



Financial Statements  
December 31, 2011

# 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..... 41

**MINNESOTA COMPLIANCE SECTION**

Independent Auditor’s Report on Minnesota Legal Compliance ..... 47

**ADDITIONAL REPORTS AND SCHEDULE**

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*..... 48

Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program  
and on Internal Control over Compliance in Accordance with OMB Circular A-133 ..... 50

**AUDIT OF FEDERAL AWARDS SECTION**

Schedule of Expenditures of Federal Awards ..... 52  
Notes to Schedule of Expenditures of Federal Awards..... 53  
Summary of Audit Results, Findings, and Questioned Costs ..... 54

**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
[Vacant]	Police Chief
Roger Davis	Fire Chief
Jamison Holland	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 (City), Minnesota as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these 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 present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2011, 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.

As discussed in Note 1 to the financial statements, as of January 1, 2011, the City has adopted Governmental Auditing Standards Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012 on our consideration of the City'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 on pages 33 through 36 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's financial statements. The introductory section and combining and individual fund statements and schedules for the year ended December 31, 2011, 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 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 15, 2012

City of Blue Earth  
Statement of Net Assets  
December 31, 2011

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Cash and investments	\$ 5,933,350	\$ 972,661	\$ 6,906,011	\$ 2,266,323
Receivables				
Taxes	61,505	3	61,508	-
Special assessments	1,003,949	121,494	1,125,443	126,452
Accounts	54,457	145,453	199,910	979,571
Interest	26,157	-	26,157	-
Notes	953,913	-	953,913	85,151
Due from other funds	330,000	-	330,000	-
Prepaid items	-	-	-	367,305
Due from other governments	286,532	-	286,532	-
Inventory	-	267,202	267,202	470,776
Deferred charges	203,246	-	203,246	44,462
Bond issue costs (net)	-	22,430	22,430	-
Restricted cash and investments:				
Revenue bond current debt	-	430,339	430,339	526,537
Capital assets				
Land and construction in progress	733,821	760,386	1,494,207	143,271
Road network	22,347,965	-	22,347,965	-
Distribution system	-	-	-	23,138,267
Buildings and equipment	9,414,580	6,783,371	16,197,951	-
Vehicles	1,624,297	6,431,281	8,055,578	-
Less accumulated depreciation	(11,365,797)	(4,992,813)	(16,358,610)	(11,579,671)
<b>Total assets</b>	<b>31,607,975</b>	<b>10,941,807</b>	<b>42,549,782</b>	<b>16,568,444</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Checks issued in excess of deposits	2,688,489	-	2,688,489	-
Accounts payable	516,967	390,142	907,109	426,910
Other payables	14,854	-	14,854	418,626
Due to other funds	-	-	-	330,000
Accrued vacation and sick leave	1,113	21,577	22,690	-
Accrued salaries and wages	37,127	-	37,127	-
Unearned revenue	-	47,266	47,266	219,080
Interest payable	79,243	18,486	97,729	-
Long-Term Liabilities				
Due within one year	1,218,642	852,574	2,071,216	401,872
Due in more than one year	6,371,355	4,300,886	10,672,241	2,447,882
<b>Total liabilities</b>	<b>10,927,790</b>	<b>5,630,931</b>	<b>16,558,721</b>	<b>4,244,370</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	15,368,115	3,309,844	18,677,959	8,690,126
Restricted for:				
Debt service	3,195,976	-	3,195,976	494,271
Other purposes	2,443,033	-	2,443,033	32,266
Unrestricted	(326,939)	2,001,032	1,674,093	3,107,411
<b>Total net assets</b>	<b>\$ 20,680,185</b>	<b>\$ 5,310,876</b>	<b>\$ 25,991,061</b>	<b>\$ 12,324,074</b>

City of Blue Earth  
Statement of Activities  
Year Ended December 31, 2011

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	Primary Government		Totals	
				Governmental Activities	Business-type Activities		
<b>PRIMARY GOVERNMENT</b>							
Governmental Activities							
General government	\$ 442,084	\$ 327,756	\$ -	\$ (114,328)	\$ -	\$ (114,328)	
Public safety	464,505	67,357	50,658	(346,490)	-	(346,490)	
Transportation	1,616,489	-	2,311,147	694,658	-	694,658	
Culture and recreation	573,128	-	-	(573,128)	-	(573,128)	
Housing and economic development	921,172	-	-	(921,172)	-	(921,172)	
Interest and other charges on long-term debt	363,069	-	-	(363,069)	-	(363,069)	
Total governmental activities	<u>4,380,447</u>	<u>395,113</u>	<u>2,361,805</u>	<u>(1,623,529)</u>	<u>-</u>	<u>(1,623,529)</u>	
Business-Type Activities							
Sewer	780,373	933,048	-	-	152,675	152,675	
Liquor	1,335,776	1,414,217	-	-	78,441	78,441	
Fitness Center	84,280	125,155	-	-	40,875	40,875	
Total business-type activities	<u>2,200,429</u>	<u>2,472,420</u>	<u>-</u>	<u>-</u>	<u>271,991</u>	<u>271,991</u>	
Total Primary Government	<u>\$ 6,580,876</u>	<u>\$ 2,867,533</u>	<u>\$ 2,361,805</u>	<u>(1,623,529)</u>	<u>271,991</u>	<u>(1,351,538)</u>	
Component Unit							
Electric	\$ 5,481,580	\$ 6,200,378	\$ -				\$ 718,798
Water	718,028	684,233	-				(33,795)
	<u>\$ 6,199,608</u>	<u>\$ 6,884,611</u>	<u>\$ -</u>				<u>\$ 685,003</u>
General Revenues							
Property taxes				1,121,938	-	1,121,938	-
Special assessments				412,977	-	412,977	-
State aid				1,697,785	-	1,697,785	-
Franchise tax				271,981	-	271,981	-
Fees and fines				860	-	860	-
License and permits				30,026	-	30,026	-
Earnings on investments				69,370	1,867	71,237	7,064
Lease payments				631,631	-	631,631	-
Transfers				(179,742)	179,742	-	-
Gain on sale of capital assets				4,549	1,935	6,484	17,258
Miscellaneous				251,100	4,498	255,598	2,608
Total general revenues				<u>4,312,475</u>	<u>188,042</u>	<u>4,500,517</u>	<u>26,930</u>
Changes in Net Assets				2,688,946	460,033	3,148,979	711,933
Net Assets - Beginning, as Previously Reported				17,991,239	4,850,843	22,842,082	11,856,693
Net Assets - Beginning as Restated				-	-	-	(244,552)
Net Assets - Ending				<u>\$ 20,680,185</u>	<u>\$ 5,310,876</u>	<u>\$ 25,991,061</u>	<u>\$ 12,324,074</u>

City of Blue Earth  
Balance Sheet – Governmental Funds  
December 31, 2011

	General Fund	Housing Loan Fund	Economic Development Authority	Airport	2011 10th Street Project	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and investments	\$ 2,067,920	\$ 983,189	\$ 534,679	\$ -	\$ -	\$ 2,347,562	\$ 5,933,350
Receivables:							
Taxes	21,399	238	2,618	181	-	37,069	61,505
Special assessments	75,503	-	-	-	-	928,446	1,003,949
Interest	11,891	-	14,266	-	-	-	26,157
Accounts	40,546	1,626	902	167	-	11,216	54,457
Notes	-	428,644	525,269	-	-	-	953,913
Due from other funds	-	-	-	-	330,000	-	330,000
Due from other governments	-	-	-	286,532	-	-	286,532
Total assets	<u>\$ 2,217,259</u>	<u>\$ 1,413,697</u>	<u>\$ 1,077,734</u>	<u>\$ 286,880</u>	<u>\$ 330,000</u>	<u>\$ 3,324,293</u>	<u>\$ 8,649,863</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Checks issued in excess of deposits	\$ -	\$ -	\$ -	\$ 475,635	\$ 2,168,917	\$ 43,937	\$ 2,688,489
Accounts payable	227,383	113,488	70	57,219	118,757	50	516,967
Other payables	14,595	97	162	-	-	-	14,854
Accrued vacation and sick leave	-	417	696	-	-	-	1,113
Accrued wages and salaries	37,127	-	-	-	-	-	37,127
Deferred revenue	100,315	429,171	502,418	10,867	330,000	950,643	2,323,414
Total liabilities	<u>379,420</u>	<u>543,173</u>	<u>503,346</u>	<u>543,721</u>	<u>2,617,674</u>	<u>994,630</u>	<u>5,581,964</u>
<b>Fund Balances</b>							
Restricted	-	870,524	518,388	-	-	55,665	1,444,577
Restricted for debt service	-	-	-	-	-	2,317,252	2,317,252
Assigned	1,024,435	-	56,000	-	-	-	1,080,435
Unassigned	813,404	-	-	(256,841)	(2,287,674)	(43,254)	(1,774,365)
Total fund balances	<u>1,837,839</u>	<u>870,524</u>	<u>574,388</u>	<u>(256,841)</u>	<u>(2,287,674)</u>	<u>2,329,663</u>	<u>3,067,899</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,217,259</u>	<u>\$ 1,413,697</u>	<u>\$ 1,077,734</u>	<u>\$ 286,880</u>	<u>\$ 330,000</u>	<u>\$ 3,324,293</u>	<u>\$ 8,649,863</u>



City of Blue Earth  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets  
 December 31, 2011

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Total Fund Balances for Governmental Funds		\$ 3,067,899
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$34,120,663 and the accumulated depreciation is \$11,365,797.		22,754,866
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.		2,323,414
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 \$79,243.		(79,243)
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:		
General obligation bonds payable	\$ 5,896,797	
Revenue bonds	1,030,000	
General obligation tax increment bonds	500,000	
Note payable	163,200	
		(7,589,997)
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 \$345,006.		203,246
Total Net Assets for Governmental Activities		\$ 20,680,185

City of Blue Earth

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2011

	General Fund	Housing Loan Fund	Economic Development Authority	Airport	2011 10th Street Project	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Property taxes	\$ 312,244	\$ 5,159	\$ 87,179	\$ 313	\$ -	\$ 717,043	\$ 1,121,938
Franchise taxes	271,981	-	-	-	-	-	271,981
Special assessments	293	-	-	-	-	212,009	212,302
Fees and fines	860	-	-	-	-	-	860
Licenses and permits	30,026	-	-	-	-	-	30,026
Intergovernmental	1,641,869	7,679	58,863	-	-	40,032	1,748,443
Grants	-	-	-	2,311,147	-	-	2,311,147
Charges for services	150,672	-	119,982	57,085	-	67,374	395,113
Investment earnings	62,031	2,687	-	-	-	4,652	69,370
Lease payments	-	-	-	-	-	631,631	631,631
Miscellaneous	126,551	54,044	20,472	33	-	50,000	251,100
<b>Total revenue</b>	<b>2,596,527</b>	<b>69,569</b>	<b>286,496</b>	<b>2,368,578</b>	<b>-</b>	<b>1,722,741</b>	<b>7,043,911</b>
<b>Expenditures</b>							
<b>Current:</b>							
General government	382,253	-	-	-	-	-	382,253
Capital outlay	12,846	-	-	-	-	-	12,846
Public safety	658,282	-	-	-	-	-	658,282
Capital outlay	15,664	-	-	-	-	-	15,664
Public works	622,533	-	-	-	-	-	622,533
Capital outlay	196,406	-	-	-	-	-	196,406
Culture and recreation	376,503	-	-	80,460	-	-	456,963
Capital outlay	8,555	-	-	2,234,165	-	-	2,242,720
Economic development	-	463,170	190,497	-	-	-	653,667
Capital outlay	-	-	-	-	2,286,100	-	2,286,100
Miscellaneous	75,179	-	-	-	-	66,368	141,547
Capital outlay	17,930	-	-	-	-	14,835	32,765
<b>Debt Services:</b>							
Principal	6,235	-	-	-	-	2,323,501	2,329,736
Bond issuance costs	-	-	-	-	-	36,066	36,066
Interest and other charges	7,289	-	6,249	610	1,574	312,119	327,841
<b>Total expenditures</b>	<b>2,379,675</b>	<b>463,170</b>	<b>196,746</b>	<b>2,315,235</b>	<b>2,287,674</b>	<b>2,752,889</b>	<b>10,395,389</b>
Excess (deficiency) of revenues over expenditures	216,852	(393,601)	89,750	53,343	(2,287,674)	(1,030,148)	(3,351,478)
<b>Other Financing Sources (Uses)</b>							
Sale of capital assets	4,549	-	-	-	-	-	4,549
Bond proceeds	-	-	-	-	-	1,064,142	1,064,142
Transfers in	170,318	-	-	-	-	1,042,667	1,212,985
Transfers out	(172,603)	-	(437,421)	-	-	(782,703)	(1,392,727)
<b>Total other financing sources (uses)</b>	<b>2,264</b>	<b>-</b>	<b>(437,421)</b>	<b>-</b>	<b>-</b>	<b>1,324,106</b>	<b>888,949</b>
Net change in fund balances	219,116	(393,601)	(347,671)	53,343	(2,287,674)	293,958	(2,462,529)
Fund Balances - Beginning of Year	1,618,723	1,264,125	922,059	(310,184)	-	2,035,705	5,530,428
Fund Balances - End of Year	\$ 1,837,839	\$ 870,524	\$ 574,388	\$ (256,841)	\$ (2,287,674)	\$ 2,329,663	\$ 3,067,899

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, 2011

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Total Net Change in Fund Balances - Governmental Funds \$ (2,462,529)

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 (\$4,488,478) exceeds depreciation expense (\$763,062) in the current period. 3,725,416

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. (1,064,142)

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. (41,048)

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 \$118,636, deferred notes receivable increased by \$31,276, miscellaneous deferred receivables increased by \$5,217, due from other governments decreased \$284,454, due from other funds increased by \$330,000. 200,675

The governmental funds report repayment of bond principal (\$2,329,736) as an expenditure. In the statement of net assets, however, repayment of principal reduces the liability. 2,329,736

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 \$79,243 and \$80,081 of accrued interest at December 31, 2011 and 2010, respectively. 838

Change in Net Assets of Governmental Activities \$ 2,688,946

City of Blue Earth  
Statement of Net Assets – Proprietary Funds  
December 31, 2011

	Sewer	Liquor	Fitness Center	Total
<b>Assets</b>				
Cash and investments	\$ 578,948	\$ 290,303	\$ 103,410	\$ 972,661
Receivables:				
Taxes	3	-	-	3
Special assessments	121,494	-	-	121,494
Accounts	144,724	729	-	145,453
Inventory	-	267,202	-	267,202
Total current assets	<u>845,169</u>	<u>558,234</u>	<u>103,410</u>	<u>1,506,813</u>
<b>Noncurrent Assets:</b>				
Restricted cash:				
Revenue bond current debt	-	430,339	-	430,339
Bond issue costs (net)	5,526	16,904	-	22,430
Capital assets:				
Land	119,035	100,000	-	219,035
Construction in progress	541,351	-	-	541,351
Buildings and distribution systems	6,064,312	506,247	212,812	6,783,371
Machinery and equipment	6,172,488	203,274	55,519	6,431,281
Less accumulated depreciation	(4,626,358)	(221,347)	(145,108)	(4,992,813)
Total noncurrent assets	<u>8,276,354</u>	<u>1,035,417</u>	<u>123,223</u>	<u>9,434,994</u>
Total assets	<u>9,121,523</u>	<u>1,593,651</u>	<u>226,633</u>	<u>10,941,807</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	245,423	131,048	13,671	390,142
Accrued vacation	5,379	13,303	2,895	21,577
Deferred revenue	47,266	-	-	47,266
Bonds payable - current	432,574	420,000	-	852,574
Interest payable	18,486	-	-	18,486
Total current liabilities	<u>749,128</u>	<u>564,351</u>	<u>16,566</u>	<u>1,330,045</u>
<b>Noncurrent Liabilities:</b>				
Bonds payable	<u>4,300,886</u>	<u>-</u>	<u>-</u>	<u>4,300,886</u>
Total liabilities	<u>5,050,014</u>	<u>564,351</u>	<u>16,566</u>	<u>5,630,931</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	3,001,543	185,078	123,223	3,309,844
Unrestricted	<u>1,069,966</u>	<u>844,222</u>	<u>86,844</u>	<u>2,001,032</u>
Total Net Assets	<u>\$ 4,071,509</u>	<u>\$ 1,029,300</u>	<u>\$ 210,067</u>	<u>\$ 5,310,876</u>

City of Blue Earth  
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds  
Year Ended December 31, 2011

	Sewer	Liquor	Fitness Center	Total
Operating Revenues				
Service and fees	\$ 933,048	\$ -	\$ 125,155	\$ 1,058,203
Sales	-	1,414,217	-	1,414,217
Total operating revenues	<u>933,048</u>	<u>1,414,217</u>	<u>125,155</u>	<u>2,472,420</u>
Operating Expenses				
Salaries and benefits	159,559	166,469	34,756	360,784
Costs of goods sold	-	1,054,441	-	1,054,441
Supplies	24,834	9,717	8,379	42,930
Utilities	107,340	17,484	13,459	138,283
Other services and charges	49,954	6,057	4,319	60,330
Repairs and maintenance	30,826	4,047	3,114	37,987
Depreciation	267,572	19,972	10,907	298,451
Miscellaneous	32,801	34,961	9,346	77,108
Total operating expenses	<u>672,886</u>	<u>1,313,148</u>	<u>84,280</u>	<u>2,070,314</u>
Operating income	<u>260,162</u>	<u>101,069</u>	<u>40,875</u>	<u>402,106</u>
Nonoperating Revenues (Expenses)				
Interest and investment revenue	732	959	176	1,867
Amortization expense	(1,700)	(1,950)	-	(3,650)
Interest expense	(73,054)	(20,678)	-	(93,732)
Miscellaneous revenue	-	3,027	1,471	4,498
Miscellaneous expense	(32,733)	-	-	(32,733)
Total nonoperating revenues (expenses)	<u>(106,755)</u>	<u>(18,642)</u>	<u>1,647</u>	<u>(123,750)</u>
Income before contributions and transfers	<u>153,407</u>	<u>82,427</u>	<u>42,522</u>	<u>278,356</u>
Other financing sources:				
Gain on sale of capital assets	1,935	-	-	1,935
Transfers in	179,742	-	-	179,742
Total other financing sources	<u>181,677</u>	<u>-</u>	<u>-</u>	<u>181,677</u>
Change in net assets	335,084	82,427	42,522	460,033
Total Net Assets - Beginning of Year	<u>3,736,425</u>	<u>946,873</u>	<u>167,545</u>	<u>4,850,843</u>
Total Net Assets - End of Year	<u>\$ 4,071,509</u>	<u>\$ 1,029,300</u>	<u>\$ 210,067</u>	<u>\$ 5,310,876</u>

City of Blue Earth  
Statement of Cash Flows – Proprietary Funds  
Year Ended December 31, 2011

	Sewer	Liquor	Fitness Center	Total
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,033,421	\$ 1,414,190	\$ 125,155	\$ 2,572,766
Payments to employees	(165,329)	(165,162)	(34,568)	(365,059)
Payments to suppliers	(185,081)	(1,132,577)	(26,901)	(1,344,559)
Net cash provided by operating activities	<u>683,011</u>	<u>116,451</u>	<u>63,686</u>	<u>863,148</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Miscellaneous receipts	-	3,027	1,471	4,498
Transfers from governmental funds	179,742	-	-	179,742
Net cash provided by noncapital financing activities	<u>179,742</u>	<u>3,027</u>	<u>1,471</u>	<u>184,240</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from issuance of long-term debt	631,457	-	-	631,457
Payments on long-term debt	(703,000)	(35,000)	-	(738,000)
Purchase of capital assets	(739,742)	-	(21,868)	(761,610)
Interest paid on debt	(74,418)	(20,678)	-	(95,096)
Miscellaneous expense	(32,733)	-	-	(32,733)
Gain on sale of fixed assets	1,935	-	-	1,935
Net cash (used by) capital and related financing activities	<u>(916,501)</u>	<u>(55,678)</u>	<u>(21,868)</u>	<u>(994,047)</u>
<b>Cash Flows from Investing Activities</b>				
Earnings on investments and cash	732	959	176	1,867
Net change in cash	(53,016)	64,759	43,465	55,208
Balances - Beginning 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>
Balances - End of the Year (including \$430,339 for the liquor fund reported as restricted)	<u>\$ 578,948</u>	<u>\$ 720,642</u>	<u>\$ 103,410</u>	<u>\$ 1,403,000</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating income	\$ 260,162	\$ 101,069	\$ 40,875	\$ 402,106
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	267,572	19,972	10,907	298,451
Decrease (increase) in assets:				
Accounts receivable	91,659	(27)	-	91,632
Inventory	-	(5,335)	-	(5,335)
Special assessments	8,714	-	-	8,714
Increase (decrease) in liabilities:				
Accounts payable	65,705	(535)	11,716	76,886
Accrued expense	(5,770)	1,307	188	(4,275)
Deferred revenue	(5,031)	-	-	(5,031)
Net Cash Provided by Operating Activities	<u>\$ 683,011</u>	<u>\$ 116,451</u>	<u>\$ 63,686</u>	<u>\$ 863,148</u>

## **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 *2011 10<sup>th</sup> Street* capital project fund which accounts for the 2011 street improvement project.

The *Economic Development Authority (EDA)* special revenue fund which accounts for activity of the City's EDA.



### **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, 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 the lower of cost (average cost method) or market. 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, 2011, was \$296,039.

### 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

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

In the current year, the District implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Under GASB Statement No. 54 the fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

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

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the City Council through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The City Council has the authority to assign a fund balance.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The City approved 35% of expected expenditures as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

### **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, 2011, 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.

**A. Budgetary Information - Continued**

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, 2011, expenditures exceed appropriations in the following funds:

General Fund	\$ 142,374
Special Revenue Funds:	
Airport	2,258,757
Housing Loan Fund	432,919

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. The Housing Loan Fund will be funded from repayment of loans or transfers from other funds.

**C. Deficit Fund Equity**

The following governmental funds had deficit fund equity at December 31, 2011:

Special Revenue Fund	
Airport	\$ 256,841
Debt Service Funds	
General Obligation 2009	31,944
TIF 5-6	388
TIF 2-6	10,922
Capital Project	
2011 10th Street Project	<u>2,287,674</u>
Total	<u>\$ 2,587,769</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, 2011, none of the City’s bank balances were exposed to custodial credit risk.

**2. Investments**

As of December 31, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Certificates of deposit	\$ 786,018	2.89
Municipal bonds	139,013	7.16
Government bonds	425,449	8.48
Total Fair Value	<u>\$ 1,350,480</u>	
Portfolio weighted average maturity		6.18

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, 2011, 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: Washington Mutual Bank (7.21%), American Express (14.63%), GE Capital (14.65%), Cole Taylor Bank (7.13%), and Ally Bank (14.58%); Government bonds issued by: Federal Farm Credit Banks (31.50%); and in Municipal bonds issued by: Linn County Iowa (5.74%).

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 an investment policy for custodial credit risk. As of December 31, 2011, none of the City’s investments were exposed to custodial credit risk.

**B. Receivables**

The City’s Housing Loan fund had notes receivable of \$428,644 at year-end. Of this amount \$233,414 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 \$8,884 to \$30,519 on various dates during 2002 and 2003. The remaining balance of \$195,230 represents Housing and Urban Development (HUD) loans due in monthly installments and range from 9 to 20 payments remaining with a rate of interest at 3 percent. All loans are secured by City liens.

The City’s EDA fund had notes receivable of \$500,269 at year-end. Of this amount \$258,496 represents loans due from businesses in monthly installments and range from 12 payments to 224 payments remaining with rates of interest ranging from 4 percent to 8 percent. A balance of \$69,653 represents Small City Development Program (SCDP) loans due in monthly installments and range from 37 payments to 64 payments remaining with a rate of interest at 3 percent. All loans are secured by related real estate. An additional amount of \$5,000 represents a forgivable loan that require interest only payments at a rate of 8.25 percent. This loan was 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 \$167,120 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.

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)	\$ 69,792	\$ -
Special assessments not yet due (debt service funds)	928,244	-
Delinquent property taxes and special assessments (general fund)	14,685	-
Delinquent property taxes and special assessments (debt service funds fund)	29,723	-
Delinquent property taxes (special revenues funds)	2,508	-
Miscellaneous receivable (general fund)	8,514	-
Miscellaneous receivable (special revenue fund)	11,036	-
Due from other funds (capital project)	330,000	-
Notes receivable (special revenue funds)	928,912	-
Total deferred/unearned revenue for governmental funds	\$ 2,323,414	\$ -

The following receivables are not expected to be collectible within one year: General Fund: \$52,169 of special assessments; Special Revenue Funds: Housing Loan Fund - \$314,682 of loans receivable and EDA Fund - \$464,008 of loans receivable; and Debt Service Funds: General Obligation 1984 - \$5,031 of special assessments, General Obligation 1995 - \$69,571 of special assessments, General Obligation 2005B - \$36,884 of special assessments, General Obligation 2006C - \$38,931 of special assessments, General Obligation 2010A - \$458,795 of special assessments, General Obligation 2001 & 2009A - \$87,951 and General Obligation 2011A - \$212,287 of special assessments.



**C. Capital Assets**

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

Governmental Activities:	
General government	\$ 17,461
Public safety	95,935
Public works	428,312
Airport	69,149
Culture and recreation	116,165
Housing and economic development	<u>36,040</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 763,062</u></u>

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 692,825	\$ 24,166	\$ -	\$ 716,991
Construction in progress	1,658,261	16,830	1,658,261	16,830
Total Capital Assets, Not Being Depreciated	<u>2,351,086</u>	<u>40,996</u>	<u>1,658,261</u>	<u>733,821</u>
Capital Assets, Being Depreciated				
Buildings	7,387,515	105,023	-	7,492,538
Infrastructure	16,464,083	5,883,882	-	22,347,965
Equipment	1,805,204	116,838	-	1,922,042
Vehicles	1,624,297	-	-	1,624,297
Total Capital Assets, Being Depreciated	<u>27,281,099</u>	<u>6,105,743</u>	<u>-</u>	<u>33,386,842</u>
Less Accumulated Depreciation for:				
Buildings	2,031,112	180,807	-	2,211,919
Infrastructure	7,052,673	428,016	-	7,480,689
Equipment	743,872	98,554	-	842,426
Vehicles	775,078	55,685	-	830,763
Total Accumulated Depreciation	<u>10,602,735</u>	<u>763,062</u>	<u>-</u>	<u>11,365,797</u>
Total Capital Assets, Being Depreciated, Net	<u>16,678,364</u>	<u>5,342,681</u>	<u>-</u>	<u>22,021,045</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 19,029,450</u></u>	<u><u>\$ 5,383,677</u></u>	<u><u>\$ 1,658,261</u></u>	<u><u>\$ 22,754,866</u></u>

**C. Capital Assets - Continued**

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

Business-Type Activities:	
Sewer	\$ 267,572
Fitness center	10,907
Liquor	<u>19,972</u>
 Total Depreciation Expense - Business-Type Activities	 <u><u>\$ 298,451</u></u>

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 203,035	\$ 16,000	\$ -	\$ 219,035
Construction in progress	1,438,309	469,040	1,365,998	541,351
Total Capital Assets, Not Being Depreciated	<u>1,641,344</u>	<u>485,040</u>	<u>1,365,998</u>	<u>760,386</u>
Capital Assets, Being Depreciated				
Buildings and improvements	4,027,458	9,600	-	4,037,058
Collection and distribution	3,287,665	345,007	-	3,632,672
Equipment	4,218,687	1,287,961	-	5,506,648
Vehicles	38,274	-	-	38,274
Total Capital Assets, Being Depreciated	<u>11,572,084</u>	<u>1,642,568</u>	<u>-</u>	<u>13,214,652</u>
Less Accumulated Depreciation for:				
Buildings	2,729,425	121,098	-	2,850,523
Collection and distribution	950,575	106,005	-	1,056,580
Equipment	982,995	67,894	-	1,050,889
Vehicles	31,367	3,454	-	34,821
Total Accumulated Depreciation	<u>4,694,362</u>	<u>298,451</u>	<u>-</u>	<u>4,992,813</u>
Total Capital Assets, Being Depreciated, Net	<u>6,877,722</u>	<u>1,344,117</u>	<u>-</u>	<u>8,221,839</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 8,519,066</u></u>	<u><u>\$ 1,829,157</u></u>	<u><u>\$ 1,365,998</u></u>	<u><u>\$ 8,982,225</u></u>

**C. Capital Assets – Continued**

Component Unit:

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 141,741	\$ -	\$ -	\$ 141,741
Construction in progress	41,065	1,530	41,065	1,530
Total Capital Assets, Not Being Depreciated	<u>182,806</u>	<u>1,530</u>	<u>41,065</u>	<u>143,271</u>
Capital Assets, Being Depreciated				
Production equipment	4,450,382	-	84,386	4,365,996
Transmission equipment	2,308,061	222,423	-	2,530,484
Distribution equipment	14,181,574	596,430	7,352	14,770,652
General equipment	1,586,924	60,749	176,538	1,471,135
Total Capital Assets, Being Depreciated	<u>22,526,941</u>	<u>879,602</u>	<u>268,276</u>	<u>23,138,267</u>
Less Accumulated Depreciation for:				
Production equipment	2,597,622	110,277	84,386	2,623,513
Transmission equipment	1,690,704	104,955	-	1,795,659
Distribution equipment	6,052,484	396,063	7,352	6,441,195
General equipment	817,089	72,864	170,649	719,304
Total Accumulated Depreciation	<u>11,157,899</u>	<u>684,159</u>	<u>262,387</u>	<u>11,579,671</u>
Total Capital Assets, Being Depreciated, Net	<u>11,369,042</u>	<u>195,443</u>	<u>5,889</u>	<u>11,558,596</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,551,848</u>	<u>\$ 196,973</u>	<u>\$ 46,954</u>	<u>\$ 11,701,867</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 <u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
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%	\$ 170,000
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%	1,730,000
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%	47,000
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%	65,000
G.O. Refunding Bonds of 2011, Series A, due in annual installments of \$45,000 to \$370,000 through April 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%	1,354,142
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%	500,000
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%	1,659,000
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%	619,000
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%	524,969
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.	.9% to 3.8%	1,500,000
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%	1,640,491
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>163,200</u>
Total General Obligation Bonds		<u><u>\$ 11,293,457</u></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:

<u>Revenue Bonds</u> <u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Public Project Revenue Bonds of 2006, Series B of \$1,185,000, due in annual installments of \$35,000 to \$95,000 through February 1, 2027.	4.0% to 4.85%	\$ 1,030,000
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>420,000</u>
		<u>\$ 1,450,000</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:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Discretely Presented</u> <u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,218,642	\$ 237,038	\$ 852,574	\$ 97,119	\$ 401,872	\$ 75,248
2013	585,763	204,271	442,000	89,007	298,042	62,324
2014	602,806	192,969	443,000	81,270	307,302	52,199
2015	514,444	180,373	454,000	72,978	147,982	45,457
2016	488,615	169,336	384,000	64,941	155,142	42,048
2017-2021	2,170,673	610,493	1,808,000	204,155	781,623	143,641
2022-2026	1,730,867	241,795	756,491	44,250	634,240	49,266
2027-2031	278,187	7,291	13,395	784	-	-
Total	<u>\$7,589,997</u>	<u>\$1,843,566</u>	<u>\$5,153,460</u>	<u>\$ 654,504</u>	<u>\$2,726,203</u>	<u>\$470,183</u>

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

Changes in Long-Term Liabilities. During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>Debt Payable:</b>					
General obligation bonds	\$ 6,356,156	\$ 1,064,142	\$ 1,523,501	\$ 5,896,797	\$ 667,129
Note payable	169,435	-	6,235	163,200	6,513
Revenue bonds	1,070,000	-	40,000	1,030,000	45,000
General obligation tax increment bonds	<u>1,260,000</u>	<u>-</u>	<u>760,000</u>	<u>500,000</u>	<u>500,000</u>
Governmental activity Long-term liabilities	<u>\$ 8,855,591</u>	<u>\$ 1,064,142</u>	<u>\$ 2,329,736</u>	<u>\$ 7,589,997</u>	<u>\$ 1,218,642</u>
Refunding bonds included in governmental activities	<u>\$ 1,060,000</u>	<u>\$ 1,064,142</u>	<u>\$ 995,000</u>	<u>\$ 1,129,142</u>	<u>\$ 358,039</u>
<b>Business-Type Activities:</b>					
<b>Debt Payable:</b>					
Compensated absences	\$ 19,495	\$ -	\$ 4,685	\$ 14,810	\$ -
G.O. revenue notes	4,805,004	631,456	703,000	4,733,460	432,574
Revenue bonds	<u>455,000</u>	<u>-</u>	<u>35,000</u>	<u>420,000</u>	<u>420,000</u>
Business-type activity Long-term liabilities	<u>\$ 5,279,499</u>	<u>\$ 631,456</u>	<u>\$ 742,685</u>	<u>\$ 5,168,270</u>	<u>\$ 852,574</u>
<b>Discretely Presented Component Unit Debt Payable:</b>					
G.O. revenue notes	\$ 2,227,844	\$ 85,858	\$ 177,499	\$ 2,136,203	\$ 131,872
Revenue bonds	<u>945,000</u>	<u>-</u>	<u>355,000</u>	<u>590,000</u>	<u>270,000</u>
Long-term liabilities	<u>\$ 3,172,844</u>	<u>\$ 85,858</u>	<u>\$ 532,499</u>	<u>\$ 2,726,203</u>	<u>\$ 401,872</u>
Refunding bonds included in component unit	<u>\$ 345,000</u>	<u>\$ 85,858</u>	<u>\$ 215,000</u>	<u>\$ 215,858</u>	<u>\$ 136,962</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,260,429. The computed legal debt margin on December 31, 2011, equals \$4,097,229.

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

Inter-fund transfers for the year ended December 31, 2011, consisted of the following:

Transferred From	Transferred To			
	General Fund	Enterprise Fund - Sewer	Other Governmental Funds	Total
General Fund	\$ -	\$ 54,051	\$ 118,552	\$ 172,603
Other Governmental Funds	170,318	125,691	486,694	782,703
Economic Development Authority	-	-	437,421	437,421
<b>Total</b>	<b>\$ 170,318</b>	<b>\$ 179,742</b>	<b>\$ 1,042,667</b>	<b>\$ 1,392,727</b>

Purpose for Inter-fund Transfers:

- The remaining funds in the GO 1991, 1992, 1994, 1997, and 2004C funds were transferred to the GO 2011A fund to close out those funds due to a board refunding.
- The EDA fund transferred to the TIF 5-6 fund for the retirement of debt.
- The General fund, Special Revenue Funds, and Wastewater funds transfers were for the payments of long term debt.
- The remaining funds in the GO 2000 fund was transferred to the Enterprise Sewer to close out the fund.
- The remaining funds in the GO 2004B and 2006A funds were transferred to the General funds to close out those funds.

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

Balances in Assigned Fund Balances as of December 31, 2011:

	General Fund	Housing Loan Fund	Economic Development Fund	Airport	2011 10th Street Project	Nonmajor Governmental Funds	Total Governmental Funds
<b>Restricted:</b>							
Debt service	-	-	-	-	-	2,317,252	2,317,252
Economic development	-	870,524	518,388	-	-	-	1,388,912
Storm Water	-	-	-	-	-	55,665	55,665
<b>Assigned:</b>							
Special Purpose	31,683	-	56,000	-	-	-	87,683
I-90 Track	2,625	-	-	-	-	-	2,625
Steinberg Park	87,512	-	-	-	-	-	87,512
Fire	52,141	-	-	-	-	-	52,141
Library	24,218	-	-	-	-	-	24,218
Street Infrastructure	817,862	-	-	-	-	-	817,862
Senior Donation	8,394	-	-	-	-	-	8,394
<b>Unassigned</b>	<b>813,404</b>	<b>-</b>	<b>-</b>	<b>(256,841)</b>	<b>(2,287,674)</b>	<b>(43,254)</b>	<b>(1,774,365)</b>
	<u>\$ 1,837,839</u>	<u>\$ 870,524</u>	<u>\$ 574,388</u>	<u>\$(256,841)</u>	<u>\$(2,287,674)</u>	<u>\$ 2,329,663</u>	<u>\$ 3,067,899</u>

**F. Assigned Fund Balances and Restricted for Other Purposes Net Assets – Continued**

Balances in Net Assets Restricted for Other Purposes as of December 31, 2011:

Restricted for EDA	\$ 1,299,695
Restricted for housing loan	1,087,673
Restricted for storm water	55,665
Total	\$ 2,443,033

**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 2011 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 payments of \$13,063, \$14,266, \$15,469, and \$16,500, respectively, during the four remaining years. Lease payments received during 2011 totaled \$134,234.

**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 2011 and 2010 was \$201,211 and \$187,295, 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.

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.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.60% of their annual covered salary in 2011. The City of Blue Earth is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan GERF members, 14.40% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$89,602, \$101,759, and \$93,144, respectively. Component unit contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$52,399, \$51,459, \$47,733, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$31,618, \$26,859 and \$40,437, 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, 2010, is shown below:

	<u>BEFDRA</u>
Pension benefit obligation:	
Total pension benefit obligation	\$ 741,753
Net assets available for benefits, at market	<u>907,354</u>
Pension benefit assets in excess of obligation	<u>\$ 165,601</u>
Change from prior year amount	<u>\$ 68,184</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 2011 were \$21,365 of which \$17,788 was pass through monies from the state and \$3,557 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.

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. Correction of an Error**

Utilities Plus is a joint power association with Central Minnesota Municipal Power Agency and Midwest Municipal Gas Agency, which the Board of Public Works (the component unit) is a member. Utilities Plus provides services in the purchasing of electrical energy and natural gas fuel. Utilities Plus is a legally separate and independent entity, and the municipality does not appoint a voting majority of the Board.

During 2011, the Board of Public Works, the component unit, determined that the Utility had incorrectly recorded an investment in the joint venture. Therefore, restatement to the 2010 government-wide financial statements for the discretely presented component unit was required. The result of this correction and restatement of the 2010 balances was a \$244,552 decrease in non-current assets and a corresponding decrease in net assets. The beginning net assets for the component units of \$11,856,693, as originally reported, have been decreased to \$11,612,141.

**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.

**E. Fund Consolidations**

The City has consolidated the following funds as of January 1, 2011:

The special revenue TIF 5-3 and TIF 5-1 funds and the special revenue Revolving loan fund have been combined with the special revenue EDA fund. The \$248,399 beginning fund balance from the two TIF funds and the \$453,289 beginning fund balance from the Revolving loan fund have been included with the \$220,371 beginning fund balance of the EDA for a total beginning fund balance of \$922,059.

**F. Commitments**

The City has the following ongoing construction commitments:

Project	Contracted Total Cost	Costs Incurred	Commitment to Complete
2010 Airport Improvement	\$ 2,219,988	\$ 2,152,958	\$ 67,030
2011 Lift Station Replacement	446,075	183,752	262,323
2011 Tenth and Galbraith Street Improvement	2,079,162	1,934,136	145,026
	<u>\$ 4,745,225</u>	<u>\$ 4,270,846</u>	<u>\$ 474,379</u>

**G. Subsequent Events**

Subsequent to year end, the city paid off the remaining balance, \$420,000, of the 2005A Liquor Net Revenue Bonds. The city was scheduled to pay the debt off on January 1, 2021.



Required Supplementary Information  
December 31, 2011

# City of Blue Earth

City of Blue Earth  
Budgetary Comparison Schedule – General Fund  
Year Ended December 31, 2011

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
<b>Taxes:</b>				
Property	\$ 346,005	\$ 346,005	\$ 312,244	\$ (33,761)
Franchise	262,000	262,000	271,981	9,981
Special assessments	1,000	1,000	293	(707)
Licenses and permits	26,128	26,128	30,026	3,898
<b>Intergovernmental revenue</b>				
Local government aid	1,602,981	1,602,981	1,471,974	(131,007)
Residential market value credit	-	-	19,108	19,108
Other state aids and grants	70,273	70,273	100,129	29,856
Police aid	35,298	35,298	33,261	(2,037)
Fire aid	17,788	17,788	17,397	(391)
<b>Charges for services</b>				
General government	6,400	6,400	6,737	337
Police and fire contracts	40,575	40,575	46,058	5,483
Garbage and recycling	32,500	32,500	32,992	492
Parks and recreation	64,550	64,550	64,754	204
Other	100	100	131	31
Fines and forfeits	1,800	1,800	860	(940)
Interest received	55,000	55,000	62,031	7,031
<b>Miscellaneous revenue:</b>				
Rental	23,524	23,524	26,291	2,767
Miscellaneous	23,050	23,050	68,650	45,600
SCORE	12,850	12,850	9,300	(3,550)
Donations	2,000	2,000	22,310	20,310
Total revenues	<u>2,623,822</u>	<u>2,623,822</u>	<u>2,596,527</u>	<u>(27,295)</u>
<b>Expenditures:</b>				
<b>General government</b>				
Mayor and council	30,035	30,035	28,555	1,480
Administration and finance	276,079	276,079	277,998	(1,919)
Other general government	82,918	82,918	75,700	7,218
Capital outlay	12,000	12,000	12,846	(846)
<b>Public safety</b>				
<b>Police</b>				
Current expenditures	501,649	501,649	455,712	45,937
Capital outlay	9,500	9,500	7,788	1,712
<b>Fire</b>				
Current expenditures	186,526	186,526	202,570	(16,044)
Capital outlay	-	-	7,876	(7,876)
<b>Public Works</b>				
<b>Streets and highways</b>				
Street maintenance	658,510	658,510	538,497	120,013
Sanitation and health	31,431	31,431	25,411	6,020
Street lighting	59,556	59,556	58,625	931
Street - other capital outlay	110,000	110,000	196,406	(86,406)
<b>Culture and recreation</b>				
Library - current expenditures	-	-	190,535	(190,535)
Senior Center - current expenditures	64,477	64,477	62,652	1,825
Senior Center - capital outlay	8,000	8,000	8,555	(555)
Swimming Pool - current expenditures	123,596	123,596	123,316	280
<b>Debt Service</b>				
Principal	13,524	13,524	6,236	7,288
Interest	-	-	7,288	(7,288)
All other - current expenditures	69,500	69,500	75,179	(5,679)
All other - capital outlay	-	-	17,930	(17,930)
Total expenditures	<u>2,237,301</u>	<u>2,237,301</u>	<u>2,379,675</u>	<u>(142,374)</u>
Excess (Deficiency) of Revenue over Expenditures	<u>386,521</u>	<u>386,521</u>	<u>216,852</u>	<u>(169,669)</u>

City of Blue Earth  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2011

	<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	100	100	4,549	4,449
Transfers in	-	-	170,318	170,318
Transfers out	-	-	(172,603)	(172,603)
Total Other Financing Sources (Uses)	<u>100</u>	<u>100</u>	<u>2,264</u>	<u>2,164</u>
Net Change in Fund Balances	386,621	386,621	219,116	(167,505)
Fund Balance at Beginning of Year	<u>1,618,723</u>	<u>1,618,723</u>	<u>1,618,723</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 2,005,344</u>	<u>\$ 2,005,344</u>	<u>\$ 1,837,839</u>	<u>\$ (167,505)</u>



City of Blue Earth  
 Budgetary Comparison Schedule – Housing Loan Fund  
 Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:				
Property taxes	\$ 5,638	\$ 5,638	\$ 5,159	\$ (479)
Intergovernmental revenue				
Local government aid	8,113	8,113	7,368	(745)
Residential market value credit	-	-	311	311
Interest received	-	-	2,687	2,687
Miscellaneous revenue	-	-	54,044	54,044
Total revenues	<u>13,751</u>	<u>13,751</u>	<u>69,569</u>	<u>55,818</u>
Expenditures:				
Economic development	<u>30,251</u>	<u>30,251</u>	<u>463,170</u>	<u>(432,919)</u>
Total expenditures	<u>30,251</u>	<u>30,251</u>	<u>463,170</u>	<u>(432,919)</u>
Deficiency of Revenue over Expenditures	(16,500)	(16,500)	(393,601)	(377,101)
Fund Balance at Beginning of Year	<u>1,264,125</u>	<u>1,264,125</u>	<u>1,264,125</u>	<u>-</u>
Fund Balance at End of Year	<u><u>\$ 1,247,625</u></u>	<u><u>\$ 1,247,625</u></u>	<u><u>\$ 870,524</u></u>	<u><u>\$ (377,101)</u></u>

City of Blue Earth  
 Budgetary Comparison Schedule – Airport Fund  
 Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>				
Property taxes	\$ -	\$ -	\$ 313	\$ 313
Grants	17,214	17,214	2,311,147	2,293,933
Charges for services	60,810	60,810	57,085	(3,725)
Miscellaneous revenue	-	-	33	33
Total revenues	<u>78,024</u>	<u>78,024</u>	<u>2,368,578</u>	<u>2,290,554</u>
<b>Expenditures:</b>				
Airport - current expenditures	56,478	56,478	80,460	(23,982)
Airport - capital outlay	-	-	2,234,165	(2,234,165)
Interest and fiscal charges	-	-	610	(610)
Total expenditures	<u>56,478</u>	<u>56,478</u>	<u>2,315,235</u>	<u>(2,258,757)</u>
Excess of Revenue over Expenditures	21,546	21,546	53,343	31,797
Fund Balance at Beginning of Year	<u>(310,184)</u>	<u>(310,184)</u>	<u>(310,184)</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ (288,638)</u>	<u>\$ (288,638)</u>	<u>\$ (256,841)</u>	<u>\$ 31,797</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, 2011, 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, 2011, expenditures exceed appropriations in the following funds:

Expenditures Over Appropriations:

General Fund	\$ 142,374
Special Revenue Funds:	
Airport	2,258,757
Housing Loan Fund	432,919

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. The Housing Loan Fund will be funded from repayment of loans or transfers from other funds.

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2011

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	Special Revenue Fund
	Storm Water
Assets	
Cash and investments	\$ 44,499
Receivables	
Accounts	11,216
Total Assets	\$ 55,715
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 50
Fund balances	
Restricted	55,665
Total Liabilities and Fund Balances	\$ 55,715

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds- Continued  
December 31, 2011

Debt Service Funds

	General Obligation 2004A	General Obligation 1992	General Obligation 1994	General Obligation 1995	General Obligation 1997	General Obligation 2001 & 2009A	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	General Obligation 2010A	General Obligation 2011A
<b>Assets</b>																	
Cash and investments	\$ -	\$ -	\$ -	\$ 45,186	\$ -	\$ 219,118	\$ -	\$ -	\$ -	\$ 1,535	\$ -	\$ 69,526	\$ 74,683	\$ 334,028	\$ -	235,697	\$ 483,089
<b>Receivables</b>																	
Taxes	-	-	-	2,751	-	5,895	-	-	-	47	-	3,300	1,055	7,047	1,489	-	11,928
Special assessments	-	-	-	71,096	-	92,318	-	-	-	36,884	-	-	39,202	-	-	468,937	220,009
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 119,033</b>	<b>\$ -</b>	<b>\$ 317,331</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,466</b>	<b>\$ -</b>	<b>\$ 72,826</b>	<b>\$ 114,940</b>	<b>\$ 341,075</b>	<b>\$ 1,489</b>	<b>\$ 704,634</b>	<b>\$ 715,026</b>
<b>Liabilities and Fund Balances</b>																	
<b>Liabilities:</b>																	
Checks in excess of deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,414	\$ -	\$ -
Deferred revenue	-	-	-	73,149	-	96,777	-	-	-	36,921	-	2,257	39,992	5,312	1,019	465,102	228,332
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,149</b>	<b>-</b>	<b>96,777</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,921</b>	<b>-</b>	<b>2,257</b>	<b>39,992</b>	<b>5,312</b>	<b>33,433</b>	<b>465,102</b>	<b>228,332</b>
<b>Fund Balance:</b>																	
Restricted for debt service	-	-	-	45,884	-	220,554	-	-	-	1,545	-	70,569	74,948	335,763	-	239,532	486,694
Unassigned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(31,944)	-	-
<b>Fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,884</b>	<b>-</b>	<b>220,554</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,545</b>	<b>-</b>	<b>70,569</b>	<b>74,948</b>	<b>335,763</b>	<b>(31,944)</b>	<b>239,532</b>	<b>486,694</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 119,033</b>	<b>\$ -</b>	<b>\$ 317,331</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,466</b>	<b>\$ -</b>	<b>\$ 72,826</b>	<b>\$ 114,940</b>	<b>\$ 341,075</b>	<b>\$ 1,489</b>	<b>\$ 704,634</b>	<b>\$ 715,026</b>

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds- Continued  
December 31, 2011

Debt Service Funds							Total
	TIF 7-1	TIF 5-9	TIF 5-8	TIF 5-6	TIF 5-5	TIF 2-6	Debt Service Funds
<b>Assets</b>							
Cash and investments	\$ 6,613	\$ 14,299	\$ -	\$ -	\$ 819,289	\$ -	\$ 2,303,063
Receivables							
Taxes	-	-	3,557	-	-	-	37,069
Special assessments	-	-	-	-	-	-	928,446
Total Assets	<u>\$ 6,613</u>	<u>\$ 14,299</u>	<u>\$ 3,557</u>	<u>\$ -</u>	<u>\$ 819,289</u>	<u>\$ -</u>	<u>\$ 3,268,578</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Checks in excess of deposits	\$ -	\$ -	\$ 213	\$ 388	\$ -	\$ 10,922	\$ 43,937
Deferred revenue	-	-	1,782	-	-	-	950,643
Total liabilities	<u>-</u>	<u>-</u>	<u>1,995</u>	<u>388</u>	<u>-</u>	<u>10,922</u>	<u>994,580</u>
<b>Fund balances:</b>							
Restricted for debt service	6,613	14,299	1,562	-	819,289	-	2,317,252
Unassigned	-	-	-	(388)	-	(10,922)	(43,254)
Total fund balances	<u>6,613</u>	<u>14,299</u>	<u>1,562</u>	<u>(388)</u>	<u>819,289</u>	<u>(10,922)</u>	<u>2,273,998</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 6,613</u>	<u>\$ 14,299</u>	<u>\$ 3,557</u>	<u>\$ -</u>	<u>\$ 819,289</u>	<u>\$ -</u>	<u>\$ 3,268,578</u>

City of Blue Earth  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds  
 Year Ended December 31, 2011

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	Special Revenue Fund
	Storm Water
Revenues	
Charges for services	
Storm water	\$ 67,374
Interest received	307
Total revenues	67,681
Expenditures	
Storm water - current expenditures	14,835
Revenues over (under) expenditures	52,846
Other Financing Use	
Operating transfers out	(117,057)
Net Change in Fund Balances	(64,211)
Fund Balance at Beginning of Year	119,876
Fund Balance at End of Year	\$ 55,665

City of Blue Earth

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor Governmental Funds - Continued  
Year Ended December 31, 2011

Debt Service Funds

	General Obligation 2004A	General Obligation 1992	General Obligation 1994	General Obligation 1995	General Obligation 1997	General Obligation 2001 & 2009A	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	General Obligation 2010A	General Obligation 2011A
<b>Revenues</b>																	
Property taxes	\$ 67,112	\$ 89,974	\$ 16,609	\$ 53,673	\$ 19,414	\$ 110,967	\$ (11)	\$ 1,199	\$ 19,720	\$ 832	\$ 50,048	\$ 80,576	\$ 20,397	\$ 134,126	\$ 35,470	\$ -	\$ -
Special assessments	9,659	5,586	1,434	16,466	15,311	5,006	-	-	10,676	10,159	-	-	6,214	-	-	131,498	-
Intergovernmental revenue																	
Residential market value credit	4,035	5,250	61	3,257	-	6,700	-	-	955	50	3,093	4,870	1,238	8,106	2,198	-	-
Interest received	288	208	83	127	390	325	18	-	65	-	41	-	128	462	-	176	-
Lease payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	50,000	-	-	-
<b>Total Revenues</b>	<b>81,094</b>	<b>101,018</b>	<b>18,187</b>	<b>73,523</b>	<b>35,115</b>	<b>122,998</b>	<b>7</b>	<b>1,199</b>	<b>31,416</b>	<b>11,041</b>	<b>53,182</b>	<b>85,446</b>	<b>27,977</b>	<b>192,694</b>	<b>37,668</b>	<b>131,674</b>	<b>-</b>
<b>Expenditures</b>																	
Miscellaneous																	
All other - current expenditures	2,025	5,849	2,847	-	5,823	456	-	-	4,185	2,612	-	556	-	556	456	27,288	-
<b>Debt Service</b>																	
Principal	170,000	365,000	125,000	70,000	265,000	95,000	-	-	299,501	9,000	-	40,000	20,000	70,000	35,000	-	-
Interest and fiscal charges	3,638	16,278	3,383	4,450	7,392	32,935	-	-	14,633	2,068	-	48,283	7,950	76,790	4,952	425	-
Bond issuance costs	-	-	-	-	-	351	-	-	5,400	-	-	-	-	-	74	30,241	-
<b>Total Expenditures</b>	<b>175,663</b>	<b>387,127</b>	<b>131,230</b>	<b>74,450</b>	<b>278,215</b>	<b>128,742</b>	<b>-</b>	<b>-</b>	<b>323,719</b>	<b>13,680</b>	<b>-</b>	<b>88,839</b>	<b>27,950</b>	<b>147,346</b>	<b>40,482</b>	<b>57,954</b>	<b>-</b>
<b>Revenues Over (Under)</b>																	
Expenditures	(94,569)	(286,109)	(113,043)	(927)	(243,100)	(5,744)	7	1,199	(292,303)	(2,639)	53,182	(3,393)	27	45,348	(2,814)	73,720	-
<b>Other Financing Sources (Uses)</b>																	
Bond proceeds	89,663	283,931	129,513	-	273,969	-	-	-	287,066	-	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	118,552	486,694
Operating transfers out	(161,466)	(102,693)	(34,675)	-	(171,396)	-	(8,634)	(116,224)	(16,464)	-	(54,094)	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(71,803)</b>	<b>181,238</b>	<b>94,838</b>	<b>-</b>	<b>102,573</b>	<b>-</b>	<b>(8,634)</b>	<b>(116,224)</b>	<b>270,602</b>	<b>-</b>	<b>(54,094)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118,552</b>	<b>486,694</b>
<b>Net Change in Fund Balances</b>	<b>(166,372)</b>	<b>(104,871)</b>	<b>(18,205)</b>	<b>(927)</b>	<b>(140,527)</b>	<b>(5,744)</b>	<b>(8,627)</b>	<b>(115,025)</b>	<b>(21,701)</b>	<b>(2,639)</b>	<b>(912)</b>	<b>(3,393)</b>	<b>27</b>	<b>45,348</b>	<b>(2,814)</b>	<b>192,272</b>	<b>486,694</b>
<b>Fund Balance at Beginning of Year</b>	<b>166,372</b>	<b>104,871</b>	<b>18,205</b>	<b>46,811</b>	<b>140,527</b>	<b>226,298</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>47,260</b>	<b>-</b>
<b>Fund Balance at End of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 45,884</b>	<b>\$ -</b>	<b>\$ 220,554</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,545</b>	<b>\$ -</b>	<b>\$ 70,569</b>	<b>\$ 74,948</b>	<b>\$ 335,763</b>	<b>\$ (31,944)</b>	<b>\$ 239,532</b>	<b>\$ 486,694</b>



City of Blue Earth  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2011

	Debt Service Funds						Total Debt Service Funds
	TIF 7-1	TIF 5-9	TIF 5-8	TIF 5-6	TIF 5-5	TIF 2-6	
<b>Revenues</b>							
Property taxes	\$ 6,127	\$ 5,196	\$ 3,566	\$ -	\$ -	\$ 2,048	\$ 717,043
Special assessments	-	-	-	-	-	-	212,009
Intergovernmental revenue							
Residential market value credit	219	-	-	-	-	-	40,032
Interest received	8	36	-	-	1,990	-	4,345
Lease payments				134,234	497,397		631,631
Miscellaneous revenue	-	-	-	-	-	-	50,000
<b>Total Revenues</b>	<b>6,354</b>	<b>5,232</b>	<b>3,566</b>	<b>134,234</b>	<b>499,387</b>	<b>2,048</b>	<b>1,655,060</b>
<b>Expenditures</b>							
Miscellaneous							
All other - current expenditures	6,460	4,694	1,617	388	556	-	66,368
Debt Service							
Principal	-	-	-	460,000	300,000	-	2,323,501
Interest and fiscal charges	-	-	-	32,915	56,000	27	312,119
Bond issuance costs	-	-	-	-	-	-	36,066
<b>Total Expenditures</b>	<b>6,460</b>	<b>4,694</b>	<b>1,617</b>	<b>493,303</b>	<b>356,556</b>	<b>27</b>	<b>2,738,054</b>
Revenues over (Under) Expenditures	(106)	538	1,949	(359,069)	142,831	2,021	(1,082,994)
<b>Other Financing Sources (Uses)</b>							
Bond proceeds	-	-	-	-	-	-	1,064,142
Operating transfers in	-	-	-	437,421	-	-	1,042,667
Operating transfers out	-	-	-	-	-	-	(665,646)
<b>Total Other Financing     Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>437,421</b>	<b>-</b>	<b>-</b>	<b>1,441,163</b>
Net Change in Fund Balances	(106)	538	1,949	78,352	142,831	2,021	358,169
Fund Balance at Beginning of Year	6,719	13,761	(387)	(78,740)	676,458	(12,943)	1,915,829
Fund Balance at End of Year	<b>\$ 6,613</b>	<b>\$ 14,299</b>	<b>\$ 1,562</b>	<b>\$ (388)</b>	<b>\$ 819,289</b>	<b>\$ (10,922)</b>	<b>\$ 2,273,998</b>

City of Blue Earth  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2011

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 717,043	\$ 404,895	\$ 1,121,938
Franchise	-	271,981	271,981
Special assessments	212,009	293	212,302
Licenses and permits	-	30,026	30,026
Intergovernmental revenue			
Local government aid	-	3,849,352	3,849,352
Residential market value credit	40,032	19,419	59,451
Other state aids and grants	-	100,129	100,129
Police aid	-	33,261	33,261
Fire aid	-	17,397	17,397
Charges for services			
General government	-	183,804	183,804
Waste water	67,374	-	67,374
Police and fire contracts	-	46,058	46,058
Garbage and recycling	-	32,992	32,992
Parks and recreation	-	64,754	64,754
Other public safety	-	131	131
Fines and forfeits	-	860	860
Interest received	4,652	64,718	69,370
Lease payments	631,631	-	631,631
Miscellaneous revenue			
Miscellaneous	50,000	178,790	228,790
Donations	-	22,310	22,310
Total Revenues	<u>1,722,741</u>	<u>5,321,170</u>	<u>7,043,911</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, 2011

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	28,555	28,555
Administration and finance	-	277,998	277,998
Other general government	-	75,700	75,700
Capital outlay	-	12,846	12,846
Public Safety			
Police			
Current expenditures	-	455,712	455,712
Capital outlay	-	7,788	7,788
Fire			
Current expenditures	-	202,570	202,570
Capital outlay	-	7,876	7,876
Public Works			
Streets and highways			
Street maintenance	-	538,497	538,497
Snow and ice removal	-	25,411	25,411
Street lighting	-	58,625	58,625
Street - other capital outlay	-	196,406	196,406
Culture and Recreation			
Library			
Current expenditures	-	190,535	190,535
Senior Center			
Current expenditures	-	62,652	62,652
Capital outlay	-	8,555	8,555
Swimming Pool			
Current expenditures	-	123,316	123,316
Economic Development - current expenditures	-	653,667	653,667
Capital outlay	-	2,286,100	2,286,100
Miscellaneous			
Airport - current expenditures	-	80,460	80,460
Airport - capital outlay	-	2,234,165	2,234,165
Storm water - current expenditures	14,835	-	14,835
All other - current expenditures	66,368	75,179	141,547
All other - capital outlay	-	17,930	17,930
Debt Service			
Principal	2,323,501	6,236	2,329,737
Bond issuance costs	36,066	-	36,066
Interest and fiscal charges	312,119	15,721	327,840
Total Expenditures	<u>2,752,889</u>	<u>7,642,500</u>	<u>10,395,389</u>
Revenues (Under)			
Expenditures	<u>(1,030,148)</u>	<u>(2,321,330)</u>	<u>(3,351,478)</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, 2011

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	<u>Total Nonmajor Governmental Funds</u>	<u>Total Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses):			
Sale of capital assets	-	4,549	4,549
Bond proceeds	1,064,142	-	1,064,142
Operating transfers in	1,042,667	170,318	1,212,985
Operating transfers out	(782,703)	(610,024)	(1,392,727)
Total Other Financing Sources (Uses)	<u>1,324,106</u>	<u>(435,157)</u>	<u>888,949</u>
Net Change in Fund Balances	293,958	(2,756,487)	(2,462,529)
Fund Balance at Beginning of Year	<u>2,035,705</u>	<u>3,494,723</u>	<u>5,530,428</u>
Fund Balance at End of Year	<u>\$ 2,329,663</u>	<u>\$ 738,236</u>	<u>\$ 3,067,899</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, 2011, and have issued our report thereon dated June 15, 2012.

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.

*Eide Bailly LLP*

Mankato, Minnesota  
June 15, 2012



## **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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth (City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 15, 2012. 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 deficiencies, 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 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'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 15, 2012.

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.



Mankato, Minnesota  
June 15, 2012

**Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

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's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. 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, 2011.

*Internal Control Over Compliance*

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 and correct 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.

*Eide Bailly LLP*

Mankato, Minnesota  
June 15, 2012

City of Blue Earth  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2011

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	<u>\$ 2,296,730</u>
<hr/> <i>ENVIRONMENTAL PROTECTION AGENCY</i> <hr/>		
Passed through the State of Minnesota Water Pollution Control Revolving Fund	66.458	<u>393,943</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u><u>\$ 2,690,673</u></u>

**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**

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA number</u>
Airport Improvement	20.106
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee	No
Section B - Financial Statement Findings –	Yes
Section C – Federal Award Findings and Questioned Costs –	None
Section D – Minnesota Legal Compliance Findings -	No

## **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.