



Financial Statements  
December 31, 2012

# City of Blue Earth

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**CITY COUNCIL**

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

**ADMINISTRATION**

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



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth as of December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Blue Earth's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Board of Public Works 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth as of December 31, 2012, 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 on pages 33-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditor 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 compromise the City of Blue Earth's financial statements. The introductory section, and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

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



Mankato, Minnesota  
June 26, 2013

City of Blue Earth  
Statement of Net Position  
December 31, 2012

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Cash and investments	\$ 5,606,721	\$ 1,368,853	\$ 6,975,574	\$ 2,616,232
Restricted cash and investments				
Refunding bond	1,539,623	-	1,539,623	395,362
Receivables				
Taxes	54,291	-	54,291	-
Special assessments	1,597,527	116,977	1,714,504	183,821
Accounts	61,109	184,972	246,081	667,373
Interest	8,497	-	8,497	-
Notes	1,170,672	-	1,170,672	50,454
Due from component unit	210,000	-	210,000	-
Due from other governments	705,808	-	705,808	-
Prepaid items	-	-	-	331,326
Inventory	-	295,712	295,712	457,265
Deferred charges	191,051	3,825	194,876	44,907
Capital assets not being depreciation				
Land	737,013	219,035	956,048	141,741
Construction in progress	2,002,832	576,167	2,578,999	222,109
Capital assets net of accumulated depreciation				
Road network	17,359,999	-	17,359,999	-
Distribution system	-	-	-	11,502,567
Buildings and infrastructure	5,295,473	4,378,262	9,673,735	-
Equipment	1,089,957	4,404,846	5,494,803	-
Vehicles	804,314	-	804,314	-
Total assets	<u>38,434,887</u>	<u>11,548,649</u>	<u>49,983,536</u>	<u>16,613,157</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Checks issued in excess of deposits	2,228,521	-	2,228,521	-
Accounts payable	618,526	205,917	824,443	511,375
Other payables	19,436	-	19,436	348,910
Due to other funds	-	-	-	210,000
Accrued vacation and sick leave	1,162	23,885	25,047	-
Accrued salaries and wages	54,872	-	54,872	-
Unearned revenue	13,419	47,263	60,682	260,671
Interest payable	100,995	25,407	126,402	-
Noncurrent liabilities:				
Due within one year	585,762	472,000	1,057,762	298,042
Due in more than one year	9,740,592	5,095,542	14,836,134	2,548,862
Total liabilities	<u>13,363,285</u>	<u>5,870,014</u>	<u>19,233,299</u>	<u>4,177,860</u>
<b>Net Position</b>				
Net investment in capital assets	17,154,285	4,014,593	21,168,878	9,217,140
Restricted				
Debt service	4,612,778	-	4,612,778	364,810
Other purposes	2,987,463	-	2,987,463	30,552
Unrestricted	317,076	1,664,042	1,981,118	2,822,795
Total net position	<u>\$ 25,071,602</u>	<u>\$ 5,678,635</u>	<u>\$ 30,750,237</u>	<u>\$ 12,435,297</u>

City of Blue Earth  
Statement of Activities  
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit Business-type Activities
		Charges for Services	Operating Grants and Contributions	Primary Government		Totals	
				Governmental Activities	Business-type Activities		
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Activities</b>							
General government	\$ 439,923	\$ 44,826	\$ -	\$ (395,097)	\$ -	\$ (395,097)	
Public safety	1,556,293	60,111	43,142	(1,453,040)	-	(1,453,040)	
Transportation	1,387,818	139,963	2,052,527	804,672	-	804,672	
Culture and recreation	322,493	73,918	-	(248,575)	-	(248,575)	
Housing and economic development	1,355,044	261,380	-	(1,093,664)	-	(1,093,664)	
Interest and other charges on long-term debt	279,731	-	-	(279,731)	-	(279,731)	
Total governmental activities	<u>5,341,302</u>	<u>580,198</u>	<u>2,095,669</u>	<u>(2,665,435)</u>	<u>-</u>	<u>(2,665,435)</u>	
<b>Business-Type Activities</b>							
Sewer	903,776	1,127,351	-	-	223,575	223,575	
Liquor	1,397,465	1,498,613	-	-	101,148	101,148	
Fitness Center	88,962	144,994	-	-	56,032	56,032	
Total business-type activities	<u>2,390,203</u>	<u>2,770,958</u>	<u>-</u>	<u>-</u>	<u>380,755</u>	<u>380,755</u>	
Total Primary Government	<u>\$ 7,731,505</u>	<u>\$ 3,351,156</u>	<u>\$ 2,095,669</u>	<u>(2,665,435)</u>	<u>380,755</u>	<u>(2,284,680)</u>	
<b>Component Unit</b>							
Electric	\$ 5,534,663	\$ 5,613,173	\$ -				\$ 78,510
Water	689,324	804,088	-				114,764
	<u>\$ 6,223,987</u>	<u>\$ 6,417,261</u>	<u>\$ -</u>				<u>\$ 193,274</u>
<b>General Revenues</b>							
Property taxes				1,141,534	-	1,141,534	-
Special assessments				1,466,102	-	1,466,102	-
State aid				3,112,692	-	3,112,692	-
Franchise tax				283,198	-	283,198	-
Fees and fines				3,540	-	3,540	-
License and permits				47,335	-	47,335	-
Earnings on investments				27,152	1,135	28,287	5,168
Lease payments				538,846	-	538,846	-
Transfers				11,106	(11,106)	-	-
Gain (loss) on sale of capital assets				177,414	320	177,734	(89,827)
Miscellaneous				247,933	(3,345)	244,588	2,608
Total general revenues				<u>7,056,852</u>	<u>(12,996)</u>	<u>7,043,856</u>	<u>(82,051)</u>
Changes in Net Position				4,391,417	367,759	4,759,176	111,223
Net Position - Beginning				<u>20,680,185</u>	<u>5,310,876</u>	<u>25,991,061</u>	<u>12,324,074</u>
Net Position - Ending				<u>\$ 25,071,602</u>	<u>\$ 5,678,635</u>	<u>\$ 30,750,237</u>	<u>\$ 12,435,297</u>

City of Blue Earth  
Balance Sheet – Governmental Funds  
December 31, 2012

	General Fund	Housing Loan Fund	Economic Development Authority	Airport	2011 10th Street Project	General Obligation 2006D	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash and investments	\$ 2,159,148	\$ 743,840	\$ 1,080,396	\$ -	\$ -	\$ 536,448	\$ 1,086,889	\$ 5,606,721
Restricted cash for bond refunding	-	-	-	-	-	1,539,623	-	1,539,623
<b>Receivables</b>								
Taxes	16,622	502	3,222	132	-	7,057	26,756	54,291
Special assessments	80,409	-	-	-	-	636,518	880,600	1,597,527
Interest	7,164	140	1,193	-	-	-	-	8,497
Accounts	58,392	-	2,408	309	-	-	-	61,109
Notes	-	589,380	581,292	-	-	-	-	1,170,672
Due from other funds	-	-	-	-	210,000	-	-	210,000
Due from other governments	24,582	-	-	487,877	193,349	-	-	705,808
<b>Total assets</b>	<b><u>\$ 2,346,317</u></b>	<b><u>\$ 1,333,862</u></b>	<b><u>\$ 1,668,511</u></b>	<b><u>\$ 488,318</u></b>	<b><u>\$ 403,349</u></b>	<b><u>\$ 2,719,646</u></b>	<b><u>\$ 1,994,245</u></b>	<b><u>\$ 10,954,248</u></b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Checks issued in excess of deposits	\$ -	\$ -	\$ -	\$ 987,659	\$ 1,231,059	\$ -	\$ 9,803	\$ 2,228,521
Accounts payable	141,376	11,401	2,019	73,946	389,725	-	59	618,526
Other payables	19,108	123	205	-	-	-	-	19,436
Accrued vacation and sick leave	-	436	726	-	-	-	-	1,162
Accrued wages and salaries	54,872	-	-	-	-	-	-	54,872
Unearned revenue	-	-	-	13,419	-	-	-	13,419
<b>Total liabilities</b>	<b><u>215,356</u></b>	<b><u>11,960</u></b>	<b><u>2,950</u></b>	<b><u>1,075,024</u></b>	<b><u>1,620,784</u></b>	<b><u>-</u></b>	<b><u>9,862</u></b>	<b><u>2,935,936</u></b>
<b>Deferred Inflows of Resources</b>								
Unavailable revenue	91,599	589,713	557,332	487,998	210,000	641,188	896,942	3,474,772
<b>Fund Balances</b>								
Restricted	-	732,189	1,056,024	-	-	-	-	1,788,213
Restricted for debt service	-	-	-	-	-	2,078,458	1,097,185	3,175,643
Assigned	1,122,550	-	52,205	-	-	-	-	1,174,755
Unassigned	916,812	-	-	(1,074,704)	(1,427,435)	-	(9,744)	(1,595,071)
<b>Total fund balances</b>	<b><u>2,039,362</u></b>	<b><u>732,189</u></b>	<b><u>1,108,229</u></b>	<b><u>(1,074,704)</u></b>	<b><u>(1,427,435)</u></b>	<b><u>2,078,458</u></b>	<b><u>1,087,441</u></b>	<b><u>4,543,540</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 2,346,317</u></b>	<b><u>\$ 1,333,862</u></b>	<b><u>\$ 1,668,511</u></b>	<b><u>\$ 488,318</u></b>	<b><u>\$ 403,349</u></b>	<b><u>\$ 2,719,646</u></b>	<b><u>\$ 1,994,245</u></b>	<b><u>\$ 10,954,248</u></b>



City of Blue Earth  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2012

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Total Fund Balances for Governmental Funds		\$ 4,543,540
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$39,435,876 and the accumulated depreciation is \$12,146,288.		27,289,588
Some of the City's property taxes and loans will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred inflows in the funds.		3,474,772
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$100,995.		(100,995)
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	\$ 9,184,668	
Revenue bonds	985,000	
Note payable	156,686	
		(10,326,354)
Expenses that were paid for the issuance of long-term debt, bond issuance costs and underwriter fees are amortized over the term of the debt. The total deferred charge assets are \$328,807 and the accumulated amortization is \$137,756.		191,051
Total Net Position for Governmental Activities		\$ 25,071,602

City of Blue Earth

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2012

	General Fund	Housing Loan Fund	Economic Development Authority	Airport	2011 10th Street Project	General Obligation 2006D	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Property taxes	\$ 326,856	\$ 10,881	\$ 37,263	\$ -	\$ -	\$ 154,340	\$ 612,194	\$ 1,141,534
Franchise taxes	283,198	-	-	-	-	-	-	283,198
Special assessments	5,585	-	-	-	-	152,082	157,077	314,744
Fees and fines	3,540	-	-	-	-	-	-	3,540
Licenses and permits	47,335	-	-	-	-	-	-	47,335
State aid and grants	1,701,529	5	20	-	595,069	64	248	2,296,935
Federal grants	858,899	-	-	2,052,527	-	-	-	2,911,426
Charges for services	240,869	-	261,380	77,949	-	-	-	580,198
Interest earnings	23,626	765	851	-	-	299	1,611	27,152
Lease payments	-	-	-	-	-	-	538,846	538,846
Miscellaneous	142,083	29,215	26,621	14	-	50,000	-	247,933
Total revenue	<u>3,633,520</u>	<u>40,866</u>	<u>326,135</u>	<u>2,130,490</u>	<u>595,069</u>	<u>356,785</u>	<u>1,309,976</u>	<u>8,392,841</u>
<b>Expenditures</b>								
<b>Current</b>								
General government	407,297	-	-	-	-	-	-	407,297
Capital outlay	9,656	-	-	-	-	-	-	9,656
Public safety	671,847	-	-	-	-	-	-	671,847
Capital outlay	913,755	-	-	-	-	-	-	913,755
Public works	704,189	-	-	-	-	-	-	704,189
Capital outlay	237,392	-	-	-	2,114,100	-	-	2,351,492
Culture and recreation	390,247	-	-	-	-	-	-	390,247
Capital outlay	6,705	-	-	-	-	-	-	6,705
Economic development	-	7,833	216,499	-	-	-	-	224,332
Capital outlay	-	179,091	4,580	-	-	-	-	183,671
Storm water	42,909	-	-	-	-	-	-	42,909
Airport	-	-	-	82,035	-	-	-	82,035
Capital outlay	-	-	-	2,885,692	-	-	-	2,885,692
Miscellaneous	73,831	-	-	-	14,217	20,300	605,336	713,684
<b>Debt Services</b>								
Principal	6,514	-	-	-	-	80,000	1,132,129	1,218,643
Bond issuance costs	-	-	-	-	-	-	32,168	32,168
Interest and other charges	7,010	-	-	626	1,513	73,790	142,872	225,811
Total expenditures	<u>3,471,352</u>	<u>186,924</u>	<u>221,079</u>	<u>2,968,353</u>	<u>2,129,830</u>	<u>174,090</u>	<u>1,912,505</u>	<u>11,064,133</u>
Excess (deficiency) of revenues over (under) expenditures	<u>162,168</u>	<u>(146,058)</u>	<u>105,056</u>	<u>(837,863)</u>	<u>(1,534,761)</u>	<u>182,695</u>	<u>(602,529)</u>	<u>(2,671,292)</u>
<b>Other Financing Sources (Uses)</b>								
Sale of capital assets	53,104	7,723	100,000	20,000	-	-	-	180,827
Bond issuance	-	-	-	-	2,395,000	1,560,000	-	3,955,000
Transfers in	88,789	-	328,785	-	-	-	187,710	605,284
Transfers out	(158,203)	-	-	-	-	-	(435,975)	(594,178)
Total other financing sources (uses)	<u>(16,310)</u>	<u>7,723</u>	<u>428,785</u>	<u>20,000</u>	<u>2,395,000</u>	<u>1,560,000</u>	<u>(248,265)</u>	<u>4,146,933</u>
Net change in fund balances	145,858	(138,335)	533,841	(817,863)	860,239	1,742,695	(850,794)	1,475,641
Fund Balances - Beginning of Year	<u>1,893,504</u>	<u>870,524</u>	<u>574,388</u>	<u>(256,841)</u>	<u>(2,287,674)</u>	<u>335,763</u>	<u>1,938,235</u>	<u>3,067,899</u>
Fund Balances - End of Year	<u>\$ 2,039,362</u>	<u>\$ 732,189</u>	<u>\$ 1,108,229</u>	<u>\$(1,074,704)</u>	<u>\$ (1,427,435)</u>	<u>\$ 2,078,458</u>	<u>\$ 1,087,441</u>	<u>\$ 4,543,540</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, 2012

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Total Net Change in Fund Balances - Governmental Funds	\$ 1,475,641
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$5,458,193) exceeds depreciation expense (\$920,058) in the current period.	4,538,135
The net effect of miscellaneous transactions involving capital assets such as sales and trade-ins is to decrease net position.	(3,413)
In governmental funds, issuance of new debt is reported as a source of financing in the amount of net proceeds received. However, in the statement of activities, a new debt issuance is not revenue, rather it constitutes a long-term liability in the statement of net position.	(3,955,000)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.	(12,195)
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Delinquent taxes and deferred and delinquent special assessment receivables increased by \$586,271, deferred notes receivable increased by \$216,760, miscellaneous deferred receivables decreased by \$19,550, due from other governments increased \$487,877, due from other funds decreased by \$120,000.	1,151,358
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	1,218,643
Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. There was \$100,995 and \$79,243 of accrued interest at December 31, 2012 and 2011, respectively.	(21,752)
Change in Net Position of Governmental Activities	<u>\$ 4,391,417</u>

City of Blue Earth  
Statement of Net Assets – Proprietary Funds  
December 31, 2012

	Sewer	Liquor	Fitness Center	Total
<b>Assets</b>				
Cash and investments	\$ 904,880	\$ 299,965	\$ 164,008	\$ 1,368,853
Receivables				
Special assessments	116,977	-	-	116,977
Accounts	184,477	495	-	184,972
Inventory	-	295,712	-	295,712
Total current assets	<u>1,206,334</u>	<u>596,172</u>	<u>164,008</u>	<u>1,966,514</u>
<b>Noncurrent Assets</b>				
Deferred charges	3,825	-	-	3,825
Capital assets not being depreciated				
Land	119,035	100,000	-	219,035
Construction in progress	576,167	-	-	576,167
Capital assets, net of accumulated depreciation				
Buildings and infrastructure	3,880,578	415,544	82,140	4,378,262
Equipment	<u>4,321,795</u>	<u>53,543</u>	<u>29,508</u>	<u>4,404,846</u>
Total noncurrent assets	<u>8,901,400</u>	<u>569,087</u>	<u>111,648</u>	<u>9,582,135</u>
Total assets	<u>10,107,734</u>	<u>1,165,259</u>	<u>275,656</u>	<u>11,548,649</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	86,860	113,536	5,521	205,917
Accrued vacation	6,387	14,283	3,215	23,885
Deferred revenue	47,263	-	-	47,263
Bonds payable - current	472,000	-	-	472,000
Interest payable	25,407	-	-	25,407
Total current liabilities	<u>637,917</u>	<u>127,819</u>	<u>8,736</u>	<u>774,472</u>
<b>Noncurrent Liabilities</b>				
Bonds payable	5,095,542	-	-	5,095,542
Total liabilities	<u>5,733,459</u>	<u>127,819</u>	<u>8,736</u>	<u>5,870,014</u>
<b>Net Position</b>				
Net invested in capital assets	3,333,858	569,087	111,648	4,014,593
Unrestricted	<u>1,040,417</u>	<u>468,353</u>	<u>155,272</u>	<u>1,664,042</u>
Total Net Position	<u>\$ 4,374,275</u>	<u>\$ 1,037,440</u>	<u>\$ 266,920</u>	<u>\$ 5,678,635</u>

City of Blue Earth  
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
Year Ended December 31, 2012

	Sewer	Liquor	Fitness Center	Total
Operating Revenues				
Service and fees	\$ 1,127,351	\$ -	\$ 144,994	\$ 1,272,345
Sales	-	1,498,613	-	1,498,613
Total operating revenues	<u>1,127,351</u>	<u>1,498,613</u>	<u>144,994</u>	<u>2,770,958</u>
Operating Expenses				
Salaries and benefits	196,993	171,753	39,297	408,043
Costs of goods sold	-	1,112,434	-	1,112,434
Supplies	30,342	4,858	7,058	42,258
Utilities	89,383	17,316	10,410	117,109
Other services and charges	39,128	6,413	4,657	50,198
Repairs and maintenance	79,140	6,457	7,540	93,137
Depreciation	340,498	19,086	11,574	371,158
Miscellaneous	48,018	40,064	8,426	96,508
Total operating expenses	<u>823,502</u>	<u>1,378,381</u>	<u>88,962</u>	<u>2,290,845</u>
Operating income	<u>303,849</u>	<u>120,232</u>	<u>56,032</u>	<u>480,113</u>
Nonoperating Revenues (Expenses)				
Refunds and reimbursements	500	-	-	500
Interest and investment revenue	688	329	118	1,135
Amortization expense	(1,700)	(16,904)	-	(18,604)
Interest expense	(78,574)	(2,180)	-	(80,754)
Miscellaneous revenue (expense), net	-	(4,548)	703	(3,845)
Total nonoperating revenues (expenses)	<u>(79,086)</u>	<u>(23,303)</u>	<u>821</u>	<u>(101,568)</u>
Income before contributions and transfers	<u>224,763</u>	<u>96,929</u>	<u>56,853</u>	<u>378,545</u>
Other financing sources				
Gain on sale of capital assets	320	-	-	320
Transfers in	86,903	-	-	86,903
Transfers out	(9,220)	(88,789)	-	(98,009)
Total other financing sources	<u>78,003</u>	<u>(88,789)</u>	<u>-</u>	<u>(10,786)</u>
Change in net position	<u>302,766</u>	<u>8,140</u>	<u>56,853</u>	<u>367,759</u>
Total Net Position - Beginning of Year	<u>4,071,509</u>	<u>1,029,300</u>	<u>210,067</u>	<u>5,310,876</u>
Total Net Position - End of Year	<u>\$ 4,374,275</u>	<u>\$ 1,037,440</u>	<u>\$ 266,920</u>	<u>\$ 5,678,635</u>

City of Blue Earth  
Statement of Cash Flows – Proprietary Funds  
Year Ended December 31, 2012

	Sewer	Liquor	Fitness Center	Total
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,092,117	\$ 1,498,847	\$ 144,994	\$ 2,735,958
Payments to employees	(195,986)	(170,773)	(38,977)	(405,736)
Payments to suppliers	(444,577)	(1,233,563)	(46,240)	(1,724,380)
Net cash provided by operating activities	<u>451,554</u>	<u>94,511</u>	<u>59,777</u>	<u>605,842</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Miscellaneous receipts	-	(4,548)	703	(3,845)
Transfers from governmental funds	86,903	-	-	86,903
Transfers to governmental funds	(9,220)	(88,789)	-	(98,009)
Net cash provided (used) by noncapital financing activities	<u>77,683</u>	<u>(93,337)</u>	<u>703</u>	<u>(14,951)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from issuance of long-term debt	1,266,656	-	-	1,266,656
Payments on long-term debt	(432,574)	(420,000)	-	(852,574)
Purchase of capital assets	(967,242)	-	-	(967,242)
Interest paid on debt	(71,653)	(2,180)	-	(73,833)
Gain on sale of fixed assets	320	-	-	320
Refunds and reimbursements	500	-	-	500
Net cash (used by) capital and related financing activities	<u>(203,993)</u>	<u>(422,180)</u>	<u>-</u>	<u>(626,173)</u>
<b>Cash Flows from Investing Activities</b>				
Earnings on investments and cash	688	329	118	1,135
Net change in cash	325,932	(420,677)	60,598	(34,147)
Balances - Beginning of the Year (including \$430,339 for the liquor fund reported as restricted)	<u>578,948</u>	<u>720,642</u>	<u>103,410</u>	<u>1,403,000</u>
Balances - End of the Year	<u>\$ 904,880</u>	<u>\$ 299,965</u>	<u>\$ 164,008</u>	<u>\$ 1,368,853</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating income	\$ 303,849	\$ 120,232	\$ 56,032	\$ 480,113
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	340,498	19,086	11,574	371,158
Changes in assets and liabilities:				
Accounts receivable	(39,754)	234	-	(39,520)
Inventory	-	(28,510)	-	(28,510)
Special assessments and taxes	4,520	-	-	4,520
Accounts payable	(158,563)	(17,511)	(8,149)	(184,223)
Accrued expense	1,007	980	320	2,307
Deferred revenue	(3)	-	-	(3)
Net Cash Provided by Operating Activities	<u>\$ 451,554</u>	<u>\$ 94,511</u>	<u>\$ 59,777</u>	<u>\$ 605,842</u>

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

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

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

GASB Statement No. 14 "The Financial Reporting Entity," GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" established standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the basic level of government which has oversight responsibility and control over all activities related to the government in the City's area. The City receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the GASB pronouncement's, since 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.

Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The Economic Development Authority is a blended component unit and is governed by a board appointed by the City Council. The loan authorizations are approved by the government's council and the legal ability for any debt remains with the government. The Economic Development Authority is reported in one Special Revenue fund.

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



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

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

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

The *General Obligation 2006D* debt service fund provides for the debt service of the 2006D G.O. Improvement Bonds and the 2012A G.O. Refunding Bonds.

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

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

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

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

## 2. Receivables and Payables

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

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

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

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

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

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

## 3. Inventories and Prepaid Items

All inventories are valued at the lower of cost (average cost method) or market. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed in the fund financial statements.

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

## 4. Contract Negotiation Expenses

The cost of negotiating the contract extension with Alliant Energy is being amortized on the straight line method, over the life of the contract extension, which runs through April 2018. The balance as of December 31, 2012, was \$249,296.

## 5. Capital Assets

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

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

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

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

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

## 6. Deferred Outflows / Inflows of Resources

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

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

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

Vacation and sick leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees. Employees are allowed to accrue vacation leave up to a maximum of one and a half times their annual accrual rate. Upon termination of employment, an employee shall 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.

### **8. Compensated Absences**

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

### **9. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at face value and bond premiums, discounts, and issuance costs are reported as deferred charges.

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

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

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

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

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

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

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

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

#### **F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

#### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2012, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

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

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

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (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, 2012, expenditures exceed appropriations in the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
General Fund	\$ 1,104,258	Greater than anticipated revenues
Special Revenue Funds		
EDA	146,246	Greater than anticipated revenues
Airport	2,897,547	Greater than anticipated revenues; the remaining excess expenditures will be funded by future revenues or transfers from other funds
Housing Loan Fund	175,964	Available fund balance
Debt Service Funds		
General Obligation 2006D	20,300	Greater than anticipated revenues
General Obligation 2005B	2,418	Greater than anticipated revenues; available fund balance; the remaining excess expenditures will be funded by future revenues or transfers from other funds
General Obligation 2006B	59	Greater than anticipated revenues
General Obligation 2010A	13,356	Available fund balance
TIF 5-5	689,876	Greater than anticipated revenues and available fund balance

Budgets were not established for the following funds:

<u>Fund</u>
Debt Service Funds
General Obligation 2001 & 2009A
TIF 7-1
TIF 5-9

**C. Deficit Fund Equity**

The following governmental funds had deficit fund equity at December 31, 2012:

Special Revenue Fund		
Airport	\$	1,074,704
Debt Service Funds		
General Obligation 2005B		861
TIF 2-6		8,883
Capital Project		
2011 10th Street Project		<u>1,427,435</u>
Total	\$	<u><u>2,511,883</u></u>

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

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

**A. Cash and Investments**

**1. Cash**

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

**Custodial Credit Risk—Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2012, none of the City’s bank balances were exposed to custodial credit risk.

**2. Investments**

As of December 31, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Certificates of deposit	\$ 700,000	2.99
Municipal bonds	130,000	6.13
Government bonds	425,000	7.21
Total Fair Value	<u>\$ 1,255,000</u>	
Portfolio weighted average maturity		4.74

**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, 2012, 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 (15.94%), GE Capital (15.94%), Ally Bank (15.94%), and World Financial Network Bank (7.97%); Government bonds issued by: Federal Home Loan Mtg. Corp. (33.86%); and in Municipal bonds issued by: Linn County Iowa (5.98%).

**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, 2012, none of the City's investments were exposed to custodial credit risk.

## **B. Receivables**

The City's Housing Loan fund had notes receivable of \$589,380 at year-end. Of this amount \$143,734 represents deferred loans with no interest charged with payments due when the owner sells, transfer, or otherwise conveys the real estate. If the owner does not sell, transfer, or convey the property within 10 years of the grant, the owner shall not have to repay any portion of the grant. These loans were made in amounts ranging from \$19,081 to \$30,519 on various dates during 2003. A balance of \$47,709 represents Housing and Urban Development (HUD) loans due in monthly installments with due dates ranging from 2013 to 2027 with a rate of interest at 3.25 percent. All loans are secured by City liens. The remaining balances of \$397,937 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, years of the grant, the owner shall not have to repay any portion of the grant. Any potential repayment on the loans shall be made on a prorated basis. These loans were made in amounts ranging from \$475 to \$22,504 on various dates during 2011 and 2012 and are secured by liens on the property.

The City's EDA fund had notes receivable of \$581,292 at year-end. Of this amount \$316,145 represents loans due from businesses in monthly installments with due dates ranging from 2015 to 2030 with rates of interest ranging from 4 percent to 5.5 percent. A balance of \$53,047 represents Small City Development Program (SCDP) loans due in monthly installments and range from 25 payments to 52 payments remaining with a rate of interest at 3 percent. All loans are secured by related real estate. An additional amount of \$19,980 represents a forgivable loan that requires interest only payments at a rate of 3.25 percent. This loan was made during 2012, with 25 percent of the original balance forgiven during years 2, 3, 4, and 5 of the agreement if the property is not sold or transferred. Loans are secured by inventory, equipment, accounts receivable, products, and property. The remaining \$167,120 is for forgivable deferred loans with no interest charged. If the properties are not sold or transferred within various dates ranging from 2017 to 2021, the balances will be forgiven. These loans are secured by property.



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

	Unavailable	Unearned
Special assessments not yet due (general fund)	\$ 75,682	\$ -
Special assessments not yet due (debt service funds)	1,500,845	-
Delinquent property taxes and special assessments (general fund)	15,917	-
Delinquent property taxes and special assessments (debt service funds fund)	37,285	-
Delinquent property taxes (special revenues funds)	1,494	-
Miscellaneous receivable (special revenue fund)	487,877	13,419
Due from other funds (capital project)	210,000	-
Notes receivable (special revenue funds)	1,145,672	-
Total deferred inflows / unearned revenue for governmental funds	\$ 3,474,772	\$ 13,419

The following receivables are not expected to be collectible within one year: General Fund: \$76,375 of special assessments; Special Revenue Funds: Housing Loan Fund - \$584,045 of loans receivable and EDA Fund - \$492,101 of loans receivable; and Debt Service Funds: General Obligation 1995 - \$56,375 of special assessments, General Obligation 2005B - \$19,512 of special assessments, General Obligation 2006C - \$31,125 of special assessments, General Obligation 2006D - \$594,083 of special assessments, General Obligation 2009 - \$56,738 of special assessments, General Obligation 2010A - \$480,132 of special assessments, and General Obligation 2011A - \$155,448 of special assessments.

### C. Capital Assets

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

Governmental Activities	
General government	\$ 17,855
Public safety	114,873
Public works	491,715
Airport	142,540
Culture and recreation	117,035
Housing and economic development	36,040
Total Depreciation Expense - Governmental Activities	\$ 920,058

Capital asset activity for the year ended December 31, 2012, 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	\$ 716,991	\$ 20,022	\$ -	\$ 737,013
Construction in progress	16,830	2,002,832	16,830	2,002,832
Total Capital Assets, Not Being Depreciated	<u>733,821</u>	<u>2,022,854</u>	<u>16,830</u>	<u>2,739,845</u>
Capital Assets, Being Depreciated				
Buildings	7,492,538	198,574	45,341	7,645,771
Road network	22,347,965	3,050,839	-	25,398,804
Equipment	1,922,042	132,904	25,847	2,029,099
Vehicles	1,624,297	69,852	71,792	1,622,357
Total Capital Assets, Being Depreciated	<u>33,386,842</u>	<u>3,452,169</u>	<u>142,980</u>	<u>36,696,031</u>
Less Accumulated Depreciation for				
Buildings	2,211,919	183,720	45,341	2,350,298
Road network	7,480,689	558,116	-	8,038,805
Equipment	842,426	119,150	22,434	939,142
Vehicles	830,763	59,072	71,792	818,043
Total Accumulated Depreciation	<u>11,365,797</u>	<u>920,058</u>	<u>139,567</u>	<u>12,146,288</u>
Total Capital Assets, Being Depreciated, Net	<u>22,021,045</u>	<u>2,532,111</u>	<u>3,413</u>	<u>24,549,743</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,754,866</u>	<u>\$ 4,554,965</u>	<u>\$ 20,243</u>	<u>\$ 27,289,588</u>

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

Business-Type Activities	
Sewer	\$ 340,498
Fitness center	11,574
Liquor	<u>19,086</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 371,158</u>

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	Beginning Balances	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 219,035	\$ -	\$ -	\$ 219,035
Construction in progress	541,351	558,009	523,193	576,167
<b>Total Capital Assets, Not Being Depreciated</b>	<b>760,386</b>	<b>558,009</b>	<b>523,193</b>	<b>795,202</b>
<b>Capital Assets, Being Depreciated</b>				
Buildings and infrastructure	7,669,730	858,352	-	8,528,082
Equipment	5,544,922	74,075	15,955	5,603,042
<b>Total Capital Assets, Being Depreciated</b>	<b>13,214,652</b>	<b>932,427</b>	<b>15,955</b>	<b>14,131,124</b>
<b>Less Accumulated Depreciation for</b>				
Buildings and infrastructure	3,907,103	242,717	-	4,149,820
Equipment	1,085,710	128,441	15,955	1,198,196
<b>Total Accumulated Depreciation</b>	<b>4,992,813</b>	<b>371,158</b>	<b>15,955</b>	<b>5,348,016</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>8,221,839</b>	<b>561,269</b>	<b>-</b>	<b>8,783,108</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 8,982,225</b>	<b>\$ 1,119,278</b>	<b>\$ 523,193</b>	<b>\$ 9,578,310</b>
 <b>Component Unit:</b>				
	Beginning Balances	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 141,741	\$ -	\$ -	\$ 141,741
Construction in progress	1,530	222,109	1,530	222,109
<b>Total Capital Assets, Not Being Depreciated</b>	<b>143,271</b>	<b>222,109</b>	<b>1,530</b>	<b>363,850</b>
<b>Capital Assets, Being Depreciated</b>				
Production equipment	4,365,996	8,638	-	4,374,634
Transmission equipment	2,530,484	16,238	30,843	2,515,879
Distribution equipment	14,770,652	543,885	355,036	14,959,501
General equipment	1,471,135	179,550	85,899	1,564,786
<b>Total Capital Assets, Being Depreciated</b>	<b>23,138,267</b>	<b>748,311</b>	<b>471,778</b>	<b>23,414,800</b>
<b>Less Accumulated Depreciation for</b>				
Production equipment	2,623,513	109,959	-	2,733,472
Transmission equipment	1,795,659	116,076	30,843	1,880,892
Distribution equipment	6,441,195	416,627	266,970	6,590,852
General equipment	719,304	71,851	84,138	707,017
<b>Total Accumulated Depreciation</b>	<b>11,579,671</b>	<b>714,513</b>	<b>381,951</b>	<b>11,912,233</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>11,558,596</b>	<b>33,798</b>	<b>89,827</b>	<b>11,502,567</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 11,701,867</b>	<b>\$ 255,907</b>	<b>\$ 91,357</b>	<b>\$ 11,866,417</b>

**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 Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
G.O. Improvement Bonds of 2006, Series C of \$224,000, due in annual installments of \$22,000 to \$30,000 through February 1, 2018.	4.3% to 4.5%	\$ 149,000
G.O. Improvement Bonds of 2006, Series D of \$2,000,000, due in annual installments of \$80,000 to \$155,000 through February 1, 2027.	4.0% to 4.6%	1,650,000
G.O. Improvement Bonds of 2005, Series B of \$90,000, due in annual installments of \$9,000 to \$10,000 through February 1, 2016.	4.0%	38,000
G.O. Improvement Bonds of 2012, Series A of \$2,395,000, due in annual installments of \$140,000 to \$190,000 through February 1, 2028.	2.0% to 2.7%	2,395,000
G.O. Refunding Bonds of 2011, Series A of \$1,440,000, due in annual installments of \$45,000 to \$370,000 through April 1, 2020. This is the City's 76.80% share of the Bonds with the Component unit per a Joint Venture Agreement.	3.0% to 4.8%	991,103
Note Payable with the Minnesota Public Facilities Authority of \$3,290,170, due in annual installments of \$177,000 to \$194,000 through August 20, 2020.	1.3%	1,484,000
Note Payable with the Minnesota Public Facilities Authority of \$760,000, due in annual installments of \$38,000 to \$45,000 through August 20, 2026.	1.4%	582,000
Note Payable with the Minnesota Public Facilities Authority of \$741,656, due in annual installments of \$29,000 to \$47,000 through August 20, 2029.	2.6%	612,000
Note Payable with the Minnesota Public Facilities Authority of \$590,000, due in annual installments of \$30,000 to \$47,000 through August 20, 2026.	2.6%	486,051
G.O. Bonds of 2009, Series A of \$1,630,000, due in annual installments of \$140,000 to \$135,000 through February 1, 2022.	1.3% to 3.8%	1,360,000
Note Payable with the Minnesota Public Facilities Authority of \$1,987,000, due in annual installments of \$123,000 to \$146,000 through August 20, 2025.	1.5%	1,518,491
G.O. Bonds of 2010, Series A of \$2,140,000, due in annual installments of \$70,000 to \$130,000 through February 1, 2026. This is the City's share of the bonds with the component unit.	.7% to 3.5%	1,261,565
G.O. Refunding Bonds of 2012, Series A, due in annual installments of \$40,000 to \$190,000 through February 1, 2028.	2.0% to 2.7%	2,225,000
USDA Promissory Note of \$180,000, due in annual installments of \$6,804 to \$13,100 through February 26, 2029.	4.0%	<u>156,686</u>
Total General Obligation Bonds		<u>\$ 14,908,896</u>

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

<u>Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Public Project Revenue Bonds of 2006, Series B of \$1,185,000, due in annual installments of \$45,000 to \$95,000 through February 1, 2027.	4.3% to 4.85%	\$ 985,000

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

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Discretely Presented Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 585,762	\$ 300,854	\$ 472,000	\$ 98,165	\$ 298,042	\$ 71,403
2014	742,806	277,209	523,000	86,402	328,922	60,033
2015	764,444	260,713	534,000	78,216	169,602	52,859
2016	738,615	244,676	465,000	71,366	177,534	49,010
2017	1,257,801	274,413	471,000	64,381	181,238	44,629
2018-2022	2,950,083	754,337	2,073,000	215,560	863,327	147,314
2023-2027	3,081,197	293,290	892,542	73,285	646,177	45,093
2028-2032	205,646	2,956	137,000	4,072	29,342	387
Total	<u>\$10,326,354</u>	<u>\$2,408,448</u>	<u>\$5,567,542</u>	<u>\$ 691,447</u>	<u>\$2,694,184</u>	<u>\$470,728</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
<b>Debt Payable</b>					
General obligation bonds	\$ 5,896,797	\$ 3,955,000	\$ 667,129	\$ 9,184,668	\$ 533,958
Note payable	163,200	-	6,514	156,686	6,804
Revenue bonds	1,030,000	-	45,000	985,000	45,000
General obligation tax increment bonds	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$ 7,589,997</u>	<u>\$ 3,955,000</u>	<u>\$ 1,218,643</u>	<u>\$ 10,326,354</u>	<u>\$ 585,762</u>
Refunding bonds included in governmental activities	<u>\$ 1,129,142</u>	<u>\$ 1,560,000</u>	<u>\$ 358,039</u>	<u>\$ 2,331,103</u>	<u>\$ 206,878</u>
<b>Business-Type Activities</b>					
<b>Debt Payable</b>					
Compensated absences	\$ 14,810	\$ 1,187	\$ -	\$ 15,997	\$ -
G.O. revenue notes	4,733,460	1,266,656	432,574	5,567,542	472,000
Revenue bonds	<u>420,000</u>	<u>-</u>	<u>420,000</u>	<u>-</u>	<u>-</u>
Business-type activity Long-term liabilities	<u>\$ 5,168,270</u>	<u>\$ 1,267,843</u>	<u>\$ 852,574</u>	<u>\$ 5,583,539</u>	<u>\$ 472,000</u>
<b>Discretely Presented</b>					
<b>Component Unit Debt Payable:</b>					
G.O. revenue notes	\$ 2,136,203	\$ 369,852	\$ 131,871	\$ 2,374,184	\$ 138,042
Revenue bonds	<u>590,000</u>	<u>-</u>	<u>270,000</u>	<u>320,000</u>	<u>160,000</u>
Long-term liabilities	<u>\$ 2,726,203</u>	<u>\$ 369,852</u>	<u>\$ 401,871</u>	<u>\$ 2,694,184</u>	<u>\$ 298,042</u>
Refunding bonds included in component unit	<u>\$ 215,858</u>	<u>\$ -</u>	<u>\$ 136,961</u>	<u>\$ 78,897</u>	<u>\$ 8,122</u>

**Legal Debt Margin.** The legal debt limitation based on market value of taxable property in the municipality is equal to \$4,269,615. The computed legal debt margin on December 31, 2012, equals \$4,112,929.

During 2012, the city refunded the GO Improvement Bonds of 2006, series D by issuing GO Refunding Bonds of 2012, series A. The average interest rate of the 2006D bonds was 4.3% and the average interest rate of the 2012A bonds is 2.3%. The refunding is expected to save the city approximately \$157,000.

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

Inter-fund transfers for the year ended December 31, 2012, consisted of the following:

Transferred From	Transferred To				Total
	General Fund	Enterprise Fund - Sewer	Economic Development Authority	Other Governmental Funds	
General Fund	\$ -	\$ 86,903	\$ -	\$ 71,300	\$ 158,203
Other Governmental Funds	-	-	328,785	107,190	435,975
Enterprise Fund - Sewer	-	-	-	9,220	9,220
Enterprise Fund - Liquor	88,789	-	-	-	88,789
<b>Total</b>	<b>\$ 88,789</b>	<b>\$ 86,903</b>	<b>\$ 328,785</b>	<b>\$ 187,710</b>	<b>\$ 692,187</b>

Purpose for Inter-fund Transfers:

- The remaining funds in the TIF 5-5, TIF 5-8, and TIF 5-9 funds were transferred to the TIF 5-6 fund and EDA fund to close the TIF 5-5, TIF 5-8, TIF 5-9, and TIF 5-6 funds.
- The sewer fund transferred funds to the other governmental funds to aid in the payment of bonds.
- The liquor fund transferred funds to be used for the financing of park shelters paid for from the general fund.
- The general fund transferred funds to the enterprise sewer fund and the other governmental funds to aid in the payment of bonds and notes.

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

Fund Balances as of December 31, 2012:

	General Fund	Housing Loan Fund	Economic Development Fund	Airport	2011 10th Street Project	General Obligation 2006D	Nonmajor Governmental Funds
<b>Restricted</b>							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,078,458	\$ 1,097,185
Economic development	-	1,108,229	679,984	-	-	-	-
<b>Assigned</b>							
Special Purpose	101,958	-	52,205	-	-	-	-
I-90 Track	2,625	-	-	-	-	-	-
Steinberg Park	30,401	-	-	-	-	-	-
Fire	53,786	-	-	-	-	-	-
Library	15,751	-	-	-	-	-	-
Street Infrastructure	907,918	-	-	-	-	-	-
Senior Donation	10,111	-	-	-	-	-	-
<b>Unassigned</b>	<b>916,812</b>	<b>-</b>	<b>-</b>	<b>(1,074,704)</b>	<b>(1,427,435)</b>	<b>-</b>	<b>(9,744)</b>
	<b>\$ 2,039,362</b>	<b>\$ 1,108,229</b>	<b>\$ 732,189</b>	<b>\$ (1,074,704)</b>	<b>\$ (1,427,435)</b>	<b>\$ 2,078,458</b>	<b>\$ 1,087,441</b>

Balances in Net Assets Restricted for Other Purposes as of December 31, 2012:

	Amount
Restricted for EDA	\$ 1,665,561
Restricted for housing loan	1,321,902
Total	\$ 2,987,463

**Note 4 - Leases**

The Economic Development Authority of the City entered into an agreement with Seneca Foods Corporation in November 1997. The agreement conveyed land from Seneca Foods Corporation to the City in which Seneca Foods would lease back from the City. As part of agreement, the City issued tax increments bonds in the amount of \$4,690,000 to fund the construction of a warehouse and to provide other property improvements to the property conveyed. The agreement called for monthly rent of \$41,450 to commence on April 1, 1998, and to continue until January 31, 2013. The base rent is subject to credits for tax increments received by the city each year, investment income generated from the reserve, and other items defined in the agreement. During 2012, Seneca Foods Corporation paid off the balance of the lease and purchased the property. Lease payments received during 2012 totaled \$538,846.

The City entered into a lease agreement with Kerry Ingredients in July 2004 to allow the company to use warehouse space. The agreement which terminates in July of 2014 calls for monthly base payments of \$15,469, and \$16,500, respectively, during the two remaining years. Base lease payments received during 2012 totaled \$176,000.

**Note 5 - Franchise Fee**

During 1994, the Board of Public Works and the City of Blue Earth agreed to a new method of figuring the franchise fee, which is in lieu of taxes. The agreement states that the franchise fee is to be calculated by multiplying a base factor of .0035 (3.5 mills), per kilowatt hour sold of all retail sales of kilowatt hours sold within the utility service territory rounded to the nearest 1,000 kilowatt hour. The payment for 2012 and 2011 was \$211,612 and \$201,211, respectively.



## **Note 6 - Pension Plans**

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

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

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

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

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

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

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

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

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

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

## **2. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.60 percent of their annual covered salary. The City of Blue Earth is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERS members, 7.25 percent for Coordinated Plan members, 14.40 percent for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$88,531, \$89,602, and \$101,759, respectively. Component unit contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$56,208, \$52,399, \$51,459, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$34,449, \$31,618, and \$26,859, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

### **B. Fire Relief Association**

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

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

Each member who is at least 50 years of age; has retired from Blue Earth Fire Department, has served at least 20 years of active service with such department before retirement; and, has been a member of the Association in good standing at least five years prior to such retirement; shall be entitled to a lump sum service pension in the amount of \$1,850 for each completed year of service. Members with five years of service receive partial vesting at 40 percent of the 20-year rate and 4 percent added for every year of service beyond five years up to 20 years.

A member who becomes permanently disabled from being an active firefighter in the Blue Earth Fire Department may be eligible for a disability benefit in lieu of retirement. A member who is disabled with a service or non-service related disability will be eligible to collect a disability benefit in an amount equal to his/her full years of active service multiplied by the yearly lump sum service pension rate. The member will be eligible to receive the benefit within 30 days of approval by the Board of Trustees.

Upon the death of the active or deferred member, the beneficiaries of deceased members, shall be paid a death benefit out of the Special Fund in an amount equivalent to the accrued service pension, with a five year minimum.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10 percent of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of a state income tax exclusion for lump sum distributions and will no longer be available if state law is modified to exclude lump sum distributions from state income tax. The Blue Earth Fire Relief Association qualifies for these benefits.

## 2. Pension Benefit Obligation

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

The pension benefit obligation as of December 31, 2012, is shown below:

	<u>BEFDRA</u>
Pension benefit obligation:	
Total pension benefit obligation	\$ 794,477
Net assets available for benefits, at market	<u>941,397</u>
Pension benefit assets in excess of obligation	<u>\$ 146,920</u>
Change from prior year amount	<u>\$ 35,795</u>

## 3. Contributions Required and Contributions Made

Financial requirements of the relief association are determined at \$1,850 per year of service for all members based on their years as active fire department members. Normal cost is funded on a current basis. The City’s minimum obligation is the financial requirement for the year less anticipated contributions and state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The contribution requirement is not actuarially determined. Total contributions to the relief association in 2012 were \$32,488 of which \$20,488 was pass through monies from the state and \$12,000 was a contribution to the fund by the City. The contributed amounts were determined as described above and were based on funding assumptions, benefit provision, and other significant factors used to determine pension contribution requirements in previous years.

### Note 7 - Other Information

#### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

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

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

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

**B. Contingencies**

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

**C. Fund Consolidations**

The City has consolidated the following funds as of January 1, 2012:

The special revenue Storm Water fund has been combined with the General fund. The \$55,665 beginning fund balance from the Storm Water fund has been included with the \$1,837,839 beginning fund balance of the General fund for a total beginning fund balance of \$1,893,504.

**D. Commitments**

The City has the following ongoing construction commitments:

Project	Contracted Total Cost	Costs Incurred	Commitment to Complete
Digester Cover Repair and Replacement	\$ 495,000	\$ 458,130	\$ 36,870
2012 Gorman and Twelfth Street Improvements	1,223,249	1,131,879	91,370
	<u>\$ 1,718,249</u>	<u>\$ 1,590,009</u>	<u>\$ 128,240</u>

**E. Subsequent Events**

Subsequent to year end, the city issued General Obligation Capital Improvement Bonds, Series 2013A, in the principal amount of \$990,000 to refund the Public Project Revenue Bonds of 2006, Series B. The bonds bear an interest rate varying between .60 percent and 2.50 percent with yearly principal payments ranging from \$65,000 to \$85,000 beginning in February 2014 and ending in February 2027. It is estimated the refunding will save the City approximately \$152,000 in interest payments from the old bond.



Required Supplementary Information  
December 31, 2012

# City of Blue Earth

City of Blue Earth  
Budgetary Comparison Schedule – General Fund  
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues</b>				
Taxes				
Property	\$ 271,220	\$ 271,220	\$ 326,856	\$ 55,636
Franchise	262,000	262,000	283,198	21,198
Special assessments	1,000	1,000	5,585	4,585
Licenses and permits	25,133	25,133	47,335	22,202
Intergovernmental revenue				
Local government aid	1,518,019	1,518,019	1,535,819	17,800
Residential market value credit	-	-	129	129
Other state aids and grants	89,678	89,678	122,439	32,761
Police aid	35,000	35,000	22,654	(12,346)
Federal grants	-	-	858,899	858,899
Fire aid	17,800	17,800	20,488	2,688
Charges for services				
General government	4,450	4,450	12,209	7,759
Police and fire contracts	41,675	41,675	60,111	18,436
Garbage and recycling	32,500	32,500	32,617	117
Parks and recreation	63,650	63,650	73,918	10,268
Storm water	-	-	62,014	62,014
Fines and forfeits	1,800	1,800	3,540	1,740
Interest earnings	50,000	50,000	23,626	(26,374)
Miscellaneous revenue				
Rental	22,724	22,724	21,617	(1,107)
Miscellaneous	22,550	22,550	89,052	66,502
SCORE	12,850	12,850	9,300	(3,550)
Donations	-	-	22,114	22,114
Total revenues	<u>2,472,049</u>	<u>2,472,049</u>	<u>3,633,520</u>	<u>1,161,471</u>
<b>Expenditures</b>				
General government				
Mayor and council	31,314	31,314	31,622	(308)
Administration and finance	296,341	296,341	295,614	727
Other general government	82,795	82,795	80,061	2,734
Capital outlay	6,500	6,500	9,656	(3,156)
Public safety				
Police				
Current expenditures	431,300	431,300	476,711	(45,411)
Capital outlay	29,123	29,123	47,303	(18,180)
Fire				
Current expenditures	168,126	168,126	195,136	(27,010)
Capital outlay	8,000	8,000	866,452	(858,452)
Public Works				
Streets and highways				
Street maintenance	666,399	666,399	625,195	41,204
Sanitation and health	29,244	29,244	21,617	7,627
Street lighting	59,000	59,000	57,377	1,623
Street - other capital outlay	67,000	67,000	237,392	(170,392)
Culture and recreation				
Library - current expenditures	179,275	179,275	204,709	(25,434)
Senior Center - current expenditures	65,446	65,446	64,240	1,206
Swimming Pool - current expenditures	123,634	123,634	121,298	2,336
Swimming Pool - capital outlay	-	-	6,705	(6,705)
Storm Water	38,488	38,488	42,909	(4,421)
Debt Service				
Principal	13,524	13,524	6,514	7,010
Interest	-	-	7,010	(7,010)
All other - current expenditures	71,585	71,585	73,831	(2,246)
Total expenditures	<u>2,367,094</u>	<u>2,367,094</u>	<u>3,471,352</u>	<u>(1,104,258)</u>
Excess of Revenue over Expenditures	<u>104,955</u>	<u>104,955</u>	<u>162,168</u>	<u>57,213</u>

City of Blue Earth  
 Budgetary Comparison Schedule – General Fund - Continued  
 Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Other Financing Sources (Uses)				
Sale of capital assets	100	100	53,104	53,004
Transfers in	7,500	7,500	88,789	81,289
Transfers out	<u>(57,718)</u>	<u>(57,718)</u>	<u>(158,203)</u>	<u>(100,485)</u>
Total Other Financing Sources (Uses)	<u>(50,118)</u>	<u>(50,118)</u>	<u>(16,310)</u>	<u>33,808</u>
Net Change in Fund Balances	54,837	54,837	145,858	91,021
Fund Balance - Beginning of Year	<u>1,893,504</u>	<u>1,893,504</u>	<u>1,893,504</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 1,948,341</u>	<u>\$ 1,948,341</u>	<u>\$ 2,039,362</u>	<u>\$ 91,021</u>

City of Blue Earth  
 Budgetary Comparison Schedule – Housing Loan Fund  
 Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 10,960	\$ 10,960	\$ 10,881	\$ (79)
Intergovernmental revenue				
Residential market value credit	-	-	5	5
Interest earnings	-	-	765	765
Miscellaneous revenue	-	-	29,215	29,215
Total revenues	<u>10,960</u>	<u>10,960</u>	<u>40,866</u>	<u>29,906</u>
Expenditures				
Economic development	<u>10,960</u>	<u>10,960</u>	<u>186,924</u>	<u>(175,964)</u>
Total expenditures	<u>10,960</u>	<u>10,960</u>	<u>186,924</u>	<u>(175,964)</u>
Deficiency of Revenue under Expenditures	-	-	(146,058)	(146,058)
Other Financing Sources				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>7,723</u>	<u>7,723</u>
Net change in fund balance	-	-	(138,335)	(138,335)
Fund Balance - Beginning of Year	<u>870,524</u>	<u>870,524</u>	<u>870,524</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ 870,524</u></u>	<u><u>\$ 870,524</u></u>	<u><u>\$ 732,189</u></u>	<u><u>\$ (138,335)</u></u>



City of Blue Earth  
 Budgetary Comparison Schedule – EDA Fund  
 Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Property taxes	\$ 49,333	\$ 49,333	\$ 37,263	\$ (12,070)
Intergovernmental revenue				
Residential market value credit	-	-	20	20
Charges for services	5,200	5,200	261,380	256,180
Interest received	301	301	852	551
Miscellaneous revenue	20,000	20,000	26,621	6,621
Total revenues	<u>74,834</u>	<u>74,834</u>	<u>326,136</u>	<u>251,302</u>
Expenditures				
Economic development	74,833	74,833	216,499	(141,666)
Capital outlay	-	-	4,580	(4,580)
Total expenditures	<u>74,833</u>	<u>74,833</u>	<u>221,079</u>	<u>(146,246)</u>
Excess of Revenue over Expenditures	<u>1</u>	<u>1</u>	<u>105,057</u>	<u>105,056</u>
Other Financing Sources				
Proceeds from sale of capital assets	-	-	100,000	100,000
Transfer in	-	-	328,784	328,784
Total other financing sources	<u>-</u>	<u>-</u>	<u>428,784</u>	<u>428,784</u>
Net change in fund balance	1	1	533,841	533,840
Fund Balance - Beginning of Year	<u>574,388</u>	<u>574,388</u>	<u>574,388</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 574,389</u>	<u>\$ 574,389</u>	<u>\$ 1,108,229</u>	<u>\$ 533,840</u>

City of Blue Earth  
 Budgetary Comparison Schedule – Airport Fund  
 Year Ended December 31, 2012

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Grants	\$ 17,214	\$ 17,214	\$ 2,052,527	\$ 2,035,313
Charges for services	61,000	61,000	77,949	16,949
Miscellaneous revenue	-	-	14	14
Total revenues	<u>78,214</u>	<u>78,214</u>	<u>2,130,490</u>	<u>2,052,276</u>
Expenditures				
Airport - current expenditures	70,806	70,806	82,035	(11,229)
Airport - capital outlay	-	-	2,885,692	(2,885,692)
Interest and fiscal charges	-	-	626	(626)
Total expenditures	<u>70,806</u>	<u>70,806</u>	<u>2,968,353</u>	<u>(2,897,547)</u>
Excess (Deficiency) of Revenue over (under) Expenditures	7,408	7,408	(837,863)	(845,271)
Other Financing Sources				
Sale of capital assets	-	-	20,000	20,000
Net change in fund balances	7,408	7,408	(817,863)	(825,271)
Fund Balance - Beginning of Year	<u>(256,841)</u>	<u>(256,841)</u>	<u>(256,841)</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ (249,433)</u>	<u>\$ (249,433)</u>	<u>\$(1,074,704)</u>	<u>\$ (825,271)</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, 2012, 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, 2012, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
General Fund	\$ 1,104,258	Greater than anticipated revenues
Special Revenue Funds		
EDA	146,246	Greater than anticipated revenues
Airport	2,897,547	Greater than anticipated revenues; the remaining excess expenditures will be funded by future revenues or transfers from other funds
Housing Loan Fund	175,964	Available fund balance



Supplemental Schedules and Related Information  
December 31, 2012

## City of Blue Earth

City of Blue Earth  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2012

	Debt Service Funds														Total Debt Service Non-major Funds
	General Obligation 1995	General Obligation 2001 & 2009A	General Obligation 2005B	General Obligation 2006B	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	TIF 7-1	TIF 5-9	TIF 5-8	TIF 5-6	TIF 5-5	TIF 2-6	
<b>Assets</b>															
Cash and investments	\$ 45,547	\$ -	\$ -	\$ 69,706	\$ 75,063	\$ 207,833	206,187	\$ 475,472	\$ 7,081	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,086,889
Receivables															
Taxes	2,404	-	32	3,540	1,023	7,536	-	12,221	-	-	-	-	-	-	26,756
Special assessments	56,375	-	28,248	-	35,028	60,057	521,323	179,569	-	-	-	-	-	-	880,600
Total Assets	<u>\$ 104,326</u>	<u>\$ -</u>	<u>\$ 28,280</u>	<u>\$ 73,246</u>	<u>\$ 111,114</u>	<u>\$ 275,426</u>	<u>\$ 727,510</u>	<u>\$ 667,262</u>	<u>\$ 7,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,994,245</u>
<b>Liabilities and Fund Balances</b>															
<b>Liabilities:</b>															
Accounts payable	\$ -	\$ -	\$ -	\$ 59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59
Checks in excess of deposits	-	-	920	-	-	-	-	-	-	-	-	-	-	8,883	9,803
Total liabilities	<u>-</u>	<u>-</u>	<u>920</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,883</u>	<u>9,862</u>
<b>Deferred Inflow of Resources</b>															
Unavailable revenue	57,979	-	28,221	2,121	35,702	64,982	520,481	187,456	-	-	-	-	-	-	896,942
<b>Fund Balance</b>															
Restricted for debt service	46,347	-	-	71,066	75,412	210,444	207,029	479,806	7,081	-	-	-	-	-	1,097,185
Unassigned	-	-	(861)	-	-	-	-	-	-	-	-	-	-	(8,883)	(9,744)
Fund balance	<u>46,347</u>	<u>-</u>	<u>(861)</u>	<u>71,066</u>	<u>75,412</u>	<u>210,444</u>	<u>207,029</u>	<u>479,806</u>	<u>7,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,883)</u>	<u>1,087,441</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 104,326</u>	<u>\$ -</u>	<u>\$ 28,280</u>	<u>\$ 73,246</u>	<u>\$ 111,114</u>	<u>\$ 275,426</u>	<u>\$ 727,510</u>	<u>\$ 667,262</u>	<u>\$ 7,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,994,245</u>

**City of Blue Earth**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor Governmental Funds**  
**Year Ended December 31, 2012**

	General Obligation 1995	General Obligation 2001 & 2009A	General Obligation 2005B	General Obligation 2006B	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	TIF 7-1	TIF 5-9	TIF 5-8	TIF 5-6	TIF 5-5	TIF 2-6	Debt Service Non-major Funds
<b>Revenues</b>															
Property taxes	\$ 52,123	\$ -	\$ 548	\$ 91,911	\$ 22,661	\$ 170,485	\$ -	\$ 265,633	\$ 6,784	\$ -	\$ -	\$ -	\$ -	\$ 2,049	\$ 612,194
Special assessments	15,475	18,450	10,164	-	5,807	9,568	63,486	34,127	-	-	-	-	-	-	157,077
Intergovernmental revenue															
Residential market value credit	21	-	-	38	9	70	-	110	-	-	-	-	-	-	248
Interest earnings	54	107	-	22	56	-	119	322	4	11	2	-	914	-	1,611
Lease payments	-	-	-	-	-	-	-	-	-	-	-	-	538,846	-	538,846
<b>Total Revenues</b>	<b>67,673</b>	<b>18,557</b>	<b>10,712</b>	<b>91,971</b>	<b>28,533</b>	<b>180,123</b>	<b>63,605</b>	<b>300,192</b>	<b>6,788</b>	<b>11</b>	<b>2</b>	<b>-</b>	<b>539,760</b>	<b>2,049</b>	<b>1,309,976</b>
<b>Expenditures</b>															
Miscellaneous															
All other - current expenditures	-	-	2,412	59	-	-	85,795	-	6,320	10,374	-	-	500,376	-	605,336
Debt Service															
Principal	65,000	100,000	9,000	45,000	21,000	40,000	59,090	293,039	-	-	-	-	500,000	-	1,132,129
Interest and fiscal charges	2,210	31,958	1,706	46,415	7,069	4,463	425	13,616	-	-	-	-	35,000	10	142,872
Bond issuance costs	-	351	-	-	-	74	31,318	425	-	-	-	-	-	-	32,168
<b>Total Expenditures</b>	<b>67,210</b>	<b>132,309</b>	<b>13,118</b>	<b>91,474</b>	<b>28,069</b>	<b>44,537</b>	<b>176,628</b>	<b>307,080</b>	<b>6,320</b>	<b>10,374</b>	<b>-</b>	<b>-</b>	<b>1,035,376</b>	<b>10</b>	<b>1,912,505</b>
Excess (Deficiency) of Revenues over (under) Expenditures															
	463	(113,752)	(2,406)	497	464	135,586	(113,023)	(6,888)	468	(10,363)	2	-	(495,616)	2,039	(602,529)
Other Financing Sources (Uses)															
Operating transfers in	-	-	-	-	-	106,802	80,520	-	-	-	-	388	-	-	187,710
Operating transfers out	-	(106,802)	-	-	-	-	-	-	-	(3,936)	(1,564)	-	(323,673)	-	(435,975)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(106,802)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,802</b>	<b>80,520</b>	<b>-</b>	<b>-</b>	<b>(3,936)</b>	<b>(1,564)</b>	<b>388</b>	<b>(323,673)</b>	<b>-</b>	<b>(248,265)</b>
<b>Net Change in Fund Balances</b>	<b>463</b>	<b>(220,554)</b>	<b>(2,406)</b>	<b>497</b>	<b>464</b>	<b>242,388</b>	<b>(32,503)</b>	<b>(6,888)</b>	<b>468</b>	<b>(14,299)</b>	<b>(1,562)</b>	<b>388</b>	<b>(819,289)</b>	<b>2,039</b>	<b>(850,794)</b>
<b>Fund Balance - Beginning of Year</b>	<b>45,884</b>	<b>220,554</b>	<b>1,545</b>	<b>70,569</b>	<b>74,948</b>	<b>(31,944)</b>	<b>239,532</b>	<b>486,694</b>	<b>6,613</b>	<b>14,299</b>	<b>1,562</b>	<b>(388)</b>	<b>819,289</b>	<b>(10,922)</b>	<b>1,938,235</b>
<b>Fund Balance - End of Year</b>	<b>\$ 46,347</b>	<b>\$ -</b>	<b>\$ (861)</b>	<b>\$ 71,066</b>	<b>\$ 75,412</b>	<b>\$ 210,444</b>	<b>\$ 207,029</b>	<b>\$ 479,806</b>	<b>\$ 7,081</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,883)</b>	<b>\$ 1,087,441</b>

City of Blue Earth  
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2012

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 612,194	\$ 529,340	\$ 1,141,534
Franchise	-	283,198	283,198
Special assessments	157,077	157,667	314,744
Federal grants	-	2,911,426	2,911,426
Licenses and permits	-	47,335	47,335
Intergovernmental revenue			
Local government aid	-	1,535,839	1,535,839
Residential market value credit	248	198	446
Other state aids and grants	-	717,508	717,508
Police aid	-	22,654	22,654
Fire aid	-	20,488	20,488
Charges for services			
General government	-	273,589	273,589
Police and fire contracts	-	60,111	60,111
Garbage and recycling	-	32,617	32,617
Parks and recreation	-	73,918	73,918
Airports	-	77,949	77,949
Storm water	-	62,014	62,014
Fines and forfeits	-	3,540	3,540
Interest received	1,611	25,541	27,152
Lease payments	538,846	-	538,846
Miscellaneous revenue			
Miscellaneous	-	225,819	225,819
Donations	-	22,114	22,114
Refunds and reimbursements	-	-	-
Total Revenues	<u>1,309,976</u>	<u>7,082,865</u>	<u>8,392,841</u>

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor  
Governmental Funds - Continued  
Year Ended December 31, 2012

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	31,622	31,622
Administration and finance	-	295,614	295,614
Other general government	-	80,061	80,061
Capital outlay	-	9,656	9,656
Public Safety			
Police			
Current expenditures	-	476,711	476,711
Capital outlay	-	47,303	47,303
Fire			
Current expenditures	-	195,136	195,136
Capital outlay	-	866,452	866,452
Public Works			
Streets and highways			
Street maintenance	-	625,195	625,195
Snow and ice removal	-	21,617	21,617
Street lighting	-	57,377	57,377
Street construction - capital outlay	-	2,114,100	2,114,100
Street - other capital outlay	-	237,392	237,392
Culture and Recreation			
Library			
Current expenditures	-	204,709	204,709
Senior Center			
Current expenditures	-	64,240	64,240
Swimming Pool			
Current expenditures	-	121,298	121,298
Capital outlay	-	6,705	6,705
Economic Development - current expenditures			
Current expenditures	-	224,332	224,332
Capital outlay	-	183,671	183,671
Airport			
Airport - current expenditures	-	82,035	82,035
Airport - capital outlay	-	2,885,692	2,885,692
Storm water			
Storm water - current expenditures	-	42,909	42,909
Miscellaneous			
All other - current expenditures	605,336	108,348	713,684
Debt Service			
Principal	1,132,129	86,514	1,218,643
Bond issuance costs	32,168	-	32,168
Interest and fiscal charges	142,872	82,939	225,811
Total Expenditures	<u>1,912,505</u>	<u>9,151,628</u>	<u>11,064,133</u>



City of Blue Earth  
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor  
 Governmental Funds - Continued  
 Year Ended December 31, 2012

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	<u>Total Nonmajor Governmental Funds</u>	<u>Total Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues Under Expenditures	<u>(602,529)</u>	<u>(2,068,763)</u>	<u>(2,671,292)</u>
Other Financing Sources (Uses)			
Sale of capital assets	-	180,827	180,827
Bond proceeds	-	3,955,000	3,955,000
Operating transfers in	187,710	417,574	605,284
Operating transfers out	<u>(435,975)</u>	<u>(158,203)</u>	<u>(594,178)</u>
Total other financing sources (uses)	<u>(248,265)</u>	<u>4,395,198</u>	<u>4,146,933</u>
Net Change in Fund Balances	(850,794)	2,326,435	1,475,641
Fund Balance - Beginning of Year	<u>1,938,235</u>	<u>1,129,664</u>	<u>3,067,899</u>
Fund Balance - End of Year	<u>\$ 1,087,441</u>	<u>\$ 3,456,099</u>	<u>\$ 4,543,540</u>



## Independent Auditor's Report on Minnesota Legal Compliance

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth, as of and for the year ended December 31, 2012, and have issued our report thereon dated June 26, 2013.

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

The Minnesota Legal Compliance Audit Guide for Political Subdivisions covers 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 study included all of the listed categories.

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

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

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

Mankato, Minnesota  
June 26, 2013



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

To Honorable Mayor and City Council  
City of Blue Earth

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Blue Earth (City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2013. 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.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Summary of Audit Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2012-1 – Segregation of Duties, 2012-2 – Preparation of Financial Statements, 2012-3 – Significant Journal Entries, and 2012-4 Fitness Center Reconciliation to be material weaknesses.

Honorable Mayor and City Council  
City of Blue Earth

**Compliance and Other Matters**

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

**Response to Findings**

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

**Purpose of this Report**

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



Mankato, Minnesota  
June 26, 2013



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

To Honorable Mayor and City Council  
City of Blue Earth

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Blue Earth's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Blue Earth's major federal program for the year ended December 31, 2012. The City of Blue Earth's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of City of Blue Earth's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Blue Earth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Blue Earth's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, City of Blue Earth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on of its major Federal program for the year ended December 31, 2012.

Honorable Mayor and City Council  
City of Blue Earth

### **Report on Internal Control over Compliance**

Management of the City of Blue Earth is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Blue Earth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Blue Earth's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Mankato, Minnesota  
June 26, 2013

City of Blue Earth  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2012

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
<hr/> <i>DEPARTMENT OF TRANSPORTATION</i> <hr/>		
Passed through the State of Minnesota: Airport Improvement	20.106	\$ 2,523,190
<hr/> <i>ENVIRONMENTAL PROTECTION AGENCY</i> <hr/>		
Passed through the State of Minnesota Water Pollution Control Revolving Fund	66.458	538,486
<hr/> <i>DEPARTMENT OF HOMELAND SECURITY</i> <hr/>		
Assistance to Firefighters (AFG) Grant	97.044	819,230
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 3,880,906</u>

**NOTE A – Significant Accounting Policies**

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

**NOTE B – Agency or Pass-Through Number**

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



**A. Summary of Audit Results**

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA number</u>
Airport Improvement	20.106
Assistance to Firefighters Grant	97.044

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee	No
Section B - Financial Statement Findings –	Yes
Section C – Federal Award Findings and Questioned Costs –	None
Section D – Minnesota Legal Compliance Findings -	None

**B. Findings – Financial Statement Audit**

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

2012-1 Segregation of Duties

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

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

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

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

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

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

Corrective Action Plan (CAP)

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

2012-2 Preparation of Financial Statements

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

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

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

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

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

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

Corrective Action Plan (CAP)

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

2012-3 Significant Journal Entries

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

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

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

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

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

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

Corrective Action Plan (CAP)

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

2012-4 Fitness Center Reconciliation

*Condition:* The City was unable to reconcile the number of fitness center memberships and other offerings provided to the revenue recognized. The areas involved are fitness center receipts and revenues.

*Criteria:* On a monthly basis, the City should reconcile the number of memberships and other offerings provided to the amount of revenue recognized.

*Cause:* The City was not performing a monthly reconciliation of the number of memberships and other offerings provided to revenue recognized.

*Effect:* This could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

*Recommendation:* The recommendation is the City reconcile on a monthly basis the number of memberships and other offerings provided to revenue recognized.

*Response:* See corrective action plan below.

Corrective Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The City is actively attempting to determine the efficient manner to track the number of members and users. The City is also attempting to identify better reporting from the City's software. The City plans to complete additional reconciliations of these revenues.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Kathy Bailey, City Administrator.
4. *Planned Completion Date for the Corrective Action:* December 31, 2013.
5. *Plan to Monitor Completion of Corrective Action:* Kathy Baily, City Administrator, will monitor the review of various accounting function.

**C. Findings – Major Federal Award Programs - None**

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