



Financial Statements
December 31, 2016

City of Blue Earth

INTRODUCTORY SECTION

Officials.....I

FINANCIAL SECTION

Independent Auditor’s Report..... II

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position 1

Statement of Activities..... 2

Fund Financial Statements:

 Balance Sheet – Governmental Funds 3

 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position..... 4

 Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 5

 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... 6

 Statement of Net Position – Proprietary Funds 7

 Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds..... 8

 Statement of Cash Flows – Proprietary Funds 9

 Notes to Financial Statements..... 10

Required Supplementary Information

 Budgetary Comparison Schedule – General Fund 34

 Budgetary Comparison Schedules – EDA and Airport Funds 36

 Notes to the Required Supplementary Information..... 37

 Schedule of Employer’s Share of Collective Net Pension Liability and Schedule of Employer’s Contributions 38

Supplemental Schedules and Related Information:

Combining Fund Schedules:

 Combining Balance Sheet – Nonmajor Debt Service Funds 39

 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds..... 40

 Combining Balance Sheet – Nonmajor Special Revenue Funds and Total Nonmajor Governmental Funds..... 41

 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds..... 42

 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor Governmental Funds..... 43

MINNESOTA COMPLIANCE SECTION

Independent Auditor’s Report on Minnesota Legal Compliance 45

CITY COUNCIL

Richard Scholtes	Mayor
Dan Warner	Councilor
Dan Brod	Councilor
Glenn Gaylord	Councilor
John Huisman	Councilor
Marty Cassem	Councilor
Russ Erichsrud	Councilor

ADMINISTRATION

Timothy Ibisch	City Administrator/EDA Director
Nancy Thompson	City Clerk



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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth as of December 31, 2016, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Board of Public Works Commission. Those 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. 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, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer's share of net pension liability, and the schedule of employer's contributions 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 require 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 statement. The introductory section and combining fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



Mankato, Minnesota
June 16, 2017

City of Blue Earth
Statement of Net Position
December 31, 2016

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
Assets				
Cash and investments	\$ 6,502,350	\$ 1,408,977	\$ 7,911,327	\$ 1,366,927
Restricted cash and investments				
Economic development	70,311	-	70,311	-
Unspent bond proceeds	-	-	-	386,803
Customer deposits	-	-	-	30,541
Receivables				
Taxes	58,340	-	58,340	-
Special assessments	3,236,170	102,041	3,338,211	55,346
Accounts	799,365	187,557	986,922	774,956
Interest	6,181	-	6,181	-
Notes	773,536	-	773,536	-
Due from component unit	390,635	-	390,635	-
Prepaid items	69,860	20,131	89,991	119,859
Inventory	-	252,148	252,148	487,420
Land held for resale	131,638	-	131,638	-
Other assets	-	-	-	97,627
Capital assets not being depreciated				
Land	695,577	219,035	914,612	219,376
Construction in progress	79,727	-	79,727	-
Capital assets, net of accumulated depreciation				
Road network	22,597,205	-	22,597,205	-
Distribution system	-	-	-	12,304,532
Buildings and infrastructure	5,145,041	4,826,424	9,971,465	-
Equipment	1,132,697	4,558,562	5,691,259	4,172,587
Vehicles	903,594	-	903,594	-
Total assets	<u>42,592,227</u>	<u>11,574,875</u>	<u>54,167,102</u>	<u>20,015,974</u>
Deferred Outflows of Resources				
Pension plans	<u>1,132,986</u>	<u>162,276</u>	<u>1,295,262</u>	<u>461,648</u>
Liabilities				
Accounts payable	430,698	162,800	593,498	279,771
Other payables	34,174	-	34,174	100,976
Due to city	-	-	-	390,635
Accrued vacation and sick leave	-	-	-	90,913
Accrued salaries and wages	58,597	36,795	95,392	20,016
Unearned revenue	-	44,244	44,244	484,982
Interest payable	140,491	27,161	167,652	41,026
Liabilities Payable from Restricted Assets:				
Customer deposits payable	-	-	-	30,541
Noncurrent liabilities				
Net pension liability	1,979,628	426,476	2,406,104	1,112,372
Due within one year	1,036,385	501,000	1,537,385	712,551
Due in more than one year	<u>14,237,852</u>	<u>3,967,253</u>	<u>18,205,105</u>	<u>4,444,308</u>
Total liabilities	<u>17,917,825</u>	<u>5,165,729</u>	<u>23,083,554</u>	<u>7,708,091</u>
Deferred Inflows of Resources				
Pension plans	<u>230,633</u>	<u>50,771</u>	<u>281,404</u>	<u>129,019</u>
Net Position				
Net investment in capital assets	15,279,604	5,135,768	20,415,372	11,149,656
Restricted				
Capital projects	853,899	-	853,899	-
Debt service	5,455,402	-	5,455,402	-
Other purposes	2,665,356	-	2,665,356	417,344
Unrestricted	<u>1,322,494</u>	<u>1,384,883</u>	<u>2,707,377</u>	<u>1,073,512</u>
Total net position	<u>\$ 25,576,755</u>	<u>\$ 6,520,651</u>	<u>\$ 32,097,406</u>	<u>\$ 12,640,512</u>

City of Blue Earth
Statement of Activities
Year Ended December 31, 2016

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			
				Governmental Activities	Business-type Activities	Totals	
Primary Government							
Governmental Activities							
General government	\$ 645,911	\$ 61,529	\$ -	\$ (584,382)	\$ -	\$ (584,382)	
Public safety	943,103	55,882	86,259	(800,962)	-	(800,962)	
Streets and highways	3,159,612	165,810	966,952	(2,026,850)	-	(2,026,850)	
Culture and recreation	529,889	68,085	-	(461,804)	-	(461,804)	
Housing and economic development	1,056,156	56,857	-	(999,299)	-	(999,299)	
Interest and other charges on long-term debt	475,598	-	-	(475,598)	-	(475,598)	
Total governmental activities	6,810,269	408,163	1,053,211	(5,348,895)	-	(5,348,895)	
Business-Type Activities							
Sewer	936,439	1,073,390	-	-	136,951	136,951	
Liquor	1,495,090	1,566,964	-	-	71,874	71,874	
Fitness Center	154,219	226,688	-	-	72,469	72,469	
Total business-type activities	2,585,748	2,867,042	-	-	281,294	281,294	
Total Primary Government	\$ 9,396,017	\$ 3,275,205	\$ 1,053,211	(5,348,895)	281,294	(5,067,601)	
Component Unit							
Electric	\$ 6,075,267	\$ 6,220,264	\$ -				\$ 144,997
Water	841,979	842,845	-				866
	\$ 6,917,246	\$ 7,063,109	\$ -				\$ 145,863
General Revenues							
Taxes							
Property taxes				1,538,504	-	1,538,504	-
Special assessments				450,186	-	450,186	-
State aid				3,029,719	-	3,029,719	-
Franchise tax				267,421	-	267,421	-
Fees and fines				3,157	-	3,157	-
License and permits				35,180	-	35,180	-
Donations				26,985	-	26,985	-
Earnings on investments				63,178	8,979	72,157	8,513
Lease payments				247,235	-	247,235	-
Miscellaneous				222,838	4,788	227,626	196,925
Transfers				71,239	(71,239)	-	-
Total general revenues and transfers				5,955,642	(57,472)	5,898,170	205,438
Changes in Net Position				606,747	223,822	830,569	351,301
Net Position - Beginning				24,970,008	6,296,829	31,266,837	12,289,211
Net Position - Ending				\$ 25,576,755	\$ 6,520,651	\$ 32,097,406	\$ 12,640,512

City of Blue Earth
Balance Sheet – Governmental Funds
December 31, 2016

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 1,806,021	\$ 1,010,893	\$ -	\$ 581,435	\$ 119,541	\$ 2,984,460	\$ 6,502,350
Restricted cash for economic development	-	70,311	-	-	-	-	70,311
Receivables							
Taxes	16,961	2,360	21	-	3,562	35,436	58,340
Special assessments	88,659	-	-	-	996,661	2,150,850	3,236,170
Interest	5,241	768	-	-	-	172	6,181
Accounts	90,054	1,750	535,291	172,270	-	-	799,365
Notes	-	458,300	-	-	-	315,236	773,536
Due from component unit	-	-	-	390,635	-	-	390,635
Due from other funds	787,521	-	-	-	-	-	787,521
Land held for resale	-	131,638	-	-	-	-	131,638
Prepaid items	51,827	18,033	-	-	-	-	69,860
Total assets	<u>\$ 2,846,284</u>	<u>\$ 1,694,053</u>	<u>\$ 535,312</u>	<u>\$ 1,144,340</u>	<u>\$ 1,119,764</u>	<u>\$ 5,486,154</u>	<u>\$ 12,825,907</u>
Liabilities							
Accounts payable	\$ 91,024	\$ 24,691	\$ 15,294	\$ 290,441	\$ 200	\$ 9,048	\$ 430,698
Other payables	32,502	1,436	-	-	-	236	34,174
Due to other funds	-	-	786,791	-	-	730	787,521
Accrued salaries and wages	55,465	2,478	-	-	-	654	58,597
Total liabilities	<u>178,991</u>	<u>28,605</u>	<u>802,085</u>	<u>290,441</u>	<u>200</u>	<u>10,668</u>	<u>1,310,990</u>
Deferred Inflows of Resources							
Unavailable revenue	101,763	460,155	21	-	997,208	2,480,410	4,039,557
Fund Balances							
Nonspendable	51,827	149,671	-	-	-	-	201,498
Restricted	-	1,055,622	-	853,899	122,356	2,995,806	5,027,683
Assigned	936,016	-	-	-	-	-	936,016
Unassigned	1,577,687	-	(266,794)	-	-	(730)	1,310,163
Total fund balances	<u>2,565,530</u>	<u>1,205,293</u>	<u>(266,794)</u>	<u>853,899</u>	<u>122,356</u>	<u>2,995,076</u>	<u>7,475,360</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,846,284</u>	<u>\$ 1,694,053</u>	<u>\$ 535,312</u>	<u>\$ 1,144,340</u>	<u>\$ 1,119,764</u>	<u>\$ 5,486,154</u>	<u>\$ 12,825,907</u>

City of Blue Earth
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 December 31, 2016

Total Fund Balances for Governmental Funds		\$ 7,475,360
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		30,553,841
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.		4,039,557
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(140,491)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		902,353
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:		
General obligation bonds payable	\$ 15,146,648	
Net pension liability	1,979,628	
Note payable	127,589	
		(17,253,865)
Total Net Position for Governmental Activities		\$ 25,576,755

City of Blue Earth
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2016

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 283,832	\$ 68,157	\$ 10	\$ -	\$ 110,196	\$ 899,549	\$ 1,361,744
Franchise taxes	267,421	-	-	-	-	-	267,421
Special assessments	9,600	-	-	-	123,565	317,021	450,186
Fees and fines	3,157	-	-	-	-	-	3,157
Licenses and permits	35,180	-	-	-	-	-	35,180
State aid and grants	1,987,168	-	966,952	1,072,675	-	-	4,026,795
Federal grants	-	56,135	-	-	-	-	56,135
Charges for services	267,844	56,857	83,462	-	-	-	408,163
Interest earnings	29,947	6,938	-	-	12,401	13,892	63,178
Rent payments	-	247,235	-	-	-	-	247,235
Donations	6,985	20,000	-	-	-	-	26,985
Miscellaneous	178,576	32,964	-	-	-	11,298	222,838
Total revenue	<u>3,069,710</u>	<u>488,286</u>	<u>1,050,424</u>	<u>1,072,675</u>	<u>246,162</u>	<u>1,241,760</u>	<u>7,169,017</u>
Expenditures							
Current							
General government	428,955	-	-	-	-	-	428,955
Public safety	787,298	-	-	-	-	-	787,298
Capital outlay	55,955	-	-	-	-	-	55,955
Public works	836,260	-	-	-	-	-	836,260
Capital outlay	384,892	-	-	1,990,221	-	-	2,375,113
Culture and recreation	416,199	-	-	-	-	-	416,199
Capital outlay	8,280	-	-	-	-	-	8,280
Economic development	-	715,660	-	-	-	10,102	725,762
Capital outlay	-	21,834	-	-	-	38,358	60,192
Storm water	39,675	-	-	-	-	-	39,675
Airport	-	-	82,390	-	-	-	82,390
Capital outlay	-	-	964,783	-	-	-	964,783
Miscellaneous	92,489	-	-	-	200	46,082	138,771
Debt Services							
Principal	7,757	-	-	-	152,880	800,716	961,353
Bond issuance costs	-	-	-	-	450	1,700	2,150
Interest and other charges	5,767	-	3,214	-	70,980	384,304	464,265
Total expenditures	<u>3,063,527</u>	<u>737,494</u>	<u>1,050,387</u>	<u>1,990,221</u>	<u>224,510</u>	<u>1,281,262</u>	<u>8,347,401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,183</u>	<u>(249,208)</u>	<u>37</u>	<u>(917,546)</u>	<u>21,652</u>	<u>(39,502)</u>	<u>(1,178,384)</u>
Other Financing Sources (Uses)							
Sale of assets	7,901	49,825	-	-	-	7,966	65,692
Bond issuance	-	-	-	2,000,006	-	102,019	2,102,025
Transfers in	93,975	-	-	-	50,000	227,975	371,950
Transfers out	(277,975)	-	-	-	-	(22,736)	(300,711)
Total other financing sources (uses)	<u>(176,099)</u>	<u>49,825</u>	<u>-</u>	<u>2,000,006</u>	<u>50,000</u>	<u>315,224</u>	<u>2,238,956</u>
Net change in fund balances	(169,916)	(199,383)	37	1,082,460	71,652	275,722	1,060,572
Fund Balances - Beginning	<u>2,735,446</u>	<u>1,404,676</u>	<u>(266,831)</u>	<u>(228,561)</u>	<u>50,704</u>	<u>2,719,354</u>	<u>6,414,788</u>
Fund Balances - Ending	<u>\$ 2,565,530</u>	<u>\$ 1,205,293</u>	<u>\$ (266,794)</u>	<u>\$ 853,899</u>	<u>\$ 122,356</u>	<u>\$ 2,995,076</u>	<u>\$ 7,475,360</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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 1,060,572
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.	1,353,318
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.	(621,871)
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.	(2,102,025)
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.	14,405
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.	176,760
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.	961,353
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(226,582)
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.	<u>(9,183)</u>
Change in Net Position of Governmental Activities	<u>\$ 606,747</u>

City of Blue Earth
Statement of Net Position – Proprietary Funds
December 31, 2016

	Sewer	Liquor	Fitness Center	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 356,292	\$ 725,257	\$ 327,428	\$ 1,408,977
Receivables				
Special assessments	102,041	-	-	102,041
Accounts	187,538	19	-	187,557
Prepaid items	7,689	7,689	4,753	20,131
Inventory	-	252,148	-	252,148
Total current assets	<u>653,560</u>	<u>985,113</u>	<u>332,181</u>	<u>1,970,854</u>
Noncurrent Assets				
Capital assets not being depreciated				
Land	119,035	100,000	-	219,035
Capital assets, net of accumulated depreciation				
Buildings and infrastructure	3,847,335	364,919	614,170	4,826,424
Equipment	4,472,107	48,693	37,762	4,558,562
Total noncurrent assets	<u>8,438,477</u>	<u>513,612</u>	<u>651,932</u>	<u>9,604,021</u>
Total assets	<u>9,092,037</u>	<u>1,498,725</u>	<u>984,113</u>	<u>11,574,875</u>
Deferred Outflows of Resources				
Pension plans	<u>87,827</u>	<u>60,127</u>	<u>14,322</u>	<u>162,276</u>
Liabilities				
Current Liabilities				
Accounts payable	28,843	127,675	6,282	162,800
Accrued salaries and wages	17,886	13,702	5,207	36,795
Unearned revenue	44,244	-	-	44,244
Bonds payable - current	476,000	-	25,000	501,000
Interest payable	22,452	-	4,709	27,161
Total current liabilities	<u>589,425</u>	<u>141,377</u>	<u>41,198</u>	<u>772,000</u>
Noncurrent Liabilities				
Net pension liability	230,816	158,019	37,641	426,476
Bonds payable	3,556,000	-	411,253	3,967,253
Total noncurrent liabilities	<u>3,786,816</u>	<u>158,019</u>	<u>448,894</u>	<u>4,393,729</u>
Total liabilities	<u>4,376,241</u>	<u>299,396</u>	<u>490,092</u>	<u>5,165,729</u>
Deferred Inflows of Resources				
Pension plans	<u>27,478</u>	<u>18,812</u>	<u>4,481</u>	<u>50,771</u>
Net Position				
Net investment in capital assets	4,406,477	513,612	215,679	5,135,768
Unrestricted	369,668	727,032	288,183	1,384,883
Total Net Position	<u>\$ 4,776,145</u>	<u>\$ 1,240,644</u>	<u>\$ 503,862</u>	<u>\$ 6,520,651</u>

City of Blue Earth
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended December 31, 2016

	Sewer	Liquor	Fitness Center	Total
Operating Revenues				
Service and fees	\$ 1,073,390	\$ -	\$ 226,688	\$ 1,300,078
Sales	-	1,566,964	-	1,566,964
Total operating revenues	<u>1,073,390</u>	<u>1,566,964</u>	<u>226,688</u>	<u>2,867,042</u>
Operating Expenses				
Salaries and benefits	273,162	222,268	50,886	546,316
Costs of goods sold	-	1,163,914	-	1,163,914
Supplies	24,364	4,046	8,233	36,643
Utilities	91,249	19,131	18,906	129,286
Other services and charges	48,466	5,440	3,582	57,488
Repairs and maintenance	46,084	6,538	5,531	58,153
Depreciation	348,432	20,434	45,788	414,654
Miscellaneous	34,683	53,319	10,716	98,718
Total operating expenses	<u>866,440</u>	<u>1,495,090</u>	<u>143,642</u>	<u>2,505,172</u>
Operating income	<u>206,950</u>	<u>71,874</u>	<u>83,046</u>	<u>361,870</u>
Nonoperating Revenues (Expenses)				
Refunds and reimbursements	165	2,432	-	2,597
Interest and investment revenue	3,005	4,215	1,759	8,979
Amortization expense	-	-	866	866
Interest expense	(69,999)	-	(11,443)	(81,442)
Miscellaneous revenue	2,191	-	-	2,191
Total nonoperating revenues (expenses)	<u>(64,638)</u>	<u>6,647</u>	<u>(8,818)</u>	<u>(66,809)</u>
Income before transfers	142,312	78,521	74,228	295,061
Transfers out	-	(71,239)	-	(71,239)
Change in net position	142,312	7,282	74,228	223,822
Net Position - Beginning	<u>4,633,833</u>	<u>1,233,362</u>	<u>429,634</u>	<u>6,296,829</u>
Net Position - Ending	<u>\$ 4,776,145</u>	<u>\$ 1,240,644</u>	<u>\$ 503,862</u>	<u>\$ 6,520,651</u>

City of Blue Earth
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2016

	Sewer	Liquor	Fitness Center	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,053,544	\$ 1,569,086	\$ 226,688	\$ 2,849,318
Payments to employees	(243,786)	(202,745)	(45,675)	(492,206)
Payments to suppliers	(238,411)	(1,227,971)	(50,319)	(1,516,701)
Net cash provided by (used for) operating activities	<u>571,347</u>	<u>138,370</u>	<u>130,694</u>	<u>840,411</u>
Cash Flows from Noncapital Financing Activities				
Miscellaneous receipts	2,191	-	-	2,191
Transfers to governmental funds	-	(71,239)	-	(71,239)
Net cash provided by (used for) noncapital financing activities	<u>2,191</u>	<u>(71,239)</u>	<u>-</u>	<u>(69,048)</u>
Cash Flows from Capital and Related Financing Activities				
Payments on long-term debt	(469,000)	-	(25,000)	(494,000)
Purchase of capital assets	(180,654)	(16,814)	(41,515)	(238,983)
Interest paid on debt	(72,417)	-	(11,649)	(84,066)
Refunds and reimbursements	165	2,432	-	2,597
Net cash provided by (used for) capital and related financing activities	<u>(721,906)</u>	<u>(14,382)</u>	<u>(78,164)</u>	<u>(814,452)</u>
Cash Flows from Investing Activities				
Earnings on investments and cash	<u>3,005</u>	<u>4,215</u>	<u>1,759</u>	<u>8,979</u>
Net change in cash and cash equivalents	(145,363)	56,964	54,289	(34,110)
Cash and cash equivalents - January 1	<u>501,655</u>	<u>668,293</u>	<u>273,139</u>	<u>1,443,087</u>
Cash and cash equivalents - December 31	<u>\$ 356,292</u>	<u>\$ 725,257</u>	<u>\$ 327,428</u>	<u>\$ 1,408,977</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 206,950	\$ 71,874	\$ 83,046	\$ 361,870
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	348,432	20,434	45,788	414,654
Deferred outflows - pension	(58,108)	(39,781)	(9,475)	(107,364)
Net pension liabilities	90,231	61,773	14,715	166,719
Deferred inflows - pension	(5,433)	(3,719)	(886)	(10,038)
Changes in assets and liabilities				
Accounts receivable	(22,116)	2,122	-	(19,994)
Inventory	-	16,649	-	16,649
Special assessments and taxes	2,270	-	-	2,270
Prepaid items	(2,833)	(2,833)	(1,751)	(7,417)
Accounts payable	9,268	10,601	(1,600)	18,269
Accrued expense	2,686	1,250	857	4,793
Net Cash Provided by (Used for) Operating Activities	<u>\$ 571,347</u>	<u>\$ 138,370</u>	<u>\$ 130,694</u>	<u>\$ 840,411</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 *Airport* special revenue fund which accounts for activity of the City's Airport.

The *Capital Projects* capital project fund which accounts for the capital projects of the City.

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

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

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

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

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 and Investments

Certain resources in the EDA Fund have been set aside as a restriction as well as customer deposits.

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 30th 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 or market, using the average cost method. Inventories of the funds are recorded as expenditures when consumed rather than when purchased.

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. 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.

6. Contract Negotiation Expenses

The cost of negotiating the contract extension with Alliant Energy is being amortized on the straight line method, over the life of the contract extension, which runs through April 2018. The balance as of December 31, 2016, was \$62,324.

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 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 acquisition 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 or governmental balance sheet 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 or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The City has two items that qualify for reporting in this category.

They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position or the governmental balance sheet 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 or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The city has two items that qualify for reporting in this category. *Unavailable revenue* arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

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. As of December 31, 2016, \$58,597 and \$36,795 was included in accrued salaries and wages in the governmental and proprietary funds, respectively.

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 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. Pensions

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

12. Fund Balance and Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources 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. It is the City's policy to spend restricted net position before unrestricted net position. Fund balance is reported in classifications that 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 Resolution). 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 designated 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.

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, 2016, 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 budgeted or expenditures are greater than budgeted. 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 departments of the City submit requests for appropriation to the City Administrator 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, 2016, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
General Fund	\$ 258,805	Greater than anticipated revenues
Special Revenue Funds		
EDA	471,054	Greater than anticipated revenues and available fund balance
Airport	969,448	Greater than anticipated revenues and future revenues or transfers
Housing Loan Fund	13,997	Greater than anticipated revenues
Debt Service Funds		
General Obligation 2006C	54,828	Available fund balance

A budget was not established for the Capital projects funds.

C. Deficit Fund Equity

The following governmental funds had deficit fund equity at December 31, 2016:

Special Revenue Fund	
Airport	\$ (266,794)
Debt Service Fund	
TIF 6-1	<u>(730)</u>
Total	<u>\$ (267,524)</u>

Deficit fund equity will be eliminated with future revenues or transfers from other funds.

Note 3 - Detailed Notes on All Funds and Account Groups

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk–Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2016, none of the City’s bank balances were exposed to custodial credit risk.

2. Investments

As of December 31, 2016, the City had the following investments:

Investment Type	Total	(Level 1)	(Level 2)	(Level 3)
Certificates of deposit	\$ 900,000	\$ -	\$ 900,000	\$ -
Municipal bonds	130,000	-	130,000	-
Government bonds	375,000	-	375,000	-
Total Fair Value	<u>\$ 1,405,000</u>	<u>\$ -</u>	<u>\$ 1,405,000</u>	<u>\$ -</u>

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

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, 2016, the City’s Government and Municipal bonds were rated AAA and AA1 by Moody and registered under the Federal Investment Company Act of 1940, meeting the conditions of rule 2a-7 of the SEC. The City’s certificates of deposits are insured by the FDIC and any amounts that exceed the \$250,000 level are insured by independent insurance companies or pledged collateral.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City’s investments are in Certificates of deposit issued by: American Express (14.23%), Goldman Sachs (14.23%), World Financial Network Bank (7.12%), HSBC (14.23%), and First Trust Savings Bank (14.23%); Government bonds issued by: Federal Home Loan Mtg. Corp. (12.46%); and in Municipal bonds issued by: Linn County Iowa (5.34%).

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, 2016, none of the City’s investments were exposed to custodial credit risk.

B. Receivables

The City’s Housing Loan fund had notes receivable of \$315,236 at year-end. A balance of \$70,303 represents Housing and Urban Development (HUD) loans due in monthly installments with a rate of interest at 3.25 percent. All loans are secured by City liens. The remaining balances of \$243,696 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 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 are secured by liens on the property.

The City's EDA fund had notes receivable of \$458,300 at year-end. Of this amount \$288,013 represents loans due from businesses in monthly installments with rates of interest ranging from 4 percent to 5.5 percent. A balance of \$3,167 represents Small City Development Program (SCDP) loans due in monthly installments with a rate of interest at 3 percent. These loans are secured by related real estate. The remaining \$167,120 is for forgivable deferred loans with no interest charged. If the properties are not sold or transferred within the time period of the agreement, the balances will be forgiven. These loans are secured by property.

Governmental funds report *unavailable revenue* in connection with receivables for revenues that 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 *unavailable revenue* reported in the governmental funds were as follows:

	Unavailable	Not expected to be collected in one year
Special assessments not yet due (general fund)	\$ 80,342	\$ 68,827
Special assessments not yet due (debt service funds)	3,120,667	2,917,323
Delinquent property taxes and special assessments (general fund)	21,421	-
Delinquent property taxes and special assessments (debt service funds)	49,831	-
Delinquent property taxes (special revenue funds)	2,702	-
Notes receivable (special revenue funds)	764,594	706,803
	\$ 4,039,557	\$ 3,692,953

C. Capital Assets

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

General government	\$ 4,779
Public safety	130,417
Public works	717,579
Airport	235,728
Culture and recreation	113,690
Housing and economic development	47,568
Total Depreciation Expense	\$ 1,249,761

Capital asset activity for the year ended December 31, 2016, 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	\$ 728,312	\$ -	\$ 32,735	\$ 695,577
Construction in progress	1,076,756	79,727	1,076,756	79,727
Total Capital Assets, Not Being Depreciated	<u>1,805,068</u>	<u>79,727</u>	<u>1,109,491</u>	<u>775,304</u>
Capital Assets, Being Depreciated				
Buildings	8,453,193	319,861	959,665	7,813,389
Road network	30,567,285	3,019,396	-	33,586,681
Equipment	2,138,537	17,829	-	2,156,366
Vehicles	1,535,150	243,022	49,866	1,728,306
Total Capital Assets, Being Depreciated	<u>42,694,165</u>	<u>3,600,108</u>	<u>1,009,531</u>	<u>45,284,742</u>
Less Accumulated Depreciation for				
Buildings	2,860,532	191,682	383,866	2,668,348
Road network	10,134,564	854,912	-	10,989,476
Equipment	901,171	122,498	-	1,023,669
Vehicles	780,572	80,669	36,529	824,712
Total Accumulated Depreciation	<u>14,676,839</u>	<u>1,249,761</u>	<u>420,395</u>	<u>15,506,205</u>
Total Capital Assets, Being Depreciated, Net	<u>28,017,326</u>	<u>2,350,347</u>	<u>589,136</u>	<u>29,778,537</u>
Governmental Activities Capital Assets, Net	<u>\$ 29,822,394</u>	<u>\$ 2,430,074</u>	<u>\$ 1,698,627</u>	<u>\$ 30,553,841</u>

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

Sewer	\$ 348,432
Fitness center	45,788
Liquor	<u>20,434</u>
	<u>\$ 414,654</u>

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 219,035	\$ -	\$ -	\$ 219,035
Capital Assets, Being Depreciated				
Buildings and infrastructure	10,108,092	41,515	-	10,149,607
Equipment	5,777,249	197,468	193,569	5,781,148
Total Capital Assets, Being Depreciated	15,885,341	238,983	193,569	15,930,755
Less Accumulated Depreciation for				
Buildings and infrastructure	5,062,923	260,260	-	5,323,183
Equipment	1,261,761	154,394	193,569	1,222,586
Total Accumulated Depreciation	6,324,684	414,654	193,569	6,545,769
Total Capital Assets, Being Depreciated, Net	9,560,657	(175,671)	-	9,384,986
Business-Type Activities Capital Assets, Net	<u>\$ 9,779,692</u>	<u>\$ (175,671)</u>	<u>\$ -</u>	<u>\$ 9,604,021</u>
Component Unit:				
	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 219,376	\$ -	\$ -	\$ 219,376
Capital Assets, Being Depreciated				
Production equipment	5,426,286	156,414	-	5,582,700
Transmission equipment	2,515,879	-	-	2,515,879
Distribution equipment	19,388,406	1,042,885	-	20,431,291
General equipment	1,307,778	361,453	-	1,669,231
Total Capital Assets, Being Depreciated	28,638,349	1,560,752	-	30,199,101
Less Accumulated Depreciation for				
Production equipment	2,669,304	174,530	-	2,843,834
Transmission equipment	2,058,586	26,166	-	2,084,752
Distribution equipment	7,515,665	611,094	-	8,126,759
General equipment	582,023	84,614	-	666,637
Total Accumulated Depreciation	12,825,578	896,404	-	13,721,982
Total Capital Assets, Being Depreciated, Net	15,812,771	664,348	-	16,477,119
Business-Type Activities Capital Assets, Net	<u>\$ 16,032,147</u>	<u>\$ 664,348</u>	<u>\$ -</u>	<u>\$ 16,696,495</u>

D. Long-Term Debt

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

<u>General Obligation Notes and Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amounts as of December 31, 2016</u>
G.O. Improvement Bonds of 2016, Series A of \$2,102,025, due in annual installments of \$118,015 to \$159,490 through February 1, 2032.	4.0%	\$ 2,102,025
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%	775,000
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%	945,065
G.O. Refunding Bonds of 2011, Series A of \$1,440,000, due in annual installments of \$34,558 to \$74,557 through April 1, 2020. This is the City's share of the bonds with the component unit.	3.0% to 4.8%	182,071
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%	1,665,780
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%	1,890,000
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%	795,000
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%	1,202,750
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%	145,000
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%	2,588,040
G.O. Improvement Bonds of 2015, Series A, of \$3,204,500, due in annual installments of \$140,250 to \$263,5000 through February 1, 2031. This is the City's share of the bonds with the component unit.	3.0%	3,204,500
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%	425,000

City of Blue Earth
Notes to Financial Statements
December 31, 2016

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%	427,000
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%	491,000
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%	1,094,000
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%	392,000
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%	322,000
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%	761,000
USDA Promissory Note of \$180,000, due in annual installments of \$2,544 to \$13,100 through February 26, 2029.	4.0%	<u>127,589</u>
Total General Obligation Bonds and Notes Payable		<u>\$ 19,534,820</u>

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

Year Ending December 31	Governmental Activities		Business-type Activities		Discretely Presented Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,036,385	\$ 424,608	\$ 501,000	\$ 76,583	\$ 712,551	\$ 121,423
2018	1,141,484	338,446	506,000	68,991	651,701	106,233
2019	1,171,209	311,103	518,000	61,269	552,650	93,586
2020	1,139,106	287,169	530,000	53,340	483,124	81,254
2021	1,132,299	264,054	339,000	45,254	329,402	71,794
2022-2026	5,563,118	917,170	1,642,000	135,412	1,645,748	232,840
2027-2031	3,734,729	237,749	421,000	18,763	766,174	46,959
2032	159,490	1,754	-	-	15,509	171
Total	<u>\$ 15,077,820</u>	<u>\$ 2,782,053</u>	<u>\$ 4,457,000</u>	<u>\$ 459,612</u>	<u>\$ 5,156,859</u>	<u>\$ 754,260</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities					
Bonds payable					
General obligation bonds	\$ 13,801,802	\$ 2,102,025	\$ 953,596	\$ 14,950,231	\$ 1,028,282
Bond premium	210,822	-	14,405	196,417	-
Total bonds payable	<u>14,012,624</u>	<u>2,102,025</u>	<u>968,001</u>	<u>15,146,648</u>	<u>1,028,282</u>
Note payable	<u>135,346</u>	-	<u>7,757</u>	<u>127,589</u>	<u>8,103</u>
 Governmental activity Long-term liabilities	 <u>\$ 14,147,970</u>	 <u>\$ 2,102,025</u>	 <u>\$ 975,758</u>	 <u>\$ 15,274,237</u>	 <u>\$ 1,036,385</u>
 Business-Type Activities					
Bonds payable					
G.O. revenue bonds	\$ 4,951,000	\$ -	\$ 494,000	\$ 4,457,000	\$ 501,000
Bond premium	12,119	-	866	11,253	-
Total bonds payable	<u>\$ 4,963,119</u>	<u>\$ -</u>	<u>\$ 494,866</u>	<u>\$ 4,468,253</u>	<u>\$ 501,000</u>
 Discretely Presented Component Unit: G.O. revenue bonds	 <u>\$4,833,002</u>	 <u>\$ 956,121</u>	 <u>\$ 632,264</u>	 <u>\$5,156,859</u>	 <u>\$ 712,551</u>

Legal Debt Margin. The legal debt limitation based on market value of taxable property in the municipality is equal to \$3,732,831. As of December 31, 2016, \$135,346 of the above debt applied to the legal debt margin.

E. Inter-Fund Balances and Transfers

Inter-fund transfers and balances for the year ended December 31, 2016, consisted of the following:

Transferred From	Transferred To			Total
	General Fund	General Obligation 2014A	Other Governmental Funds	
General Fund	\$ -	\$ 50,000	\$ 227,975	\$ 277,975
Other Governmental Funds	22,736	-	-	22,736
Enterprise Fund - Liquor	71,239	-	-	71,239
 Total	 <u>\$ 93,975</u>	 <u>\$ 50,000</u>	 <u>\$ 227,975</u>	 <u>\$ 371,950</u>

Due From	Due To		
	General Fund	Capital Projects Fund	Total
Airport Fund	\$ 786,791	\$ -	\$ 786,791
Other Governmental Funds	730	-	730
DPCU - BELW	-	390,635	390,635
Total	\$ 787,521	\$ 390,635	\$ 1,178,156

Purpose for Inter-fund Transfers and Balances:

- The general fund transferred funds to the 2014A and the other governmental funds to aid in the payment of bonds and notes.
- The other governmental fund transferred to the general fund to close the fund after the debt service has been retired.
- The liquor fund transferred funds to the general fund to reflect the budget transfer.
- The Airport fund has a due to the general fund as it is awaiting future financing for on-going projects
- The other governmental funds has a due to the general fund which will be eliminated with future revenues or transfers
- The DPCU has a due to the Capital Projects funds related to on-going projects

F. Fund Balances and Restricted for Other Purposes Net Position

Fund Balances as of December 31, 2016:

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Land inventory	\$ -	\$ 131,638	\$ -	\$ -	\$ -	\$ -	\$ 131,638
Prepaid items	51,827	18,033	-	-	-	-	69,860
Total Nonspendable	51,827	149,671	-	-	-	-	201,498
Restricted							
Debt service	-	-	-	-	122,356	2,303,039	2,425,395
Economic development	-	1,055,622	-	-	-	692,767	1,748,389
Capital Projects	-	-	-	853,899	-	-	853,899
Total Restricted	-	1,055,622	-	853,899	122,356	2,995,806	5,027,683
Assigned							
Special purpose	20,229	-	-	-	-	-	20,229
Public safety	13,424	-	-	-	-	-	13,424
Street infrastructure	892,058	-	-	-	-	-	892,058
Senior donation	10,305	-	-	-	-	-	10,305
Total Assigned	936,016	-	-	-	-	-	936,016
Unassigned	1,577,687	-	(266,794)	-	-	(730)	1,310,163
Total Fund Balance	\$ 2,565,530	\$ 1,205,293	\$ (266,794)	\$ 853,899	\$ 122,356	\$ 2,995,076	\$ 7,475,360

Restricted net position for Other Purposes Balance in Net Position as of December 31, 2016:

	Amount
Restricted for EDA	\$ 1,665,448
Restricted for Airport	21
Restricted for Housing loan	999,887
Total	\$ 2,665,356

Note 4 - Franchise Fee

During 1994, the Board of Public Works and the City of Blue Earth agreed to a new method of figuring the franchise fee, which is in lieu of taxes. The agreement states that the franchise fee is to be calculated by multiplying a base factor of .0035 (3.5 mills), per kilowatt hour sold of all retail sales of kilowatt hours sold within the utility service territory rounded to the nearest 1,000 kilowatt hour. The payment for 2016 was \$194,662.

Note 5 - Defined Benefit Pension Plans

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

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

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

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

1. GERF Benefits

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

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ended December 31, 2016, were \$59,920. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$31,285. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2016, the District reported a liability of \$1,242,284 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contributions meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$16,225. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0153%, an increase of 0.0007% when compared to the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$181,254 for its proportionate share of the GERF's pension expense.

At December 31, 2016, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,677	\$ 100,917
Changes in actuarial assumptions	267,930	-
Difference between projected and actual investment earnings	138,692	-
Change in proportion and differences between contributions made and City's proportionate share of contributions	27,208	46,975
City's contributions to GERF subsequent to the measurement date	<u>35,190</u>	<u>-</u>
Total	<u>\$ 472,697</u>	<u>\$ 147,892</u>

\$35,190 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	Pension Expense Amount
2017	\$ 72,038
2018	43,671
2019	129,033
2020	44,873
2021	-

2. PEPFF Pension Costs

At December 31, 2016, the City reported a liability of \$1,163,820 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.029%, an increase of 0.001% when compared to the prior year.

For the year ended December 31, 2016, the City recognized pension expense of \$199,789 for its proportionate share of the PEPFF's pension expense. The City recognized \$2,610 for the year ended December 31, 2016, as grant revenue for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 263	\$ 133,512
Changes in actuarial assumptions	687,473	
Difference between projected and actual investment earnings	100,333	-
Change in proportion and differences between contributions made and City's proportionate share of contributions	9,468	-
City's contributions to PEPFF subsequent to the measurement date	25,028	-
Total	\$ 822,565	\$ 133,512

\$25,028 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	Pension Expense Amount
2017	\$ 126,252
2018	126,252
2019	164,890
2020	134,791
2021	111,840

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2034 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the fund's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
City’s proportionate share of the GERF net pension liability	\$ 1,764,412	\$ 1,242,284	\$ 812,193
PEPPF discount rate	4.60%	5.60%	6.60%
City’s proportionate share of the PEPFF net pension liability	\$ 1,629,194	\$ 1,163,820	\$ 783,575

H. Pension Plan Fiduciary Net Position

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

Note 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.

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.



Required Supplementary Information
December 31, 2016

City of Blue Earth

City of Blue Earth
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes				
Property	\$ 274,669	\$ 274,669	\$ 283,832	\$ 9,163
Franchise	274,500	274,500	267,421	(7,079)
Special assessments	1,000	1,000	9,600	8,600
Licenses and permits	27,966	27,966	35,180	7,214
Intergovernmental revenue				
Local government aid	1,788,758	1,788,758	1,816,758	28,000
Residential market value credit	-	-	1,016	1,016
Other state aids and grants	88,332	88,332	83,135	(5,197)
Police aid	34,000	34,000	41,344	7,344
Fire aid	28,000	28,000	44,915	16,915
Charges for services				
General government	6,950	6,950	13,940	6,990
Police and fire contracts	52,140	52,140	55,882	3,742
Garbage and recycling	36,250	36,250	47,589	11,339
Parks and recreation	67,500	67,500	68,085	585
Storm water	-	-	82,348	82,348
Fines and forfeits	2,750	2,750	3,157	407
Interest earnings	-	-	29,947	29,947
Miscellaneous revenue				
Rental	21,624	21,624	19,439	(2,185)
Miscellaneous	28,600	28,600	143,333	114,733
SCORE	21,500	21,500	15,804	(5,696)
Donations	-	-	6,985	6,985
Total revenues	<u>2,754,539</u>	<u>2,754,539</u>	<u>3,069,710</u>	<u>315,171</u>
Expenditures				
General government				
Mayor and council	30,144	30,144	31,248	(1,104)
Administration and finance	318,261	318,261	326,661	(8,400)
Other general government	74,090	74,090	71,046	3,044
Capital outlay	2,250	2,250	-	2,250
Public safety				
Police				
Current expenditures	589,845	589,845	565,689	24,156
Capital outlay	35,000	35,000	40,468	(5,468)
Fire				
Current expenditures	193,612	193,612	208,575	(14,963)
Capital outlay	80,000	80,000	15,487	64,513
Other protection				
Current expenditures	-	-	13,034	(13,034)
Public Works				
Streets and highways				
Street maintenance	834,660	834,660	705,726	128,934
Sanitation and health	28,007	28,007	59,094	(31,087)
Street lighting	55,000	55,000	71,440	(16,440)
Street - other capital outlay	40,000	40,000	384,892	(344,892)

City of Blue Earth
 Budgetary Comparison Schedule – General Fund - Continued
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Culture and recreation				
Library - current expenditures	201,362	201,362	187,715	13,647
Library - capital outlay	2,000	2,000	3,500	(1,500)
Senior Center - current expenditures	73,808	73,808	74,134	(326)
Senior Center - capital outlay	2,000	2,000	8,280	(6,280)
Swimming Pool - current expenditures	139,418	139,418	150,850	(11,432)
Swimming Pool - capital outlay	4,000	4,000	-	4,000
Storm Water	17,050	17,050	39,675	(22,625)
Debt Service				
Principal	13,524	13,524	7,757	5,767
Interest	-	-	5,767	(5,767)
All other - current expenditures	70,691	70,691	92,489	(21,798)
Total expenditures	<u>2,804,722</u>	<u>2,804,722</u>	<u>3,063,527</u>	<u>(258,805)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(50,183)</u>	<u>(50,183)</u>	<u>6,183</u>	<u>56,366</u>
Other Financing Sources (Uses)				
Sale of capital assets	500	500	7,901	7,401
Transfers in	(30,488)	(30,488)	93,975	124,463
Transfers out	-	-	(277,975)	(277,975)
Total Other Financing Sources (Uses)	<u>(29,988)</u>	<u>(29,988)</u>	<u>(176,099)</u>	<u>(146,111)</u>
Net Change in Fund Balances	(80,171)	(80,171)	(169,916)	(89,745)
Fund Balance - Beginning	<u>3,140,584</u>	<u>3,140,584</u>	<u>2,735,446</u>	<u>(405,138)</u>
Fund Balance - Ending	<u>\$ 3,060,413</u>	<u>\$ 3,060,413</u>	<u>\$ 2,565,530</u>	<u>\$ (494,883)</u>

City of Blue Earth
 Budgetary Comparison Schedules – EDA and Airport Funds
 Year Ended December 31, 2016

EDA Fund:

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Property taxes	\$ 70,000	\$ 70,000	\$ 68,157	\$ (1,843)
Federal grants	-	-	56,135	56,135
Charges for services	6,500	6,500	56,857	50,357
Rent payments	240,000	240,000	247,235	7,235
Interest received	-	-	6,938	6,938
Donations	-	-	20,000	20,000
Miscellaneous revenue	20,000	20,000	32,964	12,964
Total revenues	<u>336,500</u>	<u>336,500</u>	<u>488,286</u>	<u>151,786</u>
Expenditures				
Economic development	266,440	266,440	715,660	(449,220)
Capital outlay	-	-	21,834	(21,834)
Total expenditures	<u>266,440</u>	<u>266,440</u>	<u>737,494</u>	<u>(471,054)</u>
Excess (deficiency) of revenues over (under) expenditures	70,060	70,060	(249,208)	(319,268)
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	49,825	49,825
Net change in fund balance	70,060	70,060	(199,383)	(269,443)
Fund Balance - Beginning	<u>1,428,893</u>	<u>1,428,893</u>	<u>1,404,676</u>	<u>(24,217)</u>
Fund Balance - Ending	<u>\$ 1,498,953</u>	<u>\$ 1,498,953</u>	<u>\$ 1,205,293</u>	<u>\$ (293,660)</u>

Airport Fund:

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Property taxes	\$ -	\$ -	\$ 10	\$ 10
State aid and grants	17,500	17,500	966,952	949,452
Charges for services	80,955	80,955	83,462	2,507
Total revenues	<u>98,455</u>	<u>98,455</u>	<u>1,050,424</u>	<u>951,969</u>
Expenditures				
Airport - Current expenses	77,725	77,725	82,390	(4,665)
Capital outlay	-	-	964,783	(964,783)
Interest and other charges	3,214	3,214	3,214	-
Total expenditures	<u>80,939</u>	<u>80,939</u>	<u>1,050,387</u>	<u>(969,448)</u>
Excess (deficiency) of revenues over (under) expenditures	17,516	17,516	37	(17,479)
Fund Balance - Beginning	<u>(266,831)</u>	<u>(266,831)</u>	<u>(266,831)</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (249,315)</u>	<u>\$ (249,315)</u>	<u>\$ (266,794)</u>	<u>\$ (17,479)</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, 2016, 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, 2016, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
General Fund	\$ 258,805	Greater than anticipated revenues
Special Revenue Funds		
EDA	471,054	Greater than anticipated revenues and available fund balance
Airport	969,448	Greater than anticipated revenues and future revenues or transfers

City of Blue Earth
 Schedule of Employer's Share of Collective Net Pension Liability and Schedule of Employer's Contributions
 Year Ended December 31, 2016

**Schedule of Employer's Share of Net Pension Liability
 Last 10 Fiscal Years ***

Pension Plan	Measurement Date	City's Proportion (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With the City (b)	Total (d) (a+b)	City's Covered - Employee Payroll (e)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Employee Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/16	0.0153%	\$ 1,242,284	N/A	\$ 1,242,284	\$ 882,750	140.7%	78.2%
GERF	06/30/15	0.0146%	\$ 756,648	N/A	\$ 756,648	\$ 893,140	84.7%	78.2%
GERF	06/30/14	0.0173%	\$ 812,667	N/A	\$ 812,667	\$ 885,808	91.7%	78.9%
PEPFF	06/30/16	0.029%	\$ 1,163,820	N/A	\$ 1,163,820	\$ 276,502	420.9%	86.6%
PEPFF	06/30/15	0.028%	\$ 318,146	N/A	\$ 318,146	\$ 271,492	117.2%	86.6%
PEPFF	06/30/14	0.029%	\$ 313,212	N/A	\$ 313,212	\$ 247,116	126.7%	87.1%

**Schedule of Employer's Contributions
 Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d)	Contributions as a Percentage of Covered - Employee Payroll (b/d)
GERF	12/31/16	\$ 59,920	\$ 59,920	\$ -	\$ 921,842	6.5%
GERF	12/31/15	\$ 66,985	\$ 66,985	\$ -	\$ 994,471	6.7%
GERF	12/31/14	\$ 64,454	\$ 64,454	\$ -	\$ 935,709	6.9%
PEPFF	12/31/16	\$ 31,285	\$ 31,285	\$ -	\$ 289,675	10.8%
PEPFF	12/31/15	\$ 43,982	\$ 43,982	\$ -	\$ 370,968	11.9%
PEPFF	12/31/14	\$ 37,809	\$ 37,809	\$ -	\$ 336,580	11.2%

* GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.



Supplemental Schedules
December 31, 2016
City of Blue Earth

City of Blue Earth
Combining Balance Sheet – Nonmajor Debt Service Funds
December 31, 2016

	Debt Service Funds												Total Debt Service Non-major Funds
	General Obligation 2012A	General Obligation 2005B	General Obligation 2013A	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	General Obligation 2015A	General Obligation 2016A	TIF 7-1	TIF 6-1	
Assets													
Cash and investments	\$ 538,017	\$ -	\$ 94,632	\$ -	\$ 225,929	\$ 555,889	\$ 467,277	\$ 6,546	301,698	102,812	\$ 7,266	\$ -	\$ 2,300,066
Receivables													
Taxes	8,294	-	3,662	-	7,901	649	3,933	2,733	7,189	-	-	-	34,361
Special assessments	468,163	-	-	-	46,177	357,174	108,674	361,469	353,407	455,786	-	-	2,150,850
Total assets	<u>\$ 1,014,474</u>	<u>\$ -</u>	<u>\$ 98,294</u>	<u>\$ -</u>	<u>\$ 280,007</u>	<u>\$ 913,712</u>	<u>\$ 579,884</u>	<u>\$ 370,748</u>	<u>\$ 662,294</u>	<u>\$ 558,598</u>	<u>\$ 7,266</u>	<u>\$ -</u>	<u>\$ 4,485,277</u>
Liabilities													
Accounts payable	\$ 200	\$ -	\$ 200	\$ -	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 7,548	\$ -	\$ -	\$ 8,948
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	730	730
Total liabilities	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>	<u>7,548</u>	<u>-</u>	<u>730</u>	<u>9,678</u>
Deferred Inflow of Resources													
Unavailable revenue	474,609	-	2,975	-	52,585	354,951	110,594	362,942	358,848	455,786	-	-	2,173,290
Fund Balance													
Restricted	539,665	-	95,119	-	227,222	558,561	469,090	7,606	303,246	95,264	7,266	-	2,303,039
Unassigned	-	-	-	-	-	-	-	-	-	-	-	(730)	(730)
Total Fund balance	<u>539,665</u>	<u>-</u>	<u>95,119</u>	<u>-</u>	<u>227,222</u>	<u>558,561</u>	<u>469,090</u>	<u>7,606</u>	<u>303,246</u>	<u>95,264</u>	<u>7,266</u>	<u>(730)</u>	<u>2,302,309</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,014,474</u>	<u>\$ -</u>	<u>\$ 98,294</u>	<u>\$ -</u>	<u>\$ 280,007</u>	<u>\$ 913,712</u>	<u>\$ 579,884</u>	<u>\$ 370,748</u>	<u>\$ 662,294</u>	<u>\$ 558,598</u>	<u>\$ 7,266</u>	<u>\$ -</u>	<u>\$ 4,485,277</u>

City of Blue Earth
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –Nonmajor Debt Service Funds
Year Ended December 31, 2016

	Debt Service Funds												Total Debt Service Non-major Funds
	General Obligation 2012A	General Obligation 2005B	General Obligation 2013A	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	General Obligation 2015A	General Obligation 2016A	TIF 7-1	TIF 6-1	
Revenues													
Property taxes	\$ 184,499	\$ 2,954	\$ 82,996	\$ 23,473	\$ 179,871	\$ 9,476	\$ 59,942	\$ 71,231	\$ 233,540	\$ -	\$ 7,053	\$ 2,048	\$ 857,083
Special assessments	61,042	-	-	6,011	5,366	68,785	18,757	33,546	43,526	79,988	-	-	317,021
Interest earnings	2,077	-	276	202	689	3,007	2,572	-	911	97	29	-	9,860
Total Revenues	247,618	2,954	83,272	29,686	185,926	81,268	81,271	104,777	277,977	80,085	7,082	2,048	1,183,964
Expenditures													
Miscellaneous - current	200	-	200	-	200	200	-	200	200	38,102	6,780	-	46,082
Debt Service													
Principal	227,608	10,000	65,000	80,000	150,000	80,140	70,718	117,250	-	-	-	-	800,716
Interest and fiscal charges	68,378	201	15,050	2,866	27,170	28,663	5,260	43,935	98,648	94,121	-	12	384,304
Bond issuance costs	450	-	-	-	-	-	-	-	450	800	-	-	1,700
Total Expenditures	296,636	10,201	80,250	82,866	177,370	109,003	75,978	161,385	99,298	133,023	6,780	12	1,232,802
Excess (Deficiency) of Revenues over (under) Expenditures	(49,018)	(7,247)	3,022	(53,180)	8,556	(27,735)	5,293	(56,608)	178,679	(52,938)	302	2,036	(48,838)
Other Financing Sources (Uses)													
Bond proceeds	-	-	-	-	-	-	-	-	-	102,019	-	-	102,019
Operating transfers in	50,000	11,792	-	-	-	-	-	70,000	50,000	46,183	-	-	227,975
Operating transfers out	-	-	-	(22,736)	-	-	-	-	-	-	-	-	(22,736)
Total Other Financing Sources (Uses)	50,000	11,792	-	(22,736)	-	-	-	70,000	50,000	148,202	-	-	307,258
Net Change in Fund Balances	982	4,545	3,022	(75,916)	8,556	(27,735)	5,293	13,392	228,679	95,264	302	2,036	258,420
Fund Balance - Beginning	538,683	(4,545)	92,097	75,916	218,666	586,296	463,797	(5,786)	74,567	-	6,964	(2,766)	2,043,889
Fund Balance - Ending	\$ 539,665	\$ -	\$ 95,119	\$ -	\$ 227,222	\$ 558,561	\$ 469,090	\$ 7,606	\$ 303,246	\$ 95,264	\$ 7,266	\$ (730)	\$ 2,302,309

City of Blue Earth

Combining Balance Sheet – Nonmajor Special Revenue Funds and Total Nonmajor Governmental Funds
Year Ended December 31, 2016

	Special Revenue Fund	Total Nonmajor Governmental Funds
	Housing Loan Fund	
Assets		
Cash and investments	\$ 684,394	\$ 2,984,460
Receivables		
Taxes	1,075	35,436
Special Assessments	-	2,150,850
Interest	172	172
Notes	315,236	315,236
Total assets	\$ 1,000,877	\$ 5,486,154
Liabilities		
Accounts payable	\$ 100	\$ 9,048
Due to other funds	-	730
Other payables	236	236
Accrued wages and salaries	654	654
Total liabilities	990	10,668
Deferred Inflow of Resources		
Unavailable revenue	307,120	2,480,410
Fund balances		
Restricted	692,767	2,995,806
Unassigned	-	(730)
Total fund balances	692,767	2,995,076
 Total Liabilities, Deferred inflows of resources, and Fund Balances	 \$ 1,000,877	 \$ 5,486,154

City of Blue Earth
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue
Funds
Year Ended December 31, 2016

	Special Revenue Fund
	Housing Loan Fund
Revenues	
Property taxes	\$ 42,466
Interest received	4,032
Miscellaneous	11,298
Total revenues	57,796
Expenditures	
Economic Development - current expenditures	10,102
Economic Development - capital outlay	38,358
Total expenditures	48,460
Net Change in Fund Balances	17,302
Fund Balance - Beginning	675,465
Fund Balance - Ending	\$ 692,767

City of Blue Earth
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
Governmental Funds
Year Ended December 31, 2016

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 899,549	\$ 462,195	\$ 1,361,744
Franchise	-	267,421	267,421
Special assessments	317,021	133,165	450,186
Federal grants	-	56,135	56,135
Licenses and permits	-	35,180	35,180
Intergovernmental revenue			
Local government aid	-	1,816,758	1,816,758
Residential market value credit	-	1,016	1,016
Other state aids and grants	-	2,122,762	2,122,762
Police aid	-	41,344	41,344
Fire aid	-	44,915	44,915
Charges for services			
General government	-	70,797	70,797
Airport	-	83,462	83,462
Police and fire contracts	-	55,882	55,882
Garbage and recycling	-	47,589	47,589
Parks and recreation	-	68,085	68,085
Storm water	-	82,348	82,348
Fines and forfeits	-	3,157	3,157
Interest received	13,892	49,286	63,178
Rent payments	-	247,235	247,235
Miscellaneous revenue			
Miscellaneous	11,298	211,540	222,838
Donations	-	26,985	26,985
Total Revenues	<u>1,241,760</u>	<u>5,927,257</u>	<u>7,169,017</u>
Expenditures			
General Government			
Mayor and council	-	31,248	31,248
Administration and finance	-	326,661	326,661
Other general government	-	71,046	71,046
Public Safety			
Police			
Current expenditures	-	565,689	565,689
Capital outlay	-	40,468	40,468
Fire			
Current expenditures	-	208,575	208,575
Capital outlay	-	15,487	15,487
Other protection			
Current expenditures	-	13,034	13,034
Public Works			
Streets and highways			
Street maintenance	-	705,726	705,726
Snow and ice removal	-	59,094	59,094
Street lighting	-	71,440	71,440
Street construction - capital outlay	-	1,990,221	1,990,221
Street - other capital outlay	-	384,892	384,892

City of Blue Earth
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
Governmental Funds - Continued
Year Ended December 31, 2016

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Culture and Recreation			
Library			
Current expenditures	-	187,715	187,715
Capital outlay	-	3,500	3,500
Senior Center			
Current expenditures	-	74,134	74,134
Capital outlay	-	8,280	8,280
Swimming Pool			
Current expenditures	-	150,850	150,850
Economic Development - current expenditures			
Current expenditures	10,102	715,660	725,762
Capital outlay	38,358	21,834	60,192
Airport			
Airport - current expenditures	-	82,390	82,390
Airport - capital outlay	-	964,783	964,783
Storm water			
Storm water - current expenditures	-	39,675	39,675
Miscellaneous			
All other - current expenditures	46,082	92,689	138,771
Debt Service			
Principal	800,716	160,637	961,353
Bond issuance costs	1,700	450	2,150
Interest and fiscal charges	384,304	79,961	464,265
Total Expenditures	<u>1,281,262</u>	<u>7,066,139</u>	<u>8,347,401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(39,502)</u>	<u>(1,138,882)</u>	<u>(1,178,384)</u>
Other Financing Sources (Uses)			
Sale of capital assets	7,966	57,726	65,692
Bond issuance	102,019	2,000,006	2,102,025
Operating transfers in	227,975	143,975	371,950
Operating transfers out	<u>(22,736)</u>	<u>(277,975)</u>	<u>(300,711)</u>
Total other financing sources (uses)	<u>315,224</u>	<u>1,923,732</u>	<u>2,238,956</u>
Net Change in Fund Balances	275,722	784,850	1,060,572
Fund Balance - Beginning	<u>2,719,354</u>	<u>3,695,434</u>	<u>6,414,788</u>
Fund Balance - Ending	<u>\$ 2,995,076</u>	<u>\$ 4,480,284</u>	<u>\$ 7,475,360</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, the financial statements 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 and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, 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 Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Blue Earth's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the City of Blue Earth and the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

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

Mankato, Minnesota
June 16, 2017