



Financial Statements
December 31, 2014

City of Blue Earth

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CITY COUNCIL

Richard Scholtes	Mayor
John Gartzke	Councilor
Dan Brod	Councilor
Glenn Gaylord	Councilor
John Huisman	Councilor
Chelsey Haase	Councilor
Russ Erichsrud	Councilor

ADMINISTRATION

Tim Ibisch	City Administrator/EDA Director
Nancy Thompson	City Clerk
Tom Fletcher	Police Chief
Roger Davis	Fire Chief
Jamison Holland	Public Works Supervisor
Craig Wells	Liquor Manager
Michelle Hall	Fitness Center and Pool Director
Steve Anderson	Building Official
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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth as of December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Blue Earth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely 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 Audit 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 from material misstatement.

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

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

Opinions

In our opinion, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth as of December 31, 2014, 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.

Restatement

As noted in Note 6 to the financial statements, the City discovered it had overstated the amount of previously reported long-term debt in the governmental activities as of December 31, 2013. Accordingly, the City has retroactively restated the previously reported net position of the governmental activities. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considered it to be an essential part of 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Blue Earth's financial statements. The introductory section, and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and the 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. Such information has been subjected to the auditing procedures applied in the audit of the 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

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



Mankato, Minnesota
June 29, 2015

City of Blue Earth
Statement of Net Position
December 31, 2014

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
Assets				
Cash and investments	\$ 4,346,696	\$ 1,321,350	\$ 5,668,046	\$ 2,250,598
Restricted cash and investments				
Economic development	1,018,720	-	1,018,720	52,086
Customer deposits	-	-	-	28,911
Receivables				
Taxes	76,222	-	76,222	-
Special assessments	3,042,677	106,435	3,149,112	487,826
Accounts	152,576	167,435	320,011	382,794
Interest	9,196	-	9,196	-
Notes	891,877	-	891,877	12,871
Due from component unit/city	884,954	-	884,954	375,130
Due from federal and other governments	558,250	-	558,250	-
Prepaid items	-	-	-	273,351
Inventory	-	282,494	282,494	580,763
Land held for resale	131,638	-	131,638	-
Other assets	-	-	-	45,583
Capital assets not being depreciated				
Land	728,312	219,035	947,347	241,741
Construction in progress	79,569	-	79,569	640,860
Capital assets, net of accumulated depreciation				
Road network	20,794,675	-	20,794,675	-
Distribution system	-	-	-	10,383,129
Buildings and infrastructure	5,766,094	5,357,302	11,123,396	-
Equipment	1,184,205	4,595,850	5,780,055	3,046,017
Vehicles	778,124	-	778,124	-
Total assets	<u>40,443,785</u>	<u>12,049,901</u>	<u>52,493,686</u>	<u>18,801,660</u>
Liabilities				
Checks issued in excess of deposits	1,681,388	-	1,681,388	-
Accounts payable	693,862	214,612	908,474	235,541
Other payables	26,870	-	26,870	177,240
Due to component unit/city	375,130	-	375,130	884,954
Accrued vacation and sick leave	1,030	23,894	24,924	-
Accrued salaries and wages	40,578	-	40,578	-
Unearned revenue	-	44,244	44,244	-
Interest payable	110,669	33,411	144,080	-
Liabilities Payable from Restricted Assets:				
Customer deposits payable	-	-	-	28,911
Noncurrent liabilities				
Due within one year	768,073	540,000	1,308,073	372,780
Due in more than one year	10,811,550	4,962,105	15,773,655	4,339,925
Total liabilities	<u>14,509,150</u>	<u>5,818,266</u>	<u>20,327,416</u>	<u>6,039,351</u>
Net Position				
Net investment in capital assets	17,751,356	4,683,067	22,434,423	9,884,846
Restricted				
Debt service	4,645,737	-	4,645,737	-
Other purposes	2,649,293	-	2,649,293	80,997
Unrestricted	<u>888,249</u>	<u>1,548,568</u>	<u>2,436,817</u>	<u>2,796,466</u>
Total net position	<u>\$ 25,934,635</u>	<u>\$ 6,231,635</u>	<u>\$ 32,166,270</u>	<u>\$ 12,762,309</u>

City of Blue Earth
Statement of Activities
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit Business-type Activities
		Charges for Services	Operating Grants and Contributions	Primary Government		Totals	
				Governmental Activities	Business-type Activities		
Primary Government							
Governmental Activities							
General government	\$ 496,878	\$ 148,327	\$ -	\$ (348,551)	\$ -	\$ (348,551)	
Public safety	871,699	57,873	69,086	(744,740)	-	(744,740)	
Streets and highways	1,717,354	68,599	-	(1,648,755)	-	(1,648,755)	
Culture and recreation	507,399	62,898	-	(444,501)	-	(444,501)	
Housing and economic development	893,124	243,705	-	(649,419)	-	(649,419)	
Interest and other charges on long-term debt	622,962	-	-	(622,962)	-	(622,962)	
Total governmental activities	<u>5,109,416</u>	<u>581,402</u>	<u>69,086</u>	<u>(4,458,928)</u>	<u>-</u>	<u>(4,458,928)</u>	
Business-Type Activities							
Sewer	952,895	1,035,616	-	-	82,721	82,721	
Liquor	1,411,463	1,506,518	-	-	95,055	95,055	
Fitness Center	136,819	189,051	-	-	52,232	52,232	
Total business-type activities	<u>2,501,177</u>	<u>2,731,185</u>	<u>-</u>	<u>-</u>	<u>230,008</u>	<u>230,008</u>	
Total Primary Government	<u>\$ 7,610,593</u>	<u>\$ 3,312,587</u>	<u>\$ 69,086</u>	<u>(4,458,928)</u>	<u>230,008</u>	<u>(4,228,920)</u>	
Component Unit							
Electric	\$ 5,541,224	\$ 5,732,490	\$ 77,515				\$ 268,781
Water	803,990	756,284	-				(47,706)
	<u>\$ 6,345,214</u>	<u>\$ 6,488,774</u>	<u>\$ 77,515</u>				<u>\$ 221,075</u>
General Revenues							
Property taxes				2,565,265	-	2,565,265	-
Special assessments				315,844	-	315,844	-
State aid				3,327,289	-	3,327,289	-
Franchise tax				272,138	-	272,138	-
Fees and fines				10,428	-	10,428	-
License and permits				50,143	-	50,143	-
Donations				1,165,000	-	1,165,000	-
Earnings on investments				50,373	1,477	51,850	3,282
Lease payments				34,254	-	34,254	-
Transfers				(30,678)	30,678	-	-
Gain (loss) on fair market value				(1,119,086)	-	(1,119,086)	-
Gain (loss) on sale of assets				(1,550,560)	284	(1,550,276)	(7,626)
Miscellaneous				279,852	(12,498)	267,354	2,608
Total general revenues				<u>5,370,262</u>	<u>19,941</u>	<u>5,390,203</u>	<u>(1,736)</u>
Changes in Net Position				<u>911,334</u>	<u>249,949</u>	<u>1,161,283</u>	<u>219,339</u>
Net Position - Beginning as previously reported				24,653,449	5,981,686	30,635,135	12,542,970
Restatement				369,852	-	369,852	-
Net Position - Beginning, restated				<u>25,023,301</u>	<u>5,981,686</u>	<u>31,004,987</u>	<u>12,542,970</u>
Net Position - Ending				<u>\$ 25,934,635</u>	<u>\$ 6,231,635</u>	<u>\$ 32,166,270</u>	<u>\$ 12,762,309</u>

City of Blue Earth
Balance Sheet – Governmental Funds
December 31, 2014

	General Fund	Economic Development Authority	Gorman Street Project	General Obligation 2014A	General Obligation 2012A	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 1,491,041	\$ -	\$ -	\$ 85,568	\$ 585,946	\$ 2,184,141	\$ 4,346,696
Restricted cash for economic development	-	1,018,720	-	-	-	-	1,018,720
Receivables							
Taxes	31,717	967	-	-	12,592	30,946	76,222
Special assessments	90,950	-	-	1,279,668	562,599	1,109,460	3,042,677
Interest	7,268	1,833	-	-	-	95	9,196
Accounts	59,292	28,781	64,503	-	-	-	152,576
Notes	-	509,852	-	-	-	382,025	891,877
Due from component unit	-	200,000	684,954	-	-	-	884,954
Land held for resale	-	131,638	-	-	-	-	131,638
Due from federal and other governments	-	551,962	-	-	-	6,288	558,250
Total assets	<u>\$ 1,680,268</u>	<u>\$ 2,443,753</u>	<u>\$ 749,457</u>	<u>\$ 1,365,236</u>	<u>\$ 1,161,137</u>	<u>\$ 3,712,955</u>	<u>\$ 11,112,806</u>
Liabilities							
Checks issued in excess of deposits	\$ -	\$ 364,166	\$ 1,103,470	\$ -	\$ -	\$ 213,752	\$ 1,681,388
Accounts payable	77,144	509,664	74,720	200	200	31,934	693,862
Other payables	26,396	296	-	-	-	178	26,870
Due to component unit	5,850	-	-	219,945	81,426	67,909	375,130
Accrued vacation and sick leave	-	1,030	-	-	-	-	1,030
Accrued wages and salaries	39,960	-	-	-	-	618	40,578
Total liabilities	<u>149,350</u>	<u>875,156</u>	<u>1,178,190</u>	<u>220,145</u>	<u>81,626</u>	<u>314,391</u>	<u>2,818,858</u>
Deferred Inflows of Resources							
Unavailable revenue	<u>114,809</u>	<u>610,689</u>	<u>-</u>	<u>1,279,668</u>	<u>571,282</u>	<u>1,510,150</u>	<u>4,086,598</u>
Fund Balances							
Nonspendable	-	131,638	-	-	-	-	131,638
Restricted	-	518,171	-	-	508,229	2,118,502	3,144,902
Assigned	938,000	308,099	-	-	-	-	1,246,099
Unassigned	478,109	-	(428,733)	(134,577)	-	(230,088)	(315,289)
Total fund balances	<u>1,416,109</u>	<u>957,908</u>	<u>(428,733)</u>	<u>(134,577)</u>	<u>508,229</u>	<u>1,888,414</u>	<u>4,207,350</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,680,268</u>	<u>\$ 2,443,753</u>	<u>\$ 749,457</u>	<u>\$ 1,365,236</u>	<u>\$ 1,161,137</u>	<u>\$ 3,712,955</u>	<u>\$ 11,112,806</u>

The notes to the financial statements are an integral part of the financial statements

City of Blue Earth
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 December 31, 2014

Total Fund Balances for Governmental Funds		\$ 4,207,350
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$42,908,400 and the accumulated depreciation is \$13,577,421.</p>		29,330,979
<p>Some of the City's receivables 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 inflows in the funds.</p>		4,086,598
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$110,669.</p>		(110,669)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:</p>		
General obligation bonds payable	\$ 11,357,950	
Note payable	<u>142,772</u>	
		(11,500,722)
<p>A premium on the issuance of long-term debt is amortized over the term of the debt. The total premium less the accumulated amortization is \$78,901.</p>		<u>(78,901)</u>
Total Net Position for Governmental Activities		<u><u>\$ 25,934,635</u></u>

City of Blue Earth
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2014

	General Fund	Economic Development Authority	Gorman Street Project	General Obligation 2014A	General Obligation 2012A	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 469,629	\$ 730	\$ -	\$ -	\$ 225,341	\$ 511,994	\$ 1,207,694
Franchise taxes	272,138	-	-	-	-	-	272,138
Special assessments	3,928	-	-	85,569	61,652	164,695	315,844
Fees and fines	10,428	-	-	-	-	-	10,428
Licenses and permits	50,143	-	-	-	-	-	50,143
State aid and grants	1,972,840	-	131,531	-	-	-	2,104,371
Federal grants	-	993,050	-	-	-	198,954	1,192,004
Charges for services	231,137	243,705	-	-	-	106,560	581,402
Interest earnings	45,789	784	-	-	2,297	1,503	50,373
Rent payments	-	34,254	-	-	-	-	34,254
Donations	-	1,165,000	-	-	-	-	1,165,000
Miscellaneous	144,068	23,229	499	-	-	33,155	200,951
Total revenue	<u>3,200,100</u>	<u>2,460,752</u>	<u>132,030</u>	<u>85,569</u>	<u>289,290</u>	<u>1,016,861</u>	<u>7,184,602</u>
Expenditures							
Current							
General government	405,116	-	-	-	-	-	405,116
Capital outlay	7,140	-	-	-	-	-	7,140
Public safety	735,404	-	-	-	-	-	735,404
Capital outlay	108,983	-	-	-	-	-	108,983
Public works	844,037	-	-	-	-	-	844,037
Capital outlay	47,223	-	1,669,501	-	-	-	1,716,724
Culture and recreation	399,707	-	-	-	-	-	399,707
Economic development	-	267,632	-	-	-	22,023	289,655
Capital outlay	-	3,948,266	-	-	-	11,655	3,959,921
Storm water	6,120	-	-	-	-	-	6,120
Airport	-	-	-	-	-	95,719	95,719
Capital outlay	-	-	-	-	-	20,757	20,757
Miscellaneous	82,540	-	-	201	650	83,297	166,688
Debt Services							
Principal	7,110	-	-	-	1,688,378	530,698	2,226,186
Bond issuance costs	-	-	73,759	-	-	-	73,759
Interest and other charges	6,416	-	1,353	219,945	189,513	142,043	559,270
Total expenditures	<u>2,649,796</u>	<u>4,215,898</u>	<u>1,744,613</u>	<u>220,146</u>	<u>1,878,541</u>	<u>906,192</u>	<u>11,615,186</u>
Excess (deficiency) of revenues over (under) expenditures	<u>550,304</u>	<u>(1,755,146)</u>	<u>(1,612,583)</u>	<u>(134,577)</u>	<u>(1,589,251)</u>	<u>110,669</u>	<u>(4,430,584)</u>
Other Financing Sources (Uses)							
Sale of assets	7,111	290,936	-	-	-	1,900	299,947
Bond issuance	-	-	2,740,920	-	-	-	2,740,920
Premium on bond issuance	-	-	78,901	-	-	-	78,901
Transfers in	10,132	993,050	-	-	-	277,123	1,280,305
Transfers out	(1,310,983)	-	-	-	-	-	(1,310,983)
Total other financing sources (uses)	<u>(1,293,740)</u>	<u>1,283,986</u>	<u>2,819,821</u>	<u>-</u>	<u>-</u>	<u>279,023</u>	<u>3,089,090</u>
Net change in fund balances	(743,436)	(471,160)	1,207,238	(134,577)	(1,589,251)	389,692	(1,341,494)
Fund Balances - Beginning of Year	<u>2,159,545</u>	<u>1,429,068</u>	<u>(1,635,971)</u>	<u>-</u>	<u>2,097,480</u>	<u>1,498,722</u>	<u>5,548,844</u>
Fund Balances - End of Year	<u>\$ 1,416,109</u>	<u>\$ 957,908</u>	<u>\$ (428,733)</u>	<u>\$ (134,577)</u>	<u>\$ 508,229</u>	<u>\$ 1,888,414</u>	<u>\$ 4,207,350</u>

City of Blue Earth

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended December 31, 2014

Total Net Change in Fund Balances - Governmental Funds \$ (1,341,494)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$2,463,532) exceeds depreciation expense (\$1,048,321) in the current period.	1,415,211
Sale of capital asset gross proceeds are reported as revenue in the governmental funds. However, in the statement of activities, only the gain or loss is recorded. The difference between the gross proceeds and the gain or loss is the remaining net book value of the assets sold. The gain or loss on the assets sold was \$36,386.	(36,386)
In governmental funds, issuance of new debt is reported as a source of financing in the amount of 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 position.	(2,740,920)
Governmental funds report the effect of premiums and discounts 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.	(78,901)
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 \$1,350,444, due from component unit increased by \$100,000, and deferred notes receivable increased by \$7,127.	1,457,571
The governmental funds report repayment of long-term debt principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	2,226,186
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 \$110,669 and \$120,736 of accrued interest at December 31, 2014 and 2013, respectively.	10,067
Change in Net Position of Governmental Activities	<u><u>\$ 911,334</u></u>

City of Blue Earth
Statement of Net Position – Proprietary Funds
December 31, 2014

	Sewer	Liquor	Fitness Center	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 605,250	\$ 537,941	\$ 178,159	\$ 1,321,350
Receivables				
Special assessments	106,435	-	-	106,435
Accounts	166,466	969	-	167,435
Inventory	-	282,494	-	282,494
Total current assets	<u>878,151</u>	<u>821,404</u>	<u>178,159</u>	<u>1,877,714</u>
Noncurrent Assets				
Capital assets not being depreciated				
Land	119,035	100,000	-	219,035
Capital assets, net of accumulated depreciation				
Buildings and infrastructure	4,346,236	390,232	620,834	5,357,302
Equipment	4,507,628	47,509	40,713	4,595,850
Total noncurrent assets	<u>8,972,899</u>	<u>537,741</u>	<u>661,547</u>	<u>10,172,187</u>
Total assets	<u>9,851,050</u>	<u>1,359,145</u>	<u>839,706</u>	<u>12,049,901</u>
Liabilities				
Current Liabilities				
Accounts payable	83,287	125,961	5,364	214,612
Accrued salaries and wages	12,084	7,532	4,278	23,894
Unearned revenue	44,244	-	-	44,244
Bonds payable - current	540,000	-	-	540,000
Interest payable	27,503	-	5,908	33,411
Total current liabilities	<u>707,118</u>	<u>133,493</u>	<u>15,550</u>	<u>856,161</u>
Noncurrent Liabilities				
Bonds payable	4,499,120	-	450,000	4,949,120
Bond Premium	-	-	12,985	12,985
Total noncurrent liabilities	<u>4,499,120</u>	<u>-</u>	<u>462,985</u>	<u>4,962,105</u>
Total liabilities	<u>5,206,238</u>	<u>133,493</u>	<u>478,535</u>	<u>5,818,266</u>
Net Position				
Net investment in capital assets	3,933,779	537,741	211,547	4,683,067
Unrestricted	711,033	687,911	149,624	1,548,568
Total Net Position	<u>\$ 4,644,812</u>	<u>\$ 1,225,652</u>	<u>\$ 361,171</u>	<u>\$ 6,231,635</u>

City of Blue Earth
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended December 31, 2014

	Sewer	Liquor	Fitness Center	Total
Operating Revenues				
Service and fees	\$ 1,035,616	\$ -	\$ 189,051	\$ 1,224,667
Sales	-	1,506,518	-	1,506,518
Total operating revenues	<u>1,035,616</u>	<u>1,506,518</u>	<u>189,051</u>	<u>2,731,185</u>
Operating Expenses				
Salaries and benefits	222,149	192,683	55,832	470,664
Costs of goods sold	-	1,118,914	-	1,118,914
Supplies	22,531	3,925	17,171	43,627
Utilities	95,764	17,956	17,636	131,356
Other services and charges	49,511	7,623	2,267	59,401
Repairs and maintenance	38,503	11,339	9,739	59,581
Depreciation	402,635	20,372	16,815	439,822
Miscellaneous	40,252	38,651	11,252	90,155
Total operating expenses	<u>871,345</u>	<u>1,411,463</u>	<u>130,712</u>	<u>2,413,520</u>
Operating income	<u>164,271</u>	<u>95,055</u>	<u>58,339</u>	<u>317,665</u>
Nonoperating Revenues (Expenses)				
Miscellaneous	(128)	-	-	(128)
Interest and investment revenue	957	520	-	1,477
Interest expense	(81,550)	-	(6,107)	(87,657)
Bond issuance costs	-	-	(12,370)	(12,370)
Total nonoperating revenues (expenses)	<u>(80,721)</u>	<u>520</u>	<u>(18,477)</u>	<u>(98,678)</u>
Income before other financing sources	<u>83,550</u>	<u>95,575</u>	<u>39,862</u>	<u>218,987</u>
Other financing sources (uses)				
Gain (loss) on sale of capital assets	284	-	-	284
Transfers in	40,810	-	-	40,810
Transfers out	-	(10,132)	-	(10,132)
Total other financing sources (uses)	<u>41,094</u>	<u>(10,132)</u>	<u>-</u>	<u>30,962</u>
Change in net position	124,644	85,443	39,862	249,949
Net Position - Beginning	<u>4,520,168</u>	<u>1,140,209</u>	<u>321,309</u>	<u>5,981,686</u>
Net Position - Ending	<u>\$ 4,644,812</u>	<u>\$ 1,225,652</u>	<u>\$ 361,171</u>	<u>\$ 6,231,635</u>

City of Blue Earth
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2014

	Sewer	Liquor	Fitness Center	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,433,876	\$ 1,506,840	\$ 189,051	\$ 3,129,767
Payments to employees	(218,365)	(200,283)	(55,364)	(474,012)
Payments to suppliers	(200,461)	(1,186,221)	(343,711)	(1,730,393)
Net cash provided by (used for) operating activities	<u>1,015,050</u>	<u>120,336</u>	<u>(210,024)</u>	<u>925,362</u>
Cash Flows from Noncapital Financing Activities				
Transfers from governmental funds	40,810	-	-	40,810
Transfers to governmental funds	-	(10,132)	-	(10,132)
Net cash provided by (used for) noncapital financing activities	<u>40,810</u>	<u>(10,132)</u>	<u>-</u>	<u>30,678</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of long-term debt	-	-	450,615	450,615
Payments on long-term debt	(527,685)	-	-	(527,685)
Purchase of capital assets	(424,583)	(7,121)	(285,283)	(716,987)
Interest paid on debt	(84,970)	-	(199)	(85,169)
Net cash provided by (used for) capital and related financing activities	<u>(1,037,238)</u>	<u>(7,121)</u>	<u>165,133</u>	<u>(879,226)</u>
Cash Flows from Investing Activities				
Earnings on investments and cash	957	520	-	1,477
Net change in cash and cash equivalents	19,579	103,603	(44,891)	78,291
Cash and cash equivalents - January 1	<u>585,671</u>	<u>434,338</u>	<u>223,050</u>	<u>1,243,059</u>
Cash and cash equivalents - December 31	<u>\$ 605,250</u>	<u>\$ 537,941</u>	<u>\$ 178,159</u>	<u>\$ 1,321,350</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 164,271	\$ 95,055	\$ 58,339	\$ 317,665
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	402,635	20,372	16,815	439,822
Changes in assets and liabilities				
Accounts receivable	1,399	322	-	1,721
Inventory	-	(7,448)	-	(7,448)
Special assessments and taxes	1,988	-	-	1,988
Due from other governmental agency	394,873	-	-	394,873
Accounts payable	46,100	19,635	(285,646)	(219,911)
Accrued expense	3,784	(7,600)	468	(3,348)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,015,050</u>	<u>\$ 120,336</u>	<u>\$ (210,024)</u>	<u>\$ 925,362</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 significant City accounting policies are described below.

A. 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 the 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 position 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.

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 (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) 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 *Economic Development Authority (EDA)* special revenue fund which accounts for activity of the City's EDA.

The *Gorman Street* capital project fund which accounts for the Gorman Street project.

The *General Obligation 2014A* debt service fund provides for the debt service of the 2014A G.O. Improvement Bonds.

The *General Obligation 2012A* debt service fund provides for the debt service of the 2012A G.O. Improvement Bonds and the 2012A G.O. Refunding Bonds.

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 facility.

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 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 (a) charges to customers or applicants for goods, services, or privileges provided, (b) operating grants and contributions, and (c) 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.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Fund 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. Restricted Cash

Restricted cash includes certain resources in the Economic Development Authority fund for the North Industrial Park project in accordance with the grant agreement.

3. 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.

4. 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 in the fund financial statements.

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.

5. Contract Negotiation Expenses

The component unit’s 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, 2014, was \$155,810 and is presented as a prepaid item on the statement of net position.

6. Land Held for Resale

Land held for resale in the governmental funds consists of industrial lots accounted for in the Economic Development Authority fund. All land held for resale is valued at the lower of cost or market. During the year the city recognized a fair market value loss of \$1,109,086 in relations to the lad held for resale.

7. 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 unit, 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	20-33
General equipment	5-20
Vehicles	7-20
Land	Not Depreciated

8. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense / expenditure) until then. The government has no items that qualify for reporting purposes in this category.

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

9. Vacation, Sick Leave, and Compensated Absences

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 receive 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.

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.

10. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued is reported as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances 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.

11. Fund Equity and Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements and proprietary fund statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first.

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. The City has delegated this authority to the City Administrator.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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, 2014, 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 City 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 (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) 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, 2014, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
Special Revenue Funds		
EDA	\$ 4,126,701	Greater than anticipated revenues, available fund balance, and transfers from the other funds.
Airport	42,435	Greater than anticipated revenues
Housing Loan Fund	25,044	Greater than anticipated revenues
Debt Service Funds		
General Obligation 2012A	1,538,407	Greater than anticipated revenues and available fund balance
General Obligation 2005B	2,412	Greater than anticipated revenues
General Obligation 2006B	8,491	Greater than anticipated revenues and available fund balance
General Obligation 2012	67,437	Greater than anticipated revenues and available fund balance

Budgets were not established for the General Obligation 2014A, TIF 7-1, and the Gorman Street project funds.

C. Deficit Fund Equity

The following governmental funds had deficit fund equity at December 31, 2014:

Special Revenue Fund	
Airport	\$ (222,012)
Debt Service Funds	
General Obligation 2005B	(3,273)
General Obligation 2014A	(134,577)
TIF 6-1	(4,803)
Capital Project	
Gorman Street Project	<u>(428,733)</u>
 Total	 <u><u>\$ (793,398)</u></u>

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

Note 3 - Detailed Notes on All Funds

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, 2014, none of the City’s bank balances were exposed to custodial credit risk.

2. Investments

As of December 31, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Certificates of deposit	\$ 700,000	1.04
Municipal bonds	136,766	0.70
Government bonds	413,654	1.36
Total Fair Value	<u>\$ 1,250,420</u>	
Portfolio weighted average maturity		1.03

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 Statute. The City has no investment policy that would further limit its investment choices. As of December 31, 2014, the City's Government and Municipal bonds were rated AAA and AA1 by Moody. 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: American Express (15.99%), GE Capital (15.99%), Ally Bank (15.99%), and World Financial Network Bank (8.0%); Government bonds issued by: Federal Home Loan Mtg. Corp. (33.80%); and in Municipal bonds issued by: Linn County Iowa (6.22%).

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, 2014, none of the City's investments were exposed to custodial credit risk.

B. Receivables

The City's Housing Loan fund had notes receivable of \$381,868 at year-end. A balance of \$55,998 represents Housing and Urban Development (HUD) loans due in monthly installments with due dates ranging from 2015 to 2027 with a rate of interest at 3.25 percent. All loans are secured by City liens. The remaining balances of \$325,870 represents deferred HUD loans with no interest charged with payments due when the owner sells, transfers, or otherwise conveys the real estate. If the owner does not sell, transfer, or convey the property within 10 or 15 years, depending upon the individual loan agreements of the grant, the owner shall not have to repay any portion of the grant. Any potential repayment on the loans shall be made on a prorated basis. These loans were made in amounts ranging from \$475 to \$22,504 on various dates during 2011 through 2014 and are secured by liens on the property.

The City's EDA fund had notes receivable of \$509,852 at year-end. Of this amount \$309,395 represents loans due from businesses in monthly installments with due dates ranging from 2015 to 2030 with rates of interest ranging from 4 percent to 5.5 percent. A balance of \$18,337 represents Small City Development Program (SCDP) loans due in monthly installments and range from 25 payments to 52 payments remaining with a rate of interest at 3 percent. All loans are secured by related real estate. An additional amount of \$15,000 represents a forgivable loan that requires interest only payments at a rate of 3.25 percent. This loan was made during 2012, 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 forgivable deferred loans with no interest charged. If the properties are not sold or transferred within various dates ranging from 2017 to 2021, the balances will be forgiven. These loans are secured by property.

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

	Unavailable	Unearned
Special assessments not yet due (general fund)	\$ 64,205	\$ -
Special assessments not yet due (debt service funds)	2,915,797	-
Delinquent property taxes and special assessments (general fund)	50,604	-
Delinquent property taxes and special assessments (debt service funds)	63,246	-
Delinquent property taxes (special revenue funds)	1,025	-
Due from component unit (special revenue funds)	100,000	-
Notes receivable (special revenue funds)	891,721	-
	\$ 4,086,598	\$ -

The following receivables are not expected to be collectible within one year: \$2,853,201 of special assessments not yet due, \$100,000 of due from component unit, and \$833,219 of notes receivable.

C. Capital Assets

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

General government	\$ 5,721
Public safety	123,329
Public works	542,954
Airport	212,164
Culture and recreation	124,420
Housing and economic development	39,733
Total Depreciation Expense	\$ 1,048,321

Capital asset activity for the year ended December 31, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 664,812	\$ 63,500	\$ -	\$ 728,312
Construction in progress	2,210,455	79,569	2,210,455	79,569
Total Capital Assets, Not Being Depreciated	<u>2,875,267</u>	<u>143,069</u>	<u>2,210,455</u>	<u>807,881</u>
Capital Assets, Being Depreciated				
Buildings	7,555,819	900,925	31,803	8,424,941
Road network	26,634,857	3,521,776	-	30,156,633
Equipment	2,164,395	12,200	162,791	2,013,804
Vehicles	1,617,237	96,017	208,113	1,505,141
Total Capital Assets, Being Depreciated	<u>37,972,308</u>	<u>4,530,918</u>	<u>402,707</u>	<u>42,100,519</u>
Less Accumulated Depreciation for				
Buildings	2,497,966	184,728	23,847	2,658,847
Road network	8,683,493	678,465	-	9,361,958
Equipment	841,695	122,265	134,361	829,599
Vehicles	872,267	62,863	208,113	727,017
Total Accumulated Depreciation	<u>12,895,421</u>	<u>1,048,321</u>	<u>366,321</u>	<u>13,577,421</u>
Total Capital Assets, Being Depreciated, Net	<u>25,076,887</u>	<u>3,482,597</u>	<u>36,386</u>	<u>28,523,098</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,952,154</u>	<u>\$ 3,625,666</u>	<u>\$ 2,246,841</u>	<u>\$ 29,330,979</u>

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

Sewer	\$ 402,635
Fitness center	16,815
Liquor	<u>20,372</u>
Total Depreciation Expense	<u>\$ 439,822</u>

City of Blue Earth
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	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 219,035	\$ -	\$ -	\$ 219,035
Construction in progress	286,453	-	286,453	-
Total Capital Assets, Not Being Depreciated	<u>505,488</u>	<u>-</u>	<u>286,453</u>	<u>219,035</u>
Capital Assets, Being Depreciated				
Buildings and infrastructure	9,556,141	551,951	-	10,108,092
Equipment	5,505,926	451,489	197,413	5,760,002
Total Capital Assets, Being Depreciated	<u>15,062,067</u>	<u>1,003,440</u>	<u>197,413</u>	<u>15,868,094</u>
Less Accumulated Depreciation for				
Buildings and infrastructure	4,445,135	305,655	-	4,750,790
Equipment	1,227,398	134,167	197,413	1,164,152
Total Accumulated Depreciation	<u>5,672,533</u>	<u>439,822</u>	<u>197,413</u>	<u>5,914,942</u>
Total Capital Assets, Being Depreciated, Net	<u>9,389,534</u>	<u>563,618</u>	<u>-</u>	<u>9,953,152</u>
Business-Type Activities Capital Assets, Net	<u>\$ 9,895,022</u>	<u>\$ 563,618</u>	<u>\$ 286,453</u>	<u>\$ 10,172,187</u>
 Component Unit:				
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 141,741	\$ 100,000	\$ -	\$ 241,741
Construction in progress	61,827	581,479	2,446	640,860
Total Capital Assets, Not Being Depreciated	<u>203,568</u>	<u>681,479</u>	<u>2,446</u>	<u>882,601</u>
Capital Assets, Being Depreciated				
Production equipment	4,238,428	-	25,030	4,213,398
Transmission equipment	2,515,879	-	-	2,515,879
Distribution equipment	16,266,620	1,168,144	-	17,434,764
General equipment	1,460,011	155,053	10,153	1,604,911
Total Capital Assets, Being Depreciated	<u>24,480,938</u>	<u>1,323,197</u>	<u>35,183</u>	<u>25,768,952</u>
Less Accumulated Depreciation for				
Production equipment	2,426,815	123,635	17,405	2,533,045
Transmission equipment	1,993,724	38,696	-	2,032,420
Distribution equipment	6,581,908	469,727	-	7,051,635
General equipment	643,044	89,814	10,152	722,706
Total Accumulated Depreciation	<u>11,645,491</u>	<u>721,872</u>	<u>27,557</u>	<u>12,339,806</u>
Total Capital Assets, Being Depreciated, Net	<u>12,835,447</u>	<u>601,325</u>	<u>7,626</u>	<u>13,429,146</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,039,015</u>	<u>\$ 1,282,804</u>	<u>\$ 10,072</u>	<u>\$ 14,311,747</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. The original principle amount to the General Obligation bonds previously issued by the city was \$24,662,699. General obligation bonds and notes payable currently outstanding are as follows:

<u>General Obligation Notes and Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amounts as of December 31, 2014</u>
G.O. Improvement Bonds of 2005, Series B of \$90,000, due in annual installments of \$10,000 through February 1, 2016.	4.0%	\$ 20,000
G.O. Improvement Bonds of 2006, Series C of \$224,000, due in annual installments of \$25,000 to \$30,000 through February 1, 2018.	4.3% to 4.5%	105,000
G.O. Bonds of 2009, Series A of \$1,630,000, due in annual installments of \$115,000 to \$155,000 through February 1, 2022.	1.3% to 3.8%	1,070,000
G.O. Bonds of 2010, Series A of \$2,140,000, due in annual installments of \$80,140 to \$109,685 through February 1, 2026. This is the City's share of the bonds with the component unit.	.7% to 3.5%	1,105,345
G.O. Refunding Bonds of 2011, Series A of \$1,440,000, due in annual installments of \$34,558 to \$181,878 through April 1, 2020. This is the City's share of the bonds with the component unit.	3.0% to 4.8%	434,667
G.O. Improvement Bonds of 2012, Series A of \$2,395,000, due in annual installments of \$118,380 to \$160,659 through February 1, 2028. This is the City's share of the bonds with the component unit.	2.0% to 2.7%	1,906,768
G.O. Refunding Bonds of 2012, Series A, of \$1,560,000, due in annual installments of \$50,000 to \$190,000 through February 1, 2028.	2.0% to 2.7%	2,185,000
G.O. Refunding Bonds of 2013, Series A, of \$990,000, due in annual installments of \$65,000 to \$85,000 through February 1, 2027.	0.6% to 2.5%	925,000
G.O. Improvement Bonds of 2013, Series B, of \$1,800,000 due in annual installments of \$55,250 to \$110,500 through February 1, 2029.	2.3% to 3.8%	1,330,250
G.O. Equip Certificate Bonds of 2013, Series B, of \$235,000, due in annual installments of \$45,000 to \$50,000 through February 1, 2019.	3.0%	235,000
G.O. Improvement Bonds of 2014, Series A, of \$3,765,000, due in annual installments of \$152,880 to \$222,040 through February 1, 2030. This is the City's share of the bonds with the component unit.	2.0% to 3.0%	2,740,920
G.O. Tax Abatement Bonds of 2014, Series A, of \$450,000, due in annual installments of \$25,000 to \$35,000 through February 1, 2030.	2.0% to 3.0%	450,000
Note Payable with the Minnesota Public Facilities Authority of \$760,000, due in annual installments of \$39,000 to \$45,000 through August 20, 2026.	1.4%	506,000

City of Blue Earth
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Note Payable with the Minnesota Public Facilities Authority of \$741,656, due in annual installments of \$31,000 to \$43,000 through August 20, 2029.	2.6%	553,000
Note Payable with the Minnesota Public Facilities Authority of \$1,987,000, due in annual installments of \$111,000 to \$129,000 through August 20, 2025.	1.5%	1,318,000
Note Payable with the Minnesota Public Facilities Authority of \$590,000, due in annual installments of \$36,000 to \$42,000 through August 20, 2026.	2.6%	464,000
Note Payable with the Minnesota Public Facilities Authority of \$394,873, due in annual installments of \$11,120 to \$30,000 through August 20, 2028.	1.2%	371,120
Note Payable with the Minnesota Public Facilities Authority of \$3,290,170, due in annual installments of \$182,000 to \$194,000 through August 20, 2020.	1.3%	1,127,000
USDA Promissory Note of \$180,000, due in annual installments of \$2,544 to \$13,100 through February 26, 2029.	4.0%	<u>142,772</u>
Total General Obligation Bonds		<u>\$ 16,989,842</u>

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

Year Ending December 31	Governmental Activities		Business-type Activities		Discretely Presented Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 768,073	\$ 288,814	\$ 540,000	\$ 381,641	\$ 372,780	\$ 99,410
2016	906,353	267,916	495,000	352,187	461,839	89,906
2017	1,436,135	296,993	502,000	373,768	472,033	80,334
2018	864,969	207,166	508,000	69,171	392,401	70,385
2019	736,899	188,435	519,000	61,425	267,943	62,619
2020-2024	3,513,692	702,249	1,921,000	199,291	1,186,807	216,833
2025-2029	3,052,561	231,279	969,120	53,674	844,120	65,236
2030	222,040	3,331	35,000	525	82,960	1,244
Total	<u>\$ 11,500,722</u>	<u>\$ 2,186,183</u>	<u>\$ 5,489,120</u>	<u>\$ 1,491,682</u>	<u>\$ 4,080,883</u>	<u>\$ 685,967</u>

The balance of the long-term debt held by the discretely presented component unit is \$3,778,950 in the water fund with interest rates ranging from .4% to 3.75% and are payable through February 2030. The electric fund's portion of the long-term debt is \$301,933 with interest rates at 1.68% and are payable through May 2018.

Changes in Long-Term Liabilities. During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	Previously Reported Balance January 1	Restatement	Restated Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities							
General obligation bonds	\$ 11,205,960	\$ (369,852)	\$ 10,836,108	\$ 2,740,920	\$ 2,219,078	\$ 11,357,950	\$ 760,648
Note payable	149,880	-	149,880	-	7,108	142,772	7,425
Bond premium	-	-	-	78,901	-	78,901	-
Governmental activity Long-term liabilities	<u>\$ 11,355,840</u>	<u>\$ (369,852)</u>	<u>\$ 10,985,988</u>	<u>\$ 2,819,821</u>	<u>\$ 2,226,186</u>	<u>\$ 11,579,623</u>	<u>\$ 768,073</u>
Refunding bonds included in governmental activities	<u>\$ 3,114,225</u>	<u>\$ -</u>	<u>\$ 3,114,225</u>	<u>\$ -</u>	<u>\$ 269,558</u>	<u>\$ 2,844,667</u>	<u>\$ 281,878</u>
Business-Type Activities							
Compensated absences	\$ 17,668	\$ -	\$ 17,668	\$ -	\$ -	\$ 17,668	\$ -
Bond premium	-	-	-	12,985	-	12,985	-
G.O. revenue bonds	5,566,805	-	5,566,805	450,000	527,685	5,489,120	540,000
Business-type activity Long-term liabilities	<u>\$ 5,584,473</u>	<u>\$ -</u>	<u>\$ 5,584,473</u>	<u>\$ 462,985</u>	<u>\$ 527,685</u>	<u>\$ 5,519,773</u>	<u>\$ 540,000</u>

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Discretely Presented Component Unit:					
G.O. revenue bonds	\$ 3,433,370	\$ 1,024,080	\$ 376,567	\$ 4,080,883	\$ 372,780
Revenue refunding bonds	160,000	-	160,000	-	-
Business-type activity Long-term liabilities	<u>\$ 3,593,370</u>	<u>\$ 1,024,080</u>	<u>\$ 536,567</u>	<u>\$ 4,080,883</u>	<u>\$ 372,780</u>
Refunding bonds included in component unit	<u>\$ 230,775</u>	<u>\$ -</u>	<u>\$ 170,442</u>	<u>\$ 60,333</u>	<u>\$ 8,122</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,410,879. The computed legal debt margin on December 31, 2014, equals \$4,268,107.

E. Inter-Fund Balances and Transfers

For joint projects, the City incurs all the costs up front and then is reimbursed by the component unit when the project is complete and bonded for. The amount of constructions costs the City has paid on the component unit's behalf as of December 31, 2014 is \$684,954.

For joint projects, only the City has the statutory authority to assess property owners a share of the project. The City assesses the City's and component unit's project costs. For ease, the City pays the component unit their entire portion of the assessments in the year of certification. The amount of special assessments the City owes the component unity as of December 31, 2014 is \$375,130.

The City sold the component unit land on account during 2014 for \$100,000. As part of the sale agreement, the component unit pledged to pay the City an additional \$100,000 when the land is developed.

Inter-fund transfers for the year ended December 31, 2014, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>				<u>Total</u>
	<u>General Fund</u>	<u>Enterprise Fund - Sewer</u>	<u>Economic Development Authority</u>	<u>Other Governmental Funds</u>	
General Fund	\$ -	\$ 40,810	\$ 993,050	\$ 277,123	\$ 1,310,983
Enterprise Fund - Liquor	10,132	-	-	-	10,132
Total	<u>\$ 10,132</u>	<u>\$ 40,810</u>	<u>\$ 993,050</u>	<u>\$ 277,123</u>	<u>\$ 1,321,115</u>

Purpose for Inter-fund Transfers:

- The liquor fund transferred funds to be used for operations in the general fund.
- The general fund transferred funds to the enterprise sewer fund and the other governmental funds to aid in the payment of bonds and notes.
- The general fund also transferred funds to the economic development authority to help finance the north industrial park project.

F. Fund Balances and Restricted for Other Purposes Net Position

Fund Balances as of December 31, 2014:

	General Fund	Economic Development Authority	Gorman Street Project	General Obligation 2014A	General Obligation 2006D	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Land inventory	\$ -	\$ 131,638	\$ -	\$ -	\$ -	\$ -	\$ 131,638
Restricted							
Debt service	-	-	-	-	508,229	1,419,863	1,928,092
Economic development	-	522,459	-	-	-	698,639	1,221,098
Total Restricted	-	522,459	-	-	508,229	2,118,502	3,149,190
Assigned							
Special Purpose	-	43,811	-	-	-	-	43,811
Industrial Park	-	260,000	-	-	-	-	260,000
Park and recreation	28,000	-	-	-	-	-	28,000
Public safety	600,000	-	-	-	-	-	600,000
Public works	310,000	-	-	-	-	-	310,000
Total Assigned	938,000	303,811	-	-	-	-	1,241,811
Unassigned	478,109	-	(428,733)	(134,577)	-	(230,088)	(315,289)
Total Fund Balance	<u>\$ 1,416,109</u>	<u>\$ 957,908</u>	<u>\$ (428,733)</u>	<u>\$ (134,577)</u>	<u>\$ 508,229</u>	<u>\$ 1,888,414</u>	<u>\$ 4,207,350</u>

Balances in Net Position Restricted for Other Purposes as of December 31, 2014:

	Amount
Restricted for EDA	\$ 1,568,597
Restricted for Airport	56
Restricted for Housing loan	1,080,640
Total	<u>\$ 2,649,293</u>

Note 4 - Franchise Fee

During 1994, the Board of Public Works and the City of Blue Earth agreed to a 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 2014 was \$202,765.

Note 5 - 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.

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

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary. PEPFF members were required to contribute 9.60 percent of their annual covered salary. The City of Blue Earth is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members, 7.25 percent for Coordinated Plan members, 14.40 percent for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$64,454, \$101,540, and \$95,353, respectively. Component unit contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$58,733, \$59,257, \$56,208, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$37,809, \$38,159, and \$34,449, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 6 - 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. 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. 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.

C. Commitments

The City has the following ongoing construction commitment:

<u>Project</u>	<u>Contracted Total Cost</u>	<u>Costs Incurred</u>	<u>Commitment to Complete</u>
North Industrial Park	\$ 2,190,451	\$ 1,846,332	\$ 344,119

D. Restatement

During the year, the City discovered it had overstated the amount of previously reported long-term debt in the governmental activities as of December 31, 2013. Accordingly, the City has retroactively restated the previously reported net position of the governmental activities by \$369,852.

E. Subsequent Event

Subsequent to year end, the component unit borrowed \$650,360 for the emergency well refurbishing program and the new generation project. The loan is to be repaid over 60 months at 2% interest.



Required Supplementary Information
December 31, 2014

City of Blue Earth

City of Blue Earth
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes				
Property	\$ 1,151,425	\$ 1,151,425	\$ 469,629	\$ (681,796)
Franchise	292,075	292,075	272,138	(19,937)
Special assessments	1,000	1,000	3,928	2,928
Licenses and permits	27,293	27,293	50,143	22,850
Intergovernmental revenue				
Local government aid	1,746,546	1,746,546	1,774,258	27,712
Residential market value credit	-	-	628	628
Other state aids and grants	92,693	92,693	128,868	36,175
Police aid	31,970	31,970	38,080	6,110
Fire aid	27,712	27,712	31,006	3,294
Charges for services				
General government	5,720	5,720	6,314	594
Police and fire contracts	42,108	42,108	57,873	15,765
Garbage and recycling	32,430	32,430	35,453	3,023
Parks and recreation	72,800	72,800	62,898	(9,902)
Storm water	-	-	68,599	68,599
Fines and forfeits	2,700	2,700	10,428	7,728
Interest earnings	50,000	50,000	45,789	(4,211)
Miscellaneous revenue				
Rental	22,724	22,724	21,579	(1,145)
Miscellaneous	23,600	23,600	98,578	74,978
SCORE	9,300	9,300	19,302	10,002
Donations	-	-	4,609	4,609
Total revenues	<u>3,632,096</u>	<u>3,632,096</u>	<u>3,200,100</u>	<u>(431,996)</u>
Expenditures				
General government				
Mayor and council	25,468	25,468	26,976	(1,508)
Administration and finance	303,724	303,724	297,590	6,134
Other general government	79,517	79,517	80,550	(1,033)
Capital outlay	16,000	16,000	7,140	8,860
Public safety				
Police				
Current expenditures	534,478	534,478	535,413	(935)
Capital outlay	15,200	15,200	9,104	6,096
Fire				
Current expenditures	178,955	178,955	199,991	(21,036)
Capital outlay	55,250	55,250	99,879	(44,629)
Public Works				
Streets and highways				
Street maintenance	765,195	765,195	746,140	19,055
Sanitation and health	23,088	23,088	38,749	(15,661)
Street lighting	46,000	46,000	59,148	(13,148)
Street - other capital outlay	57,400	57,400	47,223	10,177
Culture and recreation				
Library - current expenditures	189,947	189,947	200,233	(10,286)
Library - capital outlay	1,300	1,300	1,301	(1)
Senior Center - current expenditures	70,582	70,582	71,837	(1,255)
Senior Center - capital outlay	1,000	1,000	-	1,000
Swimming Pool - current expenditures	133,750	133,750	126,336	7,414
Swimming Pool - capital outlay	2,800	2,800	-	2,800
Storm Water	7,000	7,000	6,120	880
Debt Service				
Principal	13,524	13,524	7,110	6,414
Interest	73,193	73,193	6,416	66,777
All other - current expenditures	65,786	65,786	82,540	(16,754)
Total expenditures	<u>2,659,157</u>	<u>2,659,157</u>	<u>2,649,796</u>	<u>9,361</u>
Excess of Revenue over Expenditures	<u>972,939</u>	<u>972,939</u>	<u>550,304</u>	<u>(422,635)</u>

City of Blue Earth
 Budgetary Comparison Schedule – General Fund - Continued
 Year Ended December 31, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Other Financing Sources (Uses)				
Sale of capital assets	100	100	7,111	7,011
Transfers in	8,000	8,000	10,132	2,132
Transfers out	-	-	(1,310,983)	(1,310,983)
Total Other Financing Sources (Uses)	<u>8,100</u>	<u>8,100</u>	<u>(1,293,740)</u>	<u>(1,301,840)</u>
Net Change in Fund Balances	981,039	981,039	(743,436)	(1,724,475)
Fund Balance - Beginning of Year	<u>2,159,545</u>	<u>2,159,545</u>	<u>2,159,545</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 3,140,584</u>	<u>\$ 3,140,584</u>	<u>\$ 1,416,109</u>	<u>\$ (1,724,475)</u>

City of Blue Earth
 Budgetary Comparison Schedule – EDA Fund
 Year Ended December 31, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Property taxes	\$ 60,564	\$ 60,564	\$ 730	\$ (59,834)
Intergovernmental revenue				
Federal grants	-	-	993,050	993,050
Charges for services	8,458	8,458	243,705	235,247
Rent payments	-	-	34,254	34,254
Interest received	-	-	784	784
Donations	-	-	1,165,000	1,165,000
Miscellaneous revenue	20,000	20,000	23,229	3,229
Total revenues	<u>89,022</u>	<u>89,022</u>	<u>2,460,752</u>	<u>2,371,730</u>
Expenditures				
Economic development	89,197	89,197	267,632	(178,435)
Capital outlay	-	-	3,948,266	(3,948,266)
Total expenditures	<u>89,197</u>	<u>89,197</u>	<u>4,215,898</u>	<u>(4,126,701)</u>
Excess of Revenue over Expenditures	<u>(175)</u>	<u>(175)</u>	<u>(1,755,146)</u>	<u>(1,754,971)</u>
Other Financing Sources				
Proceeds from sale of assets	-	-	290,936	290,936
Transfer in	-	-	993,050	993,050
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,283,986</u>	<u>1,283,986</u>
Net change in fund balance	(175)	(175)	(471,160)	(470,985)
Fund Balance - Beginning of Year	<u>1,429,068</u>	<u>1,429,068</u>	<u>1,429,068</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,428,893</u>	<u>\$ 1,428,893</u>	<u>\$ 957,908</u>	<u>\$ (470,985)</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, 2014, 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 (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) 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, 2014, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
Special Revenue Funds		
EDA	\$ 4,126,701	Greater than anticipated revenues, available fund balance, and transfers from the other funds.



Supplemental Schedules and Related Information
December 31, 2014

City of Blue Earth

City of Blue Earth
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2014

	Debt Service Funds										Total Debt Service Non-major Funds
	General Obligation 1995	General Obligation 2005B	General Obligation 2006B	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	TIF 7-1	TIF 6-1	
	Assets										
Cash and investments	\$ 47,217	\$ -	\$ 87,522	\$ 74,635	\$ 207,784	\$ 489,706	\$ 492,857	\$ 65,002	\$ 6,898	\$ -	\$ 1,471,621
Receivables											
Taxes	223	111	4,928	1,326	10,581	1,555	12,033	-	-	-	30,757
Special assessments	12,271	12,239	-	27,236	55,715	456,306	146,809	398,884	-	-	1,109,460
Due from federal and other governments	-	-	-	-	-	-	6,288	-	-	-	6,288
Total assets	<u>\$ 59,711</u>	<u>\$ 12,350</u>	<u>\$ 92,450</u>	<u>\$ 103,197</u>	<u>\$ 274,080</u>	<u>\$ 947,567</u>	<u>\$ 651,699</u>	<u>\$ 470,174</u>	<u>\$ 6,898</u>	<u>\$ -</u>	<u>\$ 2,618,126</u>
Liabilities											
Accounts payable	\$ -	\$ -	\$ 200	\$ -	\$ 200	\$ 200	\$ 200	\$ 200	\$ -	\$ -	\$ 1,000
Due to component unit	-	-	-	-	-	-	67,909	-	-	-	67,909
Checks in excess of deposits	-	4,534	-	-	-	-	-	-	4,803	-	9,337
Total liabilities	<u>-</u>	<u>4,534</u>	<u>200</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>68,109</u>	<u>-</u>	<u>4,803</u>	<u>78,246</u>
Deferred Inflow of Resources											
Unavailable revenue	12,495	11,089	3,789	28,250	63,774	454,615	155,867	398,214	-	-	1,128,093
Fund Balance											
Restricted	47,216	-	88,461	74,947	210,106	492,752	495,632	3,851	6,898	-	1,419,863
Unassigned	-	(3,273)	-	-	-	-	-	-	-	(4,803)	(8,076)
Total Fund balance	<u>47,216</u>	<u>(3,273)</u>	<u>88,461</u>	<u>74,947</u>	<u>210,106</u>	<u>492,752</u>	<u>495,632</u>	<u>3,851</u>	<u>6,898</u>	<u>(4,803)</u>	<u>1,411,787</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 59,711</u>	<u>\$ 12,350</u>	<u>\$ 92,450</u>	<u>\$ 103,197</u>	<u>\$ 274,080</u>	<u>\$ 947,567</u>	<u>\$ 651,699</u>	<u>\$ 470,174</u>	<u>\$ 6,898</u>	<u>\$ -</u>	<u>\$ 2,618,126</u>

City of Blue Earth
Combining Balance Sheet – Nonmajor Governmental Funds - Continued
December 31, 2014

	Special Revenue Funds		Total Special Revenue Funds	Total Nonmajor Governmental Funds
	Airport Fund	Housing Loan Fund		
Assets				
Cash and investments	\$ -	\$ 712,520	\$ 712,520	\$ 2,184,141
Receivables				
Taxes	56	133	189	30,946
Special Assessments	-	-	-	1,109,460
Interest	-	95	95	95
Notes	157	381,868	382,025	382,025
Due from federal and other governments	-	-	-	6,288
Total assets	<u>\$ 213</u>	<u>\$ 1,094,616</u>	<u>\$ 1,094,829</u>	<u>\$ 3,712,955</u>
Liabilities				
Accounts payable	\$ 17,754	\$ 13,180	\$ 30,934	\$ 31,934
Checks in excess of deposits	204,415	-	204,415	213,752
Other payables	-	178	178	178
Due to component unit	-	-	-	67,909
Accrued wages and salaries	-	618	618	618
Total liabilities	<u>222,169</u>	<u>13,976</u>	<u>236,145</u>	<u>314,391</u>
Deferred Inflow of Resources				
Unavailable revenue	<u>56</u>	<u>382,001</u>	<u>382,057</u>	<u>1,510,150</u>
Fund balances				
Restricted	-	698,639	698,639	2,118,502
Unassigned	<u>(222,012)</u>	<u>-</u>	<u>(222,012)</u>	<u>(230,088)</u>
Total fund balances	<u>(222,012)</u>	<u>698,639</u>	<u>476,627</u>	<u>1,888,414</u>
Total Liabilities, Deferred inflows of resources, and Fund Balances				
	<u>\$ 213</u>	<u>\$ 1,094,616</u>	<u>\$ 1,094,829</u>	<u>\$ 3,712,955</u>

City of Blue Earth
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
 Year Ended December 31, 2014

	Debt Service Funds										Total Debt Service Non-major Funds
	General Obligation 1995	General Obligation 2005B	General Obligation 2006B	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	TIF 7-1	TIF 6-1	
Revenues											
Property taxes	\$ 19	\$ 2,250	\$ 78,653	\$ 21,635	\$ 177,736	\$ 34,045	\$ 189,185	\$ -	\$ 6,397	\$ 2,048	\$ 511,968
Special assessments	-	10,161	-	5,537	7,400	55,274	22,840	63,483	-	-	164,695
Interest earnings	53	-	48	66	112	192	453	66	6	-	996
Total Revenues	72	12,411	78,701	27,238	185,248	89,511	212,478	63,549	6,403	2,048	677,659
Expenditures											
All other - current expenditures	-	2,412	625	-	200	200	-	73,301	6,552	7	83,297
Debt Service											
Principal	-	9,000	65,000	22,000	150,000	80,140	204,558	-	-	-	530,698
Interest and fiscal charges	-	993	21,481	5,198	33,045	30,727	8,273	42,326	-	-	142,043
Total Expenditures	-	12,405	87,106	27,198	183,245	111,067	212,831	115,627	6,552	7	756,038
Excess (Deficiency) of Revenues over (under) Expenditures	72	6	(8,405)	40	2,003	(21,556)	(353)	(52,078)	(149)	2,041	(78,379)
Other Financing Sources (Uses)											
Operating transfers in	-	-	-	-	-	277,123	-	-	-	-	277,123
Net Change in Fund Balances	72	6	(8,405)	40	2,003	255,567	(353)	(52,078)	(149)	2,041	198,744
Fund Balance - Beginning of Year	47,144	(3,279)	96,866	74,907	208,103	237,185	495,985	55,929	7,047	(6,844)	1,213,043
Fund Balance - End of Year	\$ 47,216	\$ (3,273)	\$ 88,461	\$ 74,947	\$ 210,106	\$ 492,752	\$ 495,632	\$ 3,851	\$ 6,898	\$ (4,803)	\$ 1,411,787

City of Blue Earth

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –Nonmajor Governmental Funds -
Continued
Year Ended December 31, 2014

	Special Revenue Funds		Total Special Revenue Funds
	Airport Fund	Housing Loan Fund	
Revenues			
Property taxes	\$ 4	\$ 22	\$ 26
Federal grants	198,954	-	198,954
Charges for services	106,560	-	106,560
Interest received	(312)	819	507
Miscellaneous	4	33,151	33,155
Total revenues	<u>305,210</u>	<u>33,992</u>	<u>339,202</u>
Expenditures			
Economic Development - current expenditures	-	22,023	22,023
Economic Development - capital outlay	-	11,655	11,655
Miscellaneous			
Airport - current expenditures	95,719	-	95,719
Airport - capital outlay	20,757	-	20,757
Total expenditures	<u>116,476</u>	<u>33,678</u>	<u>150,154</u>
Revenues over (under) expenditures	188,734	314	189,048
Other Financing Use			
Sale of assets	-	1,900	1,900
Net Change in Fund Balances	188,734	2,214	190,948
Fund Balance - Beginning	<u>(410,746)</u>	<u>696,425</u>	<u>285,679</u>
Fund Balance - Ending	<u>\$ (222,012)</u>	<u>\$ 698,639</u>	<u>\$ 476,627</u>

City of Blue Earth
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
 Governmental Funds
 Year Ended December 31, 2014

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 511,994	\$ 695,700	\$ 1,207,694
Franchise	-	272,138	272,138
Special assessments	164,695	151,149	315,844
Federal grants	198,954	993,050	1,192,004
Licenses and permits	-	50,143	50,143
Intergovernmental revenue			
Local government aid	-	1,774,258	1,774,258
Residential market value credit	-	628	628
Other state aids and grants	-	260,399	260,399
Police aid	-	38,080	38,080
Fire aid	-	31,006	31,006
Charges for services			
General government	-	250,019	250,019
Police and fire contracts	-	57,873	57,873
Garbage and recycling	-	35,453	35,453
Parks and recreation	-	62,898	62,898
Airports	106,560	-	106,560
Storm water	-	68,599	68,599
Fines and forfeits	-	10,428	10,428
Interest received	1,503	48,870	50,373
Rent payments	-	34,254	34,254
Miscellaneous revenue			
Miscellaneous	33,155	162,688	195,843
Donations	-	1,169,609	1,169,609
Refunds and reimbursements	-	499	499
Total Revenues	<u>1,016,861</u>	<u>6,167,741</u>	<u>7,184,602</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, 2014

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	26,976	26,976
Administration and finance	-	297,590	297,590
Other general government	-	80,550	80,550
Capital outlay	-	7,140	7,140
Public Safety			
Police			
Current expenditures	-	535,413	535,413
Capital outlay	-	9,104	9,104
Fire			
Current expenditures	-	199,991	199,991
Capital outlay	-	99,879	99,879
Public Works			
Streets and highways			
Street maintenance	-	746,140	746,140
Snow and ice removal	-	38,749	38,749
Street lighting	-	59,148	59,148
Street construction - capital outlay	-	1,669,501	1,669,501
Street - other capital outlay	-	47,223	47,223
Culture and Recreation			
Library			
Current expenditures	-	200,233	200,233
Capital outlay	-	1,301	1,301
Senior Center			
Current expenditures	-	71,837	71,837
Swimming Pool			
Current expenditures	-	126,336	126,336
Economic Development - current expenditures			
Current expenditures	22,023	267,632	289,655
Capital outlay	11,655	3,948,266	3,959,921
Airport			
Airport - current expenditures	95,719	-	95,719
Airport - capital outlay	20,757	-	20,757
Storm water			
Storm water - current expenditures	-	6,120	6,120
Miscellaneous			
All other - current expenditures	83,297	83,391	166,688
Debt Service			
Principal	530,698	1,695,488	2,226,186
Bond issuance costs	-	73,759	73,759
Interest and fiscal charges	142,043	417,227	559,270
Total Expenditures	<u>906,192</u>	<u>10,708,994</u>	<u>11,615,186</u>
Excess (deficiency) of revenues over (under) expenditures	<u>110,669</u>	<u>(4,541,253)</u>	<u>(4,430,584)</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, 2014

	<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	1,900	298,047	299,947
Bond issuance	-	2,740,920	2,740,920
Premium on bond issuance	-	78,901	78,901
Operating transfers in	277,123	1,003,182	1,280,305
Operating transfers out	-	(1,310,983)	(1,310,983)
Total other financing sources (uses)	<u>279,023</u>	<u>2,810,067</u>	<u>3,089,090</u>
 Net Change in Fund Balances	 389,692	 (1,731,186)	 (1,341,494)
 Fund Balance - Beginning	 <u>1,498,722</u>	 <u>4,050,122</u>	 <u>5,548,844</u>
 Fund Balance - Ending	 <u>\$ 1,888,414</u>	 <u>\$ 2,318,936</u>	 <u>\$ 4,207,350</u>



Independent Auditor's Report on Minnesota Legal Compliance

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe the City of Blue Earth failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Blue Earth's noncompliance with the above referenced provisions.

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

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

Mankato, Minnesota
June 29, 2015



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To Honorable Mayor and City Council
City of Blue Earth

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Blue Earth (City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2015. We did not audit the financial statements of the discretely presented component unit, Board of Public Works. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control 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 described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses: 2014-A, 2014-B, and 2014-C.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

Mankato, Minnesota
June 29, 2015



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133

To Honorable Mayor and City Council
City of Blue Earth

Report on Compliance for the Major Federal Program

We have audited 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 the City of Blue Earth's major federal program for the year ended December 31, 2014. The City of Blue Earth's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the City of Blue Earth's major federal program based on our audit of the types of compliance requirements referred to above. 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 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 City of Blue Earth'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 on compliance for the major federal program. However, our audit does not provide a legal determination of City of Blue Earth's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Blue Earth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the City of Blue Earth is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Blue Earth's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 of Blue Earth's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Mankato, Minnesota
June 29, 2015

City of Blue Earth
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2014

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	\$ 43,259
<hr/> <i>DEPARTMENT OF COMMERCE</i> <hr/>		
Economic Adjustment Assistance	11.307	964,149
<hr/> <i>DEPARTMENT OF HOMELAND SECURITY</i> <hr/>		
Passed through the State of Minnesota: Disaster Grants - Public Assistance	97.036	39,542
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 1,046,950</u>

NOTE A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented on the modified 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	Unmodified
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	Unmodified
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>
Economic Adjustment Assistance	11.307
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 -	None

B. Findings – Financial Statement Audit

Material Weakness – previously reported items not resolved

2014-A 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 and 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.

2014-B 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.

2014-C Significant Journal Entries and Restatement

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** - None

D. **Minnesota Legal Compliance Findings** - None