reported as deferred charges.

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

### **10. Fund Equity and Net Assets**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, the difference between the City's assets and its liabilities are its net assets. Net assets are displayed in three components - invested in capital assets, net of related debt; restricted; and unrestricted.

### **E. Inter-fund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures, or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Transfers have been removed from the government-wide financial statements.

## **F. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Note 2 - Stewardship, Compliance and Accountability**

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2010, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per State Statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The government's council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2010, expenditures exceed appropriations in the following funds:

General	\$ 209,750
Special Revenue Funds	
Airport	380,710

These over expenditures in the general fund were funded by greater than anticipated revenues and available fund balance. A portion of the excess in the Airport Fund was funded by greater than anticipated revenues and available fund balance; the remaining balance will be funded by future revenues or transfers from the general fund.

**C. Deficit Fund Equity**

The following governmental funds had deficit fund equity at December 31, 2010:

Special Revenue Fund	
Airport	\$ 310,184
Debt Service Funds	
General Obligation 2009	29,130
TIF 5-8	387
TIF 5-6	78,740
TIF 5-3	47
TIF 2-6	12,943
Capital Project	
2010 4th Street	<u>8,673</u>
Total	<u>\$ 440,104</u>

Deficit fund equity will be eliminated with future revenues or transfers from the general fund.

**Note 3 - Detailed Notes on All Funds and Account Groups**

**A. Cash and Investments**

**1. Cash**

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System. 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. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

**Custodial Credit Risk—Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2010, none of the City's bank balances were exposed to custodial credit risk.

## 2. Investments

As of December 31, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Certificates of deposit	\$ 391,708	0.72
Municipal bonds	125,737	4.25
Government bonds	1,007,565	5.91
Total Fair Value	<u>\$ 1,525,010</u>	
Portfolio weighted average maturity		4.44

**Interest Rate Risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** The City may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds are invested in accordance with Minnesota The City has no investment policy that would further limit its investment choices. As of December 31, 2010, the City's Government and Municipal bonds were rated AAA and AA1 by Moody and registered under the Federal Investment Company Act of 1940, meeting the conditions of rule 2a-7 of the SEC. The City's certificates of deposits are insured by the FDIC and any amounts that exceed the \$250,000 level are insured by independent insurance companies or pledged collateral.

**Concentration of Credit Risk.** The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City's investments are in Certificates of deposit issued by: Discover Bank (6.31%), Capital One Bank (6.34%), Cole Taylor Bank (6.49%), and Washington Mutual (6.54%); and Government bonds issued by: Federal Home Loan Bank (22.68%), Federal National Mortgage Association (31.62%), and Federal Farm Credit Banks (11.77%).

**Custodial Credit Risk—Investments.** For an investment, this is the risk that, in the event of a failure of the counter party, the City will not be able to recover its investment. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a investment policy for custodial credit risk. As of December 31, 2010, none of the City's investments were exposed to custodial credit risk.

### B. Receivables

The City's Housing Loan fund had notes receivable of \$248,234 at year-end. Of this amount \$242,336 represents deferred loans with no interest charged with payments due when the owner sells, transfer, or otherwise conveys the real estate. If the owner does not sell, transfer, or convey the property within 10 years of the grant, the owner shall not have to repay any portion of the grant. These loans were made in amounts ranging from \$9,813 to \$30,519 on various dates during 2002 and 2003. The remaining balance of \$5,898 represents Housing and Urban Development (HUD) loans due in monthly installments and range from 21 to 32 payments remaining with a rate of interest at 3 percent. All loans are secured by City liens.

**B. Receivables - Continued**

The City's Revolving Loan fund had notes receivable of \$314,559 at year-end. Of this amount \$208,079 represents loans due from businesses in monthly installments and range from 24 payments to 236 payments remaining with rates of interest ranging from 4 percent to 8 percent. A balance of \$81,474 represents Small City Development Program (SCDP) loans due in monthly installments and range from 49 payments to 76 payments remaining with a rate of interest at 3 percent. All loans are secured by related real estate. An additional amount of \$17,500 represents two forgivable loans that require interest only payments at a rate of 8.25 percent. These loans were made during 2008, with 25 percent of the original balance forgiven during years 2,3,4, and 5 of the agreement if the property is not sold or transferred. Loans are secured by inventory, equipment, accounts receivable, products, and property. The remaining \$10,675 is for a forgivable deferred loan with no interest charged. If the property is not sold or transferred within the period before March 12, 2018, the balance will be forgiven. This loan is secured by property.

The City's EDA fund had a note receivable balance of \$3,169. This amount represents a loan due in monthly installments through December of 2012 with a rate of interest of 8 percent. The loan is secured by property.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Special assessments not yet due (general fund)	\$ 64,256	\$ -
Special assessments not yet due (debt service funds)	782,095	-
Delinquent property taxes and special assessments (general fund)	23,726	-
Delinquent property taxes and special assessments (debt service funds fund)	53,060	-
Delinquent property taxes (special revenues funds)	3,179	-
Miscellaneous receivable (general)	11,164	-
Miscellaneous receivable (special revenue fund)	3,169	-
Due from other governments (special revenue)	284,454	-
Notes receivable (special revenue funds)	562,793	-
Notes receivable (debt service funds)	334,844	-
Total deferred/unearned revenue for governmental funds	\$ 2,122,740	\$ -

The following receivables are not expected to be collectible within one year: General Fund: \$61,938 of special assessments; Special Revenue Funds: Housing Loan Fund - \$245,506 of loans receivable and Revolving Loan - \$264,512 of loans receivable; and Debt Service Funds: General Obligation 2004A - \$1,663 of special assessments, General Obligation 1992 - \$3,419 of special assessments, General Obligation 1994 - \$3,341 of special assessments, General Obligation 1995 - \$19,219 of special assessments, General Obligation 1997 - \$85,458 of special assessments, 2001 & 2009A - \$84,475 of special assessments, General Obligation 2004C - \$106,281 of special assessments and \$83,538 of due from other funds, General Obligation 2005B - \$35,075, General Obligation 2006C - \$37,077 of special assessments, and General Obligation 2010A - \$302,066 of special assessments and \$244,345 of due from other funds.



**C. Capital Assets**

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental Activities:	
General government	\$ 4,139
Public safety	101,168
Public works	359,174
Airport	67,528
Culture and recreation	115,716
Housing and economic development	<u>43,096</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 690,821</u></u>

Capital asset activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 708,453	\$ -	\$ 15,628	692,825
Construction in progress	<u>1,266,290</u>	<u>1,658,261</u>	<u>1,266,290</u>	<u>1,658,261</u>
Total Capital Assets, Not Being Depreciated	<u>1,974,743</u>	<u>1,658,261</u>	<u>1,281,918</u>	<u>2,351,086</u>
Capital Assets, Being Depreciated				
Buildings	8,009,584	67,585	689,654	7,387,515
Infrastructure	14,486,387	1,977,696	-	16,464,083
Equipment	1,587,577	315,525	97,898	1,805,204
Vehicles	<u>1,970,005</u>	<u>-</u>	<u>345,708</u>	<u>1,624,297</u>
Total Capital Assets, Being Depreciated	<u>26,053,553</u>	<u>2,360,806</u>	<u>1,133,260</u>	<u>27,281,099</u>
Less Accumulated Depreciation for:				
Buildings	2,069,798	186,889	225,575	2,031,112
Infrastructure	6,692,819	359,854	-	7,052,673
Equipment	745,698	82,220	84,046	743,872
Vehicles	<u>1,058,928</u>	<u>61,858</u>	<u>345,708</u>	<u>775,078</u>
Total Accumulated Depreciation	<u>10,567,243</u>	<u>690,821</u>	<u>655,329</u>	<u>10,602,735</u>
Total Capital Assets, Being Depreciated, Net	<u>15,486,310</u>	<u>1,669,985</u>	<u>477,931</u>	<u>16,678,364</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 17,461,053</u></u>	<u><u>\$ 3,328,246</u></u>	<u><u>\$ 1,759,849</u></u>	<u><u>\$ 19,029,450</u></u>

**C. Capital Assets - Continued**

Depreciation expense was charged to business-type activities as follows:

Business-Type Activities:	
Sewer	\$ 239,427
Fitness center	9,173
Liquor	<u>25,700</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 274,300</u></u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 203,035	\$ -	\$ -	\$ 203,035
Construction in progress	<u>1,260,929</u>	<u>177,380</u>	<u>-</u>	<u>1,438,309</u>
Total Capital Assets, Not Being Depreciated	<u>1,463,964</u>	<u>177,380</u>	<u>-</u>	<u>1,641,344</u>
Capital Assets, Being Depreciated				
Buildings and improvements	4,027,458	-	-	4,027,458
Collection and distribution	3,287,665	-	-	3,287,665
Equipment	1,871,141	2,347,546	-	4,218,687
Vehicles	<u>38,274</u>	<u>-</u>	<u>-</u>	<u>38,274</u>
Total Capital Assets, Being Depreciated	<u>9,224,538</u>	<u>2,347,546</u>	<u>-</u>	<u>11,572,084</u>
Less Accumulated Depreciation for:				
Buildings	2,607,476	121,949	-	2,729,425
Collection and distribution	844,570	106,005	-	950,575
Equipment	940,103	42,892	-	982,995
Vehicles	<u>27,913</u>	<u>3,454</u>	<u>-</u>	<u>31,367</u>
Total Accumulated Depreciation	<u>4,420,062</u>	<u>274,300</u>	<u>-</u>	<u>4,694,362</u>
Total Capital Assets, Being Depreciated, Net	<u>4,804,476</u>	<u>2,073,246</u>	<u>-</u>	<u>6,877,722</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 6,268,440</u></u>	<u><u>\$ 2,250,626</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,519,066</u></u>

**C. Capital Assets – Continued**

Component Unit:

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 119,378	\$ 22,363	\$ -	\$ 141,741
Construction in progress	103,578	41,065	103,578	41,065
Total Capital Assets, Not Being Depreciated	<u>222,956</u>	<u>63,428</u>	<u>103,578</u>	<u>182,806</u>
Capital Assets, Being Depreciated				
Production equipment	4,292,933	157,449	-	4,450,382
Transmission equipment	2,023,886	284,175	-	2,308,061
Distribution equipment	13,746,556	435,018	-	14,181,574
General equipment	1,547,790	41,110	1,976	1,586,924
Total Capital Assets, Being Depreciated	<u>21,611,165</u>	<u>917,752</u>	<u>1,976</u>	<u>22,526,941</u>
Less Accumulated Depreciation for:				
Production equipment	2,476,244	121,378	-	2,597,622
Transmission equipment	1,594,361	96,343	-	1,690,704
Distribution equipment	5,651,565	400,919	-	6,052,484
General equipment	735,953	81,531	395	817,089
Total Accumulated Depreciation	<u>10,458,123</u>	<u>700,171</u>	<u>395</u>	<u>11,157,899</u>
Total Capital Assets, Being Depreciated, Net	<u>11,153,042</u>	<u>217,581</u>	<u>1,581</u>	<u>11,369,042</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,375,998</u>	<u>\$ 281,009</u>	<u>\$ 105,159</u>	<u>\$ 11,551,848</u>

**D. Long-Term Debt**

General Obligation Bonds: The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds and notes payable currently outstanding are as follows:

**D. Long-Term Debt - Continued**

General Obligation Bond Issue and Purpose	Interest Rates	Amount
G.O. Improvement Bonds of 2006, Series C of \$224,000, due in annual installments of \$15,000 to \$30,000 through February 1, 2018.	4.3% to 4.5%	\$ 190,000
G.O. Improvement Bonds of 2006, Series D of \$2,000,000, due in annual installments of \$60,000 to \$155,000 through February 1, 2027.	4.0% to 4.6%	1,800,000
G.O. Improvement Bonds of 2005, Series B of \$90,000, due in annual installments of \$8,000 to \$10,000 through February 1, 2016.	4.0%	56,000
G.O. Crossover Refunding Bonds of 1998 of \$730,000, due in annual installments of \$60,000 to \$95,000 through March 1, 2014.	4.7% to 5.2%	365,000
G.O. Refunding Bonds of 2003, Series A of \$1,175,000 due in annual installments of \$40,000 to \$145,000 through December 1, 2016.	1.5% to 4.5%	390,000
G.O. Refunding Bonds of 2004, Series A of \$1,305,000, due in annual installments of \$70,000 to \$155,000 through April 1, 2015. It is calculated that 67% of the remaining issue is to be paid from sewer revenue and the balance are General Obligation Bonds.	1.3% to 3.8%	515,000
G.O. Crossover Refunding Bonds of 2004, Series B of \$585,000, due in annual installments of \$65,000 to \$80,000 through December 1, 2012.	1.5% to 3.4%	135,000
G.O. Improvement Bonds of 2004, Series C of \$530,000, due in annual installments of \$20,000 to \$50,000 through February 1, 2020. This is the City's 76.80% share of the Bonds with the Component unit per a Joint Venture Agreement.	3.0% to 4.8%	299,501
G.O. Taxable Tax Increment Bonds of 1997 of \$4,690,000, due in annual installments of \$130,000 to \$500,000 through January 1, 2013.	6.7% to 7.0%	800,000
G.O. Taxable Tax Increment Bonds of 1999 of \$1,150,000, due in annual installments of \$25,000 to \$135,000 through December 1, 2014.	6.2% to 7.2%	460,000
Note Payable with the Minnesota Public Facilities Authority of \$3,290,170, due in annual installments of \$156,000 to \$194,000 through August 20, 2020.	1.3%	1,832,000
Note Payable with the Minnesota Public Facilities Authority of \$760,000, due in annual installments of \$24,000 to \$45,000 through August 20, 2026.	1.4%	656,000
Note Payable with the Minnesota Public Facilities Authority of \$741,656, due in annual installments of \$28,000 to \$47,000 through August 20, 2026.	2.6%	503,747
G.O. Bonds of 2009, Series A of \$1,630,000, due in annual installments of \$115,000 to \$135,000 through February 1, 2022.	0.9% to 3.8%	1,630,000
Note Payable with the Minnesota Public Facilities Authority of \$1,987,000, due in annual installments of \$118,000 to \$146,000 through August 20, 2025.	1.5%	1,468,257
G.O. Bonds of 2010, Series A of \$2,140,000, due in annual installments of \$70,000 to \$130,000 through February 1, 2026. This is the City's share of the bonds with the component unit.	.5% to 3.5%	1,320,655
USDA Promissory Note of \$180,000, due in annual installments of \$6,235 to \$13,100 through February 26, 2029.	4.0%	<u>169,435</u>
Total General Obligation Bonds		<u>\$ 12,590,595</u>

**D. Long-Term Debt - Continued**

Revenue Bonds. The City issued revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. Revenue Bonds currently outstanding are as follows:

Revenue Bonds Bond Issue and Purpose	<u>Interest Rates</u>	<u>Amount</u>
Public Project Revenue Bonds of 2006, Series B of \$1,185,000, due in installments of \$35,000 to \$95,000 through February 1, 2027.	4.0% to 4.85%	\$ 1,070,000
Liquor Revenue Bonds of 2005, Series A of \$615,000, due in annual installments of \$30,000 to \$55,000 through January 1, 2021.	3.4% to 4.9%	<u>455,000</u>
		<u>\$ 1,525,000</u>

Notes Payable. The City issued a note payable to the USDA Rural Housing due in monthly installments of principal and interest of \$1,127 through February 2029, interest at 4.375 percent. The purpose of the note issuance was to remodel the Little Giants Daycare. The note is secured by property. Payments are made from the general fund.

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

Year Ending December 31	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,008,274	\$ 342,205	\$ 458,000	\$ 93,615	\$ 448,961	\$ 83,989
2012	1,322,482	288,106	469,000	103,270	403,032	70,942
2013	686,922	241,536	479,000	93,838	296,882	59,578
2014	735,126	214,337	490,000	84,070	304,982	49,473
2015	474,443	186,676	501,000	73,897	147,982	42,827
2016-2020	2,206,945	698,036	2,237,000	245,216	818,460	158,487
2021-2025	1,791,522	313,699	581,004	67,500	616,230	66,675
2026-2030	629,877	27,864	45,000	630	136,315	3,042
Total	<u>\$8,855,591</u>	<u>\$2,312,459</u>	<u>\$5,260,004</u>	<u>\$ 762,036</u>	<u>\$3,172,844</u>	<u>\$535,013</u>

**D. Long-Term Debt - Continued**

Changes in Long-Term Liabilities. During the year ended December 31, 2010, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Debt Payable:					
General obligation bonds	\$6,921,539	\$1,320,655	\$1,886,038	\$6,356,156	\$ 567,039
Note payable	180,000	-	10,565	169,435	6,235
Revenue bonds	1,110,000	-	40,000	1,070,000	40,000
General obligation tax increment bonds	<u>1,765,000</u>	<u>-</u>	<u>505,000</u>	<u>1,260,000</u>	<u>395,000</u>
Governmental activity Long-term liabilities	<u>\$9,976,539</u>	<u>\$1,320,655</u>	<u>\$2,441,603</u>	<u>\$8,855,591</u>	<u>\$1,008,274</u>
Refunding bonds included in governmental activities	<u>\$1,365,000</u>	<u>\$ -</u>	<u>\$ 305,000</u>	<u>\$1,060,000</u>	<u>\$ 302,933</u>
Business-Type Activities:					
Debt Payable:					
Compensated absences	\$ 20,024	\$ -	\$ 529	\$ 19,495	\$ -
Capital leases	-	-	-	-	-
G.O. revenue notes	3,157,418	1,943,834	296,248	4,805,004	423,000
Revenue bonds	<u>490,000</u>	<u>-</u>	<u>35,000</u>	<u>455,000</u>	<u>35,000</u>
Business-type activity Long-term liabilities	<u>\$3,667,442</u>	<u>\$1,943,834</u>	<u>\$ 331,777</u>	<u>\$5,279,499</u>	<u>\$ 458,000</u>
Discretely Presented Component Unit Debt Payable:					
G.O. revenue notes	1,461,461	839,345	765,000	1,535,806	355,000
Revenue bonds	<u>1,710,000</u>	<u>-</u>	<u>72,962</u>	<u>1,637,038</u>	<u>93,961</u>
Long-term liabilities	<u>\$3,171,461</u>	<u>\$ 839,345</u>	<u>\$ 837,962</u>	<u>\$3,172,844</u>	<u>\$ 448,961</u>
Refunding bonds included in component unit	<u>\$ 555,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$ 345,000</u>	<u>\$ 215,000</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,240,188. The computed legal debt margin on December 31, 2010, equals \$4,070,753.

**E. Inter-fund Balances and Transfers**

The purpose of the inter-fund balances is to eliminate negative cash balances. For the year ended December 31, 2010, the following funds had a “Due to” the General Fund to eliminate negative cash balances:

Special Revenue Fund	
Airport	\$ 222,208
Debt Service Funds	
General Obligation 2009	29,130
TIF 5-6	78,740
TIF 5-4	47
TIF 2-6	12,943
	<u>          </u>
Total	<u>\$ 343,068</u>

The debt service General Obligation 2004C and General Obligation 2010A funds have “Due from” balances from the Water component unit of \$90,499 and \$244,345, respectively, for costs related to joint projects. The due to balance for the discretely presented component unit on the statement of net assets is included in the accounts payable balance.

Inter-fund transfers for the year ended December 31, 2010, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Other Governmental Funds	\$ 302,067	\$ 27,439	\$ 329,506
General Obligation 2010A	-	19,577	19,577
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 302,067</u>	<u>\$ 47,016</u>	<u>\$ 349,083</u>

Purpose for Inter-fund Transfers:

- The remaining funds in the 8<sup>th</sup> & Moore Improvements fund were transferred to the 10<sup>th</sup> & Moore Improvement fund to close the 8<sup>th</sup> & Moore Improvements fund.
- The debt service funds had a transfer to the 10<sup>th</sup> and Moore St. Improvement fund to cover the remaining deficit and close the fund.
- The debt service funds had transfers to close funds.
- The debt service funds had a transfer to the general fund for capital to be used for the purchase of equipment.

**F. Designated Fund Balances and Restricted for Other Purposes Net Assets**

Balances in Designated Fund Balances as of December 31, 2010:

	General Fund
Designated for Special Purpose	\$ 32,433
Designated for I-90 Track	1,875
Designated for Capital Equipment	46,938
Designated for Fire	55,117
Designated for Library	21,276
Designated for Street Infrastructure	749,054
Designated for Senior Donations	6,348
Total	\$ 913,041

Balances in Net Assets Restricted for Other Purposes as of December 31, 2010:

	Governmental
Restricted for EDA	\$ 225,172
Restricted for housing loan	1,513,140
Restricted for revolving loan	767,897
Restricted for airport	(25,013)
Restricted for storm water	119,876
Total	\$ 2,601,072

**Note 4 - Leases**

The Economic Development Authority of the City entered into an agreement with Seneca Foods Corporation in November 1997. The agreement conveyed land from Seneca Foods Corporation to the City in which Seneca Foods would lease back from the City. As part of agreement, the City issued tax increments bonds in the amount of \$4,690,000 to fund the construction of a warehouse and to provide other property improvements to the property conveyed. The agreement calls for monthly rent of \$41,450 to commence on April 1, 1998, and to continue until January 31, 2013. The base rent is subject to credits for tax increments received by the city each year, investment income generated from the reserve, and other items defined in the agreement. Lease payments received during 2010 totaled \$497,397. Upon termination, the City owns the leased property.

The City entered into a lease agreement with Kerry Ingredients in July 2004 to allow the company to use warehouse space. The agreement which terminates in July of 2014 calls for monthly of \$13,063, \$14,266, \$15,469, and \$16,500, respectively, during the four remaining years. Lease payments received during 2010 totaled \$148,328.

**Note 5 - Franchise Fee**

During 1994, the Board of Public Works and the City of Blue Earth agreed to a new method of figuring the franchise fee, which is in lieu of taxes. The agreement states that the franchise fee is to be calculated by multiplying a base factor of .0035 (3.5 mills), per kilowatt hour sold of all retail sales of kilowatt hours sold within the utility service territory rounded to the nearest 1,000 kilowatt hour. The payment for 2010 and 2009 was \$187,295 and \$192,176, respectively.



## **Note 6 - Pension Plans**

### **A. Public Employees Retirement Association**

#### **1. Plan Description**

All full-time and certain part-time employees of the City of Blue Earth are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service.

For all PEPFF members and for GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

## **1. Plan Description - Continued**

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651)296-7460 or (800)652-9026.

## **2. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.00 percent, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.40% of their annual covered salary in 2010. The City of Blue Earth is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members, 7.00 percent for Coordinated Plan GERS members, 14.10% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$101,759, \$93,144, and \$93,356, respectively. Component unit contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$51,459, \$47,733, \$45,687, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2010, 2009, and 2008 were \$26,859, \$40,437 and \$39,589, respectively. The City's contributions were equal to the contractually required contributions for each year as set by State Statute.

## **B. Fire Relief Association**

### **1. Plan Description**

All volunteer fire fighters of the City of Blue Earth are covered by a single-employer pension plan administered by the Blue Earth Fireman's Relief Association. All members are eligible for membership in the association. Volunteer firefighters are not required to contribute to the Association. The City levies property taxes at the direction of and for the benefit of the Blue Earth Fireman's Relief Association and passes through state aids allocated to the plan, all in accordance with Minnesota Statute Ch. 69 which authorizes pension benefits for fire relief associations.

A member of the association who has completed 20 years or more of service on the fire department will, after age 50 at retirement, be entitled to the sum of \$1,700 for each year that he served as an active member of the Blue Earth Fire Department. There is an Early Vesting Benefit available to any member who has served more than 5 years but less than 20 years as an active firefighter in the Blue Earth Fire Department. Early vesting is payable in amounts equal to a percentage of the amount per year of service which would have been earned, had the members served 20 or more years. The plan includes a Surviving Spouse Benefit which is payable to the surviving spouse upon the death of any member of the association. If there is no surviving spouse, the benefit is payable to the surviving children, if any, and if there are no surviving children, the benefit is payable to the estate of the deceased member.

The Deferred Pension Benefit is available to any member who has served in the Blue Earth Fire Department for at least 20 years, but has not reached the age of 50.

## 2. Pension Benefit Obligation

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, estimated to be payable in the future as a result of member service to date. The measure, which is the present value of credited projected benefits, is intended to help users assess Blue Earth Fireman’s Relief Association funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

The pension benefit obligation as of December 31, 2009, is shown below:

	<u>BEFDRA</u>
Pension benefit obligation:	
Total pension benefit obligation	\$ 694,910
Net assets available for benefits, at market	<u>792,327</u>
Pension benefit obligation in excess of assets	<u>\$ 97,417</u>
Change from prior year amount	<u>\$ 64,977</u>

## 3. Contributions Required and Contributions Made

Financial requirements of the relief association are determined at \$1,700 per year of service for all members based on their years as active fire department members. Normal cost is funded on a current basis. The City’s minimum obligation is the financial requirement for the year less anticipated contributions and state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The contribution requirement is not actuarially determined. Total contributions to the relief association in 2010 were \$29,788 of which \$17,788 was pass through monies from the state and \$12,000 was a contribution to the fund by the City. The contributed amounts were determined as described above and were based on funding assumptions, benefit provision, and other significant factors used to determine pension contribution requirements in previous years.

### Note 7 - Other Information

#### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In accordance with Section C50 of the 1998 “Codification of Governmental Accounting and Financial Reporting Standards” of the Governmental Accounting Standards Board, the City accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured Workers’ Compensation Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its worker’s compensation coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

**A. Risk Management - Continued**

The City has joined together with other governmental entities in the State of Minnesota in the League of Minnesota Cities Insurance Trust Group Self-Insured General Property and Casualty Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to this plan for its general liability and property coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of this plan believe assessment to participating Cities for future losses sustained is extremely remote.

The City is self-insured for unemployment compensation. The State of Minnesota allows Cities to levy local taxpayers for estimated future unemployment claims. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. Joint Venture**

On December 31, 1999, Utilities Plus, a joint power association with Central Minnesota Municipal Power Agency and Midwest Municipal Gas Agency, which the Board of Public Works, the discretely presented component unit, is a member, has calculated an equity portion, which the members share, of the Utilities Plus company. Utilities Plus provides services in the purchasing of electrical energy and natural gas fuel. Utilities Plus is a legally separate and independent entity. The municipality does not appoint a voting majority of the Board. Investment in Utilities Plus is reported as an investment in joint venture and is accounted for using the equity method of accounting for long-term investments. The joint venture has had positive operating results and is not anticipated to be a financial burden on the City.

**C. Contingencies**

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the City believes that any disallowed costs as a result of such audits will be immaterial.

**D. Fund Conversion**

The City has reclassified the Storm Water fund as a special revenue fund. It had been classified as an enterprise fund in the prior year. The beginning net assets of \$52,762 were moved from the enterprise fund to the special revenue fund type. No other changes were required.

### **E. Fund Consolidations**

The City has consolidated the following funds as of January 1, 2010:

The special revenue Utility Loan fund has been consolidated with the special revenue EDA fund. The \$93,093 beginning fund balance from the Utility Loan has been included with the \$147,925 beginning fund balance of the EDA for a total beginning fund balance of \$241,018.

The special revenue Fire and Library funds have been consolidated with the General fund. The (\$818) and \$117,748, of beginning fund balance for the Fire and Library funds, respectively, have been included with the beginning fund balance of the General Fund.

The special revenue Housing fund has been consolidated with the Housing Loan fund. The \$123,724 of beginning fund balance for the Housing fund has been included with the beginning fund balance of the Housing Loan fund.

The capital project Steinberg Park Fund and capital project Fire/Police Facility Fund have been consolidated with the General Fund. The \$70,786 and (\$124,686) of beginning fund balance for the Steinberg Park Fund and Fire/Police Facility Fund, respectively, have been included with the beginning fund balance of the General Fund.

### **F. Commitments**

The City has ongoing commitments for the Fourth Street Improvements and the Fairgrounds and North Main Street Sanitary Sewer projects. The total estimated cost for the Fourth Street Improvements and the Fairgrounds and North Main Street Sanitary Sewer projects was \$1,623,869 and \$276,367, respectively. As of December 31, 2010, the City had expended \$1,459,158 and \$115,860 for the Fourth Street Improvements and the Fairgrounds and North Main Street Sanitary Sewer projects, respectively.

### **G. Subsequent Events**

The City issued General Obligation Refunding Bonds, Series 2011A, in June 2011, in the amount of \$1,440,000 to refund previous bond issues.

### **Note 8 - Other Information**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. Statement No. 54 establishes criteria for classifying fund balances into specifically defined classifications and clarifies the definitions for governmental fund types. This statement will be implemented by the City in the year ending December 31, 2011. The City is in the process of reviewing and implementing the above statement. Therefore, the potential effect of this new accounting pronouncement on the financial statements cannot be determined at this time.



Supplementary Information  
December 31, 2010

# City of Blue Earth

City of Blue Earth  
Budgetary Comparison Schedule – General Fund  
Year Ended December 31, 2010

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes:				
Property	\$ 342,023	\$ 342,023	\$ 367,835	\$ 25,812
Franchise tax	273,100	273,100	257,256	(15,844)
Licenses and permits	31,118	31,118	28,456	(2,662)
Intergovernmental revenue				
Local government aid	1,494,900	1,494,900	1,501,292	6,392
Residential market value credit	-	-	18,187	18,187
Other state aids and grants	21,405	21,405	39,097	17,692
Police aid	39,588	39,588	35,298	(4,290)
Fire aid	16,351	16,351	17,788	1,437
Charges for services				
General government	50,054	50,054	51,695	1,641
Police and fire contracts	250	250	167	(83)
Garbage and recycling	32,750	32,750	32,946	196
Parks and recreation	65,500	65,500	67,404	1,904
Other	200	200	49	(151)
Fines and forfeits	2,100	2,100	4,181	2,081
Interest received	50,000	50,000	23,157	(26,843)
Miscellaneous revenue:				
Rental	14,475	14,475	25,799	11,324
Miscellaneous	12,950	12,950	65,405	52,455
SCORE	14,418	14,418	14,046	(372)
Donations	-	-	27,700	27,700
Total revenues	<u>2,461,182</u>	<u>2,461,182</u>	<u>2,577,758</u>	<u>116,576</u>
Expenditures:				
General government				
Mayor and council	24,264	24,264	31,632	(7,368)
Administration and finance	265,341	265,341	294,914	(29,573)
Other general government	96,350	96,350	75,568	20,782
Capital outlay	3,000	3,000	8,390	(5,390)
Public safety				
Police				
Current expenditures	527,125	527,125	511,393	15,732
Capital outlay	6,500	6,500	5,472	1,028
Fire				
Current expenditures	169,290	169,290	170,577	(1,287)
Capital outlay	9,000	9,000	11,076	(2,076)
Other protection				
Current expenditures	10,000	10,000	-	10,000
Public Works				
Streets and highways				
Street maintenance	653,148	653,148	578,659	74,489
Sanitation and Health	32,284	32,284	25,150	7,134
Street lighting	52,000	52,000	58,013	(6,013)
Street - other capital outlay	-	-	257,916	(257,916)
Culture and recreation				
Library - current expenditures	194,344	194,344	189,631	4,713
Library - capital outlay	3,000	3,000	2,836	164
Senior Center - current expenditures	59,458	59,458	67,006	(7,548)
Senior Center - capital outlay	7,500	7,500	8,135	(635)
Swimming Pool - current expenditures	113,058	113,058	116,981	(3,923)
Debt Service				
Principal	-	-	10,565	(10,565)
Interest	-	-	14,229	(14,229)
All other - current expenditures	62,055	62,055	67,073	(5,018)
All other - capital outlay	35,000	35,000	27,251	7,749
Total expenditures	<u>2,322,717</u>	<u>2,322,717</u>	<u>2,532,467</u>	<u>(209,750)</u>
Excess (Deficiency) of Revenue over Expenditures	<u>138,465</u>	<u>138,465</u>	<u>45,291</u>	<u>(93,174)</u>

City of Blue Earth  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	6,791	6,791
Transfers in	-	-	302,067	302,067
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>308,858</u>	<u>308,858</u>
Net Change in Fund Balances	138,465	138,465	354,149	215,684
Fund Balance at Beginning of Year	<u>1,264,574</u>	<u>1,264,574</u>	<u>1,264,574</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,403,039</u>	<u>\$ 1,403,039</u>	<u>\$ 1,618,723</u>	<u>\$ 215,684</u>



City of Blue Earth  
 Budgetary Comparison Schedule – Housing Loan Fund  
 Year Ended December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Property Taxes	\$ 14,950	\$ 14,950	\$ 12,779	\$ (2,171)
State aid	-	-	795	795
Interest received	-	-	3,653	3,653
Miscellaneous revenue	-	-	2,700	2,700
Total revenues	<u>14,950</u>	<u>14,950</u>	<u>19,927</u>	<u>4,977</u>
Expenditures:				
Economic development	<u>30,949</u>	<u>30,949</u>	<u>21,966</u>	<u>8,983</u>
Deficiency of Revenue over Expenditures	(15,999)	(15,999)	(2,039)	13,960
Fund Balance at Beginning of Year	<u>1,266,164</u>	<u>1,266,164</u>	<u>1,266,164</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,250,165</u>	<u>\$ 1,250,165</u>	<u>\$ 1,264,125</u>	<u>\$ 13,960</u>

City of Blue Earth  
 Budgetary Comparison Schedule – Airport Fund  
 Year Ended December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Property Taxes	\$ 16,409	\$ 16,409	\$ 14,049	\$ (2,360)
State Aid	-	-		
Local government aid	61,443	61,443	149,654	88,211
Residential market value credit	-	-	873	873
Charges for services	62,000	62,000	45,508	(16,492)
Interest received	-	-	63	63
Miscellaneous revenue	-	-	33	33
Total revenues	<u>139,852</u>	<u>139,852</u>	<u>210,180</u>	<u>70,328</u>
Expenditures:				
Airport - current expenditures	113,294	113,294	70,831	42,463
Airport - capital outlay	26,558	26,558	449,524	(422,966)
Interest and fiscal charges	-	-	207	(207)
Total expenditures	<u>139,852</u>	<u>139,852</u>	<u>520,562</u>	<u>(380,503)</u>
Deficiency of Revenue over Expenditures	-	-	(310,382)	(310,175)
Fund Balance at Beginning of Year	<u>198</u>	<u>198</u>	<u>198</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 198</u>	<u>\$ 198</u>	<u>\$ (310,184)</u>	<u>\$ (310,175)</u>

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2010, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all agencies of the government submit requests for appropriation to the government's manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The City Council reviews the budget at both of their regular meetings in September and makes changes as they see fit. All changes are approved by an affirmative vote of a majority of the government's council.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts or other commitments) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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

For the year ended December 31, 2010, expenditures exceed appropriations in the General Fund by \$209,750 and in the Airport fund by \$380,503.

The over expenditures in the general fund were funded by greater than anticipated revenues and available fund balance. A portion of the excess in the Airport Fund was funded by greater than anticipated revenues and available fund balance; the remaining balance will be funded by future revenues or transfers from the general fund.

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2010

	Special Revenue Funds			Total Special Revenue Funds
	EDA	Revolving Loan	Storm Water	
<b>Assets</b>				
Cash and Investments	\$ 218,541	\$ 451,227	\$ 108,861	\$ 778,629
Receivables				
Taxes	1,939	49	-	1,988
Accounts	3,162	-	11,213	14,375
Interest	21	7,769	-	7,790
Notes	3,169	314,559	-	317,728
Due from Other Governmental Units	-	-	-	-
Other Assets	-	25,000	-	25,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 226,832</u>	<u>\$ 798,604</u>	<u>\$ 120,074</u>	<u>\$ 1,145,510</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 832	\$ 30,707	\$ 198	\$ 31,737
Other payables	154	-	-	154
Due to other funds	-	-	-	-
Accrued vacation	674	-	-	674
Deferred revenue	4,801	314,608	-	319,409
Total liabilities	<u>6,461</u>	<u>345,315</u>	<u>198</u>	<u>351,974</u>
<b>Fund balances</b>				
Unreserved	<u>220,371</u>	<u>453,289</u>	<u>119,876</u>	<u>793,536</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 226,832</u>	<u>\$ 798,604</u>	<u>\$ 120,074</u>	<u>\$ 1,145,510</u>

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds- Continued  
December 31, 2010

Debt Service Funds																
	General Obligation 1982	General Obligation 1984	General Obligation 2004A	General Obligation 1992	General Obligation 1994	General Obligation 1995	General Obligation 1997	General Obligation 2000	General Obligation 2004B	General Obligation 2004C	General Obligation 2005B	General Obligation 2006A	General Obligation 2006B	General Obligation 2006C	General Obligation 2006D	General Obligation 2009
<b>Assets</b>																
Cash and investments	\$ -	\$ -	\$ 165,406	\$ 102,919	\$ 17,768	\$ 45,966	\$ 139,131	\$ 8,599	\$ 114,875	\$ 19,684	\$ 4,167	\$ 347	\$ 72,787	\$ 74,632	\$ 288,458	\$ -
Receivables																
Taxes	-	-	3,910	5,691	1,947	3,143	2,536	28	3,135	1,579	83	565	1,175	1,250	9,157	-
Special assessments	-	-	11,358	10,498	4,775	40,689	105,240	-	-	119,087	45,236	-	-	43,561	-	-
Interest	-	-	-	-	-	-	-	-	-	1,685	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	90,499	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 180,674</b>	<b>\$ 119,108</b>	<b>\$ 24,490</b>	<b>\$ 89,798</b>	<b>\$ 246,907</b>	<b>\$ 8,627</b>	<b>\$ 118,010</b>	<b>\$ 232,534</b>	<b>\$ 49,486</b>	<b>\$ 912</b>	<b>\$ 73,962</b>	<b>\$ 119,443</b>	<b>\$ 297,615</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances</b>																
<b>Liabilities:</b>																
Accounts payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,130
Deferred revenue	-	-	14,302	14,237	6,285	42,987	106,380	-	2,985	210,833	45,302	-	-	44,522	7,200	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>14,302</b>	<b>14,237</b>	<b>6,285</b>	<b>42,987</b>	<b>106,380</b>	<b>-</b>	<b>2,985</b>	<b>210,833</b>	<b>45,302</b>	<b>-</b>	<b>-</b>	<b>44,522</b>	<b>7,200</b>	<b>29,130</b>
<b>Fund balance</b>	<b>-</b>	<b>-</b>	<b>166,372</b>	<b>104,871</b>	<b>18,205</b>	<b>46,811</b>	<b>140,527</b>	<b>8,627</b>	<b>115,025</b>	<b>21,701</b>	<b>4,184</b>	<b>912</b>	<b>73,962</b>	<b>74,921</b>	<b>290,415</b>	<b>(29,130)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 180,674</b>	<b>\$ 119,108</b>	<b>\$ 24,490</b>	<b>\$ 89,798</b>	<b>\$ 246,907</b>	<b>\$ 8,627</b>	<b>\$ 118,010</b>	<b>\$ 232,534</b>	<b>\$ 49,486</b>	<b>\$ 912</b>	<b>\$ 73,962</b>	<b>\$ 119,443</b>	<b>\$ 297,615</b>	<b>\$ -</b>

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds- Continued  
December 31, 2010

Debt Service Funds												
	TIF 7-1	TIF 5-9	TIF 5-8	TIF 5-7	TIF 5-6	TIF 5-4	TIF 5-3	TIF 5-1	TIF 2-1	TIF 2-2	TIF 6-1	Total Debt Service Funds
<b>Assets</b>												
Cash and investments	\$ 6,719	\$ 13,761	\$ 1,352	\$ 310	\$ -	\$ 249,196	\$ -	\$ 328	\$ 25,553	\$ 58,013	\$ -	\$ 1,409,971
Receivables												
Taxes	-	-	1,797	-	-	-	-	-	529	4,695	-	41,220
Special assessments	-	-	-	-	-	-	-	-	-	-	-	380,444
Interest	-	-	-	-	-	-	-	-	-	-	-	1,685
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	90,499
<b>Total Assets</b>	<b>\$ 6,719</b>	<b>\$ 13,761</b>	<b>\$ 3,149</b>	<b>\$ 310</b>	<b>\$ -</b>	<b>\$ 249,196</b>	<b>\$ -</b>	<b>\$ 328</b>	<b>\$ 26,082</b>	<b>\$ 62,708</b>	<b>\$ -</b>	<b>\$ 1,923,819</b>
<b>Liabilities and Fund Balances</b>												
<b>Liabilities:</b>												
Accounts payable	-	-	1,739	310	-	750	-	328	25,553	58,013	-	86,693
Due to other funds	-	-	-	-	78,740	-	47	-	-	-	12,943	120,860
Deferred revenue	-	-	1,797	-	-	-	-	-	529	4,695	-	502,054
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>3,536</b>	<b>310</b>	<b>78,740</b>	<b>750</b>	<b>47</b>	<b>328</b>	<b>26,082</b>	<b>62,708</b>	<b>12,943</b>	<b>709,607</b>
<b>Fund balances</b>												
<b>Reserved for:</b>												
Reserved for debt service	6,719	13,761	(387)	-	(78,740)	248,446	(47)	-	-	-	(12,943)	1,214,212
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,719</b>	<b>\$ 13,761</b>	<b>\$ 3,149</b>	<b>\$ 310</b>	<b>\$ -</b>	<b>\$ 249,196</b>	<b>\$ -</b>	<b>\$ 328</b>	<b>\$ 26,082</b>	<b>\$ 62,708</b>	<b>\$ -</b>	<b>\$ 1,923,819</b>

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds- Continued  
December 31, 2010

	Capital Project Fund				Total Nonmajor Governmental Funds
	8th & Moore St. Impr.	10th & Moore St. Impr.	2010 4th Street	Total Capital Project Funds	
<b>Assets</b>					
Cash and investments	\$ -	\$ -	\$ 20,964	\$ 20,964	\$ 2,209,564
Receivables					
Taxes	-	-	-	-	43,208
Special assessments	-	-	-	-	380,444
Accounts	-	-	-	-	14,375
Interest	-	-	-	-	9,475
Notes	-	-	-	-	317,728
Due from other funds	-	-	-	-	90,499
Other Assets	-	-	-	-	25,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,964</u>	<u>\$ 20,964</u>	<u>\$ 3,090,293</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	29,637	\$ 29,637	\$ 148,067
Other payables	-	-	-	-	154
Due to other funds	-	-	-	-	120,860
Accrued vacation	-	-	-	-	674
Deferred revenue	-	-	-	-	821,463
Total liabilities	<u>-</u>	<u>-</u>	<u>29,637</u>	<u>29,637</u>	<u>1,091,218</u>
<b>Fund balances</b>					
Reserved for:					
Reserved for debt service	-	-	-	-	1,214,212
Unreserved	-	-	(8,673)	(8,673)	784,863
Total fund balances	<u>-</u>	<u>-</u>	<u>(8,673)</u>	<u>(8,673)</u>	<u>1,999,075</u>
	<u>-</u>	<u>-</u>	<u>(8,673)</u>	<u>(8,673)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,964</u>	<u>\$ 20,964</u>	<u>\$ 3,090,293</u>

City of Blue Earth

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds  
Year Ended December 31, 2010

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	Special Revenue Funds			Total Special Revenue Funds
	EDA	Revolving Loan	Storm Water	
Revenues				
Taxes				
Property	\$ 18,827	\$ 25	\$ -	\$ 18,852
Local government aid	30,716	-	-	30,716
Residential market value credit	1,156	-	-	1,156
Charges for services				
General government	46,586	-	-	46,586
Waste water	-	-	73,015	73,015
Airports	-	-	-	-
Interest received	777	788	238	1,803
Miscellaneous revenue				
Miscellaneous	22,831	40,201	-	63,032
Total revenues	<u>120,893</u>	<u>41,014</u>	<u>73,253</u>	<u>235,160</u>
Expenditures				
Economic Development - current expenditures	141,640	178,950	-	320,590
Miscellaneous				
Airport - current expenditures	-	-	-	-
Airport - capital outlay	-	-	-	-
Wastewater - current expenditures	-	-	6,139	6,139
Debt Service				
Interest and fiscal charges	-	8,504	-	8,504
Total expenditures	<u>141,640</u>	<u>187,454</u>	<u>6,139</u>	<u>335,233</u>
Revenues over (Under) Expenditures	(20,747)	(146,440)	67,114	(100,073)
Other Financing Sources				
Sale of capital assets	<u>100</u>	<u>495,050</u>	<u>-</u>	<u>495,150</u>
Net Change in Fund Balances	(20,647)	348,610	67,114	395,077
Fund Balance at Beginning of Year	<u>241,018</u>	<u>104,679</u>	<u>52,762</u>	<u>398,459</u>
Fund Balance at End of Year	<u>\$ 220,371</u>	<u>\$ 453,289</u>	<u>\$ 119,876</u>	<u>\$ 793,536</u>



City of Blue Earth

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds - Continued  
Year Ended December 31, 2010

	Debt Service Funds															
	General	General	General	General	General	General	General	General	General	General	General	General	General	General	General	
	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	Obligation	
	1982	1984	2004A	1992	1994	1995	1997	2000	2004B	2004C	2005B	2006A	2006B	2006C	2006D	2009
<b>Revenues</b>																
Taxes																
Property	\$ 1	\$ -	\$ 65,362	\$ 82,565	\$ 29,693	\$ 45,868	\$ 36,781	\$ 565	\$ 36,195	\$ 10,290	\$ 1,122	\$ 12,942	\$ 76,741	\$ 18,990	\$ 127,810	\$ -
Special assessments	-	-	10,811	4,173	1,434	43,850	35,164	-	-	12,483	10,162	-	-	5,537	-	-
Charges for services																
General government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest received	-	25	482	167	72	125	392	34	264	16	-	130	95	173	519	185
Miscellaneous revenue	-	-	-	-	-	-	-	15,556	-	-	-	-	-	-	50,000	-
Miscellaneous revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	1	25	80,730	92,029	33,044	92,690	74,624	16,190	36,459	24,167	11,351	15,345	81,612	25,883	186,283	185
<b>Expenditures</b>																
Miscellaneous																
All other - current expenditures	-	-	317	-	317	-	317	-	-	-	2,412	-	317	-	317	-
Debt Service																
Principal retirement	-	-	80,000	80,000	30,000	70,000	45,000	15,000	-	23,038	9,000	55,000	40,000	19,000	70,000	-
Interest and fiscal charges	6	-	6,445	20,508	6,125	6,550	12,663	1,208	-	13,922	2,426	2,008	49,820	8,789	79,590	24,075
Bond issuance costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	750
Total Expenditures	6	-	86,762	100,508	36,442	76,550	57,980	16,208	-	36,960	13,838	57,008	90,137	27,789	149,907	24,825
Revenues over (Under)																
Expenditures	(5)	25	(6,032)	(8,479)	(3,398)	16,140	16,644	(18)	36,459	(12,793)	(2,487)	(41,663)	(8,525)	(1,906)	36,376	(24,640)
Other Financing Sources (Uses)																
Operating transfers in	1,980	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating transfers out	-	(20,991)	-	-	-	-	-	-	-	-	-	-	-	-	-	(283,056)
Total Other Financing Sources (Uses)	1,980	(20,991)	-	-	-	-	-	-	-	-	-	-	-	-	-	(283,056)
Net Change in Fund Balances	1,975	(20,966)	(6,032)	(8,479)	(3,398)	16,140	16,644	(18)	36,459	(12,793)	(2,487)	(41,663)	(8,525)	(1,906)	36,376	(307,696)
Fund Balance at Beginning of Year	(1,975)	20,966	172,404	113,350	21,603	30,671	123,883	8,645	78,566	34,494	6,671	42,575	82,487	76,827	254,039	278,566
Fund Balance at End of Year	\$ -	\$ -	\$ 166,372	\$ 104,871	\$ 18,205	\$ 46,811	\$ 140,527	\$ 8,627	\$ 115,025	\$ 21,701	\$ 4,184	\$ 912	\$ 73,962	\$ 74,921	\$ 290,415	\$ (29,130)

City of Blue Earth

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds - Continued  
Year Ended December 31, 2010

	Debt Service Funds											Total Debt Service Funds
	TIF 7-1	TIF 5-9	TIF 5-8	TIF 5-7	TIF 5-6	TIF 5-4	TIF 5-3	TIF 5-1	TIF 2-1	TIF 2-2	TIF 6-1	
<b>Revenues</b>												
Taxes												
Property	\$ 6,285	\$ 5,094	\$ 913	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,476	\$ 22,818	\$ 2,048	\$ 589,559
Special assessments	-	-	-	-	-	-	-	-	-	-	-	123,614
Residential market value credit	219	-	-	-	-	-	-	-	137	1,535	-	35,735
Charges for services												
General government	-	-	-	-	148,328	40,072	-	-	-	-	-	188,400
Interest received	11	45	2	-	-	904	-	-	-	-	2	3,643
Miscellaneous revenue	-	-	-	-	-	-	-	-	-	-	-	65,556
<b>Total Revenues</b>	<b>6,515</b>	<b>5,139</b>	<b>915</b>	<b>-</b>	<b>148,328</b>	<b>40,976</b>	<b>-</b>	<b>-</b>	<b>7,613</b>	<b>24,353</b>	<b>2,050</b>	<b>1,006,507</b>
<b>Expenditures</b>												
Miscellaneous												
All other - current expenditures	6,460	4,687	1,739	47,077	317	750	-	60,264	25,553	58,013	-	208,857
Debt Service												
Principal retirement	-	-	-	-	85,000	85,000	-	-	-	-	-	706,038
Interest and fiscal charges	-	-	-	-	39,006	6,783	-	-	-	-	-	279,924
Bond issuance costs	-	-	-	-	-	-	-	-	-	-	-	750
<b>Total Expenditures</b>	<b>6,460</b>	<b>4,687</b>	<b>1,739</b>	<b>47,077</b>	<b>124,323</b>	<b>92,533</b>	<b>-</b>	<b>60,264</b>	<b>25,553</b>	<b>58,013</b>	<b>-</b>	<b>1,195,569</b>
Revenues over (Under)												
Expenditures	55	452	(824)	(47,077)	24,005	(51,557)	-	(60,264)	(17,940)	(33,660)	2,050	(189,062)
<b>Other Financing Sources (Uses)</b>												
Operating transfers in	-	-	-	-	-	-	18,228	-	-	-	-	20,208
Operating transfers out	-	-	-	(18,228)	-	-	-	-	-	-	-	(322,275)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,228)</b>	<b>-</b>	<b>-</b>	<b>18,228</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(302,067)</b>
<b>Net Change in Fund Balances</b>	<b>55</b>	<b>452</b>	<b>(824)</b>	<b>(65,305)</b>	<b>24,005</b>	<b>(51,557)</b>	<b>18,228</b>	<b>(60,264)</b>	<b>(17,940)</b>	<b>(33,660)</b>	<b>2,050</b>	<b>(491,129)</b>
<b>Fund Balance at Beginning of Year</b>	<b>6,664</b>	<b>13,309</b>	<b>437</b>	<b>65,305</b>	<b>(102,745)</b>	<b>300,003</b>	<b>(18,275)</b>	<b>60,264</b>	<b>17,940</b>	<b>33,660</b>	<b>(14,993)</b>	<b>1,705,341</b>
<b>Fund Balance at End of Year</b>	<b>\$ 6,719</b>	<b>\$ 13,761</b>	<b>\$ (387)</b>	<b>\$ -</b>	<b>\$ (78,740)</b>	<b>\$ 248,446</b>	<b>\$ (47)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (12,943)</b>	<b>\$ 1,214,212</b>

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds - Continued  
 Year Ended December 31, 2010

	Capital Project Funds			
	8th & Moore St. Imp	10th & Moore St. Imp	2010 4th Street	Total Capital Project Funds
Revenues				
Miscellaneous revenue				
Refunds and reimbursements	\$ 170,768	\$ 73,577	\$ -	\$ 244,345
Total Revenues	170,768	73,577	-	244,345
Expenditures				
Public Works				
Streets and highways				
Street construction - capital outlay	121,494	264,909	8,673	395,076
Interest and fiscal charges	25,008	18,161	-	43,169
Total Expenditures	146,502	283,070	8,673	438,245
Revenues over (Under) Expenditures	24,266	(209,493)	(8,673)	(193,900)
Other Financing Sources (Uses)				
Bond proceeds	730,800	589,855	-	1,320,655
Operating transfers in	-	26,808	-	26,808
Operating transfers out	(7,231)	-	-	(7,231)
Total Other Financing Sources (Uses)	723,569	616,663	-	1,340,232
Net Change in Fund Balances	747,835	407,170	(8,673)	1,146,332
Fund Balance at Beginning of Year	(747,835)	(407,170)	-	(1,155,005)
Fund Balance at End of Year	\$ -	\$ -	\$ (8,673)	\$ (8,673)

City of Blue Earth  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2010

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 608,411	\$ 507,224	\$ 1,115,635
Franchise	-	257,256	257,256
Special assessments	123,614	82,914	206,528
Licenses and permits	-	28,456	28,456
Intergovernmental revenue			
Local government aid	30,716	1,650,946	1,681,662
Residential market value credit	36,891	26,835	63,726
Other state aids and grants	-	39,097	39,097
Police aid	-	35,298	35,298
Fire aid	-	17,788	17,788
Charges for services			
General government	234,986	549,092	784,078
Waste water	73,015	-	73,015
Police and fire contracts	-	167	167
Garbage and recycling	-	32,946	32,946
Parks and recreation	-	112,912	112,912
Other public safety	-	49	49
Fines and forfeits	-	4,181	4,181
Interest received	5,446	33,475	38,921
Miscellaneous revenue			
Miscellaneous	128,588	107,983	236,571
Donations	-	27,700	27,700
Refunds and reimbursements	244,345	-	244,345
Total Revenues	<u>1,486,012</u>	<u>3,514,319</u>	<u>5,000,331</u>

City of Blue Earth  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2010

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	31,632	31,632
Administration and finance	-	294,914	294,914
Other general government	-	75,568	75,568
Capital outlay	-	8,390	8,390
Public Safety			
Police			
Current expenditures	-	511,393	511,393
Capital outlay	-	5,472	5,472
Fire			
Current expenditures	-	170,577	170,577
Capital outlay	-	11,076	11,076
Public Works			
Streets and highways			
Street maintenance	-	578,659	578,659
Snow and ice removal	-	25,150	25,150
Street lighting	-	58,013	58,013
Street construction - capital outlay	395,076	-	395,076
Street - other capital outlay	-	257,916	257,916
Culture and Recreation			
Library			
Current expenditures	-	189,631	189,631
Capital outlay	-	2,836	2,836
Senior Center			
Current expenditures	-	67,006	67,006
Capital outlay	-	8,135	8,135
Swimming Pool			
Current expenditures	-	116,981	116,981
Economic Development - current expenditures	320,590	21,966	342,556
Miscellaneous			
Airport - current expenditures	-	70,831	70,831
Airport - capital outlay	-	449,524	449,524
Wastewater - current expenditures	6,139	-	6,139
All other - current expenditures	208,857	67,707	276,564
All other - capital outlay	-	27,251	27,251
Debt Service			
Principal retirement	706,038	1,735,565	2,441,603
Bond issuance costs	750	-	750
Interest and fiscal charges	331,597	126,029	457,626
Total Expenditures	<u>1,969,047</u>	<u>4,912,222</u>	<u>6,881,269</u>
Revenues (Under)			
Expenditures	<u>(483,035)</u>	<u>(1,397,903)</u>	<u>(1,880,938)</u>

City of Blue Earth  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2010

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	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Other Financing Sources (Uses):			
Sale of capital assets	495,150	6,791	501,941
Bond proceeds	1,320,655	-	1,320,655
Operating transfers in	47,016	302,067	349,083
Operating transfers out	(329,506)	(19,577)	(349,083)
Total Other Financing Sources (Uses)	<u>1,533,315</u>	<u>289,281</u>	<u>1,822,596</u>
Net Change in Fund Balances	1,050,280	(1,108,622)	(58,342)
Fund Balance at Beginning of Year	<u>948,795</u>	<u>4,639,975</u>	<u>5,588,770</u>
Fund Balance at End of Year	<u>\$ 1,999,075</u>	<u>\$ 3,531,353</u>	<u>\$ 5,530,428</u>



## Independent Auditor's Report on Minnesota Legal Compliance

Honorable Mayor and City Council  
City of Blue Earth  
Blue Earth, Minnesota

We have audited the financial statements of the City of Blue Earth, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 30, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers seven main 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.

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

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota  
June 30, 2011



**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 Honorable Mayor and City Council  
City of Blue Earth  
Blue Earth, Minnesota

We have audited the financial statements of the governmental activities, the aggregate discretely present component units each major fund, and the aggregate remaining fund information of the City of Blue Earth, as of and for the year ended December 31, 2010, which collectively comprise the City of Blue Earth' basic financial statements and have issued our report thereon dated June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the discretely presented component unit, Board of Public Works Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the report of the other auditors.

Internal Control Over Financial Reporting

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

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

*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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over financial reporting described in the accompanying summary of audit results described as Segregation of Duties, Preparation of Financial Statements, and Significant Journal Entries to be material weaknesses.



Honorable Mayor and City Council  
City of Blue Earth

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Blue Earth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management the City of Blue Earth, in a separate letter dated June 30, 2011

The City's response to the findings identified in our audit is described in the accompanying schedule of audit results, findings, and questioned costs. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, city council, others within the organization, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Eide Sallee LLP*

Mankato, Minnesota  
June 30, 2011



**Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program's Internal Control over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards**

To Honorable Mayor and City Council  
City of Blue Earth  
Blue Earth, Minnesota

*Compliance*

We have audited the compliance of the City of Blue Earth, MN, (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

*Internal Control Over Compliance*

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Honorable Mayor and City Council  
City of Blue Earth

*A deficiency in internal control over compliance* 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota  
June 30, 2011

City of Blue Earth  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2010

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
<hr/> <i>DEPARTMENT OF TRANSPORTATION</i> <hr/>		
Passed through the State of Minnesota: Airport Improvement	20.106	\$ 324,544
<hr/> <i>ENVIRONMENTAL PROTECTION AGENCY</i> <hr/>		
Passed through the State of Minnesota Clean Water Revolving Fund	66.458	1,803,068
Clean Water Revolving Fund - ARRA	66.458	467,578
Total Environmental Protection Agency		<hr/> 2,270,646 <hr/>
<hr/> <i>DEPARTMENT OF HOMELAND SECURITY</i> <hr/>		
Passed through the State of Minnesota: Public Assistance Disaster Grant	97.036	<hr/> 2,261 <hr/>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<hr/> <b>\$ 2,597,451</b> <hr/>

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

**NOTE B – AGENCY OR PASS-THROUGH NUMBER**

The pass-through entity has not provided identifying numbers; therefore, they are not included in this schedule.

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion of the basic financial statements of the City of Blue Earth.
2. Three significant deficiencies were disclosed during the audit of the financial statements reported in the 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*. All three of the significant deficiencies identified were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Blue Earth were disclosed during the audit.
4. No significant deficiencies were reported in the Report on Internal Control over Compliance with Requirements Applicable to Each Major Program and Internal Controls over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Blue Earth expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for the City of Blue Earth are reported in Part C of this schedule.
7. The programs tested as major programs included: Clean Water Revolving CFDA #66.458 and Airport Improvement CFDA #20.106
8. The threshold for distinguishing a Type A program was \$300,000.
9. The City of Blue Earth was determined to be a high-risk auditee.

## **B. FINDINGS – FINANCIAL STATEMENT AUDIT**

### **Material Weakness – previously reported items not resolved**

#### Segregation of Duties

*Condition:* The City has a lack of segregation of duties in certain areas due to limited staff. The City has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

*Criteria:* A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

*Cause:* The City does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

*Effect:* Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. City Council oversight will mitigate some of the effect.

*Recommendation:* While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the City.

*Response:* Due to cost constraints, there will be no further administrative employees added.

#### Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the Council's review of the draft financial statements, accompanying notes and review and approval of the monthly expenses.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

#### Preparation of Financial Statements

*Condition:* The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.

*Criteria:* A good system of internal control contemplates an adequate system for drafting of the financial statements.

*Cause:* The City does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

*Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

*Recommendation:* This control deficiency is not unusual in a City of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response:* Due to cost constraints, the City will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

### Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

### Significant Journal Entries

*Condition:* During the course of our engagement, we proposed material audit adjustments to the trial balance as a result of the City's existing internal controls.

*Criteria:* A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

*Cause:* The City does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year end adjustments to the trial balance.

*Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

*Recommendation:* A thorough and timely review and reconciliation of accounts in each fund should take place on a monthly basis. This review should be done at both the accounting staff and accounting supervisor levels.

*Response:* Due to cost constraints, the City will continue to have the auditors propose material audit adjustments to the trial balance.

### Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* No action is planned on the finding. The City feels that the additional costs to the City would not be significantly beneficial. The City does mitigate this situation through the review of the draft financial statements and accompanying notes to the financial statements by management.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* None. See #1 above.
4. *Planned Completion Date for the Corrective Action:* None. See #1 above.
5. *Plan to Monitor Completion of Corrective Action:* None. See #1 above.

## **C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.