

June 18, 2008

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

Ladies and Gentlemen:

Enclosed are fifteen copies of the report on examination of The City of Blue Earth, Blue Earth, Minnesota for the year ended December 31, 2007.

If you have any questions, please do not hesitate to contact our office.

Yours truly,

Jerome Gerdts, CPA
Principal
Roessler, Nuss & Co., P.A.

JG:cw

Enclosures

ANNUAL
FINANCIAL REPORT
CITY OF BLUE EARTH
BLUE EARTH, MINNESOTA
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Blue Earth as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Blue Earth, Minnesota's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City of Blue Earth has not presented the management discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund, for the City of Blue Earth as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules in the accompanying table of contents are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise City of Blue Earth's basic financial statements. The combining statements and supplementary information 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Blue Earth. The combining statements, supplementary information, and schedule of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated June 16, 2008, on our consideration of City of Blue Earth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

June 16, 2008

STATEMENT OF NET ASSETS

DECEMBER 31, 2007

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS</u>				
Cash and investments (Note 2)	3 358 439	741 545	4 099 984	2 812 908
Receivables - Due within one year				
Interest	26 322		26 322	16 449
Property Taxes Assessments	30 522		30 522	
Accounts receivable	1 088 815	4 569	1 113 384	18 300
Notes receivable	1 037 568	143 840	1 181 408	586 459
Internal balances	115 000		115 000	21 780
(29 906)		29 906		
Inventories		239 082	239 082	426 678
Prepaid items				36 283
Assessments receivable - long-term	699 053	67 338	766 391	
Notes receivable - long-term	550 091		550 091	77 342
Bond issue costs	267 709	37 033	304 742	76 269
Other assets	25 000		25 000	
Capital assets (net) (Note 4)	16 687 654	4 988 452	21 676 106	11 759 317
Cash - restricted (Note 2)		96 415	96 415	608 860
Investment in joint venture				244 552
Total Assets	22 876 267	6 348 180	29 224 447	16 685 197
<u>LIABILITIES</u>				
Accounts payable	101 012	259 648	360 660	701 074
Wages payable	34 397		34 397	
Accrued expenses	172 246	51 730	223 976	275 530
Bonds payable - Due within one year (Note 6)	614 285	237 753	852 038	528 944
Bonds payable - long-term (Note 6)	9 623 694	3 387 350	13 011 044	3 691 684
Patrons meter deposits				21 624
Total Liabilities	10 545 634	3 936 481	14 482 115	5 218 856
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	6 717 384	1 400 382	8 117 766	7 614 958
Restricted for:				
Restricted cash				608 860
Debt Service	1 580 995		1 580 995	
Projects	(806 566)		(806 566)	
Patrons meter deposits				21 624
Unrestricted	4 838 820	1 011 317	5 850 137	3 220 899
Total Net Assets	12 330 633	2 411 699	14 742 332	11 466 341

See notes to the financial statements

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	385 107	62 318	
Public safety	832 443	38 500	52 093
Public works	1 105 965	115 954	
Airport	201 120	61 469	81 301
Community and other	97 073	44 418	
Culture and recreation	522 621	149 935	47 744
Economic development	294 743	83 068	
Interest and fiscal charges	670 396	630 622	
Total governmental activities	4 109 468	1 186 284	181 138
Business-type activities:			
Liquor store	255 115	310 289	
Waste water	643 864	828 688	
Total business-type activities	898 979	1 138 977	
Total Primary Government	5 008 447	2 325 261	181 138
Component Units:			
Electric	4 882 802	4 902 618	
Water	473 678	519 536	
Total Component Units	5 356 480	5 422 154	

General revenues:

- Property taxes levied for general purposes
- Franchise fees for general purpose
- State aids not restricted to specific programs
- Interest earnings
- Rent
- Miscellaneous
- Special item - gain (loss) on sale of assets
- Transfer to other funds
- Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Net (Expense) Revenue and Changes in Net Assets				Board of Public Works Component Unit
Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
4 114	(318 675)		(318 675)	
9 957	(731 893)		(731 893)	
	(990 011)		(990 011)	
	(58 350)		(58 350)	
	(52 655)		(52 655)	
3 378	(321 564)		(321 564)	
	(211 675)		(211 675)	
	(39 774)		(39 774)	
<u>17 449</u>	<u>(2 724 597)</u>		<u>(2 724 597)</u>	
		55 174	55 174	
		<u>184 824</u>	<u>184 824</u>	
		<u>239 998</u>	<u>239 998</u>	
<u>17 449</u>	<u>(2 724 597)</u>	<u>239 998</u>	<u>(2 484 599)</u>	
				19 816
				<u>45 858</u>
				65 674
	1 246 383		1 246 383	
	271 430		271 430	
	1 316 657		1 316 657	
	298 752	37 606	336 358	159 957
				10 887
	33 706		33 706	
	14 682		14 682	(18 396)
	<u>10 000</u>	<u>(10 000)</u>		
	<u>3 191 610</u>	<u>27 606</u>	<u>3 219 216</u>	<u>152 448</u>
	467 013	267 604	734 617	218 122
	<u>11 863 620</u>	<u>2 144 095</u>	<u>14 007 715</u>	<u>11 248 219</u>
	<u>12 330 633</u>	<u>2 411 699</u>	<u>14 742 332</u>	<u>11 466 341</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

<u>ASSETS</u>	General Fund	Revolving Loan Fund	Housing Loan Fund
Cash and investments	954 464	291 354	119 508
Delinquent taxes receivable	1 981	259	
Allowance for uncollectible taxes	(1 443)	(207)	
Accounts receivable	232 522	4 570	350
Accrued interest receivable	3 279	20 978	
Special Assessments - current	9 469		
- long-term	9 895		
- deferred	46 991		
Due from other funds (Note 5)	128 538	767 996	
Notes receivable		269 634	365 816
Other assets	_____	25 000	_____
 Total Assets	 <u>1 385 696</u>	 <u>1 379 584</u>	 <u>485 674</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
 <u>Liabilities</u>			
Accounts payable	57 367	1 135	
Wages payable	28 966		
Due to other funds (Note 5)			
Accrued expenses	45 299		
Deferred revenue (Note 3)	66 355	269 634	365 816
 Total Liabilities	 197 987	 270 769	 365 816
 <u>Fund Balances</u>			
Reserved (deficit) for projects			
Reserved for debt			
Unreserved - reported in nonmajor governmental funds			
Designated fund balance (Note 17)	589 778		
Unreserved	597 931	1 108 815	119 858
 Total Fund Equity	 <u>1 187 709</u>	 <u>1 108 815</u>	 <u>119 858</u>
 Total Liabilities and Fund Equity	 <u>1 385 696</u>	 <u>1 379 584</u>	 <u>485 674</u>

See notes to the financial statements.

Fire/Police Facility Fund	Debt Service Fund 2006D	2006 Swimming Pool Fund	Other Governmental Funds	Total Governmental Funds
	123 234		1 869 879	3 358 439
	625		27 657	30 522
			(22 142)	(23 792)
675 427		5 797	118 902	1 037 568
			2 065	26 322
			99 346	108 815
			531 256	541 151
			110 911	157 902
			113 569	1 010 103
			29 641	665 091
				25 000
<u>675 427</u>	<u>123 859</u>	<u>5 797</u>	<u>2 881 084</u>	<u>6 937 121</u>
	138		42 372	101 012
			5 431	34 397
749 768		5 797	284 444	1 040 009
			3 638	48 937
<u>675 427</u>			<u>776 246</u>	<u>2 153 478</u>
1 425 195	138	5 797	1 112 131	3 377 833
(749 768)			(56 798)	(806 566)
	123 721		1 457 274	1 580 995
			368 477	368 477
				589 778
				1 826 604
<u>(749 768)</u>	<u>123 721</u>		<u>1 768 953</u>	<u>3 559 288</u>
<u>675 427</u>	<u>123 859</u>	<u>5 797</u>	<u>2 881 084</u>	<u>6 937 121</u>

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE

SHEET TO THE STATEMENT OF NET ASSETS

DECEMBER 31, 2007

Total Governmental Fund Balances (Exhibit C)	3 559 288
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	16 687 654
Some of the City's taxes 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 revenue in the funds.	23 792
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds and are reported as deferred revenue.	2 153 478
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at December 31, 2007 are:	
Unamortized bond costs	267 709
Accrued interest payable	(123 309)
Bonds payable	<u>(10 237 979)</u>
Total net assets of governmental activities (Exhibit A)	<u>12 330 633</u>

See notes to the financial statements

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>General Fund</u>	<u>Revolving Loan Fund</u>	<u>Housing Loan Fund</u>
Property taxes	16 866	12 543	
Franchise fees	271 430		
Licenses and permits	40 975		
Intergovernmental revenue	1 346 594		
Fines and forfeits	21 343		
Charges for services	144 311	60 447	
Special assessments	13 593		
Investment income	49 493	65 769	4 348
Miscellaneous	33 709	77 256	44 312
Donations	4 114		
	<hr/>	<hr/>	<hr/>
Total revenues	1 942 428	216 015	48 660
 <u>Expenditures</u>			
Current			
General government	376 880		
Public safety	501 234		
Public works	745 063		
Culture and recreation	176 956		
Community and other	94 563		
Airport			
Economic Development		174 890	3 249
Capital outlay	79 756		
Debt service			
Principal retired			
Interest			
Other			
	<hr/>	<hr/>	<hr/>
Total Expenditures	1 974 452	174 890	3 249
Excess of Revenues or (Expenditures)	(32 024)	41 125	45 411
 <u>Other Financing Sources (Uses)</u>			
Interfund transfers out (Note 14)	(20 556)	(8 475)	
Interfund transfers in (Note 14)	10 000		
Sale of assets	682		
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(9 874)	(8 475)	
Net change in fund balance	(41 898)	32 650	45 411
Fund balance (deficit) beginning of year	1 229 607	1 076 165	74 447
Fund balance (deficit) end of year	<u>1 187 709</u>	<u>1 108 815</u>	<u>119 858</u>

See notes to the financial statements.

Fire/Police Facility Funds	2006 Swimming Pool Funds	Bond Funds 2006D	Other Governmental Funds	Total Governmental Funds
		150 699	1 064 649	1 244 757
				271 430
				40 975
			151 198	1 497 792
				21 343
			160 986	365 744
			95 636	109 229
		70 800	108 342	298 752
			743 088	898 365
			13 335	17 449
		221 499	2 337 234	4 765 836
				376 880
			202 265	703 499
				745 063
			247 167	424 123
				94 563
			143 279	143 279
			75 371	253 510
83 135	1 267 606		281 145	1 711 642
			1 834 291	1 834 291
		64 642	488 929	553 571
		138	78 273	78 411
83 135	1 267 606	64 780	3 350 720	6 918 832
(83 135)	(1 267 606)	156 719	(1 013 486)	(2 152 996)
		(1 130 998)	(443 056)	(1 603 085)
	1 392 122		210 963	1 613 085
			14 000	14 682
	1 392 122	(1 130 998)	(218 093)	24 682
(83 135)	124 516	(974 279)	(1 231 579)	(2 128 314)
(666 633)	(124 516)	1 098 000	3 000 532	5 687 602
<u>(749 768)</u>	<u></u>	<u>123 721</u>	<u>1 768 953</u>	<u>3 559 288</u>

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net Change in Fund Balances - Total Governmental Funds
 (Exhibit D) (2 128 314)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Depreciation	(658 662)	
Capital outlays	<u>1 672 149</u>	1 013 487

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property taxes	1 626	
Special Assessments	<u>(895)</u>	731

Issuing and collecting accounts receivable and loans receivable is a revenue or expense in the governmental funds, but the collection reduces and issuing increases receivable in the statement of net assets:

Accounts receivable	(13 068)	
Loans receivable	<u>(201 700)</u>	(214 768)

Repayment of long-term debt principal and interest is an expenditure in the governmental funds, but the repayment reduces the payables in the statement of net assets:

Bond cost amortization	(32 836)	
Principal payment on debt	1 834 291	
Accrued interest payable	<u>(5 578)</u>	1 795 877

Change in Net Assets of Governmental Activities (Exhibit B) 467 013

See notes to the financial statements

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2007

<u>Assets</u>	Business Type Activities		
	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Liquor</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
<u>Current Assets</u>			
Cash	309 947	431 598	741 545
Restricted cash		96 415	96 415
Special assessments receivable	4 569		4 569
Accounts receivable	143 146	694	143 840
Due from other funds (Note 5)	36 291		36 291
Inventories		239 082	239 082
Total Current Assets	493 953	767 789	1 261 742
<u>Non Current Assets</u>			
Capital assets (net) (Note 4)	4 299 975	688 477	4 988 452
Bond issue costs (net)	12 327	24 706	37 033
Special assessment receivable - long-term	22 338		22 338
- deferred	45 000		45 000
Total Non Current Assets	4 379 640	713 183	5 092 823
Total Assets	4 873 593	1 480 972	6 354 565
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable	183 290	76 358	259 648
Accrued expenses	26 852	24 878	51 730
Due to other funds (Note 5)	6 385		6 385
Bonds payable (Note 6)	237 753		237 753
Total Current Liabilities	454 280	101 236	555 516
<u>Non Current Liabilities</u>			
Bonds - payable (Note 6)	2 832 350	555 000	3 387 350
Total Non Current Liabilities	2 832 350	555 000	3 387 350
Total Liabilities	3 286 630	656 236	3 942 866
<u>Net Assets</u>			
Invested in capital assets	1 242 199	158 183	1 400 382
Unrestricted	344 764	666 553	1 011 317
Total Net Assets	1 586 963	824 736	2 411 699

See notes to the financial statements.

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business Type Activities		
	Enterprise Funds		
Operating Revenues	Sewer Fund	Liquor Fund	Total
Charges for services	826 318		826 318
Sales and cost of sales			
Sales		1 237 973	1 237 973
Cost of Sales		(931 234)	(931 234)
Total Operating Revenues	826 318	306 739	1 133 057
<u>Operating Expenses</u>			
Salaries	140 809	111 487	252 296
Payroll taxes	10 577	7 764	18 341
Employee benefits	34 318	23 359	57 677
Utility expense	87 150	15 168	102 318
Telephone	5 407	1 766	7 173
Supplies & expense	25 380	3 105	28 485
Repairs & maintenance	42 582	2 775	45 357
Services and other charges		2 683	2 683
Insurance premiums and settlements	11 202	6 160	17 362
Depreciation	219 985	27 591	247 576
Miscellaneous expense	16 761	25 645	42 406
Total Operating Expenses	594 171	227 503	821 674
Operating Income (Loss)	232 147	79 236	311 383
<u>Nonoperating Revenues (Expenses)</u>			
Miscellaneous	2 370	3 550	5 920
Interest income	12 577	25 029	37 606
Interest expense	(47 993)	(25 662)	(73 655)
Amortization expense	(1 700)	(1 950)	(3 650)
Total Nonoperating Revenues (Expenses)	(34 746)	967	(33 779)
Income (Loss) before transfers	197 401	80 203	277 604
Interfund transfers out (Note 14)		(10 000)	(10 000)
Change in net assets	197 401	70 203	267 604
Total Net Assets			
beginning of year	1 389 562	754 533	2 144 095
Total Net Assets			
end of year	1 586 963	824 736	2 411 699

See notes to the financial statements.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business Type Activities		
	Enterprise Funds		
	Sewer	Liquor	
	Fund	Fund	Total
<u>Cash Flows From Operating Activities</u>			
Cash received from customer and resident services	802 714	1 237 599	2 040 313
Cash paid to suppliers	(242 363)	(1 047 381)	(1 289 744)
Cash paid to employees	<u>(141 362)</u>	<u>(110 233)</u>	<u>(251 595)</u>
Net cash provided (used) by operating activities	418 989	79 985	498 974
<u>Cash Flows From Noncapital Financing Activities</u>			
Miscellaneous receipts	2 370	3 550	5 920
Net change in interfund accounts	9 981		9 981
Payment to other funds		<u>(10 000)</u>	<u>(10 000)</u>
Net cash provided (used) from Noncapital financing activities	12 351	(6 450)	5 901
<u>Cash Flows From Capital and Related Financing Activities</u>			
Proceeds from issuance of long-term debt	241 466		241 466
Payments on long-term debt	(235 748)	(30 000)	(265 748)
Purchase of capital assets	(328 049)	(1 503)	(329 552)
Interest paid on debt	<u>(47 993)</u>	<u>(25 662)</u>	<u>(73 655)</u>
Net cash provided (used) from capital and related financing activities	(370 324)	(57 165)	(427 489)
<u>Cash Flows From Investing Activities</u>			
Interest received	<u>12 577</u>	<u>25 029</u>	<u>37 606</u>
Net cash provided (used) from investing activities	<u>12 577</u>	<u>25 029</u>	<u>37 606</u>
Net increase in cash and cash equivalents	73 593	41 399	114 992
Cash and cash equivalents - beginning of year	<u>236 354</u>	<u>486 614</u>	<u>722 968</u>
Cash and cash equivalents - end of year	<u><u>309 947</u></u>	<u><u>528 013</u></u>	<u><u>837 960</u></u>

See notes to the financial statements

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business Type Activities		
	Enterprise Funds		
	Sewer Fund	Liquor Fund	Total
<u>Reconciliation of Operating Income</u>			
<u>to Net Cash Provided by Operating</u>			
<u>Activities</u>			
Operating income (loss)	232 147	79 236	311 383
Adjustments			
Depreciation	219 985	27 591	247 576
Net changes in assets and liabilities:			
Accounts receivable	(23 604)	(374)	(23 978)
Inventories		(23 729)	(23 729)
Accounts payable	(9 197)	(5 114)	(14 311)
Accrued expense	<u>(342)</u>	<u>2 375</u>	<u>2 033</u>
Net cash provided by operating activities	<u>418 989</u>	<u>79 985</u>	<u>498 974</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's policies are described below.

(a) Reporting Entity

The reporting entity is composed of the primary government which consists of departments, agencies, boards, commissions and other organizations over which city officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by City full faith and credit or revenues, responsibility for funding deficits and others.

The following organization has been excluded from the City's financial statements, as follows:

Fire Relief Association

This association is organized as a nonprofit organization by their members to provide pension and other benefits to such members in accordance with Minnesota statutes. Its board of directors is

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(a) Reporting Entity (Cont.)

appointed by the membership of the organization. All funding is conducted in accordance with Minnesota statutes and the association pay benefits directly to its members.

The Housing and Redevelopment Authority of Blue Earth was determined not to be a component unit of the City and, accordingly, its financial statements are not included in the financial statements of the City. Financial activities of the Authority do not require City approval and the Authority is not dependent on the City for financing of its activities.

Component Unit

In conformity with generally accepted accounting principles, the financial statements also include the City's component unit, Blue Earth Board of Public Works, which also has a calendar year end. A separate audit report was issued as of December 31, 2007. 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. A separate copy of the audit report can be received by contacting the City of Blue Earth.

(b) Basis of Presentation

Governmental Funds:

General Fund

The General Fund is the operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(b) Basis of Presentation (Cont.)

Governmental Funds: (Cont.)

Special Revenue Funds

The special Revenue Funds are used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

Business-Type Funds:

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise funds.

Enterprise Funds

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(b) Basis of Presentation (Cont.)

Business-Type Funds: (Cont.)

Sewer Fund

This fund accounts for the sanitary sewer service to residents and commercial users located within the city.

Liquor Fund

This fund accounts for the operation of an off-sale liquor store located in the City.

(c) Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(c) Basic Financial Statements (Cont.)

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business type activity. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental, proprietary, and fiduciary. Currently, the City has only governmental and proprietary type funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Major governmental Funds - The City reports the following major governmental funds:

General Fund

Revolving Loan Fund - This is a special revenue fund that accounts for an economic development revolving loan fund.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(c) Basic Financial Statements (Cont.)

Major governmental Funds (Cont.)

Housing Loan Fund - This is a special revenue fund that accounts for a specific economic development loan project for homes.

2006D Bond Fund - This is a specific debt service fund.

Swimming Pool Project Fund

This is a project fund for the building of the swimming pool.

Fire/Police Facility Project Fund - This is a project fund for the police and fire building.

Major proprietary funds - The City reports the following major proprietary funds:

Sewer Fund

Liquor Fund

(d) 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(d) Measurement Focus, Basis of Accounting,
And Financial Statement Presentation (Cont.)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

Property 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance except those that conflict with or contradict GASB guidance.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(d) Measurement Focus, Basis of Accounting,
And Financial Statement Presentation (Cont.)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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 and expenses of the City's enterprise funds are charges to customers for 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. The accrual basis of accounting is followed by the proprietary funds.

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

(e) Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash balances from all funds, with certain exceptions, are pooled and invested to the extent available in authorized investments by resolution of the City Council. Earnings from investments are recognized as earned and allocated among participating funds on the basis of the average cash balance participation of each fund throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(e) Assets, Liabilities and Net Assets or Equity (Cont.)

1. Deposits and Investments (Cont.)

Investments of the City are stated at cost. Note 2 provides additional information on the City's deposits and investments.

Investments

Minnesota Statutes authorized the investment of idle funds in the following types of securities:

- (a) Direct obligations or obligations by the United States or its agencies.
- (b) Federal Agency Issues not directly guaranteed by the United States.
- (c) Shares in mutual funds investing exclusively in U.S. government and agency issues.
- (d) Obligations of State of Minnesota or Minnesota municipalities.
- (e) Repurchase agreements executed in connection with purchase of obligation of U.S., State of Minnesota, or its agencies or Minnesota Municipalities.
- (f) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(e) Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments (Cont.)

Investments (Cont.)

(g) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

(h) Interest-bearing deposits in state or national banks and savings and loan associations, including "time deposits" and certificates of deposit.

For purposes of the statement of cash flows, the enterprise fund considers cash on hand, demand deposits, and investments to be cash and cash equivalents.

2. Special Assessments Receivable

Special assessments receivable represent the portion of the improvements charged against property owners benefitted by the improvements. The assessments are receivable with interest over a designated number of years, and are certified to the County Auditor to be collected, along with the property tax levy. Current assessments receivable are those assessments which are designated for collection in 2005.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(e) Assets, Liabilities and Net Assets or Equity (Cont.)

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized. Capital assets are defined by the City as assets with an initial cost of \$5 000 and up for various capital assets and infrastructure and an estimated useful life in excess of one year. Depreciation is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided on the straight line basis over the following estimated useful lives:

Land Improvements	5-30 years
Buildings	7-40 years
Street, Bridges and Improvements	20-50 years
Collection and Distribution System	25-50 years
Machinery and Equipment	5-40 years
Vehicles	3-50 years

4. Accounts Receivable

Accounts receivable are considered to be fully collectible and, therefore, an allowance for uncollectible accounts is not provided.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(e) Assets, Liabilities and Net Assets or Equity (Cont.)

5. Inventory

Inventories held by proprietary funds is stated at the lower of cost or market based on the first-in, first-out method. The cost of inventory is recognized as an expense when items are sold or used (consumption method).

6. Bond Issue Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the current period. Bond discounts and issuance costs for proprietary fund type are deferred and amortized over the life of the bond using the straight-line method. Bond discounts and issuance costs for the City's government-wide activities are deferred and amortized over the life of the bond using the straight-line method.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(f) Revenues and Expenditures

1. Property Taxes

Property tax levies are set by the City Council in December of each year and are certified to the County of Faribault for collection in the

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 1. Summary of Significant Accounting Policies (Cont.)

(f) Revenues and Expenditures (Cont.)

1. Property Taxes (Cont.)

following year. Revenues from property taxes are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Taxes are due and payable at the County on May 15 and October 15, and collections are remitted to the City in June and November. Adjustments are made to delinquent taxes based on the records of the County Auditor.

Property taxes which remain unpaid at December 31, less collections within sixty (60) days, have been offset with an allowance for uncollectible taxes.

2. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments are included.

(g) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 2. Deposits and Investments

At year end the carrying amount of the City's deposits was \$7 298 513 and the bank balance was \$7 394 232. The bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

	<u>Carrying Amount</u>	<u>Balance Per Bank</u>
<u>DEPOSITS AND SAVINGS ACCOUNTS:</u>		
Checking and Savings Accounts:		
Insured (FDIC) or collateral held by the City's agent in the City's name	5 455 649	5 551 368
Certificates of Deposit - Insured (FDIC)	<u>1 842 864</u>	<u>1 842 864</u>
Total Deposits and Savings	7 298 513	7 394 232

A reconciliation of cash and investments as shown on the government-wide Statement of Net Assets follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Cash on hand	1 525	400	1 925
Cash in banks	3 812 874	1 642 775	5 455 649
Certificates of deposit	<u>287 000</u>	<u>1 555 864</u>	<u>1 842 864</u>
Total Cash	4 101 399	3 199 039	7 300 438
Investments	<u>95 000</u>	<u>222 729</u>	<u>317 729</u>
Total Cash and Investments	4 196 399	3 421 768	7 618 167
Restricted Cash	<u>96 415</u>	<u>608 860</u>	<u>705 275</u>
Net Cash and Investments	<u>4 099 984</u>	<u>2 812 908</u>	<u>6 912 892</u>

Restricted cash in the primary government is for the debt servicing of a bond issue in the liquor fund. The component unit has restricted cash to comply with debt servicing purposes.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 2. Deposits and Investments (Cont.)

State statutes require collateral of 110% of value in excess of the \$100 000 provided by federal deposit insurance. Collateral pledged by the various banks is held in safekeeping departments of banks other than the pledging bank or the Federal Reserve Bank and held in the name of the City. It is required that the City sign authorizations releasing collateral once it is pledged.

Investments

The City's investments have been classified into three categories of credit risk:

- 1) Insured or registered, or securities held by the City or its agent in the City's name.
- 2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- 3) Uninsured or unregistered, with securities held by the counterparty, or by the counterparty's trust department or agent, but not in the City's name.

The following schedule classifies the investments as of December 31, 2007, into the above categories:

	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
<u>Primary Government</u>					
US Government Securities	<u>95 000</u>	<u> </u>	<u> </u>	<u>95 000</u>	<u>95 086</u>
<u>Component Unit</u>					
Certificate of Deposit	<u>222 729</u>	<u> </u>	<u> </u>	<u>222 729</u>	<u>222 729</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 3. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include assessments and loans. Business-type activities report utility earnings and assessments as their major receivables.

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

Special assessments	807 868
Notes receivable	665 091
Miscellaneous receivables	<u>680 519</u>
Total deferred revenue for governmental funds	<u>2 153 478</u>

Note 4. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2007 was as follows:

	Balance 1-1-07	Additions	Transfers	Retirements	Balance 12-31-07
<u>Non-depreciable Assets</u>					
Land	606 726				606 726
Construction in process	<u>1 020 130</u>		(1 020 130)		
Total Non-depreciable Assets	1 626 856		(1 020 130)		606 726
Depreciable Capital Assets:					
Infrastructure	14 312 416	149 126	24 845		14 486 387
Buildings and improvements	5 595 346	1 202 795	995 285		7 793 426
Equipment	1 166 886	302 959			1 469 845
Vehicles	<u>1 664 251</u>	<u>17 269</u>			<u>1 681 520</u>
Total Depreciable	<u>22 738 899</u>	<u>1 672 149</u>	<u>1 020 130</u>		<u>25 431 178</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

	Balance <u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>12-31-07</u>
Less Accumulated Depreciation					
Infrastructure	(5 620 091)	(355 160)			(5 975 251)
Buildings & Improvements	(1 614 987)	(172 479)			(1 787 466)
Equipment	(558 970)	(63 509)			(622 479)
Vehicles	<u>(897 540)</u>	<u>(67 514)</u>			<u>(965 054)</u>
Total Accumulated Depreciation	<u>(8 691 588)</u>	<u>(658 662)</u>			<u>(9 350 250)</u>
Governmental Activities Capital Assets, Net	<u>15 674 167</u>	<u>1 013 487</u>			<u>16 687 654</u>

Depreciation expense for governmental activities is charged to functions as follows:

General Government	6 545
Public Safety	101 560
Public Works	357 868
Airport	57 841
Culture and Recreation	93 615
Economic Development	<u>41 233</u>
Total Depreciation for Governmental Activities	<u>658 662</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

Capital asset activity for business-type activities for the year ended December 31, 2007 was as follows:

	Balance <u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>12-31-07</u>
<u>Sewer Fund</u>					
<u>Non-depreciable Assets</u>					
Land	30 080	14 360	_____	_____	44 440
Total Non-depreciable Assets	30 080	14 360			44 440
<u>Depreciable Assets</u>					
Buildings and Improvements	3 317 999				3 317 999
Collection and Distribution System	3 287 665				3 287 665
Equipment	794 980	460 758			1 255 738
Vehicles	21 005	17 269	_____	_____	38 274
Total Depreciable Assets	<u>7 421 649</u>	<u>478 027</u>	_____	_____	<u>7 899 676</u>
Total at Historical Cost	7 451 729	492 387			7 944 116
Less accumulated depreciation for:					
Buildings and improvements	(2 125 808)	(104 597)			(2 230 405)
Collection and distribution system	(527 133)	(105 427)			(632 560)
Equipment	(750 210)	(9 961)			(760 171)
Vehicles	(21 005)	_____	_____	_____	(21 005)
Total Accumulated Depreciation	<u>(3 424 156)</u>	<u>(219 985)</u>	_____	_____	<u>(3 644 141)</u>
Net Capital Assets - Sewer Fund	4 027 573	272 402			4 299 975
<u>Liquor Fund</u>					
<u>Non-depreciable Assets</u>					
Land	100 000	_____	_____	_____	100 000
Total Accumulated Depreciation	100 000				100 000
<u>Depreciable Assets</u>					
Buildings and improvements	506 247				506 247
Equipment	201 771	1 503	_____	_____	203 274
Total Depreciable Assets	708 018	1 503			709 521

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

	Balance <u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>12-31-07</u>
<u>Liquor Fund</u> (Cont.)					
Less accumulated depreciation for:					
<u>Liquor Fund</u>					
Building and improvements	(14 765)	(12 656)			(27 421)
Equipment	<u>(78 688)</u>	<u>(14 935)</u>			<u>(93 623)</u>
Total Accumulated Depreciation	<u>(93 453)</u>	<u>(27 591)</u>			<u>(121 044)</u>
Net Capital Assets - Liquor Fund	<u>714 565</u>	<u>(26 088)</u>			<u>688 477</u>
Net Business Type Capital Assets	<u>4 742 138</u>	<u>246 314</u>			<u>4 988 452</u>

Board of Public Works - Component Unit

	Balance <u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>12-31-07</u>
<u>ELECTRIC UTILITY</u>					
<u>Non depreciable</u>					
Land - Generation	24 000				24 000
Land - Diesel	13 600				13 600
Land - Transmission Plant	4 155				4 155
Land - Distribution Plant	23 626				23 626
Land - General Plant	11 559				11 559
Construction in Progress:					
Swimming pool	56			(56)	
Walnut Street Watermain	150	47 535	(47 685)		
3 rd Ward Loop		4 070			4 070
System conversion Main	36 438	229 268	(265 706)		
New Water Tower	200 847	1 043 453	(1 244 300)		
Highway 169 Upgrade	<u>1 669</u>	<u>471</u>			<u>2 140</u>
Total Non Depreciable	316 100	1 324 797	(1 557 747)		83 150

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

	Balance				Balance
	1-1-07	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	12-31-07
<u>ELECTRIC UTILITY</u> (Cont.)					
<u>Depreciable</u>					
<u>Electrical Generation</u>					
Parking lot	4 461				4 461
Structure and improvement	625 266	37 959		851	662 374
Broiler Plant and equipment	89 731				89 731
Accessory electrical equipment	257 763				257 763
Miscellaneous Power Plant equipment	105 733			2 942	102 791
Cooling tower	100 711				100 711
Total Generation					
Production	1 183 665	37 959		3 793	1 217 831
<u>Diesel Production</u>					
Structures and improve.	160 600				160 600
Prime movers	109 469				109 469
New generators	2 251 391				2 251 391
Generators	328 105				328 105
Accessory electrical equipment	52 966			85	52 881
Miscellaneous power Plant equipment	42 665				42 665
Customer generation	233 272				233 272
Total Diesel Production	3 178 468			85	3 178 383
<u>Transmission Plant</u>					
Structures and improvements	9 757				9 757
Tie transformers	548 214				548 214
Transmission substation	1 747 580				1 747 580
Poles and fixtures	304 104				304 104
Accessory electrical equip.	98 663				98 663
Total Transmission Plant	2 708 318				2 708 318
<u>Distribution Plant</u>					
Wind generation equipment	25 810				25 810
Structures and improvement	108 087			219	107 868
Station equipment	33 397				33 397
Poles-towers and equipment	139 602				139 602
Overhead conductors and devices	1 417 019	132 853			1 549 872
Underground conduit	55 609				55 609
Underground conductors Devices	2 322 892	198 825			2 521 717
Line transfers	1 052 230	18 640			1 070 870
Services	180 075				180 075
Meters	317 051	6 002	459		323 512

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

	Balance				Balance
<u>ELECTRIC UTILITY</u> Cont.)	<u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>12-31-07</u>
<u>Depreciable</u> (Cont.)					
<u>Distribution Plant</u> (Cont.)					
Installation on Customer's property	25 862			3 891	21 971
Street lighting & signal system	167 055	8 096			175 151
Distribution upgrade	15 550				15 550
I-90 project-electric	53 147				53 147
Customer Gen./utility owned equipment	<u>148 664</u>				<u>148 664</u>
 Total Distribution Plant	 6 062 050	 364 416	 459	 4 110	 6 422 815
 <u>General Plant</u>					
Structures and improvement	666 220			21 344	644 876
Power supply	213 760			187	213 573
Load management	143 593	17 882			161 475
SCADA System (RTU)	223 162			71 591	151 571
SCADA System (Master)	153 986			32 948	121 038
Office furniture and equipment	61 834			5 332	56 502
Computer and elec. equipment	137 124	2 385		13 120	126 389
Transportation equipment	457 621	203 514		104 405	556 730
Tools, shop, garage equipment	253 673	32 479		12 514	273 638
Communications equipment	24 538	1 520			26 058
Service territory	140 082				140 082
Structures and improvement	12 859				12 859
Piping, traps, etc.	24 429		(459)		23 970
Office furniture and equipment	<u>3 665</u>				<u>3 665</u>
 Total General Plant	 <u>2 516 546</u>	 <u>257 780</u>	 <u>(459)</u>	 <u>261 441</u>	 <u>2 512 426</u>
 Total Depreciable	 <u>15 649 047</u>	 <u>660 155</u>		 <u>269 429</u>	 <u>16 039 773</u>
 Total at Historical Cost	 15 965 147	 1 984 952	 (1 557 747)	 269 429	 16 122 923

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

	Balance				Balance
<u>ELECTRIC UTILITY</u> Cont.)	<u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>12-31-07</u>
<u>Depreciable</u> (Cont.)					
Less accumulated depreciation for:					
<u>Electrical Generation</u>					
Parking lot	(2 230)	(297)			(2 527)
Structure and improvement	(399 850)	(9 800)		851	(408 799)
Boiler Plan and equipment	(82 253)	(2 455)			(84 708)
Accessory electrical equipment	(257 550)	(27)			(257 577)
Miscellaneous Power Plant equipment	(23 107)	(4 962)		2 942	(25 127)
Cooling tower	<u>(34 399)</u>	<u>(3 454)</u>			<u>(37 853)</u>
Total Generation Production	(799 389)	(20 995)		3 793	(816 591)
<u>Diesel Production</u>					
Structure and improvement	(108 670)	(3 347)			(112 017)
Prime movers	(109 444)	(9)			(109 453)
New generators	(795 733)	(68 224)			(863 957)
Generators	(166 665)	(24 678)			(191 343)
Accessory electrical equipment	(49 423)	(417)		85	(49 755)
Miscellaneous power Plant equipment	(34 213)	(2 113)			(36 326)
Customer generation	<u>(51 769)</u>	<u>(11 664)</u>			<u>(63 433)</u>
Total Diesel Production	(1 315 917)	(110 452)		85	(1 426 284)
<u>Transmission Plant</u>					
Structures and improvement	(2 953)	(295)			(3 248)
Tie transformers	(482 764)	(19 591)			(502 355)
Transmission substation	(1 082 223)	(87 379)			(1 169 602)
Poles and fixtures	(202 123)	(12 148)			(214 271)
Accessory electrical equipment	<u>(61 998)</u>	<u>(4 933)</u>			<u>(66 931)</u>
Total Transmission Plant	(1 832 061)	(124 346)			(1 956 407)
<u>Distribution Plant</u>					
Wind generation equipment	(782)	(782)			(1 564)
Structures and improvements	(45 842)	(1 915)		61	(47 696)
Station equipment	(32 761)	(477)			(33 238)
Poles-towers and fixtures	(138 966)	(63)			(139 029)
Overhead conductors and Devices	(413 516)	(39 972)			(453 488)
Underground conduit	(45 297)	(717)			(46 014)
Underground conductors Devices	(770 764)	(66 902)			(837 666)
Line transformers	(526 046)	(33 951)			(559 997)
Services	(178 284)	(1 284)			(179 568)
Meters	(197 606)	(9 690)			(207 296)

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

	Balance				Balance
<u>ELECTRIC UTILITY</u> (Cont.)	<u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>12-31-07</u>
<u>Depreciable</u> (Cont.)					
Less accumulated depreciation for: (Cont.)					
<u>Distribution Plant</u> (Cont.)					
Installation on customer's property	(17 159)	(1 010)		3 891	(14 278)
Street lighting and signal system	(119 331)	(3 479)			(122 810)
Distribution upgrade	(6 508)	(471)			(6 979)
I-90 project-electric	(44 845)	(1 610)			(46 455)
Customer Gen./utility owned equipment	<u>(41 920)</u>	<u>(7 433)</u>			<u>(49 353)</u>
 Total Distribution Plant	 (2 579 627)	 (169 756)		 3 952	 (2 745 431)
 <u>General Plant</u>					
Structures and improvement	(218 907)	(18 329)		11 006	(226 230)
Power supply	(117 931)	(10 679)		187	(128 423)
Load management	(122 644)	(4 231)			(126 875)
SCADA System (RTU)	(76 878)	(10 182)		53 179	(33 881)
SCADA System (Master)	(106 387)	(11 900)		32 948	(85 339)
Office furniture and equipment	(38 796)	(4 753)		5 332	(38 217)
Computer and electric equipment	(59 945)	(19 920)		8 505	(71 360)
Transportation equipment	(312 962)	(23 145)		104 405	(231 702)
Tools, shop, garage equipment	(134 064)	(19 638)		12 514	(141 188)
Communications equipment	(15 987)	(1 241)			(17 228)
Service territory	(36 977)	(3 502)			(40 479)
Structures and improvement	(9 259)	(360)			(9 619)
Piping, traps, etc.	(9 101)	(954)			(10 055)
Office furniture and equipment	<u>(3 665)</u>				<u>(3 665)</u>
 Total General Plant	 (1 263 503)	 (128 834)		 228 076	 (1 164 261)
 Total Accumulated Depreciation	 (7 790 497)	 (554 383)		 235 906	 (8 108 974)
 Net Electric Utility	 <u>8 174 650</u>	 <u>1 430 569</u>	 <u>(1 557 747)</u>	 <u>(33 523)</u>	 <u>8 013 949</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

<u>WATER UTILITY</u>	Balance				Balance
	<u>1-1-07</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>12-31-07</u>
<u>Non depreciable</u>					
Land	7 716				7 716
Total non depreciable	7 716				7 716
<u>Depreciable</u>					
Structures and improvement	211 179			2 015	209 164
Pumps and motors	52 826			19 758	33 068
Plant piping and filters	56 484				56 484
Electrical equipment	47 024				47 024
Water tower	44 714	1 244 300		44 714	1 244 300
Wells	270 567				270 567
Underground system and valves	1 970 201	55 818			2 026 019
Hydrants	108 951				108 951
Meters	92 951				92 951
I-90 water extension	192 190				192 190
Reservoir	31 981				31 981
Water distribution	12 910				12 910
New well filters plant	1 279 157				1 279 157
Assessments	7 177				7 177
Country Kitchen water and sewer extension	1 080				1 080
Transportation equipment	53 798				53 798
Equipment, tools, etc.	26 555			993	25 562
Water vending equipment	1 882				1 882
Total Depreciable	<u>4 461 627</u>	<u>1 300 118</u>		<u>67 480</u>	<u>5 694 265</u>
Total at Historical Cost	4 469 343	1 300 118		67 480	5 701 981
Less accumulated depreciation for:					
<u>Water Utility</u>					
Structures and improvement	(141 505)	(3 229)		672	(144 062)
Pumps and motors	(22 411)	(2 274)		10 867	(13 818)
Plant piping and filters	(17 623)	(1 586)			(19 209)
Electrical equipment	(41 245)	(2 350)			(43 595)
Water tower	(44 644)	(23)		44 667	
Wells	(130 162)	(10 801)			(140 963)
Underground system and valves	(583 747)	(35 533)			(619 280)
Hydrants	(62 821)	(1 688)			(64 509)
Meters	(69 782)	(1 999)			(71 781)
I-90 water extension	(162 143)	(5 824)			(167 967)
Reservoir	(31 783)	(60)			(31 843)

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 4. Capital Assets (Cont.)

<u>Water Utility</u> (Cont.)	<u>1-1-07</u>	<u>Balance</u> <u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>12-31-07</u>
Less accumulated depreciation for: (Cont.)					
Auxiliary generating equipment					
Water distribution	(9 278)	(226)			(9 504)
New well filters plant	(555 211)	(25 581)			(580 792)
Assessments	(4 974)	(287)			(5 261)
Country Kitchen water and sewer extension	(1 078)	(2)			(1 080)
Transportation equipment	(29 086)	(2 745)			(31 831)
Equipment, tools, etc.	(8 089)	(2 140)		993	(9 236)
Water vending equipment	<u>(1 882)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(1 882)</u>
 Total Accumulated Depreciation	 <u>(1 917 464)</u>	 <u>(96 348)</u>	 <u> </u>	 <u>57 199</u>	 <u>(1 956 613)</u>
 Net Water Utility	 <u>2 551 879</u>	 <u>1 203 770</u>	 <u> </u>	 <u>(10 281)</u>	 <u>3 745 368</u>
 Capital Assets - Net	 <u>10 726 529</u>	 <u>2 634 339</u>	 <u>(1 557 747)</u>	 <u>(43 804)</u>	 <u>11 759 317</u>

Note 5. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as "advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 5. Interfund Receivables and Payables (Cont.)

Amounts due from and due to other funds are summarized in the following schedules:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Walnut Street Improvement Fund		27 276
Fire/Police Facility Fund		749 768
Steinberg Park Fund		56 728
General Fund	128 538	
Revolving Loan Fund	767 996	
2004C Bond Fund	2 231	
2004A Bond Fund		38 196
1982 & 1993 Bond Fund		2 231
1984 & 1995D Bond	12 515	
Sewer Fund	36 291	6 385
Tax Increment District 2-1 Fitness Center	3 118	19 645
Tax Increment District 5-7		3 118
Tax Increment District 2-2		21 063
Tax Increment District 2-6		19 093
Tax Increment District 5-3		18 228
Swimming Pool Fund		5 797
Tax Increment District 5-6		74 642
Tax Increment District 5-5	95 705	
Tax Increment District 5-1		4 224
Totals	<u>1 046 394</u>	<u>1 046 394</u>

Note 6. Long-Term Debt

The following is a summary of outstanding long-term debt at December 31, 2007:

\$210 000 G.O. Improvement Bond of 2006A,
 due in annual January 1 principal installments
 of \$35 000 to \$55 000 through January 1, 2011;
 with a 3.35% to 3.65% interest payments
 due January 1. The purpose of this issue is
 to finance acquisition of capital equipment
 for the City. 135 000

\$1 185 000 G.O. Improvement Bond of 2006B,
 due in annual February 1 principal installments
 of \$35 000 to \$95 000 through February 1, 2027;
 with a 4.0% and 4.85% interest payments due
 February 1 and August 1. The purpose of this
 issue is to enter into a lease purchase agreement
 that will provide for the acquisition, construction,
 equipping of Public Safety facility (the Project).
 The project will be leased to the City. 1 185 000

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 6.	<u>Long-Term Debt</u> (Cont.)	
	\$224 000 G.O. Improvement Bond of 2006C due in annual February 1 principal installments of \$15 000 to \$30 000 through February 1, 2018; with a 4.3% to 4.5% interest payments due February 1 and August 1. The purpose of this issue is to finance street and utility improvements to the City.	224 000
	\$2 000 000 G.O. Improvement Bond of 2006D due in annual February 1 principal installments of \$60 000 to \$155 000 through February 1 of 2027; with 4.0% to 4.6% interest payments due February 1 and August 1. The purpose of this issue is to finance construction of the swimming pool.	2 000 000
	\$90 000 G.O. Improvement Bonds of 2005B, due in annual February 1 principal installments of \$8 000 to \$10 000 through February 1, 2016; with 4.0% interest payments due February 1 and August 1. The purpose of this issue is to finance improvements to the City.	82 000
	\$615 000 Liquor Net Revenue Bonds of 2005A, due in annual January 1, principal installments of \$30 000 to \$55 000 through January 1, 2021; with 3.4% to 4.9% interest payments due January 1 and July 1. The purpose of this issue was to build a new liquor store building.	555 000
	\$730 000 G.O. Crossover Refunding Bonds of 1998, due in annual March 1 principal installments of \$60 000 to \$95 000 through March 1, 2014; with 4.65% to 5.15 % interest payments due March 1 and September 1. The purpose of this issue was to refund the 1992 Bonds to be done in 2005.	605 000
	\$105 000 G.O. Taxable Disposal System Bonds of 2000, due in annual December 1 principal installments of \$5 000 to \$15 000 through December 1, 2010; with 7.25% to 8.05% interest payments due June 1 and December 1. The purpose of this issue was to aid in financing a sewage disposal system.	45 000
	\$1 675 000 G.O. Improvement Bonds of 2001, due in annual February 1 principal installments of \$65 000 to \$145 000 through February 1, 2022; with 3.2% to 5% interest payments due February 1 and August 1. The purpose of this issue is to finance improvements to the City.	1 540 000

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 6. Long-Term Debt (Cont.)

\$1 175 000 G.O. Refunding Bonds of 2003A, due in annual December 1 principal installments of \$40 000 to \$145 000 through December 1, 2016; with 1.5% to 4.5% interest payments due June 1 and December 1. The purpose of this issue was to refund 1994, 1995C and 1997 bonds. 600 000

\$245 000 G.O. Equipment Bonds of 2004, due in annual January 1 principal installments of \$40 000 to \$55 000 through January 1, 2009; with 1.5% to 2.9% interest payments due January 1 and July 1. The purpose of this issue was to finance fire equipment. 55 000

\$1 305 000 G.O. Refunding Bonds of 2004A, due in annual April 1 principal installments of \$70 000 to \$155 000 through April 1, 2015; with 1.25% to 3.75% interest payments due April 1 and October 1. The purpose of this issue is to refund 1995A and 1995B bonds. The 1995B bonds were refunding bonds paid from sewer revenue. It is calculated that 53.15% of this issue is to be paid from sewer revenue and the balance are General Obligation Bonds.

Sewer Revenue Bonds 53.15%	491 637
General Obligation Bonds 46.85%	433 363
Total	925 000

\$585 000 G.O. Crossover Refunding Bonds of 2004B, due in annual December 1 principal installments of \$65 000 to \$80 000 through December 1, 2012; with 1.5% to 3.4% interest payments due June 1 and December 1. The purpose of this issue was to refund the 1995 bonds. 355 000

\$530 000 G.O. Improvement Bonds of 2004C, due in annual February 1 principal installments of \$20 000 to \$50 000 through February 1, 2020; with 3.0% to 4.75% interest payments due February 1 and August 1. The purpose of this issue is to finance improvements to the City. 480 000

Component units share (111 384)

368 616

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 6. Long-Term Debt (Cont.)

\$400 000 G.O. Taxable Tax Increment Bonds of 1996, due in annual December 1 principal installments of \$10 000 to \$40 000 through December 1, 2016; with 6.7% to 8.05% interest payments due June 1 and December 1. The purpose of this issue was for tax increment financing within the City. 105 000

\$4 690 000 G.O. Taxable Tax Increment Bonds of 1997, due in annual January 1 principal installments of \$130 000 to \$500 000 through January 1, 2013; with 6.7% to 7% interest payments due January 1 and July 1. The purpose of this issue was for tax increment financing within the City. 1 750 000

\$1 150 000 G.O. Taxable Tax Increment Bonds of 1999, due in annual December 1 principal installments of \$25 000 to \$135 000 through December 1, 2014; with 6.2% to 7.2% interest payments due June 1 and December 1. The purpose of this issue was for tax increment financing within the City. 755 000

\$3 290 170 Note payable with the Minnesota Public Facilities Authority to construct the expansion of the City's wastewater treatment facility. Interest is at 1.29%, payable each February 20 and August 20. Principal installments due annually on August 20 of \$156 000 to \$194 000 through August 20, 2020 to be paid through sewer revenues. 2 337 000

\$760 000 Note payable with the Minnesota Public Facilities Authority to update sewer system, in annual August 20th principal installments of \$24 000 to \$48 000 through August 20, 2026; with 1.4% interest payments due February 20 and August 20. This will be paid through sewer revenues. 241 466

Total Bonds	13 863 082
Less Sewer Revenue Bonds	(3 070 103)
Liquor Revenue Bonds	<u>(555 000)</u>
Total G.O. Bonds	<u>10 237 979</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 6. Long-Term Debt (Cont.)

Board of Public Works - Component Unit

\$630 000 Public Utility Revenue Bonds of 1998, due in annual June 1 principal installments of \$20 000 to \$50 000 through June 1, 2019; with 4.3% to 5.1% interest payments due June 1 and December 1. The purpose of this issue is to finance improvements to the municipal Water system. 480 000

\$1 545 000 Public Utility Revenue Refunding Bonds of 2002, due in annual June 1 principal installments of \$90 000 to \$160 000 through June 1, 2014; with 1.75% to 4.8% interest payments due June 1 and December 1. The purpose of this issue was to refund the 1993 Bond issue. 990 000

\$1 475 000 Public Utility Revenue Refunding Bonds of 2004, due in annual June 1 principal installments of \$130 000 to \$215 000 through June 1, 2012; with 2.25% to 3.25% interest payments due June 1 and December 1. The purpose of this issue was to refund the 1995 Bonds and 1996 Bond issues. 955 000

Utilities share of \$530 000 G.O. Improvement Bonds of 2004C, due in annual February 1 principal installments of \$4 640 to \$11 602 through February 1, 2020; with 3.0% to 4.75% interest payments due February 1 and August 1. The purpose of this issue was to fund the Rice Street improvement project. 111 384

Utilities share of \$324 000 G.O. Improvement Bond of 2006, due in annual August 20 principal installments of \$6 500 to \$21 000 through August 20, 2026; with 2.57% interest payments due February 20 and August 20. The purpose of this issue was to fund South Watermain Improvement. 296 382

\$1 174 600 GO Revenue Bond of 2007, due in annual August 20 principal installments of \$29 600 to \$77 000 through August 20, 2026 with 2.4% interest payments due February 20 and August 20. The purpose of this issue was to construct a new water tower and demolish the old water tower. 1 107 862

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 6. Long-Term Debt (Cont.)

\$410 000 Public Utility Revenue Bonds of 2006, due in semi-annual June 1 and December 1 principal installments of \$65 000 to \$75 000 through December 1, 2009; with 3.56% interest payments. The purpose of this bond is to finance expenditures relating to the City's electric utility system, Aerial bucket truck, emergency generator, and 2400 volt distribution system.

280 000
4 220 628

Board of Public Works - Component Unit (Cont.)

<u>Governmental Activities</u>	<u>Balance</u> <u>1-1-07</u>	<u>Principal</u> <u>Issued</u>	<u>Principal</u> <u>Retired</u>	<u>Balance</u> <u>12-31-07</u>	<u>Due Within</u> <u>One Year</u>
\$ 90 000 G.O. Bonds of 2005B	90 000		8 000	82 000	8 000
\$ 730 000 G.O. Bonds of 1998	670 000		65 000	605 000	80 000
\$ 105 000 G.O. Bonds of 2000	55 000		10 000	45 000	15 000
\$1 675 000 G.O. Bonds of 2001	1 610 000		70 000	1 540 000	75 000
\$1 175 000 G.O. Bonds of 2003A	745 000		145 000	600 000	70 000
\$ 245 000 G.O. Bonds of 2004	105 000		50 000	55 000	
46.85% of \$1 305 000 G.O. Bonds of 2004A	496 615		63 252	433 363	63 247
\$ 585 000 G.O. Bonds of 2004B	430 000		75 000	355 000	75 000
\$ 530 000 G.O. Bonds of 2004C	391 655		23 039	368 616	23 038
\$ 400 000 G.O. TIF Bonds of 1996	115 000		10 000	105 000	10 000
\$4 690 000 G.O. TIF Bonds of 1997	2 165 000		415 000	1 750 000	
\$1 150 000 G.O. TIF Bonds of 1999	845 000		90 000	755 000	100 000
\$ 975 000 G.O. TIF Bonds of 2000	770 000		770 000		
\$ 210 000 G.O. Impr. Bonds 2006A	175 000		40 000	135 000	
\$1 185 000 G.O. Impr. Bonds 2006B	1 185 000			1 185 000	35 000
\$ 224 000 G.O. Impr. Bonds 2006C	224 000			224 000	
\$2 000 000 G.O. Impr. Bonds 2006D	<u>2 000 000</u>			<u>2 000 000</u>	<u>60 000</u>
Total Government Activities	12 072 270		1 834 291	10 237 979	614 285

Business Type Activities

Sewer Fund

\$760 000 G.O. Revenue Bond (PFA Note)		241 466		241 466	
53.15% of \$1 305 000 G.O. Bonds of 2004A	563 385		71 748	491 637	71 753
\$3 290 170 G.O. Revenue Bond (PFA Note)	<u>2 501 000</u>		<u>164 000</u>	<u>2 337 000</u>	<u>166 000</u>
Total Sewer Fund	3 064 385	241 466	235 748	3 070 103	237 753

Liquor Fund

\$615 000 Liquor Revenue Bonds of 2005A	<u>585 000</u>		<u>30 000</u>	<u>555 000</u>	
Total Business Type Activities	<u>3 649 385</u>		<u>265 748</u>	<u>3 625 103</u>	<u>237 753</u>
Total Primary Government Long-Term Debt	<u>15 721 655</u>	<u>241 466</u>	<u>2 100 039</u>	<u>13 863 082</u>	<u>852 038</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 6. Long-Term Debt (Cont.)

Board of Public Works - Component Unit (Cont.)

<u>Component Unit</u>	<u>Balance 1-1-07</u>	<u>Principal Issued</u>	<u>Principal Retired</u>	<u>Balance 12-31-07</u>	<u>Due Within One Year</u>
\$630 000 Public Utility Revenue Bonds of 1998	510 000		30 000	480 000	30 000
\$1 545 000 Public Utility Revenue Refunding Bonds of 2002	1 115 000		125 000	990 000	125 000
1 475 000 Public Utility Revenue Refunding Bonds of 2004	1 135 000		180 000	955 000	190 000
Utility share of \$324 000 G.O. Improvement bond of 2006	196 999	108 457	9 074	296 382	12 382
\$410 Public Utility Revenue bonds 2006	410 000		130 000	280 000	135 000
\$1 174 600 GO Revenue Bond of 2007		1 107 862		1 107 862	29 600
Public Utility Share of \$530 000 G.O. Improvement Bonds of 2004C	<u>118 345</u>		<u>6 961</u>	<u>111 384</u>	<u>6 962</u>
Total	<u>3 485 344</u>	<u>1 216 319</u>	<u>481 035</u>	<u>4 220 628</u>	<u>528 944</u>

The following is a summary of the annual requirements to retire general obligation bonds at December 31, 2007:

<u>December 31</u>	<u>Governmental Activities</u>				<u>Business Type Activity</u>		<u>Totals</u>
	<u>Improvement Bonds</u>		<u>Tax Increment Bonds</u>		<u>Revenue & PFA Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	504 285	312 799	110 000	61 798	237 753	44 178	1 270 813
2009	625 287	299 404	420 000	164 941	293 752	74 949	1 878 333
2010	581 628	276 773	410 000	135 552	319 410	69 218	1 792 581
2011	604 972	253 794	440 000	106 481	324 067	62 887	1 792 201
2012	579 496	229 772	420 000	76 903	332 382	56 197	1 694 750
2013-2017	2 004 800	842 985	810 000	57 254	1 338 739	169 249	5 223 027
2018-2022	1 637 511	445 345			779 000	35 480	2 897 336
2023-2025	<u>1 090 000</u>	<u>133 725</u>					<u>1 223 725</u>
	<u>7 627 979</u>	<u>2 794 597</u>	<u>2 610 000</u>	<u>602 929</u>	<u>3 625 103</u>	<u>512 158</u>	<u>17 772 766</u>

Board of Public Works - Component Unit

<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	528 944	144 841	673 785
2009	586 961	120 255	707 216
2010	452 962	101 781	554 743
2011	463 961	86 070	550 031
2012	382 122	70 802	452 924
2013-2017	948 930	205 985	1 154 915
2018-2022	551 486	83 848	635 334
2023-2026	<u>305 262</u>	<u>22 878</u>	<u>328 140</u>
Total	<u>4 220 628</u>	<u>836 460</u>	<u>5 057 088</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 7. Compensated Absences

The amounts for accrued compensated absences are included in accrued expenses. They include \$44 922 for the Governmental Activities and \$14 197 for the Business Type Activities.

Note 8. Defined Benefit Pension Plans - Statewide

A. Plan Description

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 8. Defined Benefit Pension Plans - Statewide (Cont.)

A. Plan Description (Cont.)

Two methods are used to compute benefits for PERF'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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 8. Defined Benefit Pension Plans - Statewide (Cont.)

A. Plan Description (Cont.)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (612) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 8. Defined Benefit Pension Plans - Statewide (Cont.)

B. Funding Policy (Cont.)

PERF Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. PEPFF members are required to contribute 7.8% of their annual covered salary in 2007. That rate will increase to 8.6% in 2008.

The City of Blue Earth is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members, and 11.7% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 30, 2007, 2006, and 2005 were \$90 166, \$82 011, and \$72 030, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2007, 2006 and 2005 were \$34 207, \$29 940 and \$24 600, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 9. Deferred Benefit Pension Plan - Volunteer Firemen's Relief Association

A. Plan Description

The City contributes to the Blue Earth Firemen's Relief Association, a single-employer public employee retirement system that acts as a common investment and administrator for the City's firefighters.

All active members of the Blue Earth Fire Department shall be eligible for membership in the Relief Association. Volunteer firefighters are not required

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 9. Deferred Benefit Pension Plan - Volunteer Firemen's Relief Association (Cont.)

A. Plan Description (Cont.)

to contribute to the Association. The City levies property taxes at the direction of and for the benefit of the Firemen's Relief Association and passes through state aids allocated to the plan, all in accordance with enabling state statutes.

B. Benefits

The association provides for various benefits besides normal retirement benefits, such as Surviving Spouse benefit, Deferred Pension Benefit and Early Vested Benefit.

Normal Retirement Benefits, Surviving Spouse Benefit and Deferred Pension Benefit are payable in a lump sum of \$1 550 for each year of service. Early Vesting is payable in amounts equal to a percentage of the amount per year of service which would have been earned, had the member served for 20 years or more.

Normal Retirement Benefit is payable on retirement after attainment of age 50 and completion of 20 years of service. The Surviving Spouse Benefit is payable to the surviving spouse upon the death of any member of the association. If there is no surviving spouse, then the benefit is payable to surviving children, if any and if no children survive, the benefit is payable to the estate of the deceased member. The deferred Pension Benefit is available to any member who has served in the Blue Earth Fire Department for at least

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 9. Deferred Benefit Pension Plan - Volunteer Firemen's Relief Association (Cont.)

B. Benefits (Cont.)

20 years, but has not reached the age of 50. The Early Vested Benefit is available to any member who has served more than 5 years but less than 20 years as an active firefighter in the Blue Earth Fire Department.

C. Related Party Investments

During 2007 and as of December 31, 2007 the Association held no securities issued by the City of Blue Earth or other related parties.

D. Funding Status

The pension benefit obligation as indicated below is a substitute for the standardized measure of the present value of pension benefits normally required.

Pension benefit obligation

Total pension benefit obligation	697 457
Net assets available for benefits at market (Projected)	<u>923 055</u>
Excess assets	<u>225 598</u>

E. Contributions

Financial requirements of the Association are determined in accordance with "The Volunteer Firefighters' Relief Association Guidelines Act of 1971" and have not been actuarially determined.

Total contributions to the relief association in 2007 amounted to \$46 153 of which \$22 153 was pass-through monies from the state and \$24 000 was a contribution to the fund by the city.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 10. Expenditures in Excess of Budget

The following funds had total expenditures in excess of the approved budget:

	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Expenditures In Excess of Budget</u>
General Fund	1 866 370	1 974 452	108 082
Fire/Police Facility Fund		83 135	83 135
2006D Bond Fund		64 780	64 780
Housing Loan Fund		3 249	3 249

Note 11. 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 on the modified accrual basis of accounting.

The city has joined together with other cities in the League of Minnesota Cities Insurance Trust Self-Insured Workers Compensation Plan, the General Property and Casualty Insurance Plan, and Public Officials Liability Plan. These are public entity risk pools currently for member cities. The city pays annual premiums for these plans. Premiums are used to purchase reinsurance through commercial companies for claims in excess of certain limits. The administrators of these plans believe assessment to participating cities for future losses sustained is extremely remote.

The city is self-insured for unemployment compensation.

The city also carries a liquor liability policy. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 12. Franchise Fees

In lieu of taxes, the Board of Public Works pays to the City a franchise fee. The agreement between the Board and the City states that the franchise fee will be determined by multiplying a base factor (2.7 mills) per kilowatt hour sold to all retail sales of kilowatt hours sold within the utility service territory. For the year ended December 31, 2007, the City received \$196 230.

Note 13. Tax Increment Finance Districts

The City of Blue Earth is the administering authority for several tax increment districts within the City. These districts were established in accordance with state statutes and follow applicable state laws and provisions.

Following is certain information for 2007 concerning each of the districts.

The first group of tax increment districts have no outstanding debt related to bonds issued. The City advanced funds to finance the related improvement projects; the balance due the City is noted below. Districts 5-8 and 5-9 are pay-as-you-go districts with the developer being reimbursed for costs incurred from future tax increments received by the City.

Number of District:	2-1	2-6	5-2	5-3	5-8	5-9
Name of District:	Downtown	BE-IN Inc.	Nuvex, Inc.	Nuvex, Inc.	Medical Center	Dollar Store
Type of District:	<u>Economic</u>	<u>Housing</u>	<u>Economic</u>	<u>Economic</u>	<u>Economic</u>	<u>Economic</u>
Current Tax Capacity:	7 158	2 304	6 822	17 784	1 629	4 248
Base Tax Capacity:	<u>368</u>	<u>145</u>	<u>130</u>	<u>384</u>	<u>179</u>	<u>128</u>
Captured Tax Capacity:	<u>6 790</u>	<u>2 159</u>	<u>6 692</u>	<u>17 400</u>	<u>1 450</u>	<u>4 120</u>
Balance of Interfund Loans Used to Finance Projects		<u>19 093</u>		<u>18 228</u>		

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 13. Tax Increment Finance Districts (Cont.)

The City has issued debt in conjunction with the following group of tax increment districts and the remaining balance of debt is presented.

Number of District:	2-2	5-4	5-5	5-6	5-1 & 5-7
Name of District:	Jubas	Nelson Bldg	Seneca Foods	Spec Bldg.	Nuvex, Inc.
Type of District:	<u>Economic</u>	<u>Economic</u>	<u>Economic</u>	<u>Economic</u>	<u>Economic</u>
Current Tax Capacity:	32 277	9 234	57 388	13 736	2 706
Base Tax Capacity:	<u>6 412</u>	<u>113</u>	<u>4 653</u>	<u>250</u>	<u>47</u>
Captured Tax Capacity:	<u>25 865</u>	<u>9 121</u>	<u>52 735</u>	<u>13 486</u>	<u>2 659</u>
Bonds Issued (000s):	1 245	400	4 690	1 150	2 950
Bonds Redeemed:	<u>1 245</u>	<u>295</u>	<u>2 940</u>	<u>395</u>	<u>2 950</u>
Bonds Outstanding at December 31, 2006	<u>-</u>	<u>105</u>	<u>1 750</u>	<u>755</u>	<u>-</u>

General obligation tax increment bonds were issued to assist with these economic development projects. The incremental portion of general property taxes generated from each of these tax increment districts will be used to retire the bonds issued to finance these projects and related interest thereon. In addition, the City has entered into note and leasing arrangements with both Nuvex, Inc. and Seneca Foods; these revenues will be utilized in addition to tax increment revenues to retire bonds issued and related interest for each of these tax increment districts.

Note 14. Transfers

Transfers between funds during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	10 000	20 556
Special Revenue Funds	20 556	8 475
Debt Service Funds	16 436	1 312 930
Capital Project Funds	1 566 093	261 124
Enterprise Funds	<u> </u>	<u>10 000</u>
Totals	<u>1 613 085</u>	<u>1 613 085</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 15. Future Lease Agreements

Seneca Foods Corporation

The Economic Development Authority of the City entered into an agreement with Seneca Foods Corporation in December 1977 for the City to construct a warehouse. The base rent from Seneca Foods Corporation is approximately \$41 450 per month commencing on April 1998 thru January 2013. Lease payments received during 2007 was \$497 397. The base rent is subject to credits for tax increments received by the City each year, investment income generated from the reserve and other items defined in the agreement.

Note 16. Fund Balance Deficits

The following individual funds have deficit fund balances:

Debt Service Funds

1982 & 1993 Bond Fund	2 033
Tax Increment Districts 5-3	18 274
Tax Increment Districts 5-6	74 642
Tax Increment Districts 2-2	20 837
Tax Increment Districts 2-6	19 093

Capital Project Funds

Fire/Police Facility Fund	749 768
Steinberg Park Fund	56 798

The deficits will be eliminated by future property tax levies, tax increment receipts, and interfund transfers.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007

Note 17. Fund Balance Designated

In the fund statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The City has designated \$589 778 of the General Fund, fund balance for the following purposes:

Special purposes	28 462
I-90 track	2 250
Capital equipment	317 669
Street infrastructure	234 873
Senior donations	<u>6 524</u>
	<u>589 778</u>

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Taxes</u>				
General property taxes	11 397	11 397	16 866	5 469
<u>Franchise Fees</u>	263 000	263 000	271 430	8 430
<u>Licenses and Permits</u>	31 025	31 025	40 975	9 950
<u>Intergovernmental Revenue</u>				
Local government aid	1 306 053	1 306 053	1 306 053	
Police aid	23 000	23 000	29 940	6 940
Other state aid	9 879	9 879	10 601	722
Total Intergovernmental Revenue	1 338 932	1 338 932	1 346 594	7 662
<u>Fines and Forfeits</u>	15 500	15 500	21 343	5 843
<u>Interest Income</u>	7 500	7 500	49 493	41 993
<u>Charges for Services</u>				
Public safety	15 250	15 250	15 383	133
Public Works	2 500	2 500	7 620	5 120
Recreation	56 500	56 500	76 890	20 390
Recycling	50 500	50 500	43 297	(7 203)
Other	1 100	1 100	1 121	21
Special assessments	_____	_____	13 593	13 593
Total Charges for Services	125 850	125 850	157 904	32 054
<u>Miscellaneous</u>				
Rental	4 400	4 400	9 153	4 753
Miscellaneous	10 800	10 800	24 556	13 756
Total Miscellaneous	15 200	15 200	33 709	18 509
<u>Donations</u>	500	500	4 114	3 614
Total Revenues Before Other Sources	1 808 904	1 808 904	1 942 428	133 524
<u>Other Financing Sources/Uses</u>				
Sale of Assets			682	682
Transfers in	35 000	35 000	10 000	(25 000)
Transfers out	(57 679)	(57 679)	(20 556)	37 123
Total Revenues	1 786 225	1 786 225	1 932 554	146 329

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Expenditures</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
General Government				
Mayor and council				
Personal Services	19 873	19 873	19 402	471
Supplies	1 100	1 100	7 597	(6 497)
Services and Charges	<u>5 000</u>	<u>5 000</u>	<u>3 911</u>	<u>1 089</u>
	25 973	25 973	30 910	(4 937)
Administration				
Personal Services	179 976	179 976	186 121	(6 145)
Supplies	4 500	4 500	(15 161)	19 661
Services and Charges	<u>39 660</u>	<u>39 660</u>	<u>25 405</u>	<u>14 225</u>
	224 136	224 136	196 365	27 771
Election				
Personal Services	<u>4 473</u>	<u>4 473</u>	<u> </u>	<u>4 473</u>
Financial Services				
Contracted Services	53 318	53 318	14 563	38 755
Legal Services				
Contracted Services	52 650	52 650	59 216	(6 566)
Supplies and Other Charges	<u>1 500</u>	<u>1 500</u>	<u>1 130</u>	<u>370</u>
	54 150	54 150	60 346	(6 196)
Engineering Services				
Contracted Services	15 750	15 750	46 932	(31 182)
Supplies and Other Charges	<u>250</u>	<u>250</u>	<u>105</u>	<u>145</u>
	16 000	16 000	47 037	(31 037)
Government Buildings				
Supplies	1 200	1 200	3 900	(2 700)
Services and Charges	17 520	17 250	23 759	(6 239)
Capital outlay	<u>7 000</u>	<u>7 000</u>	<u>7 946</u>	<u>(946)</u>
Total General Government	403 770	403 770	384 826	18 944

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Expenditures</u> (Cont.)	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Public Safety				
Police Protection				
Personal Services	447 693	447 693	421 098	26 595
Supplies	19 050	19 050	19 997	(947)
Services and Charges	46 468	46 468	58 616	(12 148)
Capital Outlay	<u>4 000</u>	<u>4 000</u>	<u>3 558</u>	<u>442</u>
	517 211	517 211	503 269	13 942
Emergency Siren	<u>2 500</u>	<u>2 500</u>	<u>1 523</u>	<u>977</u>
Total Public Safety	519 711	519 711	504 792	14 919
Public Works				
Street Maintenance				
Personal Services	282 808	282 808	257 370	25 438
Supplies	144 400	144 400	165 178	(20 778)
Services and Charges	138 050	138 050	190 316	(52 266)
Capital Outlay	89 500	89 500	63 586	25 914
Special Assessment Payback	<u> </u>	<u> </u>	<u>37 883</u>	<u>(37 883)</u>
	654 758	654 758	714 333	(59 575)
Sanitation and Health				
Personal Services	7 670	7 670	7 065	605
Supplies and Services	<u>18 675</u>	<u>18 675</u>	<u>28 875</u>	<u>(10 200)</u>
	26 345	26 345	35 940	(9 595)
Street Lighting	<u>49 000</u>	<u>49 000</u>	<u>58 376</u>	<u>(9 376)</u>
Total Public Works	730 103	730 103	808 649	(78 546)
Culture and Recreation				
Swimming Pool				
Personal Services	51 284	51 284	58 909	(7 625)
Supplies	10 500	10 500	20 799	(10 299)
Services and Charges	21 209	21 209	43 475	(22 266)
Capital Outlay	<u> </u>	<u> </u>	<u>250</u>	<u>(250)</u>
	82 993	82 993	123 433	(40 440)
Senior Center				
Personal Services	34 963	34 963	37 289	(2 326)
Supplies	1 750	1 750	1 704	46
Services and Other Charges	13 480	13 480	14 780	(1 300)
Capital outlay	<u> </u>	<u> </u>	<u>1 906</u>	<u>(1 906)</u>
	50 193	50 193	55 679	(5 486)
Total Culture and Recreation	133 186	133 186	179 112	(45 926)

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Expenditures</u> (Cont.)	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Other Programs				
Tree replacement program			465	(465)
Community Development	30 600	30 600	44 200	(13 600)
Recycling Program	39 000	39 000	39 898	(898)
Ambulance Contribution	10 000	10 000	10 000	
Capital Outlay	<u> </u>	<u> </u>	<u>2 510</u>	<u>(2 510)</u>
Total Other	<u>79 600</u>	<u>79 600</u>	<u>97 073</u>	<u>(17 473)</u>
Total Expenditures	<u>1 866 370</u>	<u>1 866 370</u>	<u>1 974 452</u>	<u>(108 082)</u>
Revenues Over (Under)				
Expenditures	(80 145)	(80 145)	(41 898)	38 247
Fund Balance Beginning of Year	<u>1 229 607</u>	<u>1 229 607</u>	<u>1 229 607</u>	<u> </u>
Fund Balance End of Year	<u>1 149 462</u>	<u>1 149 462</u>	<u>1 187 709</u>	<u>38 247</u>

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
REVOLVING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Taxes	12 561	12 561	12 543	(18)
Charges for services	83 000	83 000	60 447	(22 553)
Investment income	10 000	10 000	65 769	55 769
Miscellaneous	<u>74 506</u>	<u>74 506</u>	<u>77 256</u>	<u>2 750</u>
Total Revenues	180 067	180 067	216 015	35 948
 <u>Expenditures</u>				
Economic development	<u>306 049</u>	<u>306 049</u>	<u>174 890</u>	<u>131 159</u>
Total Expenditures	<u>306 049</u>	<u>306 049</u>	<u>174 890</u>	<u>131 159</u>
Excess of Revenues or (Expenditures)	(125 982)	(125 982)	41 125	167 107
 <u>Other Financing Uses</u>				
Interfund transfers out			(8 475)	(8 475)
Sale of assets				
Fund Balance beginning of year	<u>1 076 165</u>	<u>1 076 165</u>	<u>1 076 165</u>	<u> </u>
Fund Balance end of year	<u><u>950 183</u></u>	<u><u>950 183</u></u>	<u><u>1 108 815</u></u>	<u><u>158 632</u></u>

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
HOUSING LOAN FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Investment income	500	500	4 348	3 848
Miscellaneous	<u> </u>	<u> </u>	<u>44 312</u>	<u>44 312</u>
Total Revenues	500	500	48 660	48 160
 <u>Expenditures</u>				
Economic development	<u> </u>	<u> </u>	<u>3 249</u>	<u>(3 249)</u>
Total Expenditures	<u> </u>	<u> </u>	<u>3 249</u>	<u>(3 249)</u>
Excess of Revenues or (Expenditures)	500	500	45 411	44 911
Fund Balance beginning of year	<u>74 447</u>	<u>74 447</u>	<u>74 447</u>	<u> </u>
Fund Balance end of year	<u><u>74 947</u></u>	<u><u>74 947</u></u>	<u><u>119 858</u></u>	<u><u>44 911</u></u>

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
FIRE/POLICE FACILITY FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Miscellaneous	_____	_____	_____	_____
Total Revenues				
 <u>Expenditures</u>				
Capital Outlay	_____	_____	83 135	(83 135)
Total Expenditures	_____	_____	83 135	(83 135)
Excess of Revenues or (Expenditures)			(83 135)	(83 135)
Fund Balance beginning of year	<u>(666 633)</u>	<u>(666 633)</u>	<u>(666 633)</u>	_____
Fund Balance end of year	<u><u>(666 633)</u></u>	<u><u>(666 633)</u></u>	<u><u>(749 768)</u></u>	<u><u>(83 135)</u></u>

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
BOND FUND 2006D
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Taxes			150 699	150 699
Investment income			<u>70 800</u>	<u>70 800</u>
Total Revenues			221 499	221 499
 <u>Expenditures</u>				
Debt Service				
Interest			64 642	(64 642)
Other			<u>138</u>	<u>(138)</u>
Total Expenditures			<u>64 780</u>	<u>(64 780)</u>
Excess of Revenues or (Expenditures)			156 719	156 719
 <u>Other Financing Sources</u>				
Interfund transfer out			(1 130 998)	(1 130 998)
Fund Balance beginning of year	<u>1 098 000</u>	<u>1 098 000</u>	<u>1 098 000</u>	
Fund Balance end of year	<u>1 098 000</u>	<u>1 098 000</u>	<u>123 721</u>	<u>(974 279)</u>

See notes to the required supplementary information.

BUDGETARY COMPARISON SCHEDULE
SWIMMING POOL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Revenues</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Investment income				
Miscellaneous	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues				
<u>Expenditures</u>				
Capital Outlay	<u> </u>	<u> </u>	1 267 606	<u>(1 267 606)</u>
Total Expenditures	<u> </u>	<u> </u>	1 267 606	<u>(1 267 606)</u>
Excess of Revenues or (Expenditures)			(1 267 606)	(1 267 606)
Interfund transfer in			1 392 122	1 392 122
Fund Balance beginning of year	<u>(124 516)</u>	<u>(124 516)</u>	<u>(124 516)</u>	<u> </u>
Fund Balance end of year	<u>(124 516)</u>	<u>(124 516)</u>	<u> </u>	<u>124 516</u>

See notes to the required supplementary information.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2007

(1) Budget Policy and Practice

The City clerk submits an annual preliminary budget to the council for review prior to September 15. A final budget is adopted by December 15. The budget dates coincide with the dates property tax levies must be established.

(2) Basis of Budgeting

The budgeted revenues and expenditures presented reflect the formal operating budgets adopted by the City Council. The budgets are adopted on a basis consistent with generally accepted accounting principles. Encumbrances are eliminated at year end. Any outstanding encumbrances are included in the subsequent year's budget.

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments	354 593	1 515 286		1 869 879
Accounts receivable	69 779	4 455	44 668	118 902
Accrued interest receivable	51	2 014		2 065
Due from other funds		113 569		113 569
Delinquent tax receivable	7 559	20 098		27 657
Allowance for uncollectible taxes	(5 893)	(16 249)		(22 142)
Special assessments - current		99 346		99 346
- long-term		531 256		531 256
- deferred		110 911		110 911
Notes receivable	<u>7 069</u>	<u>22 572</u>		<u>29 641</u>
 Total Assets	 <u>433 158</u>	 <u>2 403 258</u>	 <u>44 668</u>	 <u>2 881 084</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	23 806	1 104	17 462	42 372
Wages payable	5 431			5 431
Due to other funds	19 645	180 795	84 004	284 444
Accrued expenses	3 638			3 638
Deferred revenue	<u>12 161</u>	<u>764 085</u>		<u>776 246</u>
 Total Liabilities	 64 681	 945 984	 101 466	 1 112 131
Fund balance				
Reserved for debt		1 457 274		1 457 274
Reserved for projects			(56 798)	(56 798)
Unreserved	<u>368 477</u>			<u>368 477</u>
 Total Fund Balance	 <u>368 477</u>	 <u>1 457 274</u>	 <u>(56 798)</u>	 <u>1 768 953</u>
 Total Liabilities and Fund Balance	 <u>433 158</u>	 <u>2 403 258</u>	 <u>44 668</u>	 <u>2 881 084</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>Revenues</u>				
Taxes	266 339	798 310		1 064 649
Special assessments		95 636		95 636
Intergovernmental	151 198			151 198
Charges for services	160 986			160 986
Investment income	14 929	85 754	7 659	108 342
Miscellaneous	24 330	718 758		743 088
Donations	13 335			13 335
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	631 117	1 698 458	7 659	2 337 234
<u>Expenditures</u>				
Current:				
Public safety	202 265			202 265
Culture and recreation	247 167			247 167
Economic development	75 371			75 371
Airport	143 279			143 279
Capital Outlay	50 989		230 156	281 145
Debt Service:				
Principal retired		1 834 291		1 834 291
Interest		488 929		488 929
Other		78 273		78 273
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	719 071	2 401 493	230 156	3 350 720
Excess of revenues over (under)				
Expenditures	(87 954)	(703 035)	(222 497)	(1 013 486)
<u>Other Financing Uses</u>				
Proceeds from sale of assets		14 000		14 000
Interfund transfer in (Note 14)	20 556	16 436	173 971	210 963
Interfund transfer out (Note 14)		(181 932)	(261 124)	(443 056)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Uses	20 556	(151 496)	(87 153)	(218 093)
Net change in fund balance	(67 398)	(854 531)	(309 650)	(1 231 579)
Fund Balance - January 1	435 875	2 311 805	252 852	3 000 532
Fund Balance - December 31	<u>368 477</u>	<u>1 457 274</u>	<u>(56 798)</u>	<u>1 768 953</u>

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2007

	Economic Development Fund	Fire Fund	Airport Fund	Library Fund
<u>Assets</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and investments	69 698	11 162	26 790	26 979
Accounts receivable	20 010	3 075	18 419	23 872
Accrued interest receivable				
Delinquent taxes receivable	1 644	2 119		3 182
Allowance for uncollectible taxes	(1 274)	(1 646)		(2 483)
Notes receivable				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>90 078</u>	<u>14 710</u>	<u>45 209</u>	<u>51 550</u>
 <u>Liabilities and Fund Balance</u>				
 Liabilities				
Due to other funds				
Accounts payable	1 211	5 420	6 528	5 474
Wages payable	288	115		3 526
Accrued expenses	410	164		362
Deferred revenue		3 075		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	1 909	8 774	6 528	9 362
 Fund Balance				
Unreserved	<u>88 169</u>	<u>5 936</u>	<u>38 681</u>	<u>42 188</u>
Total Fund Balances	<u>88 169</u>	<u>5 936</u>	<u>38 681</u>	<u>42 188</u>
Total Liabilities and Fund Balances	<u>90 078</u>	<u>14 710</u>	<u>45 209</u>	<u>51 550</u>

<u>Housing Fund</u>	<u>Small Cities Grant Fund</u>	<u>Utility Loan Fund</u>	<u>Fitness Center</u>	<u>Total</u>
95 715	3 427	87 238	33 584	354 593
876			3 527	69 779
4		47		51
614				7 559
(490)				(5 893)
<u> </u>	<u> </u>	<u>7 069</u>	<u> </u>	<u>7 069</u>
<u>96 719</u>	<u>3 427</u>	<u>94 354</u>	<u>37 111</u>	<u>433 158</u>
173			19 645	19 645
33			5 173	23 806
876		7 069	1 329	5 431
<u> </u>	<u> </u>	<u> </u>	<u>2 669</u>	<u>3 638</u>
1 082		7 069	1 141	12 161
<u>95 637</u>	<u>3 427</u>	<u>87 285</u>	<u>7 154</u>	<u>368 477</u>
<u>95 637</u>	<u>3 427</u>	<u>87 285</u>	<u>7 154</u>	<u>368 477</u>
<u>96 719</u>	<u>3 427</u>	<u>94 354</u>	<u>37 111</u>	<u>433 158</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Economic Development Fund</u>	<u>Fire Fund</u>	<u>Airport Fund</u>	<u>Library Fund</u>
<u>Revenues</u>				
Taxes	57 052	72 651		114 698
Intergovernmental		22 153	81 301	47 744
Charges for Services	2 621	24 711	61 190	3 660
Investment Income		3 003	2 978	
Miscellaneous	20 000	506	279	468
Donations		9 957		2 237
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	79 673	132 981	145 748	168 807
<u>Expenditures</u>				
Current:				
Public Safety		202 265		
Economic Development	59 903			
Culture and Recreation				179 248
Airport			143 279	
Capital outlay		23 875		428
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	59 903	226 140	143 279	179 676
Excess of revenues over (under) expenditures	19 770	(93 159)	2 469	(10 869)
<u>Other Financing Uses</u>				
Interfund transfers in	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Uses	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	19 770	(93 159)	2 469	(10 869)
Fund Balance (Deficit) - January 1	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	<u>88 169</u>	<u>5 936</u>	<u>38 681</u>	<u>42 188</u>

<u>Housing Fund</u>	<u>Small Cities Grant Fund</u>	<u>Utility Loan Fund</u>	<u>Fitness Center</u>	<u>Total</u>
21 938				266 339
				151 198
			68 804	160 986
4 255		4 693		14 929
1 858		1 106	113	24 330
<u> </u>	<u> </u>	<u> </u>	<u>1 141</u>	<u>13 335</u>
28 051		5 799	70 058	631 117
				202 265
15 468				75 371
			67 919	247 167
				143 279
<u> </u>	<u> </u>	<u> </u>	<u>26 686</u>	<u>50 989</u>
<u>15 468</u>	<u> </u>	<u> </u>	<u>94 605</u>	<u>719 071</u>
12 583		5 799	(24 547)	(87 954)
<u> </u>	<u> </u>	<u> </u>	<u>20 556</u>	<u>20 556</u>
<u> </u>	<u> </u>	<u> </u>	<u>20 556</u>	<u>20 556</u>
12 583		5 799	(3 991)	(67 398)
<u>83 054</u>	<u>3 427</u>	<u>81 486</u>	<u>11 145</u>	<u>435 875</u>
<u>95 637</u>	<u>3 427</u>	<u>87 285</u>	<u>7 154</u>	<u>368 477</u>

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE
DECEMBER 31, 2007

	<u>Bond Funds</u>					
	<u>2005B</u>	<u>2004C</u>	<u>1982 & 1993</u>	<u>1984 & 1995D</u>	<u>2006A</u>	<u>2004A</u>
<u>Assets</u>						
Cash and investments	6 797	27 322		7 836	21 845	243 187
Notes receivable						
Accrued interest receivable		1 989				
Due from other funds		2 231		12 515		
Delinquent tax receivables	47	725	2 928	509	1 128	281
Allowance for uncollectible taxes	(41)	(585)	(2 730)	(271)	(917)	(87)
Special assessment receivable						
- Current	10 161	10 568				10 880
- long-term	60 721	86 332				25 316
- deferred		41 828				2 358
Accounts receivable						
Total Assets	<u>77 685</u>	<u>170 410</u>	<u>198</u>	<u>20 589</u>	<u>22 056</u>	<u>281 935</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable						138
Due to other funds			2 231			38 196
Deferred revenue	<u>70 882</u>	<u>138 728</u>				<u>38 554</u>
Total Liabilities	70 882	138 728	2 231			76 888
Fund Balance						
Reserved (deficit) for debt	<u>6 803</u>	<u>31 682</u>	<u>(2 033)</u>	<u>20 589</u>	<u>22 056</u>	<u>205 047</u>
Total Fund Balance	<u>6 803</u>	<u>31 682</u>	<u>(2 033)</u>	<u>20 589</u>	<u>22 056</u>	<u>205 047</u>
Total Liabilities and Fund Balance	<u>77 685</u>	<u>170 410</u>	<u>198</u>	<u>20 589</u>	<u>22 056</u>	<u>281 935</u>

Bond Funds							
<u>1994 & 2003A</u>	<u>2004 Equip</u>	<u>1995 & 2004B</u>	<u>1997 & 2003A</u>	<u>2001</u>	<u>1992 & 1998</u>	<u>2006C</u>	<u>Disposal System</u>
14 515	10 477 22 572 25	25 299	119 140	193 341	111 179	50 982	13133
654 (513)	769 (615)	2 268 (1 945)	1 310 (1 022)	3 124 (2 499)	2 545 (1 976)		
2 874 12 256		30 103 84 952 12 271	19 887 123 381 20 000	7 876 61 090 31 421	6 997 21 922	55 286 3 033	
<u>29 786</u>	<u>33 228</u>	<u>152 948</u>	<u>282 696</u>	<u>294 353</u>	<u>140 667</u>	<u>109 301</u>	<u>13 133</u>
138			138	138			
<u>15 130</u>	<u>22 572</u>	<u>127 326</u>	<u>163 268</u>	<u>100 387</u>	<u>28 919</u>	<u>58 319</u>	
15 268	22 572	127 326	163 406	100 525	28 919	58 319	
<u>14 518</u>	<u>10 656</u>	<u>25 622</u>	<u>119 290</u>	<u>193 828</u>	<u>111 748</u>	<u>50 982</u>	<u>13 133</u>
<u>14 518</u>	<u>10 656</u>	<u>25 622</u>	<u>119 290</u>	<u>193 828</u>	<u>111 748</u>	<u>50 982</u>	<u>13 133</u>
<u>29 786</u>	<u>33 228</u>	<u>152 948</u>	<u>282 696</u>	<u>294 353</u>	<u>140 667</u>	<u>109 301</u>	<u>13 133</u>

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE
DECEMBER 31, 2007

	Bond	<u>Tax Increment Districts</u>				
	Fund	5-1	5-2	5-3	5-4	5-6
	<u>2006B</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Assets</u>						
Cash and investments	65 561	62 796		92	157 258	
Notes receivable						
Accrued interest receivable						
Due from other funds						
Delinquent tax receivables	1 954					
Allowance for uncollectible taxes	(1 556)					
Special assessment receivable						
- Current						
- long-term						
- deferred						
Accounts receivable					4 455	
Total Assets	<u>65 959</u>	<u>62 796</u>		<u>92</u>	<u>161 713</u>	
<u>Liabilities and Fund Balances</u>						
<u>Liabilities</u>						
Accounts payable	138			138		
Due to other funds		4 224		18 228		74 642
Deferred revenue						
Total Liabilities	138	4 224		18 366		74 642
<u>Fund Balance</u>						
Reserved (deficit) for debt	<u>65 821</u>	<u>58 572</u>		<u>(18 274)</u>	<u>161 713</u>	<u>(74 642)</u>
Total Fund Balance	<u>65 821</u>	<u>58 572</u>		<u>(18 274)</u>	<u>161 713</u>	<u>(74 642)</u>
Total Liabilities and Fund Balance	<u>65 959</u>	<u>62 796</u>		<u>92</u>	<u>161 713</u>	

Tax Increment Districts								
5-7	5-8	5-9	5-5	2-1	2-2	2-6	7-1	Total
53 970	949	11 946	314 431	292			2 938	1 515 286
								22 572
			95 705	3 118				2 014
					1 856			113 569
					(1 492)			20 098
								(16 249)
								99 346
								531 256
								110 911
								4 455
<u>53 970</u>	<u>949</u>	<u>11 946</u>	<u>410 136</u>	<u>3 410</u>	<u>364</u>		<u>2 938</u>	<u>2 403 258</u>
			138		138			1 104
3 118					21 063	19 093		180 795
								764 085
3 118			138		21 201	19 093		945 984
<u>50 852</u>	<u>949</u>	<u>11 946</u>	<u>409 998</u>	<u>3 410</u>	<u>(20 837)</u>	<u>(19 093)</u>	<u>2 938</u>	<u>1 457 274</u>
<u>50 852</u>	<u>949</u>	<u>11 946</u>	<u>409 998</u>	<u>3 410</u>	<u>(20 837)</u>	<u>(19 093)</u>	<u>2 938</u>	<u>1 457 274</u>
<u>53 970</u>	<u>949</u>	<u>11 946</u>	<u>410 136</u>	<u>3 410</u>	<u>364</u>		<u>2 938</u>	<u>2 403 258</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Bond Funds</u>					
	<u>2005B</u>	<u>2004C</u>	<u>1982 & 1993</u>	<u>1984 & 1995D</u>	<u>2006A</u>	<u>2004A</u>
<u>Revenues</u>						
Taxes	1 152	29 342	316	568	47 287	36 474
Special assessments	7 692	11 157				11 049
Investment income	392	341		363	2 317	5 882
Rent and other						
Total Revenues	<u>9 236</u>	<u>40 840</u>	<u>316</u>	<u>931</u>	<u>49 604</u>	<u>53 405</u>
<u>Expenditures</u>						
Debt Service						
Principal retired	8 000	23 039			40 000	63 252
Interest	3 440	15 635			6 268	13 680
Other	<u>2 412</u>		<u>110</u>			<u>291</u>
Total Expenditures	<u>13 852</u>	<u>38 674</u>	<u>110</u>		<u>46 268</u>	<u>77 223</u>
Excess of revenues over (under) expenditures	(4 616)	2 166	206	931	3 336	(23 818)
<u>Other Financing Uses</u>						
Proceeds from sale of assets						14 000
Interfund transfers - in						
Interfund transfers - out						
Total Other Financing Uses						<u>14 000</u>
Net Change in Fund Balances	(4 616)	2 166	206	931	3 336	(9 818)
Fund Balance (Deficit) - January 1	<u>11 419</u>	<u>29 516</u>	<u>(2 239)</u>	<u>19 658</u>	<u>18 720</u>	<u>214 865</u>
Fund Balance (Deficit) - December 31	<u><u>6 803</u></u>	<u><u>31 682</u></u>	<u><u>(2 033)</u></u>	<u><u>20 589</u></u>	<u><u>22 056</u></u>	<u><u>205 047</u></u>

Bond Funds							
<u>1994 & 2003A</u>	<u>1992 & 1998</u>	<u>2004 Equip</u>	<u>1995 & 2004B</u>	<u>1997 & 2003A</u>	<u>2001</u>	<u>2006C</u>	<u>Disposal System</u>
24 892	95 619	29 685	54 840	46 727	122 324		
5 273	7 667		19 797	24 310	8 691		
1 183	2 527	1 816	2 155	5 497	5 921	10 883	585
		<u>25 258</u>					<u>15 556</u>
31 348	105 813	56 759	76 792	76 534	136 936	10 883	16 141
30 000	65 000	50 000	75 000	40 000	70 000		10 000
8 468	31 695	2 945	12 062	16 352	71 880	7 382	4 385
290				290	290	54	
<u>38 758</u>	<u>96 695</u>	<u>52 945</u>	<u>87 062</u>	<u>56 642</u>	<u>142 170</u>	<u>7 436</u>	<u>14 385</u>
(7 410)	9 118	3 814	(10 270)	19 892	(5 234)	3 447	1 756
						<u>(173 971)</u>	
						<u>(173 971)</u>	
(7 410)	9 118	3 814	(10 270)	19 892	(5 234)	(170 524)	1 756
<u>21 928</u>	<u>102 630</u>	<u>6 842</u>	<u>35 892</u>	<u>99 398</u>	<u>199 062</u>	<u>221 506</u>	<u>11 377</u>
<u>14 518</u>	<u>111 748</u>	<u>10 656</u>	<u>25 622</u>	<u>119 290</u>	<u>193 828</u>	<u>50 982</u>	<u>13 133</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Bond Fund 2006B	Tax Increment Districts				
		5-1	5-2	5-3	5-4	5-6
<u>Revenues</u>						
Taxes	91 847			2 396	4 599	17 163
Special assessments						
Investment income	880	3 124	19	507	6 854	
Rent and other					70 203	110 344
Total Revenues	92 727	3 124	19	2 903	81 656	127 507
<u>Expenditures</u>						
Debt Service						
Principal retired					10 000	90 000
Interest	53 640				9 108	59 585
Other	290			138		2 030
Total Expenditures	53 797			138	19 108	151 615
Excess of revenues over (under) expenditures	38 797	3 124	19	2 765	62 548	(24 108)
<u>Other Financing Uses</u>						
Proceeds from sale of assets						
Interfund transfers - in			8 475			
Interfund transfers - out						
Total Other Financing Uses			8 475			
Net Change in Fund Balances	38 797	3 124	8 494	2 765	62 548	(24 108)
Fund Balance (Deficit) - January 1	27 024	55 448	(8 494)	(21 039)	99 165	(50 534)
Fund Balance (Deficit) - December 31	<u>65 821</u>	<u>58 572</u>	<u></u>	<u>(18 274)</u>	<u>161 713</u>	<u>(74 642)</u>

Tax Increment Districts								
5-5	5-7	5-8	5-9	2-1	2-2	2-6	7-1	Total
66 753	3 384	2 780	5 243	8 064	99 707	2 048	5 100	798 310
								95 636
31 046	2 460	60	540	189		50	163	85 754
<u>497 397</u>								<u>718 758</u>
595 196	5 844	2 840	5 783	8 253	99 707	2 098	5 263	1 698 458
415 000	770 000				75 000			1 834 291
148 748	21 706				1 950			488 929
<u>55 028</u>	<u>2 500</u>	<u>3 336</u>	<u>4 612</u>		<u>1 757</u>		<u>4 845</u>	<u>78 273</u>
<u>618 776</u>	<u>794 206</u>	<u>3 336</u>	<u>4 612</u>		<u>78 707</u>		<u>4 845</u>	<u>2 401 493</u>
(23 580)	(788 362)	(496)	1 171	8 253	21 000	2 098	418	(703 035)
								14 000
					7 961			16 436
				(7 961)				(181 932)
				(7 961)	7 961			(151 496)
(23 580)	(788 362)	(496)	1 171	292	28 961	2 098	418	(854 531)
<u>433 578</u>	<u>839 214</u>	<u>1 445</u>	<u>10 775</u>	<u>3 118</u>	<u>(49 798)</u>	<u>(21 191)</u>	<u>2 520</u>	<u>2 311 805</u>
<u>409 998</u>	<u>50 852</u>	<u>949</u>	<u>11 946</u>	<u>3 410</u>	<u>(20 837)</u>	<u>(19 093)</u>	<u>2 938</u>	<u>1 457 274</u>

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
DECEMBER 31, 2007

	<u>Walnut Street Improvement Fund</u>	<u>Steinberg Park Fund</u>	<u>Total</u>
<u>Assets</u>			
Accounts receivable	44 668	_____	44 668
Total Assets	<u>44 668</u>	<u>_____</u>	<u>44 668</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	17 392	70	17 462
Due to other funds	<u>27 276</u>	<u>56 728</u>	<u>84 004</u>
Total Liabilities	44 668	56 798	101 466
Fund balance			
Reserved (deficit) for projects	_____	<u>(56 798)</u>	<u>(56 798)</u>
Total Fund Balance	_____	<u>(56 798)</u>	<u>(56 798)</u>
Total Liabilities and Fund Balance	<u>44 668</u>	<u>_____</u>	<u>44 668</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Walnut Street Improvement Fund</u>	<u>Steinberg Park Fund</u>	<u>Total</u>
<u>Revenues</u>			
Taxes			
Special assessments			
Investment income		7 659	7 659
Miscellaneous			
Donations			
Total Revenues		7 659	7 659
<u>Expenditures</u>			
Capital Outlay	149 126	81 030	230 156
Total Expenditures	149 126	81 030	230 156
Excess of revenues over (under)			
Expenditures	(149 126)	(72 271)	(222 497)
<u>Other Financing Uses</u>			
Interfund transfer in	173 971		173 971
Interfund transfer out		(261 124)	(261 124)
Total Other Financing Uses	173 971	(261 124)	(87 153)
Net change in fund balance	24 845	(334 495)	(309 650)
Fund Balance (Deficit) - January 1	(24 845)	277 697	252 852
Fund Balance (Deficit) - December 31	<u>(56 798)</u>	<u>(56 798)</u>	<u>(56 798)</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the City of Blue Earth, Blue Earth, Minnesota, as of and for the year ended December 31, 2007 and have issued our report thereon dated June 16, 2008. 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 and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the Office of the State Auditor pursuant to Minnesota Statute 6.65.

Compliance

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

The Legal Compliance Audit Guide covers six main categories of compliance to be tested: Contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements and miscellaneous. Our study included all of the listed categories. The results of our tests indicate that for the items tested, the City of Blue Earth, Minnesota complied with the material terms and conditions of applicable legal provisions except for the fact that the banks board minutes on pledged collateral are not on file. With respect to items not tested, nothing came to our attention that caused us to believe that for the items not tested the City of Blue Earth, Blue Earth, Minnesota, was not in compliance with the material terms and conditions of applicable legal provisions.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the City of Blue Earth, Blue Earth, Minnesota as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in a separate management report dated June 16, 2008, we have not identified any significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described in the report is a material weakness.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

June 16, 2008

SCHEDULE OF FEDERAL EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Federal Agency</u>	<u>Program</u>
Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds.
Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds.
Department of Transportation	Airport Improvement Program
Environmental Protection Agency	Capitalization Grants for Clean Water State Revolving Funds.

Note 1. Basis of Presentation
The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Blue Earth and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

<u>CFDA No.</u>	<u>Contract No.</u>	<u>Amount Expended</u>
66.468	MPFA-06-0054-R-FY07	1 043 454
66.468	MPFA-06-0054-R-FY07	8 134
20.106	MPFA-06-0033-R-FY07	17 605
66.458	MPFA-06-0033-R-FY07	<u>460 758</u>
	Total	<u>1 529 951</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

Summary of Auditor Results

- 1) The auditors report expresses an unqualified opinion on the financial statements of City of Blue Earth.
- 2) No instances of significant deficiencies disclosed during the audit of the financial statements are reported.
- 3) No instances of noncompliance material to the financial statements of City of Blue Earth were disclosed during the audit.
- 4) No significant deficiencies in internal control over major federal awards program disclosed during the audit.
- 5) The auditors report on compliance for the major federal award programs for City of Blue Earth expresses an unqualified opinion on all major federal programs.
- 6) There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- 7) The program tested as major programs included Environmental Protection Agency CFDA #66.468 and CFDA #66.458.
- 8) The threshold for distinguishing Types A and B programs was 300 000.
- 9) City of Blue Earth was determined to be a high risk auditee.

Findings and Questioned Costs - None.

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
OF INTERNAL CONTROL OVER COMPLIANCE
WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Blue Earth, Minnesota with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2007. The City of Blue Earth, Minnesota's major federal program is identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Blue Earth, Minnesota's management. Our responsibility is to express an opinion on the City of Blue Earth, Minnesota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the City of Blue Earth, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Blue Earth, Minnesota's compliance with those requirements.

In our opinion, the City of Blue Earth, Minnesota complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the City of Blue Earth, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we consider the City of Blue Earth, Minnesota's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Blue Earth, Minnesota's internal control over compliance.

A control deficiency is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer

a federal program such that is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

June 16, 2008