

CITY OF BLUE EARTH, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

**CITY OF BLUE EARTH, MINNESOTA
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YEAR ENDED DECEMBER 31, 2017**

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**CITY OF BLUE EARTH, MINNESOTA
OFFICIALS
DECEMBER 31, 2017**

CITY COUNCIL

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

ADMINISTRATION

Timothy Ibisch	City Administrator/EDA Director
Echo Roggenkamp	Deputy City Clerk

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota (the City) as of and for the year ended December 31, 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Board of Public Works Commission. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 City'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 City'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 unmodified and qualified audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Unmodified
Discretely Presented Component Units	Unmodified
Governmental Funds	Unmodified
Proprietary Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

The City has not implemented Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, with respect to the fire relief association. Accounting principles generally accepted in the United States of America require that the City report deferred inflows of resources, deferred outflows of resources and a net pension asset measured in accordance with GASB Statement No. 68 within the governmental activities opinion unit. The amount by which this departure would affect the governmental activities opinion unit has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities opinion unit, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota as of December 31, 2017, 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.

Emphasis of a Matter Regarding the Correction of an Error

As described in Note 8 to the financial statements, an error resulting in an understatement of fund balance in the General Fund was discovered by management of the City during the current year. Accordingly, the amount reported for fund balance in the General Fund has been restated to correct the error. Our opinion is unmodified 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, schedule of employer’s share of net pension liability, and the schedule of employer’s contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable Mayor and City Council
City of Blue Earth

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not 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. 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, Minnesota's financial statement. The combining and individual fund financial statements, as 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 and individual fund financial statements 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2018, on our consideration of the City of Blue Earth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City of Blue Earth's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Blue Earth's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
July 10, 2018

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**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Cash and Investments	\$ 6,403,381	\$ 988,264	\$ 7,391,645	\$ 1,453,734
Restricted Cash and Investments:				
Economic Development	71,103	-	71,103	-
Customer Deposits	-	-	-	30,928
Receivables:				
Taxes	29,465	-	29,465	-
Special Assessments	2,951,482	99,627	3,051,109	55,346
Accounts	107,853	181,382	289,235	733,941
Interest	7,403	-	7,403	-
Notes	689,900	-	689,900	-
Prepaid Items	38,667	8,661	47,328	132,952
Inventory	-	266,291	266,291	562,631
Land Held for Resale	268,769	-	268,769	-
Other Assets	-	-	-	45,744
Internal balances	433,506	(433,506)	-	-
Capital Assets, Net of Accumulated Depreciation	30,113,836	10,877,938	40,991,774	16,434,181
Total Assets	<u>41,115,365</u>	<u>11,988,657</u>	<u>53,104,022</u>	<u>19,449,457</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	739,896	92,965	832,861	362,848

See accompanying Notes to Financial Statements.

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2017

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
CURRENT LIABILITIES				
Accounts Payable	\$ 294,615	\$ 841,494	\$ 1,136,109	\$ 417,329
Other Payables	-	-	-	141,491
Accrued Vacation and Sick Leave	-	-	-	99,511
Accrued Salaries and Wages	89,150	39,091	128,241	31,229
Unearned Revenue	-	-	-	467,766
Interest Payable	141,801	24,481	166,282	56,347
Total Current Liabilities	<u>525,566</u>	<u>905,066</u>	<u>1,430,632</u>	<u>1,213,673</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Customer Deposits Payable	-	-	-	30,928
NONCURRENT LIABILITIES				
Net Pension Liability	990,156	358,967	1,349,123	861,831
Due Within One Year	1,044,850	506,000	1,550,850	700,954
Due in More Than One Year	13,178,562	3,460,388	16,638,950	3,947,450
Total Noncurrent Liabilities	<u>15,213,568</u>	<u>4,325,355</u>	<u>19,538,923</u>	<u>5,510,235</u>
Total Liabilities	15,739,134	5,230,421	20,969,555	6,754,836
DEFERRED INFLOWS OF RESOURCES				
Pension Related	<u>856,340</u>	<u>93,437</u>	<u>949,777</u>	<u>321,797</u>
NET POSITION				
Net Investment in Capital Assets	16,381,483	6,911,550	23,293,033	11,785,776
Restricted:				
Debt Service	4,277,029	-	4,277,029	-
Other Purposes	2,539,706	-	2,539,706	30,928
Unrestricted	<u>2,061,569</u>	<u>(153,786)</u>	<u>1,907,783</u>	<u>918,968</u>
Total Net Position	<u>\$ 25,259,787</u>	<u>\$ 6,757,764</u>	<u>\$ 32,017,551</u>	<u>\$ 12,735,672</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENED DECEMBER 31, 2017**

Functional/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	\$ 430,847	\$ 77,768	\$ -	\$ (353,079)	\$ -	\$ (353,079)	
Public Safety	1,018,694	31,520	86,688	(900,486)	-	(900,486)	
Streets and Highways	1,989,961	178,712	33,406	(1,777,843)	-	(1,777,843)	
Culture and Recreation	527,568	48,989	-	(478,579)	-	(478,579)	
Housing and Economic Development	853,730	89,832	-	(763,898)	-	(763,898)	
Interest and Other Charges on Long-Term Debt	361,542	-	-	(361,542)	-	(361,542)	
Total Governmental Activities	5,182,342	426,821	120,094	(4,635,427)	-	(4,635,427)	
Business-Type Activities:							
Sewer	903,913	1,116,590	-	-	212,677	212,677	
Liquor	1,558,482	1,599,275	-	-	40,793	40,793	
Fitness Center	177,439	226,959	-	-	49,520	49,520	
Total Business-Type Activities	2,639,834	2,942,824	-	-	302,990	302,990	
Total Primary Government	\$ 7,822,176	\$ 3,369,645	\$ 120,094	(4,635,427)	302,990	(4,332,437)	
Component Unit:							
Electric	\$ 5,962,071	\$ 6,009,156	\$ -				\$ 47,085
Water	925,589	915,558	-				(10,031)
Total Component Unit	\$ 6,887,660	\$ 6,924,714	\$ -				37,054
GENERAL REVENUES							
Taxes:							
Property Taxes				1,109,696	-	1,109,696	-
Special Assessments				363,958	-	363,958	-
State Aid				1,965,328	-	1,965,328	-
Franchise Tax				249,471	-	249,471	-
Fees and Fines				2,887	-	2,887	-
License and Permits				26,323	-	26,323	-
Donations				6,941	-	6,941	-
Earnings on Investments				50,624	12,251	62,875	16,246
Lease Payments				281,716	-	281,716	2,608
Miscellaneous				130,015	53,372	183,387	39,252
Transfers				131,500	(131,500)	-	-
Total General Revenue and Transfers				4,318,459	(65,877)	4,252,582	58,106
CHANGE IN NET POSITION				(316,968)	237,113	(79,855)	95,160
Net Position – Beginning of Year				25,576,755	6,520,651	32,097,406	12,640,512
NET POSITION – END OF YEAR				\$ 25,259,787	\$ 6,757,764	\$ 32,017,551	\$ 12,735,672

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Economic Development Authority	Airport Fund	General Obligation 2014A	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Investments	\$ 1,876,459	\$ 981,903	\$ -	\$ 171,226	\$ 3,373,793	\$ 6,403,381
Restricted Cash for Economic Development	-	71,103	-	-	-	71,103
Receivables:						
Taxes	13,338	1,467	16	1,909	12,735	29,465
Special Assessments	84,496	-	-	923,105	1,943,882	2,951,483
Interest	7,403	-	-	-	-	7,403
Accounts	50,991	793	-	-	56,069	107,853
Notes	-	329,936	-	-	359,964	689,900
Due from Other Funds	931,397	-	-	-	-	931,397
Land Held for Resale	-	166,017	-	-	102,752	268,769
Prepaid Items	27,412	1,245	10,010	-	-	38,667
	<u>\$ 2,991,496</u>	<u>\$ 1,552,464</u>	<u>\$ 10,026</u>	<u>\$ 1,096,240</u>	<u>\$ 5,849,195</u>	<u>\$ 11,499,421</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 103,019	\$ 20,494	\$ 73,593	\$ -	\$ 97,509	\$ 294,615
Accrued Salaries and Wages	33,944	4,285	-	-	1,001	39,230
Due to Other Funds	-	-	487,567	-	10,324	497,891
Total Liabilities	<u>136,963</u>	<u>24,779</u>	<u>561,160</u>	<u>-</u>	<u>108,834</u>	<u>831,736</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	93,668	331,403	16	925,014	2,313,056	3,663,157
FUND BALANCES						
Nonspendable	27,412	167,262	10,010	-	102,752	307,436
Restricted	-	1,029,020	-	171,226	3,334,877	4,535,123
Assigned	943,331	-	-	-	-	943,331
Unassigned	1,790,122	-	(561,160)	-	(10,324)	1,218,638
Total Fund Balances	<u>2,760,865</u>	<u>1,196,282</u>	<u>(551,150)</u>	<u>171,226</u>	<u>3,427,305</u>	<u>7,004,528</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,991,496</u>	<u>\$ 1,552,464</u>	<u>\$ 10,026</u>	<u>\$ 1,096,240</u>	<u>\$ 5,849,195</u>	<u>\$ 11,499,421</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balances for Governmental Funds		\$ 7,004,528
<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.</p>		30,113,836
<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>		3,663,157
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		(141,801)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods, and therefore are not reported in the governmental funds.</p>		(116,444)
<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	\$ (13,921,915)	
Net Pension Liability	(990,156)	
Unamortized Bond Premium	(182,012)	
Compensated Absence Payable	(49,920)	
Note Payable	(119,486)	
		(15,263,489)
Total Net Position for Governmental Activities		\$ 25,259,787

See accompanying Notes to Financial Statements.

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	General Fund	Economic Development Authority	Airport Fund	General Obligation 2014A	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 536,318	\$ 71,125	\$ 5	\$ 106,011	\$ 769,517	\$ 1,482,976
Franchise Taxes	249,471	-	-	-	-	249,471
Special Assessments	(2,880)	-	-	117,702	249,136	363,958
Fees and Fines	2,887	-	-	-	-	2,887
Licenses and Permits	26,323	-	-	-	-	26,323
State Aid and Grants	2,029,516	-	33,406	-	-	2,062,922
Federal Grants	-	2,500	-	-	-	2,500
Charges for Services	241,301	90,600	95,683	-	-	427,584
Interest Earnings	21,260	10,315	-	13	31,354	62,942
Rent Payments	-	263,066	-	-	-	263,066
Donations	6,941	-	-	-	-	6,941
Miscellaneous	109,340	21,788	-	-	30,717	161,845
Total Revenues	<u>3,220,477</u>	<u>459,394</u>	<u>129,094</u>	<u>223,726</u>	<u>1,080,724</u>	<u>5,113,415</u>
EXPENDITURES						
Current:						
General Government	461,823	-	-	-	-	461,823
Public Safety	809,717	-	-	-	-	809,717
Capital Outlay	62,627	-	-	-	-	62,627
Public Works	985,758	-	-	-	-	985,758
Capital Outlay	110,791	-	-	-	370,173	480,964
Culture and Recreation	413,045	-	-	-	-	413,045
Capital Outlay	21,675	-	-	-	-	21,675
Economic Development	-	467,135	-	-	31,800	498,935
Capital Outlay	-	1,270	-	-	72,325	73,595
Storm Water	25,922	-	-	-	-	25,922
Airport	-	-	85,089	-	-	85,089
Capital Outlay	-	-	328,361	-	-	328,361
Miscellaneous	108,276	-	-	-	21,519	129,795
Debt Services:						
Principal	8,104	-	-	156,521	871,794	1,036,419
Bond Issuance Costs	-	-	-	450	3,550	4,000
Interest and Other Charges	5,420	-	-	67,885	281,233	354,538
Total Expenditures	<u>3,013,158</u>	<u>468,405</u>	<u>413,450</u>	<u>224,856</u>	<u>1,652,394</u>	<u>5,772,263</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	207,319	(9,011)	(284,356)	(1,130)	(571,670)	(658,848)
OTHER FINANCING SOURCES (USES)						
Transfers In	231,500	-	-	50,000	150,000	431,500
Transfers Out	(300,000)	-	-	-	-	(300,000)
Total Other Financing Sources (Uses)	<u>(68,500)</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>150,000</u>	<u>131,500</u>
NET CHANGE IN FUND BALANCES	138,819	(9,011)	(284,356)	48,870	(421,670)	(527,348)
Fund Balances – Beginning of Year (as Restated)	2,622,046	1,205,293	(266,794)	122,356	3,848,975	7,531,876
FUNDS BALANCES – END OF YEAR	<u>\$ 2,760,865</u>	<u>\$ 1,196,282</u>	<u>\$ (551,150)</u>	<u>\$ 171,226</u>	<u>\$ 3,427,305</u>	<u>\$ 7,004,528</u>

See accompanying Notes to Financial Statements.

CITY OF BLUE EARTH, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Total Net Changes in Fund Balances – Governmental Funds \$ (527,348)

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 statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	895,396
Depreciation Expense	(1,335,401)

Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.

14,405

Because some revenues will not be collected for several months after the City’s fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds.

(376,400)

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.

1,036,419

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

6,596

In the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.

(29,325)

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.

(1,310)

Change in Net Position of Governmental Activities

\$ (316,968)

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Sewer	Liquor	Fitness Center	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 590,737	\$ 397,527	\$ 988,264
Receivables:				
Special Assessments	99,627	-	-	99,627
Accounts	180,106	1,276	-	181,382
Prepaid Items	4,974	2,632	1,055	8,661
Inventory	-	266,291	-	266,291
Total Current Assets	<u>284,707</u>	<u>860,936</u>	<u>398,582</u>	<u>1,544,225</u>
Noncurrent Assets:				
Capital Assets Not Being Depreciated:				
Land	119,035	100,000	-	219,035
Construction in Progress	1,627,935	-	-	1,627,935
Capital Assets, Net of Accumulated Depreciation:				
Buildings and Infrastructure	3,847,335	364,920	614,170	4,826,425
Equipment	4,170,239	27,657	6,647	4,204,543
Total Noncurrent Assets	<u>9,764,544</u>	<u>492,577</u>	<u>620,817</u>	<u>10,877,938</u>
 Total Assets	 10,049,251	 1,353,513	 1,019,399	 12,422,163
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plans	47,894	36,750	8,321	92,965
LIABILITIES				
Current Liabilities:				
Accounts Payable	694,135	137,679	9,680	841,494
Accrued Salaries and Wages	17,655	15,725	5,711	39,091
Due to other funds	433,506	-	-	433,506
Bonds Payable – Current	481,000	-	25,000	506,000
Interest Payable	19,979	-	4,502	24,481
Total Current Liabilities	<u>1,646,275</u>	<u>153,404</u>	<u>44,893</u>	<u>1,844,572</u>
NONCURRENT LIABILITIES				
Net Pension Liability	184,933	141,903	32,131	358,967
Bonds Payable	3,075,000	-	385,388	3,460,388
Total Noncurrent Liabilities	<u>3,259,933</u>	<u>141,903</u>	<u>417,519</u>	<u>3,819,355</u>
 Total Liabilities	 4,906,208	 295,307	 462,412	 5,663,927
DEFERRED INFLOWS OF RESOURCES				
Pension Plans	48,137	36,937	8,363	93,437
NET POSITION				
Net Investment in Capital Assets	6,208,544	492,577	210,429	6,911,550
Unrestricted	(1,065,744)	565,442	346,516	(153,786)
 Total Net Position	 <u>\$ 5,142,800</u>	 <u>\$ 1,058,019</u>	 <u>\$ 556,945</u>	 <u>\$ 6,757,764</u>

See accompanying Notes to Financial Statements.

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017

	Sewer	Liquor	Fitness Center	Total
OPERATING REVENUES				
Service and Fees	\$ 1,074,635	\$ -	\$ 226,959	\$ 1,301,594
Sales	-	1,599,275	-	1,599,275
Total Operating Revenues	<u>1,074,635</u>	<u>1,599,275</u>	<u>226,959</u>	<u>2,900,869</u>
OPERATING EXPENSES				
Salaries and Benefits	273,338	250,230	61,856	585,424
Costs of Goods Sold	-	1,190,878	-	1,190,878
Supplies	29,305	3,884	7,753	40,942
Utilities	94,808	18,800	19,063	132,671
Other Services and Charges	42,043	5,914	3,645	51,602
Repairs and Maintenance	37,702	12,350	24,042	74,094
Depreciation	301,868	21,036	36,758	359,662
Miscellaneous	61,889	55,390	14,245	131,524
Total Operating Expenses	<u>840,953</u>	<u>1,558,482</u>	<u>167,362</u>	<u>2,566,797</u>
OPERATING INCOME	233,682	40,793	59,597	334,072
NONOPERATING REVENUES (EXPENSES)				
Refunds and Reimbursements	93,973	-	-	93,973
Interest and Investment Revenue	606	8,082	3,563	12,251
Amortization Expense	-	-	866	866
Interest Expense	(62,960)	-	(10,943)	(73,903)
Miscellaneous Revenue	1,354	-	-	1,354
Total Nonoperating Revenues (Expenses)	<u>32,973</u>	<u>8,082</u>	<u>(6,514)</u>	<u>34,541</u>
INCOME BEFORE TRANSFERS	266,655	48,875	53,083	368,613
TRANSFERS IN(OUT)	<u>100,000</u>	<u>(231,500)</u>	<u>-</u>	<u>(131,500)</u>
CHANGE IN NET POSITION	366,655	(182,625)	53,083	237,113
Net Position – Beginning of Year	<u>4,776,145</u>	<u>1,240,644</u>	<u>503,862</u>	<u>6,520,651</u>
NET POSITION – END OF YEAR	<u>\$ 5,142,800</u>	<u>\$ 1,058,019</u>	<u>\$ 556,945</u>	<u>\$ 6,757,764</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Sewer	Liquor	Fitness Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,082,067	\$ 1,598,018	\$ 226,959	\$ 2,907,044
Payments to Employees	(228,044)	(222,821)	(61,652)	(512,517)
Payments to Suppliers	(258,860)	(1,286,299)	(56,979)	(1,602,138)
Net Cash Provided by Operating Activities	595,163	88,898	108,328	792,389
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Receipts	1,354	-	-	1,354
Transfers (In) Out	533,506	(231,500)	-	302,006
Net Cash Provided (Used) by Noncapital Financing Activities	534,860	(231,500)	-	303,360
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments on Long-Term Debt	(476,000)	-	(25,000)	(501,000)
Purchase of Capital Assets	(997,631)	-	(5,643)	(1,003,274)
Interest Paid on Debt	(65,433)	-	(11,149)	(76,582)
Refunds and Reimbursements	52,143	-	-	52,143
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,486,921)	-	(41,792)	(1,528,713)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on Investments and Cash	606	8,082	3,563	12,251
NET CHANGE IN CASH AND CASH EQUIVALENTS	(356,292)	(134,520)	70,099	(420,713)
Cash and Cash Equivalents – Beginning of Year	356,292	725,257	327,428	1,408,977
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ -</u>	<u>\$ 590,737</u>	<u>\$ 397,527</u>	<u>\$ 988,264</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income	\$ 233,682	\$ 40,793	\$ 59,597	\$ 334,072
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	301,868	21,036	36,758	359,662
Deferred Outflows – Pension	39,933	23,377	6,001	69,311
Net Pension Liabilities	(45,883)	(16,116)	(5,510)	(67,509)
Deferred Inflows – Pension	20,659	18,125	3,882	42,666
Changes in Assets and Liabilities:				
Accounts Receivable	7,432	(1,257)	-	6,175
Inventory	-	(14,144)	-	(14,144)
Prepaid Items	2,715	5,057	3,698	11,470
Accounts Payable	34,988	10,004	3,398	48,390
Accrued Expense	(231)	2,023	504	2,296
Net Cash Provided (Used) by Operating Activities	<u>\$ 595,163</u>	<u>\$ 88,898</u>	<u>\$ 108,328</u>	<u>\$ 792,389</u>
NONCASH TRANSACTIONS				
Capital Asset Additions in Accounts Payable	\$ 630,304	\$ -	\$ -	\$ 630,304
Amortized Bond Premium	-	-	865	865
Total Noncash Capital and Financing Activities	<u>\$ 630,304</u>	<u>\$ -</u>	<u>\$ 865</u>	<u>\$ 631,169</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Blue Earth and its component unit. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Component Unit

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.

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 nonfiduciary activities of the primary government and its component unit. Eliminations have been made to minimize the double-counting of internal activities. 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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (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. Revenues that are not classified as program revenues, including all taxes, are reported 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.

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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

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

The government reports the following major proprietary funds:

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

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

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

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

All proprietary funds are accounting for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. 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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and Investments

Cash balances of the City's funds are combined 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.

Restricted Cash and Investments

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

Receivables and Payables

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

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

Property Taxes. On or before September 30th of each year, the City Council certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All cities must hold public hearings on their proposed property tax levies.

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

Receivables and Payables (Continued)

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.

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables are classified as interfund receivables and payables on the governmental fund balance sheets.

Inventories and Prepaid Items

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

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

Land Held for Resale

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

All land held for resale is valued at the lower of cost or net realizable value.

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, 2017 was \$15,581.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

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 City as assets with an estimated useful life in excess of one year an initial, individual cost of more than \$30,000 for buildings; \$25,000 for building improvements; \$100,000 for infrastructure; \$5,000 for machinery, equipment and vehicles; \$10,000 for land/land improvements (\$1,000 and an estimated life in excess of five years for Blue Earth Board of Public Works). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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:

Primary Government:

Buildings	7 – 40 Years
Streets, Bridges, and Improvements	20 – 50 Years
Land Improvements	5 – 30 Years
Collection and Distribution	25 – 50 Years
Vehicles	3 – 50 Years
Machinery and Equipment	5 – 40 Years
Land	Not Depreciated

Component Unit:

Buildings and Structures	20 – 50 Years
Generation	20 – 33 Years
Transmission System	20 – 33 Years
Distribution System	20 – 33 Years
General Equipment	5 – 20 Years
Vehicles	7 – 20 Years
Land	Not Depreciated

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

Deferred Outflows of Resources

The Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflows of resources can be found in Note 5 to the financial statements.

Deferred Inflows of Resources

The City's governmental fund and government-wide financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The first type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The city does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year. The second type of deferred inflow of resources relates to pension activity as described in Note 5.

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.

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 3% interest rate.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs are expensed in the year of issuance.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as another financing source. Premiums and discounts received on debt issuances are reported as other financing sources and uses, respectively. Bond issuance costs are reported as debt service expenditures.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

Pensions

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

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense associated with the City's requirement to contribute to the Windom Fire Department Relief Association Plan, information about the plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments and (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the government-wide statements of net position and statements of activities.

Net Position

In the government-wide financial statements and in the proprietary fund level statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because the City reports all capital assets which make up a significant portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the City. Unrestricted net position is the remaining net position not included in the previous two categories.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

Fund Balance

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable and spendable fund balances. Spendable fund balances include restricted, committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaid expenditures, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The committed fund balances are self-imposed limitations approved by the City Council, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has authorized the City Administrator and the Assistant City Administrator to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned. The City's policy is to maintain an unrestricted fund balance in the General Fund an amount not less than 35% or more than 60% of the next year's budgeted expenditures of 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.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the City's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the City's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance (Continued)

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.

New Accounting Pronouncement

In June 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The City early-adopted GASB Statement No. 89 effective January 1, 2017. The adoption of GASB Statement No. 89 did not have a material effect on the City's financial statements.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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, 2017, have been compared to the City's budget for the year where applicable. Variances which are in parentheses indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgetary Information (Continued)

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.

Excess of Expenditures over Appropriations

For the year ended December 31, 2017, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
General Fund	\$ 77,423	Greater than Anticipated Revenues
Special Revenue Funds:		
EDA	153,349	Greater than Anticipated Revenues and Available Fund Balance
Airport	333,050	Greater than Anticipated Revenues and Future Revenues or Transfers

Deficit Fund Equity

The following governmental funds had deficit fund equity at December 31, 2017:

Special Revenue Fund	
Airport	\$ (551,150)
Debt Service Fund	
General Obligation 2013B	(10,324)
Total	<u>\$ (561,474)</u>

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Cash and Investments

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.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated “A” or better; revenue obligations of a state or local governments rated “AA” or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral to be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

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, 2017, none of the City’s bank balances were exposed to custodial credit risk.

Investments

As of December 31, 2017, the City had the following investments:

Investment Type	Level 1	Level 2	Level 3	Total
Municipal Bonds	\$ -	\$ 131,089	\$ -	\$ 131,089
Federal Home Loan Bank	-	169,745	-	169,745
Total Fair Value	<u>\$ -</u>	<u>\$ 300,834</u>	<u>\$ -</u>	<u>\$ 300,834</u>

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

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Cash and Investments (Continued)

Investments (Continued)

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, 2017, the City's Federal Home Loan Bank investments were rated AAA and the City's municipal bond investments were rated AA1 and AAA by Moody's.

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 Federal Home Loan Bank (54%), and in municipal bonds issued by Linn County Iowa (24%) and Lakeville, Minnesota G.O Bonds (18%).

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, 2017, none of the City's investments were exposed to custodial credit risk.

The deposits and investments are presented in the financial statements as follows:

Cash	\$ 6,072,492
Investments	300,834
Certificates of Deposits	1,089,422
Total Cash and Investments	<u>\$ 7,462,748</u>
Cash and Investments	\$ 7,391,645
Restricted Cash and Investments	71,103
Total Cash and Investments	<u>\$ 7,462,748</u>

Receivables

The City's Housing Loan fund had notes receivable of \$359,964 at year-end. A balance of \$79,141 represents Housing and Urban Development (HUD) loans due in monthly installments with a rate of interest at 3.25%. All loans are secured by City liens. The remaining balances of \$280,823 represents deferred HUD loans with no interest charged with payments due when the owner sells, transfers, or otherwise conveys the real estate. If the owner does not sell, transfer, or convey the property within 10 or 15 years, depending upon the individual loan agreements the owner shall not have to repay any portion of the grant. Any potential repayment on the loans shall be made on a prorated basis. These loans are secured by liens on the property.

The City's EDA fund had notes receivable of \$329,936 at year-end. Of this amount \$219,876 represents loans due from businesses in monthly installments with rates of interest ranging from 4.0% to 5.5%. A balance of \$915 represents Small City Development Program (SCDP) loans due in monthly installments with a rate of interest at 3%. These loans are secured by related real estate. The remaining \$109,145 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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Capital Assets

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

General Government	\$ 4,780
Public Safety	132,375
Public Works	776,276
Airport	261,542
Culture and Recreation	107,638
Housing and Economic Development	52,790
Total Depreciation Expense	<u>\$ 1,335,401</u>

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 695,577	\$ -	\$ -	\$ 695,577
Construction in Progress	79,727	718,956	-	798,683
Total Capital Assets, Not Being Depreciated	775,304	718,956	-	1,494,260
Capital Assets Being Depreciated:				
Buildings	7,813,389	73,569	-	7,886,958
Road Network	33,586,681	6,600	-	33,593,281
Equipment	2,156,366	4,192	-	2,160,558
Vehicles	1,728,306	92,079	-	1,820,385
Total Capital Assets Being Depreciated	45,284,742	176,440	-	45,461,182
Less: Accumulated Depreciation for:				
Buildings	2,668,348	202,090	-	2,870,438
Road Network	10,989,476	926,009	-	11,915,485
Equipment	1,023,669	111,217	-	1,134,886
Vehicles	824,712	96,085	-	920,797
Total Accumulated Depreciation	15,506,205	1,335,401	-	16,841,606
Total Capital Assets Being Depreciated, Net	29,778,537	(1,158,961)	-	28,619,576
Governmental Activities Capital Assets, Net	<u>\$ 30,553,841</u>	<u>\$ (440,005)</u>	<u>\$ -</u>	<u>\$ 30,113,836</u>

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

Sewer	\$ 301,868
Fitness Center	36,758
Liquor	21,036
Total Depreciation Expense	<u>\$ 359,662</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 219,035	\$ -	\$ -	\$ 219,035
Construction in Progress	-	1,627,935	-	1,627,935
Total Capital Assets, Not Being Depreciated	219,035	1,627,935	-	1,846,970
Capital Assets Being Depreciated:				
Buildings and Infrastructure	10,149,607	-	-	10,149,607
Equipment	5,781,148	5,644	-	5,786,792
Total Capital Assets Being Depreciated	15,930,755	5,644	-	15,936,399
Less: Accumulated Depreciation for:				
Buildings and Infrastructure	5,323,183	199,368	-	5,522,551
Equipment	1,222,586	160,294	-	1,382,880
Total Accumulated Depreciation	6,545,769	359,662	-	6,905,431
Total Capital Assets Being Depreciated, Net	9,384,986	(354,018)	-	9,030,968
Governmental Activities Capital Assets, Net	<u>\$ 9,604,021</u>	<u>\$ 1,273,917</u>	<u>\$ -</u>	<u>\$ 10,877,938</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Component Unit				
Capital Assets Not Being Depreciated:				
Land	\$ 219,376	\$ 21,150	\$ -	\$ 240,526
Capital Assets Being Depreciated:				
Production Equipment	5,582,700	11,905	-	5,594,605
Transmission Equipment	2,515,879	22,346	-	2,538,225
Distribution Equipment	20,431,291	301,837	-	20,733,128
General Equipment	1,669,231	312,346	-	1,981,577
Total Capital Assets Being Depreciated	30,199,101	648,434	-	30,847,535
Less: Accumulated Depreciation for:				
Production Equipment	2,843,834	177,820	-	3,021,654
Transmission Equipment	2,084,752	26,688	-	2,111,440
Distribution Equipment	8,126,759	624,974	-	8,751,733
General Equipment	666,637	102,416	-	769,053
Total Accumulated Depreciation	13,721,982	931,898	-	14,653,880
Total Capital Assets Being Depreciated, Net	16,477,119	(283,464)	-	16,193,655
Governmental Activities Capital Assets, Net	<u>\$ 16,696,495</u>	<u>\$ (262,314)</u>	<u>\$ -</u>	<u>\$ 16,434,181</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

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</u>
G.O. Improvement Bonds of 2016, Series A of \$2,102,025, due in annual installments of \$118,015 to \$159,490 through February 1, 2032.	4.0%	\$ 2,102,025
G.O. Bonds of 2009, Series A of \$1,630,000 due in annual installments of \$115,000 to \$155,000 through February 1, 2022.	1.3% to 3.8%	620,000
G.O. Bonds of 2010, Series A of \$2,140,000 due in annual installment of \$80,140 to \$109,685 through February 1, 2026. This is the City's share of the bonds with the component unit.	0.7% to 3.5%	864,925
G.O. Refinancing Bonds of 2011, Series A of \$1,440,000 due in annual installments of \$34,558 to \$74,557 through April 1, 2020. this is the City's share of the bonds with the component unit.	3.0% to 4.8%	107,513
G.O. Improvement Bonds of 2012, Series A of \$2,395,000, due in annual installments of \$118,380 to \$160,659 through February 1, 2028. This is the City's share of the bonds with the component unit.	2.0% to 2.7%	1,534,716
G.O. Refinancing Bonds of 2012, Series A, of \$1,560,000, due in annual installments of \$50,000 to \$190,000 through February 1, 2028.	2.0% to 2.7%	1,750,000
G.O. Refunding Bonds of 2013, Series A, of \$990,000, due in annual installments of \$65,000 to \$85,000 through February 1, 2027.	0.6% to 2.5%	730,000
G.O. Improvement Bonds of 2013, Series B, of \$1,800,000 due in annual installments of \$55,250 to \$110,500 through February 1, 2029.	2.3% to 3.8%	1,122,000
G.O. Equipment Certificate Bonds of 2013, Series B, of \$235,000, due in annual installments of \$45,000 to \$50,000 through February 1, 2019.	3.0%	100,000

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Long-Term Debt (Continued)

<u>General Obligation (Continued)</u> <u>Notes and Bond Issue and Purpose (Continued)</u>	<u>Interest Rates</u>	<u>Amounts</u>
G.O. Improvement Bonds of 2014, Series A, of \$3,765,000, due in annual installments of \$152,880 to \$222,040 through February 1, 2030. This is the City's share of the bonds with the component unit.	2.0% to 3.0%	\$ 2,431,520
G.O. Improvement Bonds of 2015, Series A, of \$3,204,500 due in annual installments of \$140,250 to \$263,000 through February 1, 2031. This is the City's share of the bonds with the component unit.	3.0%	3,064,216
G.O. Tax Abatement Bonds of 2014, Series A, of \$450,000, due in annual installments of \$25,000 to \$35,000 through February 1, 2030.	2.0% to 3.0%	400,000
Note Payable with the Minnesota Public Facilities Authority of \$760,000, due in annual installments of \$39,000 to \$45,000 through August 20, 2026.	1.4%	387,000
Note Payable with the Minnesota Public Facilities Authority of \$741,656, due in annual installments of \$31,000 to \$43,000 through August 20, 2029.	2.6%	459,000
Note Payable with the Minnesota Public Facilities Authority of \$1,987,000, due in annual installments of \$111,000 to \$129,000 through August 20, 2025.	1.5%	979,000
Note Payable with the Minnesota Public Facilities Authority of \$590,000, due in annual installments of \$36,000 to \$42,000 through August 20, 2026.	2.6%	355,000
Notes Payable with the Minnesota Public Facilities Authority of \$394,873, due in annual installments of \$11,120 to \$30,000 through August 20, 2028.	1.2%	297,000
Note Payable with the Minnesota Public Facilities Authority of \$3,290,170, due in annual installments of \$182,000, \$194,000 through August 20, 2020.	1.3%	574,000
USDA Promissory Note of \$180,000, due in annual installments of \$2,544 to \$13,100 through February 26, 2029.	4.0%	<u>119,486</u>
Total General Obligation Bonds and Notes Payable		<u><u>\$ 17,997,401</u></u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Long-Term Debt (Continued)

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

Year Ending December 31,	Governmental Activities		Business-Type Activities		Discretely Presented Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,141,484	\$ 354,385	\$ 506,000	\$ 68,991	\$ 745,954	\$ 129,844
2019	1,171,209	326,691	518,000	61,269	624,071	99,044
2020	1,139,106	298,857	530,000	53,340	556,160	85,096
2021	1,132,299	271,424	339,000	45,254	404,092	73,983
2022	1,168,599	242,028	344,000	39,466	369,559	64,463
2023-2027	5,475,340	771,020	1,448,000	105,563	1,552,979	188,324
2028-2032	2,813,364	142,592	271,000	9,146	562,018	27,718
Total	<u>\$ 14,041,401</u>	<u>\$ 2,406,997</u>	<u>\$ 3,956,000</u>	<u>\$ 383,029</u>	<u>\$ 4,814,833</u>	<u>\$ 668,472</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 14,950,231	\$ -	\$ 1,028,316	\$ 13,921,915	\$ 1,036,385
Bond Premium	196,417	-	14,405	182,012	-
Total Bonds Payable	15,146,648	-	1,042,721	14,103,927	1,036,385
Note Payable	127,589	-	8,103	119,486	8,465
Compensated Absences	56,516	10,215	16,811	49,920	-
Governmental Activity Long-Term Liabilities	<u>\$ 15,274,237</u>	<u>\$ -</u>	<u>\$ 1,050,824</u>	<u>\$ 14,223,413</u>	<u>\$ 1,044,850</u>
Business-Type Activities					
Bonds Payable:					
G.O. Revenue Bonds	\$ 4,457,000	\$ -	\$ 501,000	\$ 3,956,000	\$ 506,000
Bond Premium	11,253	-	865	10,388	-
Total Bonds Payable	<u>\$ 4,468,253</u>	<u>\$ -</u>	<u>\$ 501,865</u>	<u>\$ 3,966,388</u>	<u>\$ 506,000</u>
Compensated Absences	<u>\$ 21,755</u>	<u>\$ 5,572</u>	<u>\$ 3,887</u>	<u>\$ 23,440</u>	<u>\$ -</u>
Discretely Presented					
Component Unit:					
G.O. Revenue Bonds	<u>\$ 5,156,859</u>	<u>\$ 196,900</u>	<u>\$ 705,355</u>	<u>\$ 4,648,404</u>	<u>\$ 700,954</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Inter-Fund Balances and Transfers

Inter-fund transfers and balances for the year ended December 31, 2017 consisted of the following:

Note Inter-Fund Balances and Transfers

Transferred from	Transferred to				
	General Fund	General Obligation 2014A	Other Governmental Funds	Enterprise Fund Sewer	Total
General Fund	\$ -	\$ 50,000	\$ 150,000	\$ 100,000	\$ 300,000
Enterprise Fund – Liquor	231,500	-	-		231,500
Total	<u>\$ 231,500</u>	<u>\$ 50,000</u>	<u>\$ 150,000</u>	<u>\$ 100,000</u>	<u>\$ 531,500</u>

Due from	Due to		
	General	Capital Projects	
Airport Fund	\$ 487,567	\$ -	\$ 487,567
Other Governmental Funds	10,324	-	10,324
Enterprise Fund - Sewer	433,506	-	433,506
Total	<u>\$ 931,397</u>	<u>\$ -</u>	<u>\$ 931,397</u>

Purpose for Inter-fund Transfers and Balances:

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Fund Balances and Restricted for Other Purposes Net Position

Fund Balances as of December 31, 2017:

	General Fund	Economic Development Authority	Airport Fund	General Obligation 2014A	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Land Held for Resale	\$ -	\$ 166,017	\$ -	\$ -	\$ 102,752	\$ 268,769
Prepaid Items	27,412	1,245	10,010	-	-	38,667
Total Nonspendable	<u>27,412</u>	<u>167,262</u>	<u>10,010</u>	<u>-</u>	<u>102,752</u>	<u>307,436</u>
Restricted:						
Debt Service	-	-	-	171,226	2,294,525	2,465,751
Economic Development	-	1,029,020	-	-	549,293	1,578,313
Capital Projects	-	-	-	-	491,059	491,059
Total Restricted	<u>-</u>	<u>1,029,020</u>	<u>-</u>	<u>171,226</u>	<u>3,334,877</u>	<u>4,535,123</u>
Assigned:						
Special Purpose	22,659	-	-	-	-	22,659
Public Safety	12,078	-	-	-	-	12,078
Street Infrastructure	896,907	-	-	-	-	896,907
Senior Donation	11,687	-	-	-	-	11,687
Total Assigned	<u>943,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>943,331</u>
Unassigned	<u>1,790,122</u>	<u>-</u>	<u>(561,160)</u>	<u>-</u>	<u>(10,324)</u>	<u>1,218,638</u>
Total Fund Balance	<u>\$ 2,760,865</u>	<u>\$ 1,196,282</u>	<u>\$ (551,150)</u>	<u>\$ 171,226</u>	<u>\$ 3,427,305</u>	<u>\$ 7,004,528</u>

Restricted net position for Other Purposes Balance in Net Position as of December 31, 2017:

Restricted for EDA	\$ 1,527,685
Restricted for Housing Loan	1,012,021
Total	<u>\$ 2,539,706</u>

NOTE 4 FRANCHISE FEE

During 1994, the Board of Public Works and the City of Blue Earth agreed to a new method of figuring the franchise fee, which is in lieu of taxes. The agreement states that the franchise fee is to be calculated by multiplying a base factor of .0035 (3.5 mills), per kilowatt hour sold of all retail sales of kilowatt hours sold within the utility service territory rounded to the nearest 1,000 kilowatt hour. The payment for 2017 was \$195,185.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

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

B. Benefits Provided

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

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employee Plan Benefits

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

2. Police and Fire Plan Benefits

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

C. Contributions

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017 were \$72,688. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017 were \$48,689. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$957,590 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contributions meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$12,076. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At December 31, 2017, the City's proportionate share was 0.0150%, a decrease of 0.0003% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$92,630 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$349 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2017, the City reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 31,559	\$ 61,604
Changes in Actuarial Assumptions	158,981	95,999
Difference Between Projected and Actual Investment Earnings	-	41,413
Change in Proportion and Differences Between Contributions Made and City's Proportionate Share of Contributions	19,370	50,240
City's Contributions to GERS Subsequent to the Measurement Date	38,085	-
Total	<u>\$ 247,995</u>	<u>\$ 249,256</u>

\$38,085 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2018	\$ (36,587)
2019	60,596
2020	(22,707)
2021	(40,648)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$391,533 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At December 31, 2017, the City's proportion was 0.029%, the same as its proportion measured as of June 30, 2016. The City also recognized \$2,610 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. Police and Fire Fund Pension Costs (Continued)

For the year ended December 31, 2017, the City recognized pension expense of \$73,966 for its proportionate share of the PEPFF's pension expense.

At December 31, 2017, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 9,189	\$ 104,671
Changes in Actuarial Assumptions	543,716	555,882
Difference Between Projected and Actual Investment Earnings	-	33,260
Change in Proportion and Differences Between Contributions Made and City's Proportionate Share of Contributions	8,700	6,708
City's Contributions to PEPFF Subsequent to the Measurement Date	23,261	-
Total	\$ 584,866	\$ 700,521

\$23,261 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,		
2018	\$	(16,137)
2019		22,501
2020		(7,597)
2021		(28,311)
2022		(109,372)

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% Per Year
Active Member Payroll Growth	3.25% Per Year
Investment Rate of Return	7.50% Per Year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for all plans, for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans, and 2.5% for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33% for vested members and 2% for nonvested members.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Police and Fire Fund (Continued)

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

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

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	39%	5.10%
International Equity	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

<u>Description</u>	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's Proportionate Share of the General Employee's Plan Net Pension Liability	\$ 1,485,293	\$ 957,590	\$ 525,569
City's Proportionate Share of the Police and Fire Plan Net Pension Liability	\$ 737,374	\$ 391,533	\$ 106,025

H. Aggregate Pension Costs

At December 31, 2017, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

	<u>General Employees Retirement Plan</u>	<u>Public Employees Police and Fire Fund</u>	<u>Total</u>
Net Pension Liability	\$ 957,590	\$ 391,533	\$ 1,349,123
Deferred Outflows of Resources	247,995	584,866	832,861
Deferred Inflows of Resources	249,256	700,521	949,777
Pension Expense	92,630	73,966	166,596

I. Pension Plan Fiduciary Net Position

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 OTHER INFORMATION

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.

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.

NOTE 7 SUBSEQUENT EVENTS

In February 2018, the City approved the sale of \$7,691,210 Minnesota Public Facilities Authority Sewer Bonds.

In June 2018, the City issued \$4,085,000 of General Obligation Bonds, Series 2018A.

NOTE 8 PRIOR PERIOD ADJUSTMENT

In the prior year, a liability was recorded in the General Fund for compensated absences for employees who were still in active service. Accordingly, the amount reported for fund balance in the General Fund has been restated as of January 1, 2017 to correct the error. The impact of this restatement is as follows:

	Fund Balance As Previously Reported	Restatement	Fund Balance As Restated
General Fund	\$ 2,565,530	\$ 56,516	\$ 2,622,046

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes:				
Property	\$ 522,060	\$ 522,060	\$ 536,318	\$ 14,258
Franchise	270,000	270,000	249,471	(20,529)
Special Assessments	3,000	3,000	(2,880)	(5,880)
Licenses and Permits	33,023	33,023	26,323	(6,700)
Intergovernmental Revenue:				
Local Government Aid	1,821,078	1,821,078	1,821,078	-
Residential Market Value Credit	500	500	1,008	508
Other State Aids and Grants	77,973	77,973	112,727	34,754
Police Aid	35,000	35,000	41,986	6,986
Fire Aid	30,000	30,000	44,702	14,702
Charges for Services:				
General Government	8,000	8,000	(1,990)	(9,990)
Police and Fire Contracts	49,540	49,540	31,520	(18,020)
Garbage and Recycling	64,000	64,000	68,322	4,322
Parks and Recreation	57,500	57,500	60,425	2,925
Storm Water	85,000	85,000	83,024	(1,976)
Fines and Forfeits	2,750	2,750	2,887	137
Interest Earnings	-	-	21,260	21,260
Miscellaneous Revenue:				
Rental	20,024	20,024	16,588	(3,436)
Miscellaneous	54,550	54,550	92,752	38,202
SCORE	22,000	22,000	8,015	(13,985)
Donations	-	-	6,941	6,941
Total Revenues	<u>3,155,998</u>	<u>3,155,998</u>	<u>3,220,477</u>	<u>64,479</u>
EXPENDITURES				
General Government:				
Mayor and Council	31,145	31,145	30,253	(892)
Administration and Finance	323,872	323,872	344,677	20,805
Other General Government	73,072	73,072	86,893	13,821
Public Safety:				
Police:				
Current Expenditures	617,213	617,213	591,749	(25,464)
Capital Outlay	3,500	3,500	5,897	2,397
Fire:				
Current Expenditures	211,443	211,443	217,968	6,525
Capital Outlay	78,000	78,000	56,730	(21,270)
Public Works:				
Streets and Highways:				
Street Maintenance	893,481	893,481	864,396	(29,085)
Sanitation and Health	32,237	32,237	34,700	2,463
Street Lighting	60,000	60,000	87,310	27,310
Street – Other Capital Outlay	51,000	51,000	110,143	59,143

**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
EXPENDITURES (CONTINUED)				
Culture and Recreation:				
Library – Current Expenditures	\$ 203,212	\$ 203,212	\$ 159,697	\$ (43,515)
Library – Capital Outlay	1,000	1,000	15,375	14,375
Senior Center – Current Expenditures	76,880	76,880	90,724	13,844
Senior Center – Capital Outlay	6,300	6,300	6,300	-
Swimming Pool – Current Expenditures	151,534	151,534	162,624	11,090
Swimming Pool – Capital Outlay	6,100	6,100	-	(6,100)
Store Water	21,000	21,000	25,922	4,922
Debt Service:				
Principal	13,524	13,524	8,104	(5,420)
Interest	-	-	5,420	5,420
All Other – Current Expenditures	81,222	81,222	108,276	27,054
Total Expenditures	<u>2,935,735</u>	<u>2,935,735</u>	<u>3,013,158</u>	<u>77,423</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	220,263	220,263	207,319	(12,944)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	(500)	(500)	-	500
Transfers In	(40,000)	(40,000)	231,500	271,500
Transfers Out	-	-	(300,000)	(300,000)
Total Other Financing Sources (Uses)	<u>(40,500)</u>	<u>(40,500)</u>	<u>(68,500)</u>	<u>(28,000)</u>
NET CHANGE IN FUND BALANCES				
	179,763	179,763	138,819	(40,944)
Fund Balances – Beginning of Year (as Restated)	<u>3,060,413</u>	<u>3,060,413</u>	<u>2,622,046</u>	<u>(438,367)</u>
FUND BALANCES – END OF YEAR	<u>\$ 3,240,176</u>	<u>\$ 3,240,176</u>	<u>\$ 2,760,865</u>	<u>\$ (479,311)</u>

**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULES
EDA AND AIRPORT FUNDS
YEAR ENDED DECEMBER 31, 2017**

EDA FUND

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Property Taxes	\$ 73,000	\$ 73,000	\$ 71,125	\$ (1,875)
Federal Grants	-	-	2,500	2,500
Charges for Services	6,100	6,100	90,600	84,500
Rent Payments	245,500	245,500	263,066	17,566
Interest Received	-	-	10,315	10,315
Miscellaneous	20,000	20,000	21,788	1,788
Total Revenues	<u>344,600</u>	<u>344,600</u>	<u>459,394</u>	<u>114,794</u>
EXPENDITURES				
Economic Development	315,056	315,056	467,135	152,079
Capital Outlay	-	-	1,270	1,270
Total Expenditures	<u>315,056</u>	<u>315,056</u>	<u>468,405</u>	<u>153,349</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	29,544	29,544	(9,011)	(38,555)
Fund Balances – Beginning of Year	<u>1,498,953</u>	<u>1,498,953</u>	<u>1,205,293</u>	<u>(293,660)</u>
FUND BALANCES – END OF YEAR	<u>\$ 1,528,497</u>	<u>\$ 1,528,497</u>	<u>\$ 1,196,282</u>	<u>\$ (332,215)</u>

AIRPORT FUND

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
State Aid and Grants	\$ 17,500	\$ 17,500	\$ 33,411	\$ 15,911
Charges for Services	82,230	82,230	95,683	13,453
Total Revenues	<u>99,730</u>	<u>99,730</u>	<u>129,094</u>	<u>29,364</u>
EXPENDITURES				
Airport – Current	80,400	80,400	85,089	4,689
Capital Outlay	-	-	328,361	328,361
Total Expenditures	<u>80,400</u>	<u>80,400</u>	<u>413,450</u>	<u>333,050</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	19,330	19,330	(284,356)	(303,686)
Fund Balances – Beginning of Year	<u>(249,315)</u>	<u>(249,315)</u>	<u>(266,794)</u>	<u>(17,479)</u>
FUND BALANCES – END OF YEAR	<u>\$ (229,985)</u>	<u>\$ (229,985)</u>	<u>\$ (551,150)</u>	<u>\$ (321,165)</u>

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**CITY OF BLUE EARTH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

NOTE 1 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, 2017, 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.

NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2017, expenditures exceed appropriations in the following funds:

Fund	Amount	Funding Source
General Fund	\$ 77,423	Greater than Anticipated Revenues
Special Revenue Funds:		
EDA	153,349	Greater than Anticipated Revenues and Available Fund Balance
Airport	333,050	Greater than Anticipated Revenues and Future Revenues or Transfers

CITY OF BLUE EARTH, MINNESOTA
SCHEDULE OF EMPLOYER'S SHARE OF COLLECTIVE NET PENSION LIABILITY AND
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2017

Pension Plan	Measurement Date	City's Proportion of the Net Pension Liability (Asset) (Percentage)	City's Proportionate Share of the Net Pension Liability (Asset) (Amount) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (Amount) (b)	Total (d) (a+b)	City's Covered Payroll (e)	City's	Plan Fiduciary
							Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll (d/e)	
GERF	06/30/17	0.0150%	\$ 957,590	\$ 12,076	\$ 969,666	\$ 969,595	100.0%	75.9%
GERF	06/30/16	0.0153%	1,242,284	16,225	1,258,509	882,750	140.7%	78.2%
GERF	06/30/15	0.0146%	756,648	N/A	756,648	893,140	84.7%	78.2%
GERF	06/30/14	0.0173%	812,667	N/A	812,667	885,808	94.7%	78.9%
PEPFF	06/30/17	0.029%	391,533	N/A	391,533	300,552	130.3%	85.4%
PEPFF	06/30/16	0.029%	1,163,820	N/A	1,163,820	276,502	420.9%	86.6%
PEPFF	06/30/15	0.028%	318,146	N/A	318,146	271,492	117.2%	86.6%
PEPFF	06/30/14	0.029%	313,212	N/A	313,212	247,116	126.7%	87.1%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution		Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
			Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)		
GERF	12/31/17	\$ 72,688	\$ 72,688	\$ -	\$ 969,595	7.5%
GERF	12/31/16	59,920	59,920	-	921,842	6.5%
GERF	12/31/15	66,985	66,985	-	994,471	6.7%
GERF	12/31/14	64,454	64,454	-	935,709	6.9%
PEPFF	12/31/17	48,689	48,689	-	300,552	16.2%
PEPFF	12/31/16	31,285	31,285	-	289,675	10.8%
PEPFF	12/31/15	43,982	43,982	-	370,968	11.9%
PEPFF	12/31/14	37,809	37,809	-	336,580	11.2%

SUPPLEMENTAL SCHEDULES

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**CITY OF BLUE EARTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
DECEMBER 31, 2017**

	Debt Service Funds										
	General Obligation 2012A	General Obligation 2013A	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	General Obligation 2015A	General Obligation 2016A	TIF 7-1	TIF 6-1	Total Debt Service Nonmajor Funds
ASSETS											
Cash and Investments	\$ 525,625	\$ 103,010	\$ 190,813	\$ 569,258	\$ 431,877	\$ -	\$ 257,505	\$ 159,283	\$ 7,494	\$ 1,317	\$ 2,246,182
Receivables:											
Taxes	571	2,030	2,870	1,178	1,672	1,363	2,522	517	-	-	12,723
Special Assessments	434,827	-	42,907	305,569	91,226	334,606	324,226	410,521	-	-	1,943,882
Accounts	-	-	-	-	-	-	56,069	-	-	-	56,069
Total Assets	<u>\$ 961,023</u>	<u>\$ 105,040</u>	<u>\$ 236,590</u>	<u>\$ 876,005</u>	<u>\$ 524,775</u>	<u>\$ 335,969</u>	<u>\$ 640,322</u>	<u>\$ 570,321</u>	<u>\$ 7,494</u>	<u>\$ 1,317</u>	<u>\$ 4,258,856</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE											
LIABILITIES											
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,548	\$ 3,702	\$ -	\$ 11,250
Due to Other Funds	-	-	-	-	-	10,324	-	-	-	-	10,324
Total Liabilities	-	-	-	-	-	10,324	-	7,548	3,702	-	21,574
DEFERRED INFLOW OF RESOURCES											
Unavailable Revenue	435,593	2,030	45,777	305,040	92,437	335,969	326,748	409,486	-	-	1,953,080
FUND BALANCE											
Restricted	525,430	103,010	190,813	570,965	432,338	-	313,574	153,287	3,792	1,317	2,294,526
Unassigned	-	-	-	-	-	(10,324)	-	-	-	-	(10,324)
Total Fund Balance	<u>525,430</u>	<u>103,010</u>	<u>190,813</u>	<u>570,965</u>	<u>432,338</u>	<u>(10,324)</u>	<u>313,574</u>	<u>153,287</u>	<u>3,792</u>	<u>1,317</u>	<u>2,284,202</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 961,023</u>	<u>\$ 105,040</u>	<u>\$ 236,590</u>	<u>\$ 876,005</u>	<u>\$ 524,775</u>	<u>\$ 335,969</u>	<u>\$ 640,322</u>	<u>\$ 570,321</u>	<u>\$ 7,494</u>	<u>\$ 1,317</u>	<u>\$ 4,258,856</u>

**CITY OF BLUE EARTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES – NONMAJOR DEBT SERVICE FUNDS
 YEAR ENDED DECEMBER 31, 2017**

	Debt Service Funds										
	General Obligation 2012A	General Obligation 2013A	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	General Obligation 2015A	General Obligation 2016A	TIF 7-1	TIF 6-1	Total Debt Service Nonmajor Funds
REVENUES											
Property Taxes	\$ 194,125	\$ 87,205	\$ 140,264	\$ 59,536	\$ 19,161	\$ 61,052	\$ 139,568	\$ 32,945	\$ 7,405	\$ 2,048	\$ 743,309
Special Assessments	32,981	-	452	54,512	18,189	37,209	39,286	66,507	-	-	249,136
Interest Earnings	3,965	576	1,191	5,617	4,696	(1,289)	1,479	1,258	52	(1)	17,544
Total Revenues	<u>231,071</u>	<u>87,781</u>	<u>141,907</u>	<u>119,665</u>	<u>42,046</u>	<u>96,972</u>	<u>180,333</u>	<u>100,710</u>	<u>7,457</u>	<u>2,047</u>	<u>1,009,989</u>
EXPENDITURES											
Miscellaneous – Current	-	-	-	-	-	-	-	10,588	10,931	-	21,519
Debt Service:											
Principal	231,064	65,000	155,000	80,140	74,558	125,750	140,282	-	-	-	871,794
Interest and Fiscal Charges	63,792	14,465	22,866	26,671	3,790	38,727	79,273	31,649	-	-	281,233
Bond Issuance Costs	450	425	450	450	450	425	450	450	-	-	3,550
Total Expenditures	<u>295,306</u>	<u>79,890</u>	<u>178,316</u>	<u>107,261</u>	<u>78,798</u>	<u>164,902</u>	<u>220,005</u>	<u>42,687</u>	<u>10,931</u>	<u>-</u>	<u>1,178,096</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(64,235)	7,891	(36,409)	12,404	(36,752)	(67,930)	(39,672)	58,023	(3,474)	2,047	(168,107)
OTHER FINANCING SOURCES (USES)											
Operating Transfers In	50,000	-	-	-	-	50,000	50,000	-	-	-	150,000
Operating Transfers Out	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
NET CHANGE IN FUND BALANCE	(14,235)	7,891	(36,409)	12,404	(36,752)	(17,930)	10,328	58,023	(3,474)	2,047	(18,107)
Fund Balance – Beginning of Year	<u>539,665</u>	<u>95,119</u>	<u>227,222</u>	<u>558,561</u>	<u>469,090</u>	<u>7,606</u>	<u>303,246</u>	<u>95,264</u>	<u>7,266</u>	<u>(730)</u>	<u>2,302,309</u>
FUND BALANCE – END OF YEAR	<u>\$ 525,430</u>	<u>\$ 103,010</u>	<u>\$ 190,813</u>	<u>\$ 570,965</u>	<u>\$ 432,338</u>	<u>\$ (10,324)</u>	<u>\$ 313,574</u>	<u>\$ 153,287</u>	<u>\$ 3,792</u>	<u>\$ 1,317</u>	<u>\$ 2,284,202</u>

**CITY OF BLUE EARTH, MINNESOTA
 COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS AND
 TOTAL NONMAJOR SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS
 DECEMBER 31, 2017**

	Special Revenue Fund Housing Loan Fund	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	\$ 550,293	\$ 577,318	\$ 3,373,793
Receivables:			
Taxes	12	-	12,735
Special Assessments	-	-	1,943,882
Accounts	-	-	56,069
Notes	359,964	-	359,964
Land Held for Resale	102,752	-	102,752
Due from Component Unit	-	-	-
Due from Other Funds	-	-	-
Total Assets	\$ 1,013,021	\$ 577,318	\$ 5,849,195
 LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ 86,259	\$ 97,509
Due to Other Funds	-	-	10,324
Accrued Wages and Salaries	1,001	-	1,001
Total Liabilities	1,001	86,259	108,834
 DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue	359,976	-	2,313,056
 FUND BALANCES			
Nonspendable	102,752	-	102,752
Restricted	549,292	491,059	3,334,877
Unassigned	-	-	(10,324)
Total Fund Balances	652,044	491,059	3,427,305
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 \$ 1,013,021	 \$ 577,318	 \$ 5,849,195

CITY OF BLUE EARTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – NONMAJOR SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS
YEAR ENDED DECEMBER 31, 2017

	Special Revenue Fund Housing Loan Fund	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Property Taxes	\$ 26,208	\$ -	\$ 769,517
Special Assessments	-	-	249,136
State Aid and Grants		-	
Interest Received	6,477	7,333	31,354
Miscellaneous	30,717		30,717
Total Revenues	63,402	7,333	1,080,724
EXPENDITURES			
Economic Development – Current Expenditures	31,800	-	31,800
Economic Development – Capital Outlay	72,325	-	72,325
Public works - Capital Outlay	-	370,173	370,173
Miscellaneous – Current	-	-	21,519
Debt Service:			
Principal	-	-	871,794
Interest and Fiscal Charges	-	-	281,233
Bond Issuance Costs	-	-	3,550
Total Expenditures	104,125	370,173	1,652,394
OTHER FINANCING SOURCES			
Sale of assets	-	-	-
Bond Proceeds			-
Operating Transfers In	-	-	150,000
Operating Transfers Out	-	-	-
NET CHANGE IN FUND BALANCES	(40,723)	(362,840)	(421,670)
Fund Balances – Beginning of Year	692,767	853,899	3,848,975
FUND BALANCES – END OF YEAR	\$ 652,044	\$ 491,059	\$ 3,427,305



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**INDEPENDENT AUDITORS' REPORT
ON MINNESOTA LEGAL COMPLIANCE**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated July 10, 2018. Our report on the financial statements contains a qualified opinion on the governmental activities opinion unit because Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, has not been implemented with respect to the fire relief association.

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

In connection with our audit, nothing came to our attention that caused us to believe the City failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Cities, except as described in the schedule of findings and responses as item 2017-001. 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's noncompliance with the above referenced provisions.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
July 10, 2018

**CITY OF BLUE EARTH, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEARS ENDED DECEMBER 31, 2017**

PART I: FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE

FINDING: 2017-001 TIMELY PAYMENT OF BILLS

Condition: Minnesota statute 471.425, subdivision 2, requires prompt payment of local government bills. Payment is required within the contract period or the standard payment period of 35 days from receipt of the invoice. If payment is not made within this period, the government entity must voluntarily pay interest on those bills not paid in a timely manner. The interest rate is 1 ½% per month or part of a month. We noted two invoices in a sample of 25 for which payment were not made within 35 days.

Recommendation: Management should take care that all personnel involved in the receiving or payment of bills are familiar with the related requirements.

Management Response: There is no disagreement with the finding.