



Financial Statements
December 31, 2013

City of Blue Earth

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CITY COUNCIL

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

ADMINISTRATION

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
Steve Anderson	Building Official
Eva Gaydon	Library Director
Tim Steier	Airport Manager
Barb Steier	Airport Manager



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth as of December 31, 2013, 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. 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, 2013, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 7 to the financial statements, the City has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 32-35 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 comprise the City of Blue Earth's financial statements as a whole. The introductory section and combining governmental fund financial schedules, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining governmental fund financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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



Mankato, Minnesota
June 16, 2014

City of Blue Earth
Statement of Net Position
December 31, 2013

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
Assets				
Cash and investments	\$ 6,156,105	\$ 1,243,059	\$ 7,399,164	\$ 2,531,142
Restricted cash and investments				
Refunding bond	1,505,699	-	1,505,699	201,839
Receivables				
Taxes	66,986	-	66,986	-
Special assessments	1,695,627	108,423	1,804,050	294,670
Accounts	81,971	169,001	250,972	711,766
Interest	9,523	-	9,523	-
Notes	884,595	-	884,595	27,604
Due from component unit	450,000	-	450,000	-
Due from other governments	18,291	394,873	413,164	-
Prepaid items	-	-	-	308,262
Inventory	-	275,046	275,046	505,746
Land held for resale	67,117	-	67,117	-
Deferred charges	-	-	-	52,150
Capital assets not being depreciated				
Land	664,812	219,035	883,847	141,741
Construction in progress	2,210,455	286,453	2,496,908	61,827
Capital assets, net of accumulated depreciation				
Road network	17,951,364	-	17,951,364	-
Distribution system	-	-	-	12,835,447
Buildings and infrastructure	5,057,853	5,111,006	10,168,859	-
Equipment	1,322,700	4,278,528	5,601,228	-
Vehicles	744,970	-	744,970	-
Total assets	<u>38,888,068</u>	<u>12,085,424</u>	<u>50,973,492</u>	<u>17,672,194</u>
Liabilities				
Current Liabilities				
Checks issued in excess of deposits	2,367,951	-	2,367,951	-
Accounts payable	293,507	434,523	728,030	322,284
Other payables	24,166	-	24,166	247,737
Due to other funds	-	-	-	450,000
Accrued vacation and sick leave	1,462	27,243	28,705	-
Accrued salaries and wages	57,546	-	57,546	-
Unearned revenue	13,411	44,244	57,655	355,667
Interest payable	120,736	30,923	151,659	-
Noncurrent liabilities				
Due within one year	757,806	527,685	1,285,491	519,129
Due in more than one year	<u>10,598,034</u>	<u>5,039,120</u>	<u>15,637,154</u>	<u>3,234,407</u>
Total liabilities	<u>14,234,619</u>	<u>6,103,738</u>	<u>20,338,357</u>	<u>5,129,224</u>
Net Position				
Net investment in capital assets	16,596,314	4,328,217	20,924,531	9,047,795
Restricted				
Debt service	4,850,691	-	4,850,691	171,400
Other purposes	3,012,195	-	3,012,195	30,439
Unrestricted	<u>194,249</u>	<u>1,653,469</u>	<u>1,847,718</u>	<u>3,293,336</u>
Total net position	<u>\$ 24,653,449</u>	<u>\$ 5,981,686</u>	<u>\$ 30,635,135</u>	<u>\$ 12,542,970</u>

City of Blue Earth
Statement of Activities
Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit Business-type Activities
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary Government							
Governmental Activities							
General government	\$ 405,909	\$ 41,753	\$ -	\$ (364,156)	\$ -	\$ (364,156)	
Public safety	870,071	51,296	59,682	(759,093)	-	(759,093)	
Streets and highways	1,430,863	175,385	640,251	(615,227)	-	(615,227)	
Culture and recreation	503,276	69,436	-	(433,840)	-	(433,840)	
Housing and economic development	609,405	306,808	-	(302,597)	-	(302,597)	
Interest and other charges on long-term debt	336,677	-	-	(336,677)	-	(336,677)	
Total governmental activities	<u>4,156,201</u>	<u>644,678</u>	<u>699,933</u>	<u>(2,811,590)</u>	<u>-</u>	<u>(2,811,590)</u>	
Business-Type Activities							
Sewer	963,493	1,028,468	-	-	64,975	64,975	
Liquor	1,366,667	1,479,806	-	-	113,139	113,139	
Fitness Center	91,234	145,184	-	-	53,950	53,950	
Total business-type activities	<u>2,421,394</u>	<u>2,653,458</u>	<u>-</u>	<u>-</u>	<u>232,064</u>	<u>232,064</u>	
Total Primary Government	<u>\$ 6,577,595</u>	<u>\$ 3,298,136</u>	<u>\$ 699,933</u>	<u>(2,811,590)</u>	<u>232,064</u>	<u>(2,579,526)</u>	
Component Unit							
Electric	\$ 5,723,327	\$ 5,810,991	\$ -				\$ 87,664
Water	697,671	711,152	-				13,481
	<u>\$ 6,420,998</u>	<u>\$ 6,522,143</u>	<u>\$ -</u>				<u>\$ 101,145</u>
General Revenues							
Property taxes				1,021,352	-	1,021,352	-
Special assessments				246,000	-	246,000	-
State aid				960,542	-	960,542	-
Franchise tax				276,013	-	276,013	-
Fees and fines				1,297	-	1,297	-
License and permits				28,195	-	28,195	-
Donations				60,250	-	60,250	-
Earnings on investments				5,839	1,646	7,485	3,920
Transfers				(69,958)	69,958	-	-
Gain (loss) on sale of capital assets				(158,458)	(7,894)	(166,352)	-
Miscellaneous				213,416	7,277	220,693	2,608
Total general revenues				<u>2,584,488</u>	<u>70,987</u>	<u>2,655,475</u>	<u>6,528</u>
Changes in Net Position				<u>(227,102)</u>	<u>303,051</u>	<u>75,949</u>	<u>107,673</u>
Net Position - Beginning				25,071,602	5,678,635	30,750,237	12,435,297
Change in accounting principle				<u>(191,051)</u>	<u>-</u>	<u>(191,051)</u>	<u>-</u>
Net Position - Beginning, restated				<u>24,880,551</u>	<u>5,678,635</u>	<u>30,559,186</u>	<u>12,435,297</u>
Net Position - Ending				<u>\$ 24,653,449</u>	<u>\$ 5,981,686</u>	<u>\$ 30,635,135</u>	<u>\$ 12,542,970</u>

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

City of Blue Earth
Balance Sheet – Governmental Funds
December 31, 2013

	General Fund	Economic Development Authority	Airport	Gorman Street Project	General Obligation 2006B	General Obligation 2006D	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and investments	\$ 2,288,380	\$ 1,359,057	\$ -	\$ -	\$ 95,737	\$ 596,504	\$ 1,816,427	\$ 6,156,105
Restricted cash for bond refunding	-	-	-	-	-	1,505,699	-	1,505,699
Receivables								
Taxes	26,967	2,570	60	-	4,786	6,754	25,849	66,986
Special assessments	71,451	-	-	-	-	502,892	1,121,284	1,695,627
Interest	7,246	2,167	-	-	-	-	110	9,523
Accounts	54,460	27,409	102	-	-	-	-	81,971
Notes	-	483,545	-	-	-	-	401,050	884,595
Due from component unit	-	-	-	450,000	-	-	-	450,000
Land held for resale	-	67,117	-	-	-	-	-	67,117
Due from other governments	-	-	-	18,291	-	-	-	18,291
Total assets	\$ 2,448,504	\$ 1,941,865	\$ 162	\$ 468,291	\$ 100,523	\$ 2,611,849	\$ 3,364,720	\$ 10,935,914
Liabilities								
Checks issued in excess of deposits	\$ -	\$ -	\$ 388,240	\$ 1,969,586	\$ -	\$ -	\$ 10,125	\$ 2,367,951
Accounts payable	116,171	26,128	9,198	134,676	-	6,264	1,070	293,507
Other payables	23,757	256	-	-	-	-	153	24,166
Accrued vacation and sick leave	-	914	-	-	-	-	548	1,462
Accrued wages and salaries	57,546	-	-	-	-	-	-	57,546
Unearned revenue	-	-	13,411	-	-	-	-	13,411
Total liabilities	197,474	27,298	410,849	2,104,262	-	6,264	11,896	2,758,043
Deferred Inflows of Resources								
Unavailable revenue	91,485	485,499	59	-	3,657	508,105	1,540,222	2,629,027
Fund Balances								
Nonspendable	-	67,117	-	-	-	-	-	67,117
Restricted	-	1,053,852	-	-	96,866	2,097,480	1,822,725	5,070,923
Assigned	1,122,550	308,099	-	-	-	-	-	1,430,649
Unassigned	1,036,995	-	(410,746)	(1,635,971)	-	-	(10,123)	(1,019,845)
Total fund balances	2,159,545	1,429,068	(410,746)	(1,635,971)	96,866	2,097,480	1,812,602	5,548,844
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,448,504	\$ 1,941,865	\$ 162	\$ 468,291	\$ 100,523	\$ 2,611,849	\$ 3,364,720	\$ 10,935,914

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

City of Blue Earth
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 December 31, 2013

Total Fund Balances for Governmental Funds		\$ 5,548,844
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$40,847,575 and the accumulated depreciation is \$12,895,421.</p>		27,952,154
<p>Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred inflows in the funds.</p>		2,629,027
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$120,736.</p>		(120,736)
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:</p>		
General obligation bonds payable	\$ 11,205,960	
Note payable	149,880	
		(11,355,840)
Total Net Position for Governmental Activities		\$ 24,653,449

City of Blue Earth

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended December 31, 2013

	General Fund	Economic Development Authority	Airport	Gorman Street Project	General Obligation 2006B	General Obligation 2006D	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 483,736	\$ 49,210	\$ 45	\$ -	\$ 89,172	\$ 147,376	\$ 399,681	\$ 1,169,220
Franchise taxes	276,013	-	-	-	-	-	-	276,013
Special assessments	8,199	-	-	-	-	71,559	166,242	246,000
Fees and fines	1,297	-	-	-	-	-	-	1,297
Licenses and permits	28,195	-	-	-	-	-	-	28,195
State aid and grants	1,704,988	-	-	-	-	-	-	1,704,988
Federal grants	13,113	-	640,251	-	-	-	-	653,364
Charges for services	231,419	306,808	106,451	-	-	-	-	644,678
Interest earnings	54	2,181	(795)	(1,994)	140	4,594	1,659	5,839
Donations	-	60,250	-	-	-	-	-	60,250
Miscellaneous	125,250	20,508	12	-	-	51,955	15,691	213,416
Total revenue	<u>2,872,264</u>	<u>438,957</u>	<u>745,964</u>	<u>(1,994)</u>	<u>89,312</u>	<u>275,484</u>	<u>583,273</u>	<u>5,003,260</u>
Expenditures								
Current								
General government	408,654	-	-	-	-	-	-	408,654
Capital outlay	14,586	-	-	-	-	-	-	14,586
Public safety	737,904	-	-	-	-	-	-	737,904
Capital outlay	79,698	-	-	-	-	-	-	79,698
Public works	756,242	-	-	-	-	-	-	756,242
Capital outlay	318,390	-	-	1,519,910	-	-	-	1,838,300
Culture and recreation	418,608	-	-	-	-	-	-	418,608
Capital outlay	9,053	-	-	-	-	-	-	9,053
Economic development	-	99,844	-	-	-	-	7,436	107,280
Capital outlay	-	18,274	-	-	-	-	44,992	63,266
Storm water	6,404	-	-	-	-	-	-	6,404
Airport	-	-	82,006	-	-	-	-	82,006
Miscellaneous	71,505	-	-	58	34,882	3,025	9,557	119,027
Debt Services								
Principal	6,806	-	-	-	985,000	80,000	453,958	1,525,764
Bond issuance costs	-	-	-	16,824	-	6,264	31,854	54,942
Interest and other charges	9,233	-	-	-	33,630	167,173	51,958	261,994
Total expenditures	<u>2,837,083</u>	<u>118,118</u>	<u>82,006</u>	<u>1,536,792</u>	<u>1,053,512</u>	<u>256,462</u>	<u>599,755</u>	<u>6,483,728</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,181</u>	<u>320,839</u>	<u>663,958</u>	<u>(1,538,786)</u>	<u>(964,200)</u>	<u>19,022</u>	<u>(16,482)</u>	<u>(1,480,468)</u>
Other Financing Sources (Uses)								
Sale of capital assets	480	-	-	-	-	-	-	480
Bond issuance	235,000	-	-	1,330,250	990,000	-	-	2,555,250
Transfers in	7,725	-	-	-	-	-	80,520	88,245
Transfers out	(158,203)	-	-	-	-	-	-	(158,203)
Total other financing sources (uses)	<u>85,002</u>	<u>-</u>	<u>-</u>	<u>1,330,250</u>	<u>990,000</u>	<u>-</u>	<u>80,520</u>	<u>2,485,772</u>
Net change in fund balances	120,183	320,839	663,958	(208,536)	25,800	19,022	64,038	1,005,304
Fund Balances - Beginning of Year	<u>2,039,362</u>	<u>1,108,229</u>	<u>(1,074,704)</u>	<u>(1,427,435)</u>	<u>71,066</u>	<u>2,078,458</u>	<u>1,748,564</u>	<u>4,543,540</u>
Fund Balances - End of Year	<u>\$ 2,159,545</u>	<u>\$ 1,429,068</u>	<u>\$ (410,746)</u>	<u>\$ (1,635,971)</u>	<u>\$ 96,866</u>	<u>\$ 2,097,480</u>	<u>\$ 1,812,602</u>	<u>\$ 5,548,844</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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ 1,005,304
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 (\$1,825,183) exceeds depreciation expense (\$1,003,679) in the current period.	821,504
Sale of capital asset gross proceeds are reported as revenue in the governmental funds. However, in the statement of activities, only the gain or loss is recorded. The difference between the gross proceeds and the gain or loss is the remaining net book value of the assets sold. The gain or loss on the assets sold was \$158,938.	(158,938)
In governmental funds, issuance of new debt is reported as a source of financing in the amount of proceeds received. However, in the statement of activities, a new debt issuance is not revenue, rather it constitutes a long-term liability in the statement of net position.	(2,555,250)
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 \$113,210, deferred notes receivable decreased by \$261,078, miscellaneous deferred receivables decreased by \$487,877, and due from other governments decreased \$210,000.	(845,745)
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.	1,525,764
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 \$120,736 and \$100,995 of accrued interest at December 31, 2013 and 2012, respectively.	(19,741)
Change in Net Position of Governmental Activities	\$ (227,102)

City of Blue Earth
Statement of Net Position – Proprietary Funds
December 31, 2013

	Sewer	Liquor	Fitness Center	Total
Assets				
Cash and cash equivalents	\$ 585,671	\$ 434,338	\$ 223,050	\$ 1,243,059
Receivables				
Special assessments	108,423	-	-	108,423
Accounts	167,709	1,292	-	169,001
Due from other governments	394,873	-	-	394,873
Inventory	-	275,046	-	275,046
Total current assets	<u>1,256,676</u>	<u>710,676</u>	<u>223,050</u>	<u>2,190,402</u>
Noncurrent Assets				
Capital assets not being depreciated				
Land	119,035	100,000	-	219,035
Construction in progress	-	-	286,453	286,453
Capital assets, net of accumulated depreciation				
Buildings and infrastructure	4,631,634	402,888	76,484	5,111,006
Equipment	4,200,282	48,104	30,142	4,278,528
Total noncurrent assets	<u>8,950,951</u>	<u>550,992</u>	<u>393,079</u>	<u>9,895,022</u>
Total assets	<u>10,207,627</u>	<u>1,261,668</u>	<u>616,129</u>	<u>12,085,424</u>
Liabilities				
Current Liabilities				
Accounts payable	37,187	106,326	291,010	434,523
Accrued vacation	8,300	15,133	3,810	27,243
Unearned revenue	44,244	-	-	44,244
Bonds payable - current	527,685	-	-	527,685
Interest payable	30,923	-	-	30,923
Total current liabilities	<u>648,339</u>	<u>121,459</u>	<u>294,820</u>	<u>1,064,618</u>
Noncurrent Liabilities				
Bonds payable	5,039,120	-	-	5,039,120
Total liabilities	<u>5,687,459</u>	<u>121,459</u>	<u>294,820</u>	<u>6,103,738</u>
Net Position				
Net investment in capital assets	3,384,146	550,992	393,079	4,328,217
Unrestricted	1,136,022	589,217	(71,770)	1,653,469
Total Net Position	<u>\$ 4,520,168</u>	<u>\$ 1,140,209</u>	<u>\$ 321,309</u>	<u>\$ 5,981,686</u>

City of Blue Earth
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended December 31, 2013

	Sewer	Liquor	Fitness Center	Total
Operating Revenues				
Service and fees	\$ 1,028,468	\$ -	\$ 145,184	\$ 1,173,652
Sales	-	1,479,806	-	1,479,806
Total operating revenues	<u>1,028,468</u>	<u>1,479,806</u>	<u>145,184</u>	<u>2,653,458</u>
Operating Expenses				
Salaries and benefits	212,171	177,684	44,407	434,262
Costs of goods sold	-	1,096,199	-	1,096,199
Supplies	26,055	5,324	7,790	39,169
Utilities	101,581	17,803	12,892	132,276
Other services and charges	67,631	6,911	702	75,244
Repairs and maintenance	31,936	5,838	7,197	44,971
Depreciation	394,391	19,615	12,027	426,033
Miscellaneous	30,740	37,293	6,219	74,252
Total operating expenses	<u>864,505</u>	<u>1,366,667</u>	<u>91,234</u>	<u>2,322,406</u>
Operating income	<u>163,963</u>	<u>113,139</u>	<u>53,950</u>	<u>331,052</u>
Nonoperating Revenues (Expenses)				
Refunds and reimbursements	2,391	725	-	3,116
Interest and investment revenue	1,029	399	218	1,646
Amortization expense	(3,825)	-	-	(3,825)
Interest expense	(95,163)	-	-	(95,163)
Miscellaneous revenue	3,940	-	221	4,161
Total nonoperating revenues (expenses)	<u>(91,628)</u>	<u>1,124</u>	<u>439</u>	<u>(90,065)</u>
Income before other financing sources	<u>72,335</u>	<u>114,263</u>	<u>54,389</u>	<u>240,987</u>
Other financing sources (uses)				
Gain (loss) on sale of capital assets	(4,125)	(3,769)	-	(7,894)
Transfers in	86,903	-	-	86,903
Transfers out	(9,220)	(7,725)	-	(16,945)
Total other financing sources (uses)	<u>73,558</u>	<u>(11,494)</u>	<u>-</u>	<u>62,064</u>
Change in net position	145,893	102,769	54,389	303,051
Total Net Position - Beginning of Year	<u>4,374,275</u>	<u>1,037,440</u>	<u>266,920</u>	<u>5,678,635</u>
Total Net Position - End of Year	<u>\$ 4,520,168</u>	<u>\$ 1,140,209</u>	<u>\$ 321,309</u>	<u>\$ 5,981,686</u>

City of Blue Earth
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2013

	Sewer	Liquor	Fitness Center	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 658,917	\$ 1,479,009	\$ 145,184	\$ 2,283,110
Payments to employees	(210,258)	(176,835)	(43,812)	(430,905)
Payments to suppliers	(310,635)	(1,155,912)	(35,764)	(1,502,311)
Net cash provided by operating activities	<u>138,024</u>	<u>146,262</u>	<u>65,608</u>	<u>349,894</u>
Cash Flows from Noncapital Financing Activities				
Miscellaneous receipts	3,940	-	221	4,161
Transfers from governmental funds	86,903	-	-	86,903
Transfers to governmental funds	(9,220)	(7,725)	-	(16,945)
Net cash provided (used) by noncapital financing activities	<u>81,623</u>	<u>(7,725)</u>	<u>221</u>	<u>74,119</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of long-term debt	471,263	-	-	471,263
Payments on long-term debt	(472,000)	-	-	(472,000)
Purchase of capital assets	(451,892)	(5,288)	(7,005)	(464,185)
Interest paid on debt	(89,647)	-	-	(89,647)
Refunds and reimbursements	2,391	725	-	3,116
Net cash provided (used) by capital and related financing activities	<u>(539,885)</u>	<u>(4,563)</u>	<u>(7,005)</u>	<u>(551,453)</u>
Cash Flows from Investing Activities				
Earnings on investments and cash	1,029	399	218	1,646
Net change in cash and cash equivalents	(319,209)	134,373	59,042	(125,794)
Cash and cash equivalents - January 1	904,880	299,965	164,008	1,368,853
Cash and cash equivalents - December 31	<u>\$ 585,671</u>	<u>\$ 434,338</u>	<u>\$ 223,050</u>	<u>\$ 1,243,059</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	\$ 163,963	\$ 113,139	\$ 53,950	\$ 331,052
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	394,391	19,615	12,027	426,033
Changes in assets and liabilities:				
Accounts receivable	16,768	(797)	-	15,971
Inventory	-	20,666	-	20,666
Special assessments and taxes	8,554	-	-	8,554
Due from other governmental agency	(394,873)	-	-	(394,873)
Accounts payable	(49,673)	(7,210)	(964)	(57,847)
Accrued expense	1,913	849	595	3,357
Unearned revenue	(3,019)	-	-	(3,019)
Net Cash Provided by Operating Activities	<u>\$ 138,024</u>	<u>\$ 146,262</u>	<u>\$ 65,608</u>	<u>\$ 349,894</u>
Schedule of non-cash capital related financing activities				
Purchase of capital assets on account	\$ -	\$ -	\$ 286,453	\$ 286,453

Note 1 - Summary of Significant Accounting Policies

The City of Blue Earth (City) is a municipal corporation governed by a mayor and a six member council elected by eligible voters of the City. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

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

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

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

The *General Obligation 2006B* debt service fund provides for the debt service of the 2006B G.O. Improvement Bonds.

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.

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. Restricted Cash

Certain resources in the 2006D Debt Service Bond Fund have been set aside as a restriction for bond refunding.

3. Receivables and Payables

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

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

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

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

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

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

4. Inventories and Prepaid Items

Inventory in the proprietary funds consists of beer and liquor in the Liquor fund.

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

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

5. Land Held for Resale

Land held for resale in the governmental funds consists of industrial lots accounted for in the Economic Development Authority fund.

All land held for resale is valued at the lower of cost or market.

6. Contract Negotiation Expenses

The cost of negotiating the contract extension with Alliant Energy is being amortized on the straight line method, over the life of the contract extension, which runs through April 2018. The balance as of December 31, 2013, was \$202,553.

7. Capital Assets

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

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

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

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

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

8. Deferred Outflows / Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(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 various sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Vacation , Sick Leave, and Compensated Absences

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

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

10. Long-term Obligations

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

During the current year, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB Statement No. 65 bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. As a result of implementing this statement, the City changed the classification of certain liabilities to deferred inflows of resources as described above.

11. Fund Equity and Net Position

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

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

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. The city has designated the city administrator as the official who is able to make these assignments.
- 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, 2013, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

On or before the last Tuesday in August of each year, all departments of the 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, 2013, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
General Fund	\$ 257,781	Greater than anticipated revenues and available fund balance
Special Revenue Funds		
EDA	39,700	Greater than anticipated revenues
Airport	15,585	Greater than anticipated revenues
Housing Loan Fund	43,992	Greater than anticipated revenues and available fund balance
Debt Service Funds		
General Obligation 2006D	68,080	Greater than anticipated revenues
General Obligation 2006B	963,987	Bond Proceeds
General Obligation 2009	131,383	Greater than anticipated revenues

A budget was not established for the TIF 7-1 fund.

C. Deficit Fund Equity

The following governmental funds had deficit fund equity at December 31, 2013:

Special Revenue Fund		
Airport	\$	410,746
Debt Service Funds		
General Obligation 2005B		3,279
TIF 6-1		6,844
Capital Project		
Gorman Street Project		<u>1,635,971</u>
 Total	 \$	 <u><u>2,056,840</u></u>

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

Note 3 - Detailed Notes on All Funds and Account Groups

A. Cash and Investments

1. Cash

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

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2013, none of the City’s bank balances were exposed to custodial credit risk.

2. Investments

As of December 31, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Certificates of deposit	\$ 700,000	1.13
Municipal bonds	135,645	0.57
Government bonds	393,649	2.37
Total Fair Value	<u>\$ 1,229,294</u>	
Portfolio weighted average maturity		4.04

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, 2013, 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, 2013, none of the City's investments were exposed to custodial credit risk.

B. Receivables

The City's Housing Loan fund had notes receivable of \$401,050 at year-end. A balance of \$60,850 represents Housing and Urban Development (HUD) loans due in monthly installments with a rate of interest at 3.25 percent. All loans are secured by City liens. The remaining balances of \$340,200 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 - 2013 and are secured by liens on the property.

The City's EDA fund had notes receivable of \$483,545 at year-end. Of this amount \$265,220 represents loans due from businesses in monthly installments with rates of interest ranging from 4 percent to 5.5 percent. A balance of \$36,205 represents Small City Development Program (SCDP) loans due in monthly installments with a rate of interest at 3 percent. All loans are secured by related real estate. An additional amount of \$15,000 represents a forgivable loan that requires interest only payments at a rate of 3.25 percent. This loan was made during 2012, with 25 percent of the original balance forgiven during years 2, 3, 4, and 5 of the agreement if the property is not sold or transferred. Loans are secured by inventory, equipment, accounts receivable, products, and property. The remaining \$167,120 is for forgivable deferred loans with no interest charged. If the properties are not sold or transferred within the time period of the agreement, 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)	\$ 61,057	\$ -
Special assessments not yet due (debt service funds)	1,599,752	-
Delinquent property taxes and special assessments (general fund)	30,427	-
Delinquent property taxes and special assessments (debt service funds fund)	51,029	-
Delinquent property taxes (special revenues funds)	2,168	-
Miscellaneous receivable (special revenue fund)	-	13,411
Notes receivable (special revenue funds)	884,594	-
Total deferred inflows / unearned revenue for governmental funds	\$ 2,629,027	\$ 13,411

The following receivables are not expected to be collectible within one year: General Fund: \$43,804 of special assessments; Special Revenue Funds: Housing Loan Fund - \$395,740 of loans receivable and EDA Fund - \$423,386 of loans receivable; and Debt Service Funds: General Obligation 1995 - \$12,271 of special assessments, General Obligation 2005B - \$9,770 of special assessments, General Obligation 2006C - \$26,262 of special assessments, General Obligation 2006D - \$475,743 of special assessments, General Obligation 2009 - \$49,074 of special assessments, General Obligation 2010A - \$429,307 of special assessments, General Obligation 2011A - \$126,906 of special assessments, and General Obligation 2012 - \$349,619 of special assessments.

C. Capital Assets

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

General government	\$ 5,842
Public safety	117,200
Public works	506,983
Airport	213,631
Culture and recreation	123,982
Housing and economic development	36,041
Total Depreciation Expense	\$ 1,003,679

Capital asset activity for the year ended December 31, 2013, 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	\$ 737,013	\$ 18,250	\$ 90,451	\$ 664,812
Construction in progress	2,002,832	1,443,676	1,236,053	2,210,455
Total Capital Assets, Not Being Depreciated	<u>2,739,845</u>	<u>1,461,926</u>	<u>1,326,504</u>	<u>2,875,267</u>
Capital Assets, Being Depreciated				
Buildings	7,645,771	12,635	102,587	7,555,819
Road network	25,398,804	1,236,053	-	26,634,857
Equipment	2,029,099	350,622	215,326	2,164,395
Vehicles	1,622,357	-	5,120	1,617,237
Total Capital Assets, Being Depreciated	<u>36,696,031</u>	<u>1,599,310</u>	<u>323,033</u>	<u>37,972,308</u>
Less Accumulated Depreciation for				
Buildings	2,350,298	185,720	38,052	2,497,966
Road network	8,038,805	644,688	-	8,683,493
Equipment	939,142	113,927	211,374	841,695
Vehicles	818,043	59,344	5,120	872,267
Total Accumulated Depreciation	<u>12,146,288</u>	<u>1,003,679</u>	<u>254,546</u>	<u>12,895,421</u>
Total Capital Assets, Being Depreciated, Net	<u>24,549,743</u>	<u>595,631</u>	<u>68,487</u>	<u>25,076,887</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,289,588</u>	<u>\$ 2,057,557</u>	<u>\$ 1,394,991</u>	<u>\$ 27,952,154</u>

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

Sewer	\$ 394,391
Fitness center	12,027
Liquor	<u>19,615</u>
Total Depreciation Expense	<u>\$ 426,033</u>

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	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 219,035	\$ -	\$ -	\$ 219,035
Construction in progress	576,167	286,453	576,167	286,453
Total Capital Assets, Not Being Depreciated	<u>795,202</u>	<u>286,453</u>	<u>576,167</u>	<u>505,488</u>
Capital Assets, Being Depreciated				
Buildings and infrastructure	8,528,082	1,028,059	-	9,556,141
Equipment	5,603,042	12,293	109,409	5,505,926
Total Capital Assets, Being Depreciated	<u>14,131,124</u>	<u>1,040,352</u>	<u>109,409</u>	<u>15,062,067</u>
Less Accumulated Depreciation for				
Buildings and infrastructure	4,149,820	295,315	-	4,445,135
Equipment	1,198,196	130,718	101,516	1,227,398
Total Accumulated Depreciation	<u>5,348,016</u>	<u>426,033</u>	<u>101,516</u>	<u>5,672,533</u>
Total Capital Assets, Being Depreciated, Net	<u>8,783,108</u>	<u>614,319</u>	<u>7,893</u>	<u>9,389,534</u>
Business-Type Activities Capital Assets, Net	<u>\$ 9,578,310</u>	<u>\$ 900,772</u>	<u>\$ 584,060</u>	<u>\$ 9,895,022</u>
Component Unit:				
	Beginning Balances	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 141,741	\$ -	\$ -	\$ 141,741
Construction in progress	222,109	54,512	214,794	61,827
Total Capital Assets, Not Being Depreciated	<u>363,850</u>	<u>54,512</u>	<u>214,794</u>	<u>203,568</u>
Capital Assets, Being Depreciated				
Production equipment	4,374,634	281,389	417,595	4,238,428
Transmission equipment	2,515,879	-	-	2,515,879
Distribution equipment	14,959,501	1,741,247	434,128	16,266,620
General equipment	1,564,786	45,204	149,979	1,460,011
Total Capital Assets, Being Depreciated	<u>23,414,800</u>	<u>2,067,840</u>	<u>1,001,702</u>	<u>24,480,938</u>
Less Accumulated Depreciation for				
Production equipment	2,733,472	110,938	417,595	2,426,815
Transmission equipment	1,880,892	112,832	-	1,993,724
Distribution equipment	6,590,852	422,391	431,335	6,581,908
General equipment	707,017	86,006	149,979	643,044
Total Accumulated Depreciation	<u>11,912,233</u>	<u>732,167</u>	<u>998,909</u>	<u>11,645,491</u>
Total Capital Assets, Being Depreciated, Net	<u>11,502,567</u>	<u>1,335,673</u>	<u>2,793</u>	<u>12,835,447</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,866,417</u>	<u>\$ 1,390,185</u>	<u>\$ 217,587</u>	<u>\$ 13,039,015</u>

D. Long-Term Debt

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

<u>General Obligation Notes and Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amounts as of December 31, 2013</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%	\$ 127,000
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%	1,570,000
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%	29,000
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%	709,225
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%	1,307,000
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%	544,000
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%	583,000
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%	499,756
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%	1,220,000
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%	1,428,176
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%	1,185,485
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
G.O. Refunding Bonds of 2013, Series A, due in annual installments of \$65,000 to \$85,000 through February 1, 2027.	0.6% to 2.5%	990,000

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G.O. Improvement Bonds of 2013, Series B, due in annual installments of \$55,250 to \$110,500 through February 1, 2029.	2.3% - 3.8%	1,330,250
G.O. Equip Certificate Bonds of 2013, Series B, due in annual installments of \$45,000 to \$50,000 through February 1, 2019.	3.0%	235,000
Note Payable with the Minnesota Public Facilities Authority of \$394,873, due in annual installments of \$23,753 to \$30,000 through August 20, 2028.	1.2%	394,873
USDA Promissory Note of \$180,000, due in annual installments of \$6,804 to \$13,100 through February 26, 2029.	4.0%	<u>149,880</u>
Total General Obligation Bonds		<u><u>\$ 16,922,645</u></u>

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

Year Ending December 31	Governmental Activities		Business-type Activities		Discretely Presented Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 757,806	\$ 298,446	\$ 527,685	\$ 98,165	\$ 519,129	\$ 98,334
2015	879,694	281,529	540,000	86,402	390,217	71,142
2016	865,865	264,028	470,000	78,216	404,719	63,386
2017	1,393,551	291,955	477,000	71,366	413,553	54,970
2018	827,973	200,784	483,000	64,381	332,562	46,204
2019-2023	3,339,021	730,069	1,941,000	215,560	898,000	147,311
2024-2028	3,178,887	242,783	1,084,120	73,285	615,690	39,898
2029-2033	113,043	2,086	44,000	4,072	19,500	366
Total	<u><u>\$ 11,355,840</u></u>	<u><u>\$ 2,311,680</u></u>	<u><u>\$ 5,566,805</u></u>	<u><u>\$ 691,447</u></u>	<u><u>\$ 3,593,370</u></u>	<u><u>\$ 521,611</u></u>

The balance of the long-term debt held by the discretely presented component unit is \$3,048,379 in the water fund with interest rates ranging from .4% to 3.75% and are payable through February 2028. The electric fund's portion of the long-term debt is \$544,991 with interest rates ranging from 1.68% to 4.80% and are payable through May 2018.

Changes in Long-Term Liabilities. During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities					
Debt Payable					
General obligation bonds	\$ 9,184,668	\$ 2,555,250	\$ 533,958	\$ 11,205,960	\$ 750,698
Note payable	156,686	-	6,806	149,880	7,108
Revenue bonds	985,000	-	985,000	-	-
Governmental activity					
Long-term liabilities	<u>\$ 10,326,354</u>	<u>\$ 2,555,250</u>	<u>\$ 1,525,764</u>	<u>\$ 11,355,840</u>	<u>\$ 757,806</u>
Refunding bonds included in governmental activities	<u>\$ 2,331,103</u>	<u>\$ 990,000</u>	<u>\$ 206,878</u>	<u>\$ 3,114,225</u>	<u>\$ 269,558</u>
Business-Type Activities					
Debt Payable					
Compensated absences	\$ 15,997	\$ 1,671	\$ -	\$ 17,668	\$ -
G.O. revenue notes	5,567,542	471,263	472,000	5,566,805	527,685
Business-type activity					
Long-term liabilities	<u>\$ 5,583,539</u>	<u>\$ 472,934</u>	<u>\$ 472,000</u>	<u>\$ 5,584,473</u>	<u>\$ 527,685</u>
Discretely Presented					
Component Unit Debt Payable:					
G.O. revenue notes	\$ 2,374,184	\$ 1,299,750	\$ 240,564	\$ 3,433,370	\$ 359,129
Revenue bonds	320,000	-	160,000	160,000	160,000
Long-term liabilities	<u>\$ 2,694,184</u>	<u>\$ 1,299,750</u>	<u>\$ 400,564</u>	<u>\$ 3,593,370</u>	<u>\$ 519,129</u>
Refunding bonds included in component unit	<u>\$ 78,897</u>	<u>\$ -</u>	<u>\$ 8,122</u>	<u>\$ 70,775</u>	<u>\$ 10,442</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, 2013, equals \$4,119,735.

During 2013, the City refunded the GO Improvement Bonds of 2006, series B by issuing GO Refunding Bonds of 2013, series A. The average interest rate of the 2006B bonds was 4.0% and the average interest rate of the 2013A bonds is 1.55%. The refunding is expected to save the City approximately \$172,000 in future value benefit representing a present value benefit of \$152,000.

E. Inter-Fund Balances and Transfers

Inter-fund transfers for the year ended December 31, 2013, consisted of the following:

Transferred From	Transferred To			
	General Fund	Enterprise Fund - Sewer	Other Governmental Funds	Total
General Fund	\$ -	\$ 86,903	\$ 71,300	\$ 158,203
Enterprise Fund - Sewer	-	-	9,220	9,220
Enterprise Fund - Liquor	7,725	-	-	7,725
Total	\$ 7,725	\$ 86,903	\$ 80,520	\$ 175,148

Purpose for Inter-fund Transfers:

- 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, 2013:

	General Fund	Economic Development Fund	Airport	2011 10th Street Project	General Obligation 2006B	General Obligation 2006D	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:								
Land inventory	\$ -	\$ 67,117	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,117
Restricted								
Debt service	-	-	-	-	96,866	2,097,480	1,126,300	3,320,646
Economic development	-	1,053,852	-	-	-	-	696,425	1,750,277
Total Restricted	-	1,053,852	-	-	96,866	2,097,480	1,822,725	5,070,923
Assigned								
Special Purpose	101,958	48,099	-	-	-	-	-	150,057
Industrial Park	-	260,000	-	-	-	-	-	260,000
I-90 Track	2,625	-	-	-	-	-	-	2,625
Steinberg Park	30,401	-	-	-	-	-	-	30,401
Fire	53,786	-	-	-	-	-	-	53,786
Library	15,751	-	-	-	-	-	-	15,751
Street Infrastructure	907,918	-	-	-	-	-	-	907,918
Senior Donation	10,111	-	-	-	-	-	-	10,111
Total Assigned	1,122,550	308,099	-	-	-	-	-	1,430,649
Unassigned	1,036,995	-	(410,746)	(1,635,971)	-	-	(10,123)	(1,019,845)
Total Fund Balance	\$ 2,159,545	\$ 1,429,068	\$ (410,746)	\$ (1,635,971)	\$ 96,866	\$ 2,097,480	\$ 1,812,602	\$ 5,548,844

Restricted Balance in Net Position as of December 31, 2013:

	Amount
Restricted for EDA	\$ 1,914,567
Restricted for housing loan	1,097,628
Total	\$ 3,012,195

Note 4 - Leases

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 2013 totaled \$189,752.

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 2013 was \$203,222.

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 GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to Public Employees Retirement Association, 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651)296-7460 or (800)652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary. 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 GERF 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, 2013, 2012, and 2011 were \$101,540, \$95,353, and \$89,602, respectively. Component unit contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$59,257, \$56,208, \$52,399, respectively. The City's contributions to the Public Police and Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$38,159, \$34,449, and \$31,618, 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, 2013, is shown below:

	<u>BEFDRA</u>
Pension benefit obligation:	
Current benefit obligation	\$ 517,548
Deferred vested pensions	105,440
Total pension benefit obligation	\$ 858,306
Net assets available for benefits, at market	1,103,587
Pension benefit assets in excess of obligation	\$ 245,281
Change from prior year amount	\$ 98,361

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 2013 were \$32,538 of which \$27,712 was pass through monies from the state and \$4,826 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. Commitments

The City has the following ongoing construction commitment:

<u>Project</u>	<u>Contracted Total Cost</u>	<u>Costs Incurred</u>	<u>Commitment to Complete</u>
Fitness Center	\$ 519,596	\$ 286,453	\$ 233,143
Highland Drive - 11th and 12 Street Improvements	1,429,358	1,195,777	233,581
	<u>\$ 1,948,954</u>	<u>\$ 1,482,230</u>	<u>\$ 466,724</u>

D. Change in Accounting Principle

The City implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. As a result, costs of issuance previously amortized on the statements were written off as those costs are now expensed in the year of the debt issuance. The total amount of issuance costs written off resulted in a decrease of \$191,051 to beginning government-wide net position.

E. Subsequent Events

Subsequent to year end the city issued the 2014A Series bonds in the amount of \$4,215,000 to fund various capital projects. The interest rate on the bonds is 2 – 3% and the maturity date is February 1, 2030.



Required Supplementary Information
December 31, 2013

City of Blue Earth

City of Blue Earth
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Taxes				
Property	\$ 487,314	\$ 487,314	\$ 483,736	\$ (3,578)
Franchise	286,195	286,195	276,013	(10,182)
Special assessments	1,000	1,000	8,199	7,199
Licenses and permits	26,633	26,633	28,195	1,562
Intergovernmental revenue				
Local government aid	1,517,331	1,517,331	1,535,819	18,488
Residential market value credit	-	-	624	624
Other state aids and grants	92,693	92,693	108,863	16,170
Police aid	22,654	22,654	31,970	9,316
Federal grants	-	-	13,113	13,113
Fire aid	18,488	18,488	27,712	9,224
Charges for services				
General government	1,650	1,650	8,944	7,294
Police and fire contracts	43,675	43,675	51,296	7,621
Garbage and recycling	32,430	32,430	32,809	379
Parks and recreation	71,500	71,500	69,436	(2,064)
Storm water	-	-	68,934	68,934
Fines and forfeits	2,500	2,500	1,297	(1,203)
Interest earnings	50,000	50,000	54	(49,946)
Miscellaneous revenue				
Rental	22,224	22,224	23,170	946
Miscellaneous	22,600	22,600	95,395	72,795
SCORE	9,300	9,300	-	(9,300)
Donations	-	-	6,685	6,685
Total revenues	<u>2,708,187</u>	<u>2,708,187</u>	<u>2,872,264</u>	<u>164,077</u>
Expenditures				
General government				
Mayor and council	27,814	27,814	27,002	812
Administration and finance	296,621	296,621	302,358	(5,737)
Other general government	78,016	78,016	79,294	(1,278)
Capital outlay	24,300	24,300	14,586	9,714
Public safety				
Police				
Current expenditures	509,902	509,902	504,959	4,943
Capital outlay	8,400	8,400	8,401	(1)
Fire				
Current expenditures	169,947	169,947	232,945	(62,998)
Capital outlay	61,000	61,000	71,297	(10,297)
Public Works				
Streets and highways				
Street maintenance	764,358	764,358	679,200	85,158
Sanitation and health	24,758	24,758	19,450	5,308
Street lighting	58,250	58,250	57,592	658
Street - other capital outlay	10,000	10,000	318,390	(308,390)
Culture and recreation				
Library - current expenditures	189,180	189,180	196,710	(7,530)
Senior Center - current expenditures	62,961	62,961	86,311	(23,350)
Senior Center - capital outlay	5,500	5,500	5,500	-
Swimming Pool - current expenditures	126,145	126,145	135,587	(9,442)
Swimming Pool - capital outlay	3,087	3,087	3,553	(466)
Storm Water	7,000	7,000	6,404	596
Debt Service				
Principal	13,524	13,524	6,806	6,718
Interest	73,193	73,193	9,233	63,960
All other - current expenditures	65,346	65,346	71,505	(6,159)
Total expenditures	<u>2,579,302</u>	<u>2,579,302</u>	<u>2,837,083</u>	<u>(257,781)</u>
Excess of Revenue over Expenditures	<u>128,885</u>	<u>128,885</u>	<u>35,181</u>	<u>(93,704)</u>

City of Blue Earth
 Budgetary Comparison Schedule – General Fund - Continued
 Year Ended December 31, 2013

	<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	480	380
Bond proceeds	-	-	235,000	235,000
Transfers in	7,725	7,725	7,725	-
Transfers out	-	-	(158,203)	(158,203)
Total Other Financing Sources (Uses)	<u>7,825</u>	<u>7,825</u>	<u>85,002</u>	<u>77,177</u>
Net Change in Fund Balances	136,710	136,710	120,183	(16,527)
Fund Balance - Beginning of Year	<u>2,039,362</u>	<u>2,039,362</u>	<u>2,039,362</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 2,176,072</u>	<u>\$ 2,176,072</u>	<u>\$ 2,159,545</u>	<u>\$ (16,527)</u>

City of Blue Earth
 Budgetary Comparison Schedule – EDA Fund
 Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 49,660	\$ 49,660	\$ 49,210	\$ (450)
Charges for services	8,458	8,458	306,808	298,350
Interest received	300	300	2,181	1,881
Donations	-	-	60,250	60,250
Miscellaneous revenue	20,000	20,000	20,508	508
Total revenues	<u>78,418</u>	<u>78,418</u>	<u>438,957</u>	<u>360,539</u>
Expenditures				
Economic development	78,418	78,418	99,844	(21,426)
Capital outlay	-	-	18,274	(18,274)
Total expenditures	<u>78,418</u>	<u>78,418</u>	<u>118,118</u>	<u>(39,700)</u>
Net change in fund balance	-	-	320,839	320,839
Fund Balance - Beginning of Year	<u>1,108,229</u>	<u>1,108,229</u>	<u>1,108,229</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ 1,108,229</u></u>	<u><u>\$ 1,108,229</u></u>	<u><u>\$ 1,429,068</u></u>	<u><u>\$ 320,839</u></u>

City of Blue Earth
 Budgetary Comparison Schedule – Airport Fund
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues				
Property taxes	\$ -	\$ -	\$ 45	\$ 45
Grants	17,214	17,214	640,251	623,037
Charges for services	100,772	100,772	106,451	5,679
Interest received	-	-	(795)	(795)
Miscellaneous revenue	-	-	12	12
Total revenues	<u>117,986</u>	<u>117,986</u>	<u>745,964</u>	<u>627,978</u>
Expenditures				
Airport - current expenditures	<u>66,421</u>	<u>66,421</u>	<u>82,006</u>	<u>(15,585)</u>
Net change in fund balances	51,565	51,565	663,958	612,393
Fund Balance - Beginning of Year	<u>(1,074,704)</u>	<u>(1,074,704)</u>	<u>(1,074,704)</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ (1,023,139)</u>	<u>\$ (1,023,139)</u>	<u>\$ (410,746)</u>	<u>\$ 612,393</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, 2013, 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, 2013, expenditures exceed appropriations in the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
General Fund	\$ 257,781	Greater than anticipated revenues and available fund balance
Special Revenue Funds		
EDA	39,700	Greater than anticipated revenues
Airport	15,585	Greater than anticipated revenues



Supplemental Schedules and Related Information
December 31, 2013

City of Blue Earth

City of Blue Earth
Combining Balance Sheet – Nonmajor Governmental Funds
December 31, 2013

	Debt Service Funds								Total Debt Service Non-major Funds	
	General Obligation 1995	General Obligation 2005B	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2012	TIF 7-1		TIF 6-1
Assets										
Cash and investments	\$ 47,130	\$ -	\$ 74,621	\$ 205,651	\$ 235,356	\$ 492,654	\$ 55,884	\$ 7,047	\$ -	\$ 1,118,343
Receivables										
Taxes	780	20	1,288	9,538	-	12,469	1,599	-	-	25,694
Special assessments	12,271	19,165	31,365	57,298	477,302	157,960	365,923	-	-	1,121,284
Total assets	<u>\$ 60,181</u>	<u>\$ 19,185</u>	<u>\$ 107,274</u>	<u>\$ 272,487</u>	<u>\$ 712,658</u>	<u>\$ 663,083</u>	<u>\$ 423,406</u>	<u>\$ 7,047</u>	<u>\$ -</u>	<u>\$ 2,265,321</u>
Liabilities										
Checks in excess of deposits	\$ -	\$ 3,281	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,844	\$ 10,125
Deferred Inflow of Resources										
Unavailable revenue	13,037	19,183	32,367	64,384	475,473	167,098	367,477	-	-	1,139,019
Fund Balance										
Restricted	47,144	-	74,907	208,103	237,185	495,985	55,929	7,047	-	1,126,300
Unassigned	-	(3,279)	-	-	-	-	-	-	(6,844)	(10,123)
Total Fund balance	<u>47,144</u>	<u>(3,279)</u>	<u>74,907</u>	<u>208,103</u>	<u>237,185</u>	<u>495,985</u>	<u>55,929</u>	<u>7,047</u>	<u>(6,844)</u>	<u>1,116,177</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 60,181</u>	<u>\$ 19,185</u>	<u>\$ 107,274</u>	<u>\$ 272,487</u>	<u>\$ 712,658</u>	<u>\$ 663,083</u>	<u>\$ 423,406</u>	<u>\$ 7,047</u>	<u>\$ -</u>	<u>\$ 2,265,321</u>

City of Blue Earth

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor Governmental Funds
Year Ended December 31, 2013

	Debt Service Funds									Total Debt Service Non-major Funds
	General Obligation 1995	General Obligation 2005B	General Obligation 2006C	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2012	TIF 7-1	TIF 6-1	
	Revenues									
Property taxes	\$ 743	\$ 185	\$ 22,507	\$ 167,325	\$ -	\$ 197,710	\$ 2,303	\$ 6,706	\$ 2,049	\$ 399,528
Special assessments	-	10,161	5,063	5,566	57,103	34,746	53,603	-	-	166,242
Interest earnings	54	(12)	69	123	142	445	23	5	(10)	839
Total Revenues	797	10,334	27,639	173,014	57,245	232,901	55,929	6,711	2,039	566,609
Expenditures										
Miscellaneous										
All other - current expenditures	-	2,412	-	200	200	-	-	6,745	-	9,557
Debt Service										
Principal	-	9,000	22,000	140,000	76,080	206,878	-	-	-	453,958
Interest and fiscal charges	-	1,340	6,144	34,730	425	9,319	-	-	-	51,958
Bond issuance costs	-	-	-	425	30,904	525	-	-	-	31,854
Total Expenditures	-	12,752	28,144	175,355	107,609	216,722	-	6,745	-	547,327
Excess (Deficiency) of Revenues over (under) Expenditures	797	(2,418)	(505)	(2,341)	(50,364)	16,179	55,929	(34)	2,039	19,282
Other Financing Sources (Uses)										
Operating transfers in	-	-	-	-	80,520	-	-	-	-	80,520
Net Change in Fund Balances	797	(2,418)	(505)	(2,341)	30,156	16,179	55,929	(34)	2,039	99,802
Fund Balance - Beginning of Year	46,347	(861)	75,412	210,444	207,029	479,806	-	7,081	(8,883)	1,016,375
Fund Balance - End of Year	\$ 47,144	\$ (3,279)	\$ 74,907	\$ 208,103	\$ 237,185	\$ 495,985	\$ 55,929	\$ 7,047	\$ (6,844)	\$ 1,116,177

City of Blue Earth
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
 Governmental Funds - Continued
 Year Ended December 31, 2013

	Special Revenue Fund	Total Nonmajor Governmental Funds
	Housing Loan Fund	
Assets		
Cash and investments	\$ 698,084	\$ 1,816,427
Receivables		
Taxes	155	25,849
Special Assessments	-	1,121,284
Accounts	-	-
Interest	110	110
Notes	401,050	401,050
Total assets	\$ 1,099,399	\$ 3,364,720
Liabilities		
Accounts payable	\$ 1,070	\$ 1,070
Other payables	153	153
Accrued vacation	548	548
Total liabilities	1,771	11,896
Deferred Inflow of Resources		
Unavailable revenue	401,203	1,540,222
Fund balances		
Restricted	696,425	1,822,725
Unassigned	-	(10,123)
Total fund balances	696,425	1,812,602
Total Liabilities, Deferred inflows of resources, and Fund Balances	\$ 1,099,399	\$ 3,364,720

City of Blue Earth
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
 Governmental Funds - Continued
 Year Ended December 31, 2013

	Special Revenue Fund
	Housing Loan Fund
Revenues	
Property taxes	\$ 153
Interest received	820
Miscellaneous	15,691
Total revenues	16,664
Expenditures	
Economic Development - current expenditures	7,436
Economic Development - capital outlay	44,992
Total expenditures	52,428
Net Change in Fund Balances	(35,764)
Fund Balance - Beginning of Year	732,189
Fund Balance - End of Year	\$ 696,425

City of Blue Earth
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
 Governmental Funds - Continued
 Year Ended December 31, 2013

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 399,681	\$ 769,539	\$ 1,169,220
Franchise	-	276,013	276,013
Special assessments	166,242	79,758	246,000
Federal grants	-	653,364	653,364
Licenses and permits	-	28,195	28,195
Intergovernmental revenue			
Local government aid	-	1,535,819	1,535,819
Residential market value credit	-	624	624
Other state aids and grants	-	108,863	108,863
Police aid	-	31,970	31,970
Fire aid	-	27,712	27,712
Charges for services			
General government	-	315,752	315,752
Police and fire contracts	-	51,296	51,296
Garbage and recycling	-	32,809	32,809
Parks and recreation	-	69,436	69,436
Airports	-	106,451	106,451
Storm water	-	68,934	68,934
Fines and forfeits	-	1,297	1,297
Interest received	1,659	4,180	5,839
Miscellaneous revenue			
Miscellaneous	15,691	191,040	206,731
Donations	-	66,935	66,935
Total Revenues	<u>583,273</u>	<u>4,419,987</u>	<u>5,003,260</u>

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Major and Nonmajor
Governmental Funds - Continued
Year Ended December 31, 2013

	Total Nonmajor Governmental Funds	Total Major Governmental Funds	Total Governmental Funds
Expenditures			
General Government			
Mayor and council	-	27,002	27,002
Administration and finance	-	302,358	302,358
Other general government	-	79,294	79,294
Capital outlay	-	14,586	14,586
Public Safety			
Police			
Current expenditures	-	504,959	504,959
Capital outlay	-	8,401	8,401
Fire			
Current expenditures	-	232,945	232,945
Capital outlay	-	71,297	71,297
Public Works			
Streets and highways			
Street maintenance	-	679,200	679,200
Snow and ice removal	-	19,450	19,450
Street lighting	-	57,592	57,592
Street construction - capital outlay	-	1,519,910	1,519,910
Street - other capital outlay	-	318,390	318,390
Culture and Recreation			
Library			
Current expenditures	-	196,710	196,710
Senior Center			
Current expenditures	-	86,311	86,311
Capital outlay	-	5,500	5,500
Swimming Pool			
Current expenditures	-	135,587	135,587
Capital outlay	-	3,553	3,553
Economic Development - current expenditures			
Current expenditures	7,436	99,844	107,280
Capital outlay	44,992	18,274	63,266
Airport			
Airport - current expenditures	-	82,006	82,006
Storm water			
Storm water - current expenditures	-	6,404	6,404
Miscellaneous			
All other - current expenditures	9,557	109,470	119,027
Debt Service			
Principal	453,958	1,071,806	1,525,764
Bond issuance costs	31,854	23,088	54,942
Interest and fiscal charges	51,958	210,036	261,994
Total Expenditures	<u>599,755</u>	<u>5,883,973</u>	<u>6,483,728</u>
Revenues Under Expenditures	<u>(16,482)</u>	<u>(1,463,986)</u>	<u>(1,480,468)</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, 2013

	<u>Total Nonmajor Governmental Funds</u>	<u>Total Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)			
Sale of capital assets	-	480	480
Bond proceeds	-	2,555,250	2,555,250
Operating transfers in	80,520	7,725	88,245
Operating transfers out	-	(158,203)	(158,203)
Total other financing sources (uses)	<u>80,520</u>	<u>2,405,252</u>	<u>2,485,772</u>
Net Change in Fund Balances	64,038	941,266	1,005,304
Fund Balance - Beginning of Year	<u>1,748,564</u>	<u>2,794,976</u>	<u>4,543,540</u>
Fund Balance - End of Year	<u>\$ 1,812,602</u>	<u>\$ 3,736,242</u>	<u>\$ 5,548,844</u>



Independent Auditor's Report on Minnesota Legal Compliance

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2014.

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

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

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

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

Mankato, Minnesota
June 16, 2014