

CITY OF BLUE EARTH, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

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YEAR ENDED DECEMBER 31, 2018**

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**CITY OF BLUE EARTH, MINNESOTA
OFFICIALS
DECEMBER 31, 2018**

CITY COUNCIL

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

ADMINISTRATION

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Blue Earth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Summary of Opinions

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

Basis for Qualified Opinion on Governmental Activities

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

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on Governmental Activities* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities opinion unit, as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer’s share of net pension liability, and the schedule of employer’s contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Honorable Mayor and City Council
City of Blue Earth

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Blue Earth, Minnesota's financial statements. The combining and individual fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2019, on our consideration of the City of Blue Earth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City of Blue Earth's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Blue Earth's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
July 1, 2019

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**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Cash and Investments	\$ 7,675,309	\$ 845,684	\$ 8,520,993	\$ 1,547,618
Restricted Cash and Investments:				
Economic Development	1,543	-	1,543	-
Customer Deposits	-	-	-	34,588
Receivables:				
Taxes	43,992	-	43,992	-
Special Assessments	2,501,156	97,254	2,598,410	55,346
Accounts	69,298	193,991	263,289	694,264
Interest	5,780	-	5,780	-
Notes	561,497	-	561,497	-
Due from Component Unit	25,891	-	25,891	-
Prepaid Items	37,880	8,541	46,421	130,876
Inventory	-	257,787	257,787	592,021
Land Held for Resale	299,921	-	299,921	-
Other Assets	-	-	-	25,509
Capital Assets:				
Land and Construction in Progress	4,555,896	7,374,799	11,930,695	140,526
Other Capital Assets, Net of Depreciation	30,299,336	8,715,923	39,015,259	16,429,140
Total Assets	<u>46,077,499</u>	<u>17,493,979</u>	<u>63,571,478</u>	<u>19,649,888</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	533,809	58,210	592,019	239,028
OPEB Related	-	-	-	56,367
Total Deferred Outflows of Resources	<u>533,809</u>	<u>58,210</u>	<u>592,019</u>	<u>295,395</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2018**

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
CURRENT LIABILITIES				
Accounts Payable	\$ 574,586	\$ 299,462	\$ 874,048	\$ 231,409
Other Payables	-	-	-	14,283
Accrued Vacation and Sick Leave	-	-	-	104,551
Accrued Salaries and Wages	33,471	17,958	51,429	33,102
Unearned Revenue	-	-	-	395,094
Interest Payable	196,166	51,217	247,383	44,694
Total Current Liabilities	<u>804,223</u>	<u>368,637</u>	<u>1,172,860</u>	<u>823,133</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Customer Deposits Payable	-	-	-	34,588
NONCURRENT LIABILITIES				
Net Pension Liability	830,615	306,588	1,137,203	765,567
Post Employment Benefit	-	-	-	297,625
Due Within One Year	1,232,297	896,626	2,128,923	624,071
Due in More Than One Year	16,000,172	8,979,050	24,979,222	4,177,667
Total Noncurrent Liabilities	<u>18,063,084</u>	<u>10,182,264</u>	<u>28,245,348</u>	<u>5,864,930</u>
Total Liabilities	18,867,307	10,550,901	29,418,208	6,722,651
DEFERRED INFLOWS OF RESOURCES				
Pension Related	<u>730,617</u>	<u>78,066</u>	<u>808,683</u>	<u>291,279</u>
NET POSITION				
Net Investment in Capital Assets	19,322,759	6,232,150	25,554,909	11,774,802
Restricted:				
Debt Service	5,112,968	-	5,112,968	-
Other Purposes	1,640,797	-	1,640,797	34,588
Unrestricted	<u>936,860</u>	<u>691,072</u>	<u>1,627,932</u>	<u>1,121,963</u>
Total Net Position	<u>\$ 27,013,384</u>	<u>\$ 6,923,222</u>	<u>\$ 33,936,606</u>	<u>\$ 12,931,353</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Functional/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			Component Unit Business-Type Activities
					Primary Government			
					Governmental Activities	Business-Type Activities	Totals	
PRIMARY GOVERNMENT								
Governmental Activities:								
General Government	\$ 392,146	\$ 106,787	\$ -	\$ -	\$ (285,359)	\$ -	\$ (285,359)	
Public Safety	957,017	47,088	73,565	-	(836,364)	-	(836,364)	
Streets and Highways	1,077,802	164,078	78,235	347,305	(488,184)	-	(488,184)	
Culture and Recreation	408,691	52,818	-	294,000	(61,873)	-	(61,873)	
Housing and Economic Development	916,064	36,479	-	-	(879,585)	-	(879,585)	
Interest and Other Charges on Long-Term Debt	483,304	-	-	-	(483,304)	-	(483,304)	
Total Governmental Activities	4,235,024	407,250	151,800	641,305	(3,034,669)	-	(3,034,669)	
Business-Type Activities:								
Sewer	884,851	1,184,908	-	-	-	300,057	300,057	
Liquor	1,538,195	1,615,342	-	-	-	77,147	77,147	
Fitness Center	161,240	217,771	-	-	-	56,531	56,531	
Total Business-Type Activities	2,584,286	3,018,021	-	-	-	433,735	433,735	
Total Primary Government	\$ 6,819,310	\$ 3,425,271	\$ 151,800	\$ 641,305	(3,034,669)	433,735	(2,600,934)	
Component Unit:								
Electric	\$ 6,005,614	\$ 6,159,929	\$ -					\$ 154,315
Water	934,566	980,372	66,933					112,739
Total Component Unit	\$ 6,940,180	\$ 7,140,301	\$ 66,933					267,054
GENERAL REVENUES								
Taxes:								
Property Taxes					936,990	-	936,990	-
Special Assessments					636,389	-	636,389	-
State Aid					2,080,692	-	2,080,692	-
Franchise Tax					242,337	-	242,337	-
Fees and Fines					1,350	-	1,350	-
License and Permits					56,325	-	56,325	-
Donations					7,509	-	7,509	-
Earnings on Investments					121,233	28,742	149,975	85,281
Lease Payments					296,126	-	296,126	2,608
Miscellaneous					109,315	2,981	112,296	48,536
Transfers					300,000	(300,000)	-	-
Total General Revenue and Transfers					4,788,266	(268,277)	4,519,989	136,425
CHANGE IN NET POSITION					1,753,597	165,458	1,919,055	403,479
Net Position – Beginning of Year					25,259,787	6,757,764	32,017,551	12,527,874
NET POSITION – END OF YEAR					\$ 27,013,384	\$ 6,923,222	\$ 33,936,606	\$ 12,931,353

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Investments	\$ 2,884,958	\$ 339,322	\$ -	\$ 1,043,255	\$ 204,185	\$ 3,203,589	\$ 7,675,309
Restricted Cash for Economic Development	-	1,543	-	-	-	-	1,543
Receivables:							
Taxes	18,172	2,215	16	-	1,797	21,792	43,992
Special Assessments	127,833	-	-	-	843,771	1,529,552	2,501,156
Interest	5,780	-	-	-	-	-	5,780
Accounts	58,845	22,588	13,037	-	-	719	95,189
Notes	-	199,298	-	-	-	362,199	561,497
Due from Other Funds	221,612	-	-	-	-	-	221,612
Land Held for Resale	-	185,420	-	-	-	114,501	299,921
Prepaid Items	26,214	1,003	10,663	-	-	-	37,880
	<u>\$ 3,343,414</u>	<u>\$ 751,389</u>	<u>\$ 23,716</u>	<u>\$ 1,043,255</u>	<u>\$ 1,049,753</u>	<u>\$ 5,232,352</u>	<u>\$ 11,443,879</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 320,153	\$ 87,402	\$ 3,265	\$ 163,266	\$ -	\$ 500	\$ 574,586
Accrued Salaries and Wages	31,405	1,791	-	-	-	275	33,471
Due to Other Funds	-	-	221,612	-	-	-	221,612
Total Liabilities	<u>351,558</u>	<u>89,193</u>	<u>224,877</u>	<u>163,266</u>	<u>-</u>	<u>775</u>	<u>829,669</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue	146,005	201,513	16	-	845,568	1,913,543	3,106,645
FUND BALANCES							
Nonspendable	26,214	186,423	10,663	-	-	114,501	337,801
Restricted	-	274,260	-	879,989	204,185	3,209,940	4,568,374
Assigned	903,022	-	-	-	-	-	903,022
Unassigned	1,916,615	-	(211,840)	-	-	(6,407)	1,698,368
Total Fund Balances	<u>2,845,851</u>	<u>460,683</u>	<u>(201,177)</u>	<u>879,989</u>	<u>204,185</u>	<u>3,318,034</u>	<u>7,507,565</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,343,414</u>	<u>\$ 751,389</u>	<u>\$ 23,716</u>	<u>\$ 1,043,255</u>	<u>\$ 1,049,753</u>	<u>\$ 5,232,352</u>	<u>\$ 11,443,879</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balances for Governmental Funds \$ 7,507,565

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds. 34,855,232

Some of the City's receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows in the funds. 3,106,645

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (196,166)

Deferred outflows and inflows of resources related to pensions are applicable to future periods, and therefore are not reported in the governmental funds. (196,808)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year-end are:

General Obligation Bonds Payable	\$ (16,873,856)	
Net Pension Liability	(830,615)	
Unamortized Bond Premium	(186,504)	
Compensated Absence Payable	(61,088)	
Note Payable	(111,021)	
		(18,063,084)

Total Net Position for Governmental Activities \$ 27,013,384

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property Taxes	\$ 596,331	\$ 79,843	\$ 5	\$ -	\$ 54,772	\$ 762,010	\$ 1,492,961
Franchise Taxes	242,337	-	-	-	-	-	242,337
Special Assessments	11,124	-	-	-	123,277	503,088	637,489
Fees and Fines	1,350	-	-	-	-	-	1,350
Licenses and Permits	56,325	-	-	-	-	-	56,325
Intergovernmental	2,087,915	340,342	425,540	-	-	-	2,853,797
Charges for Services	282,553	36,479	88,718	-	-	-	407,750
Interest Earnings	40,591	14,597	-	24,078	846	46,610	126,722
Rent Payments	20,904	271,293	-	-	-	-	292,197
Donations	7,509	-	-	-	-	-	7,509
Miscellaneous	73,579	22,034	-	-	-	32,890	128,503
Total Revenues	<u>3,420,518</u>	<u>764,588</u>	<u>514,263</u>	<u>24,078</u>	<u>178,895</u>	<u>1,344,598</u>	<u>6,246,940</u>
EXPENDITURES							
Current:							
General Government	424,747	-	-	-	-	-	424,747
Public Safety	803,826	-	-	-	-	-	803,826
Capital Outlay	213,707	-	-	-	-	-	213,707
Public Works	1,155,218	-	-	-	-	-	1,155,218
Capital Outlay	865,950	-	-	2,594,757	-	-	3,460,707
Culture and Recreation	424,478	-	-	-	-	-	424,478
Capital Outlay	6,534	-	-	-	-	-	6,534
Economic Development	-	613,085	-	-	-	18,426	631,511
Capital Outlay	-	1,015,999	-	-	-	91,105	1,107,104
Storm Water	28,431	-	-	-	-	-	28,431
Airport	-	-	95,482	-	-	-	95,482
Capital Outlay	-	-	68,808	-	-	-	68,808
Miscellaneous	113,629	-	-	-	557	73,296	187,482
Debt Services:							
Principal	13,524	-	-	-	160,160	972,899	1,146,583
Bond Issuance Costs	27,374	-	-	36,100	500	16,798	80,772
Interest and Other Charges	-	-	-	-	64,719	251,859	316,578
Total Expenditures	<u>4,077,418</u>	<u>1,629,084</u>	<u>164,290</u>	<u>2,630,857</u>	<u>225,936</u>	<u>1,424,383</u>	<u>10,151,968</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(656,900)	(864,496)	349,973	(2,606,779)	(47,041)	(79,785)	(3,905,028)
OTHER FINANCING SOURCES (USES)							
Sale of Assets	886	-	-	-	-	2,796	3,682
Bond Premium	-	-	-	19,383	-	-	19,383
Proceeds from Bond Issuance	1,000,000	-	-	2,976,326	-	108,674	4,085,000
Transfers In	120,000	200,000	-	-	80,000	350,103	750,103
Transfers Out	(379,000)	(71,103)	-	-	-	-	(450,103)
Total Other Financing Sources (Uses)	<u>741,886</u>	<u>128,897</u>	<u>-</u>	<u>2,995,709</u>	<u>80,000</u>	<u>461,573</u>	<u>4,408,065</u>
NET CHANGE IN FUND BALANCES	84,986	(735,599)	349,973	388,930	32,959	381,788	503,037
Fund Balances	<u>2,760,865</u>	<u>1,196,282</u>	<u>(551,150)</u>	<u>491,059</u>	<u>171,226</u>	<u>2,936,246</u>	<u>7,004,528</u>
FUNDS BALANCES – END OF YEAR	<u>\$ 2,845,851</u>	<u>\$ 460,683</u>	<u>\$ (201,177)</u>	<u>\$ 879,989</u>	<u>\$ 204,185</u>	<u>\$ 3,318,034</u>	<u>\$ 7,507,565</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Total Net Changes in Fund Balances – Governmental Funds	\$ 503,037
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	6,100,309
Depreciation Expense	(1,358,913)
In governmental funds, issuance of new debt is reported as a source of financing in the amount of proceeds received. However, in the statement of activities, a new debt issuance is not revenue, rather it constitutes a long-term liability in the statement of net position.	
Proceeds from Bond Issuance	(4,085,000)
Bond Premium	(19,383)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.	
	14,891
Because some revenues will not be collected for several months after the City's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds.	
	(556,512)
The governmental funds report repayment of long-term debt principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability.	
	1,141,524
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
	(11,168)
In the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	
	79,177
Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due.	
	(54,365)
Change in Net Position of Governmental Activities	\$ 1,753,597

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	Sewer	Liquor	Fitness Center	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 42,818	\$ 350,775	\$ 452,091	\$ 845,684
Receivables:				
Special Assessments	97,254	-	-	97,254
Accounts	193,465	526	-	193,991
Prepaid Items	4,896	2,591	1,054	8,541
Inventory	-	257,787	-	257,787
Total Current Assets	<u>338,433</u>	<u>611,679</u>	<u>453,145</u>	<u>1,403,257</u>
Noncurrent Assets:				
Capital Assets Not Being Depreciated:				
Land	119,035	100,000	-	219,035
Construction in Progress	7,155,764	-	-	7,155,764
Capital Assets, Net of Accumulated Depreciation:				
Buildings and Infrastructure	3,847,335	364,920	623,145	4,835,400
Equipment	3,890,868	9,348	(19,693)	3,880,523
Total Noncurrent Assets	<u>15,013,002</u>	<u>474,268</u>	<u>603,452</u>	<u>16,090,722</u>
Total Assets	15,351,435	1,085,947	1,056,597	17,493,979
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plans	27,534	24,592	6,084	58,210
LIABILITIES				
Current Liabilities:				
Accounts Payable	191,784	102,348	5,330	299,462
Accrued Salaries and Wages	20,667	17,765	6,152	44,584
Bonds Payable – Current	845,000	-	25,000	870,000
Interest Payable	46,921	-	4,296	51,217
Total Current Liabilities	<u>1,104,372</u>	<u>120,113</u>	<u>40,778</u>	<u>1,265,263</u>
NONCURRENT LIABILITIES				
Net Pension Liability	145,020	129,522	32,046	306,588
Bonds Payable	8,619,528	-	359,522	8,979,050
Total Noncurrent Liabilities	<u>8,764,548</u>	<u>129,522</u>	<u>391,568</u>	<u>9,285,638</u>
Total Liabilities	9,868,920	249,635	432,346	10,550,901
DEFERRED INFLOWS OF RESOURCES				
Pension Plans	36,926	32,980	8,160	78,066
NET POSITION				
Net Investment in Capital Assets	5,548,474	474,268	209,408	6,232,150
Unrestricted	(75,351)	353,656	412,767	691,072
Total Net Position	<u>\$ 5,473,123</u>	<u>\$ 827,924</u>	<u>\$ 622,175</u>	<u>\$ 6,923,222</u>

See accompanying Notes to Financial Statements.

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Sewer	Liquor	Fitness Center	Total
OPERATING REVENUES				
Service and Fees	\$ 1,187,281	\$ -	\$ 217,771	\$ 1,405,052
Sales	-	1,615,342	-	1,615,342
Total Operating Revenues	<u>1,187,281</u>	<u>1,615,342</u>	<u>217,771</u>	<u>3,020,394</u>
OPERATING EXPENSES				
Salaries and Benefits	216,070	235,357	67,684	519,111
Costs of Goods Sold	-	1,202,452	-	1,202,452
Supplies	37,922	3,807	8,518	50,247
Utilities	119,467	19,278	19,657	158,402
Other Services and Charges	41,645	5,904	4,141	51,690
Repairs and Maintenance	26,328	5,565	4,015	35,908
Depreciation	302,958	20,648	37,239	360,845
Miscellaneous	35,646	45,184	10,408	91,238
Total Operating Expenses	<u>780,036</u>	<u>1,538,195</u>	<u>151,662</u>	<u>2,469,893</u>
OPERATING INCOME	407,245	77,147	66,109	550,501
NONOPERATING REVENUES (EXPENSES)				
Refunds and Reimbursements	(2,335)	-	-	(2,335)
Interest and Investment Revenue	7,285	12,758	8,699	28,742
Amortization Expense	-	-	866	866
Interest Expense	(104,815)	-	(10,444)	(115,259)
Miscellaneous Revenue	2,943	-	-	2,943
Total Nonoperating Revenues (Expenses)	<u>(96,922)</u>	<u>12,758</u>	<u>(879)</u>	<u>(85,043)</u>
INCOME BEFORE TRANSFERS	310,323	89,905	65,230	465,458
TRANSFERS				
Transfers In	50,000	-	-	50,000
Transfers Out	(30,000)	(320,000)	-	(350,000)
Net Transfers	<u>20,000</u>	<u>(320,000)</u>	<u>-</u>	<u>(300,000)</u>
CHANGE IN NET POSITION	330,323	(230,095)	65,230	165,458
Net Position – Beginning of Year	<u>5,142,800</u>	<u>1,058,019</u>	<u>556,945</u>	<u>6,757,764</u>
NET POSITION – END OF YEAR	<u>\$ 5,473,123</u>	<u>\$ 827,924</u>	<u>\$ 622,175</u>	<u>\$ 6,923,222</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Sewer	Liquor	Fitness Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,173,922	\$ 1,616,092	\$ 217,771	\$ 3,007,785
Payments to Employees	(763,281)	(237,497)	(51,088)	(1,051,866)
Payments to Suppliers	(243,822)	(1,308,976)	(65,294)	(1,618,092)
Net Cash Provided by Operating Activities	166,819	69,619	101,389	337,827
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Receipts	5,316	-	-	5,316
Transfers (In) Out	(413,506)	(320,000)	-	(733,506)
Net Cash Provided (Used) by Noncapital Financing Activities	(408,190)	(320,000)	-	(728,190)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Issuance of long-term debt	6,561,738	-	-	6,561,738
Payments on Long-Term Debt	(653,210)	-	(25,000)	(678,210)
Purchase of Capital Assets	(5,551,416)	(2,339)	(19,874)	(5,573,629)
Interest Paid on Debt	(77,873)	-	(10,650)	(88,523)
Refunds and Reimbursements	(2,335)	-	-	(2,335)
Net Cash Provided (Used) by Capital and Related Financing Activities	276,904	(2,339)	(55,524)	219,041
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on Investments and Cash	7,285	12,758	8,699	28,742
NET CHANGE IN CASH AND CASH EQUIVALENTS	42,818	(239,962)	54,564	(142,580)
Cash and Cash Equivalents – Beginning of Year	-	590,737	397,527	988,264
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 42,818</u>	<u>\$ 350,775</u>	<u>\$ 452,091</u>	<u>\$ 845,684</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income	\$ 407,245	\$ 77,147	\$ 66,109	\$ 550,501
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	302,958	20,648	37,239	360,845
Deferred Outflows – Pension	20,360	12,158	2,237	34,755
Net Pension Liabilities	(39,913)	(12,381)	(85)	(52,379)
Deferred Inflows – Pension	(11,211)	(3,957)	(203)	(15,371)
Changes in Assets and Liabilities:				
Accounts Receivable	(13,359)	750	-	(12,609)
Inventory	-	8,504	-	8,504
Prepaid Items	78	41	1	120
Accounts Payable	(502,351)	(35,331)	(4,350)	(542,032)
Accrued Expense	3,012	2,040	441	5,493
Net Cash Provided (Used) by Operating Activities	<u>\$ 166,819</u>	<u>\$ 69,619</u>	<u>\$ 101,389</u>	<u>\$ 337,827</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Component Unit

In conformity with generally accepted accounting principles, the financial statements also include the City's component unit, the Blue Earth Board of Public Works which is also a calendar year-end. The Board of Public Works financial statements are included in the City's reporting entity discretely because of the significance of its operational relationship with the City. Separate financial statements are issued for the Blue Earth Board of Public Works and the complete audited financial statements may be obtained by contacting the City of Blue Earth.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government reports the following major governmental funds:

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

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

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

The *Capital Projects Fund* accounts for the resources used in the construction of street improvement projects.

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

The government reports the following major proprietary funds:

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

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

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

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Cash and Investments

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

Restricted Cash and Investments

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

Receivables and Payables

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

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

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Receivables and Payables (Continued)

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

Interfund Receivables/Payables

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

Inventories and Prepaid Items

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

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

Land Held for Resale

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year an initial, individual cost of more than \$30,000 for buildings; \$25,000 for building improvements; \$100,000 for infrastructure; \$5,000 for machinery, equipment and vehicles; \$10,000 for land/land improvements (\$1,000 and an estimated life in excess of five years for Blue Earth Board of Public Works). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets (Continued)

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

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

Primary Government:

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

Component Unit:

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Vacation, Sick Leave, and Compensated Absences

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

Long-Term Obligations

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

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

Pensions

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

Interfund Transactions

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Position

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

Fund Balance

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

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

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

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

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Balance (Continued)

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

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year-end. The actual revenues, expenditures, and transfers for the year ended December 31, 2018, have been compared to the City's budget for the year where applicable. Variances which are in parentheses indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgetary Information (Continued)

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

Expenditures Over Budget

For the year ended December 31, 2018, expenditures exceeded budget in the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source to Cover Excess Expenditures</u>
General Fund	\$ 937,226	Proceeds from G.O. Improvement bonds of 2018, Series A were used to cover these expenditures which had not been budgeted for because intent was to offset against loan proceeds.
Special Revenue Funds: EDA	1,308,530	Greater than Anticipated Revenues and Available Fund Balance covered these expenditures that were not budgeted for in current year
Airport	83,090	Federal Airport Improvement Grant covered these expenditures that were more than budgeted.

Deficit Fund Equity

The following governmental funds had deficit fund equity at December 31, 2018:

Special Revenue Fund:	
Airport	\$ (201,177)
Debt Service Fund:	
TIF 8-1	(6,407)
Total	<u>\$ (207,584)</u>

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Cash and Investments

Cash

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

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

Custodial Credit Risk–Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2018, none of the City’s bank balances were exposed to custodial credit risk.

Investments

As of December 31, 2018, the City had the following investments:

Investment Type	Level 1	Level 2	Level 3	Total
Federal Home Loan Bank	\$ -	\$ 168,285	\$ -	\$ 168,285
Total Fair Value	\$ -	\$ 168,285	\$ -	\$ 168,285

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Cash and Investments (Continued)

Investments (Continued)

Credit Risk. The City may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds are invested in accordance with Minnesota Statute. The City has no investment policy that would further limit its investment choices. As of December 31, 2018, the City's Federal Home Loan Bank investments were rated AAA and the City's municipal bond investments were rated AA1 and AAA by Moody's.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. More than 5% of the City's investments are in Federal Home Loan Bank (54%), and in municipal bonds issued by Linn County Iowa (24%) and Lakeville, Minnesota G.O Bonds (18%).

Custodial Credit Risk—Investments. For an investment, this is the risk that, in the event of a failure of the counter party, the City will not be able to recover its investment. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have an investment policy for custodial credit risk. As of December 31, 2018, none of the City's investments were exposed to custodial credit risk.

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

Cash	\$ 7,353,379
Investments	168,285
Certificates of Deposits	1,000,872
Total Cash and Investments	<u>\$ 8,522,536</u>
Cash and Investments	\$ 8,520,993
Restricted Cash and Investments	1,543
Total Cash and Investments	<u>\$ 8,522,536</u>

Receivables

The City's Housing Loan fund had notes receivable of \$362,199 at year-end. A balance of \$80,686 represents Housing and Urban Development (HUD) loans due in monthly installments with a rate of interest at 3.25%. All loans are secured by City liens. The remaining balances of \$281,513 represents deferred HUD loans with no interest charged with payments due when the owner sells, transfers, or otherwise conveys the real estate. If the owner does not sell, transfer, or convey the property within 10 or 15 years, depending upon the individual loan agreements the owner shall not have to repay any portion of the grant. Any potential repayment on the loans shall be made on a prorated basis. These loans are secured by liens on the property.

The City's EDA fund had notes receivable of \$199,298 at year-end. Of this amount, \$162,757 represents loans due from businesses in monthly installments with rates of interest ranging from 4.0% to 5.5%. The remaining \$36,541 is for forgivable deferred loans with no interest charged. If the properties are not sold or transferred within the time period of the agreement, the balances will be forgiven. These loans are secured by property.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Capital Assets

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

General Government	\$ 3,674
Public Safety	137,697
Public Works	788,757
Airport	261,101
Culture and Recreation	114,577
Housing and Economic Development	53,107
Total Depreciation Expense	<u>\$ 1,358,913</u>

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 695,577	\$ 29,143	\$ -	\$ 724,720
Construction in Progress	798,683	4,515,720	1,483,227	3,831,176
Total Capital Assets, Not Being Depreciated	1,494,260	4,544,863	1,483,227	4,555,896
Capital Assets Being Depreciated:				
Buildings	7,886,958	1,604,900	-	9,491,858
Road Network	33,593,281	1,186,192	-	34,779,473
Equipment	2,160,558	218,852	-	2,379,410
Vehicles	1,820,385	28,729	7,250	1,841,864
Total Capital Assets Being Depreciated	45,461,182	3,038,673	7,250	48,492,605
Less: Accumulated Depreciation for:				
Buildings	2,870,438	218,586	-	3,089,024
Road Network	11,915,485	940,302	-	12,855,787
Equipment	1,134,886	98,100	-	1,232,986
Vehicles	920,797	101,925	7,250	1,015,472
Total Accumulated Depreciation	16,841,606	1,358,913	7,250	18,193,269
Total Capital Assets Being Depreciated, Net	28,619,576	1,679,760	-	30,299,336
Governmental Activities Capital Assets, Net	<u>\$ 30,113,836</u>	<u>\$ 6,224,623</u>	<u>\$ 1,483,227</u>	<u>\$ 34,855,232</u>

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

Sewer	\$ 302,958
Fitness Center	37,239
Liquor	20,648
Total Depreciation Expense	<u>\$ 360,845</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 219,035	\$ -	\$ -	\$ 219,035
Construction in Progress	1,627,935	5,527,829	-	7,155,764
Total Capital Assets, Not Being Depreciated	1,846,970	5,527,829	-	7,374,799
Capital Assets Being Depreciated:				
Buildings and Infrastructure	10,149,607	-	-	10,149,607
Equipment	5,786,792	45,800	-	5,832,592
Total Capital Assets Being Depreciated	15,936,399	45,800	-	15,982,199
Less: Accumulated Depreciation for:				
Buildings and Infrastructure	5,522,551	199,518	-	5,722,069
Equipment	1,382,880	161,327	-	1,544,207
Total Accumulated Depreciation	6,905,431	360,845	-	7,266,276
Total Capital Assets Being Depreciated, Net	9,030,968	(315,045)	-	8,715,923
Governmental Activities Capital Assets, Net	<u>\$ 10,877,938</u>	<u>\$ 5,212,784</u>	<u>\$ -</u>	<u>\$ 16,090,722</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Component Unit				
Capital Assets Not Being Depreciated:				
Land	\$ 240,526	\$ -	\$ 100,000	\$ 140,526
Capital Assets Being Depreciated:				
Production Equipment	5,594,605	71,821	-	5,666,426
Transmission Equipment	2,538,225	33,321	-	2,571,546
Distribution Equipment	20,733,128	915,881	2,815,612	18,833,397
General Equipment	1,981,577	2,583,560	-	4,565,137
Total Capital Assets Being Depreciated	30,847,535	3,604,583	2,815,612	31,636,506
Less: Accumulated Depreciation for:				
Production Equipment	3,021,654	199,170	-	3,220,824
Transmission Equipment	2,111,440	27,036	-	2,138,476
Distribution Equipment	8,751,733	511,954	1,835,218	7,428,469
General Equipment	769,053	1,650,544	-	2,419,597
Total Accumulated Depreciation	14,653,880	2,388,704	1,835,218	15,207,366
Total Capital Assets Being Depreciated, Net	16,193,655	1,215,879	980,394	16,429,140
Governmental Activities Capital Assets, Net	<u>\$ 16,434,181</u>	<u>\$ 1,215,879</u>	<u>\$ 1,080,394</u>	<u>\$ 16,569,666</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Long-Term Debt

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

<u>General Obligation Notes and Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
G.O. Improvement Bonds of 2016, Series A of \$2,102,025, due in annual installments of \$118,015 to \$159,490 through February 1, 2032. This is the City's share of the bonds with the component unit.	2.0% to 2.2%	\$ 1,984,010
G.O. Bonds of 2009, Series A of \$1,630,000 due in annual installments of \$115,000 to \$155,000 through February 1, 2022.	1.3% to 3.8%	505,000
G.O. Bonds of 2010, Series A of \$2,140,000 due in annual installment of \$80,140 to \$109,685 through February 1, 2026. This is the City's share of the bonds with the component unit.	0.7% to 3.5%	780,725
G.O. Refinancing Bonds of 2011, Series A of \$1,440,000 due in annual installments of \$34,558 to \$74,557 through April 1, 2020. this is the City's share of the bonds with the component unit.	3.0% to 4.8%	72,955
G.O. Improvement Bonds of 2012, Series A of \$2,395,000, due in annual installments of \$118,380 to \$160,659 through February 1, 2028. This is the City's share of the bonds with the component unit.	2.0% to 2.7%	1,872,880
G.O. Refinancing Bonds of 2012, Series A, of \$1,560,000, due in annual installments of \$50,000 to \$190,000 through February 1, 2028.	2.0% to 2.7%	1,130,000
G.O. Refunding Bonds of 2013, Series A, of \$990,000, due in annual installments of \$65,000 to \$85,000 through February 1, 2027.	0.6% to 2.5%	660,000
G.O. Improvement Bonds of 2013, Series B, of \$1,800,000 due in annual installments of \$55,250 to \$110,500 through February 1, 2029.	2.3% to 3.8%	1,041,250
G.O. Equipment Certificate Bonds of 2013, Series B, of \$235,000, due in annual installments of \$45,000 to \$50,000 through February 1, 2019.	3.0%	50,000

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Long-Term Debt (Continued)

<u>General Obligation (Continued)</u> <u>Notes and Bond Issue and Purpose (Continued)</u>	<u>Interest Rates</u>	<u>Amounts</u>
G.O. Improvement Bonds of 2014, Series A, of \$3,765,000, due in annual installments of \$152,880 to \$222,040 through February 1, 2030. This is the City's share of the bonds with the component unit.	2.0% to 3.0%	\$ 2,271,360
G.O. Improvement Bonds of 2015, Series A, of \$3,204,500 due in annual installments of \$140,250 to \$263,000 through February 1, 2031. This is the City's share of the bonds with the component unit.	3.0%	2,885,676
G.O. Tax Abatement Bonds of 2014, Series A, of \$450,000, due in annual installments of \$25,000 to \$35,000 through February 1, 2030.	2.0% to 3.0%	375,000
Note Payable with the Minnesota Public Facilities Authority of \$760,000, due in annual installments of \$39,000 to \$45,000 through August 20, 2026.	1.4%	346,000
Note Payable with the Minnesota Public Facilities Authority of \$741,656, due in annual installments of \$31,000 to \$44,000 through August 20, 2029.	2.6%	426,000
Note Payable with the Minnesota Public Facilities Authority of \$1,987,000, due in annual installments of \$111,000 to \$129,000 through August 20, 2025.	1.5%	863,000
Note Payable with the Minnesota Public Facilities Authority of \$590,000, due in annual installments of \$36,000 to \$42,000 through August 20, 2026.	2.6%	318,000
Notes Payable with the Minnesota Public Facilities Authority of \$394,873, due in annual installments of \$11,120 to \$30,000 through August 20, 2028.	1.2%	272,000
Note Payable with the Minnesota Public Facilities Authority of \$3,290,170, due in annual installments of \$182,000, \$194,000 through August 20, 2020.	1.3%	385,000
USDA Promissory Note of \$180,000, due in annual installments of \$2,544 to \$13,100 through February 26, 2029.	4.0%	111,021
G.O. Improvement Bonds of 2018, Series A, of \$4,085,000 due in annual installments of \$60,000 to \$305,000 through February 1, 2039.	3.0% to 3.50%	4,085,000
Note Payable with Minnesota Public Facilities Authority of \$6,561,738, due in annual installments of \$352,000 to \$442,000 through August 20, 2037.	1.2% to 2.6%	6,389,528
Total General Obligations Bond and Notes Payable		<u>\$ 26,824,405</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Long-Term Debt (Continued)

Discretely Presented Component Unit
General Obligation
Notes and Bond Issue and Purpose

<u>Notes and Bond Issue and Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
<u>Electric Fund</u>		
\$479,966 Master Tax Exempt Lease of 2015, due in monthly installments of \$8,421. The purpose of this issue was to improve the Electric infrastructure.	2.04%	\$ 140,218
\$280,363 Master Tax Exempt Lease of 2016, due in monthly installments of \$4,931. The purpose of this issue was to improve the Electric infrastructure.	2.12%	135,369
\$316,096 Master Tax Exempt Lease of 2017, due in monthly installments of \$5,574. The purpose of this issue was to improve the Electric infrastructure.	2.24%	<u>240,630</u>
Total Electric Fund		516,217
<u>Water Fund</u>		
\$47,233 Master Tax Exempt Lease of 2017, due in monthly installments of \$833. The purpose of this issue was to improve the water infrastructure.	2.24%	35,956
\$170,394 Master Tax Exempt Lease of 2015, due in monthly installments of \$2,990. The purpose of this issue was to improve the water infrastructure.	2.04%	50,828
G.O. Bonds of 2010, Series A of \$2,140,000 due in annual installment of \$80,140 to \$109,685 through February 1, 2026. This is the component unit's share of the bonds with the City.	0.7% to 3.5%	359,275
G.O. Improvement Bonds of 2014, Series A, of \$3,765,000, due in annual installments of \$57,120 to \$82,960 through February 1, 2030. This is the component unit's share of the bonds with the City.	2.0% to 3.0%	848,640
G.O. Refinancing Bonds of 2011, Series of \$370,000 due in annual installments of \$6,962 to \$11,603 through April 1, 2020. this is the component unit's share of the bonds with the City.	3.0% to 4.8%	22,045
G.O. Revenue Note of 2007, Series A of \$324,500 due in annual installments of \$6,500 to \$21,000 through August 20, 2026. The purpose of this issue was for the south watermain improvement project.	2.57%	142,000
G.O. Revenue Note of 2007, \$1,174,600 due in annual installments of \$29,600 to \$77,000 through August 20, 2026. The purpose of this issue was to construct a new water tower.	2.40%	569,000

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Long-Term Debt (Continued)

Discretely Presented Component Unit
General Obligation (Continued)

Notes and Bond Issue and Purpose (Continued)

	<u>Interest Rates</u>	<u>Amounts</u>
G.O. Revenue Note of 2012, Series A of \$2,395,000 due in annual installments of \$21,620 to \$29,340 through February 1, 2028. The purpose of this issue was to fund 10th Street and Galbraith Street improvements.	2.65%	\$ 257,120
G.O. Refinancing Bonds of 2012, Series A, of \$1,560,000, due in annual installments of \$9,750 to \$19,500 through February 1, 2028.	2.0% to 2.7%	183,750
G.O. Improvement Bonds of 2015, Series A, of \$3,770,000 due in annual installments of \$24,718 to \$46,441 through February 1, 2031. This is the component unit's share of the bonds with the City.	3.0%	508,598
\$63,783 Master Tax Exempt Lease of 2016, due in monthly installments of \$1,119. The purpose of this issue was to improve the water infrastructure.	2.12%	29,772
G.O. Improvement Bonds of 2016, Series A, of \$1,475,000 due in annual installments of \$11,985 to \$15,510 through February 1, 2032. This is the component unit's share of the bonds with the City.	2.0% to 2.2%	195,990
G.O. Improvement Bonds of 2018, Series A, of \$3,085,000 due in annual installments of \$39,196 to \$59,074 through February 1, 2039. This is the component unit's share of the bonds with the City.	3.0%	725,672
G.O. Revenue Note of 2016, of \$404,000 due in annual installments of \$20,000 to \$43,000 through February 1, 2027. The purpose of this issue was to improve the water infrastructure.	2.5%	350,000
Total Water Fund		<u>4,278,646</u>
Total Discretely Presented Component Unit General Obligation Bonds and Lease Payable		<u>\$ 4,794,863</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Long-Term Debt (Continued)

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

Year Ending December 31,	Governmental Activities		Business-Type Activities		Discretely Presented Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,171,210	\$ 457,577	\$ 870,000	\$ 178,781	\$ 624,071	\$ 122,044
2020	1,339,106	422,182	887,000	144,720	595,356	106,706
2021	1,342,299	388,599	700,000	132,082	443,848	94,409
2022	1,383,599	352,828	710,000	121,690	411,225	83,361
2023	1,270,417	317,137	720,000	110,982	362,574	73,515
2024-2028	6,519,857	1,039,292	3,181,000	393,730	1,650,132	215,728
2029-2033	3,344,150	294,188	2,165,000	193,029	648,584	45,421
2034-2038	549,239	42,319	606,528	55,679	59,075	959
2039	65,000	1,138	-	-	-	-
Total	<u>\$ 16,984,877</u>	<u>\$ 3,315,260</u>	<u>\$ 9,839,528</u>	<u>\$ 1,330,693</u>	<u>\$ 4,794,865</u>	<u>\$ 742,143</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 13,921,915	\$ 4,085,000	\$ 1,133,059	\$ 16,873,856	\$ 1,162,367
Bond Premium	182,012	19,383	14,891	186,504	-
Total Bonds Payable	<u>14,103,927</u>	<u>4,104,383</u>	<u>1,147,950</u>	<u>17,060,360</u>	<u>1,162,367</u>
Note Payable	119,486	-	8,465	111,021	8,843
Compensated Absences	49,920	65,264	54,096	61,088	61,088
Governmental Activities Long-Term Liabilities	<u>\$ 14,273,333</u>	<u>\$ 4,169,647</u>	<u>\$ 1,210,511</u>	<u>\$ 17,232,469</u>	<u>\$ 1,232,298</u>
Business-Type Activities					
Bonds Payable:					
G.O. Revenue Bonds	\$ 3,956,000	\$ 6,561,738	\$ 678,210	\$ 9,839,528	\$ 870,000
Bond Premium	10,388	-	866	9,522	-
Total Bonds Payable	<u>3,966,388</u>	<u>6,561,738</u>	<u>679,076</u>	<u>9,849,050</u>	<u>870,000</u>
Compensated Absences	23,440	22,074	18,888	26,626	26,626
Business-Type Activities Long-Term Liabilities	<u>\$ 3,989,828</u>	<u>\$ 6,583,812</u>	<u>\$ 697,964</u>	<u>\$ 9,875,676</u>	<u>\$ 896,626</u>
Discretely Presented					
Component Unit:					
G.O. Revenue Bonds	\$ 4,648,403	\$ 892,416	\$ 745,954	\$ 4,794,865	\$ 624,071
Compensated Absences	99,511	5,040	-	104,551	104,551
Discretely Presented Component Unit: Long-Term Liabilities	<u>\$ 4,747,914</u>	<u>\$ 897,456</u>	<u>\$ 745,954</u>	<u>\$ 4,899,416</u>	<u>\$ 728,622</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Inter-Fund Balances and Transfers

Inter-fund transfers and balances for the year ended December 31, 2018 consisted of the following:

Transferred from	Transferred to					Total
	General Fund	General Obligation 2014A	Economic Development Authority	Other Governmental Funds	Enterprise Fund Sewer	
General Fund	\$ -	\$ 70,000	\$ -	\$ 259,000	\$ 50,000	\$ 379,000
Economic Development Authority	-	-	-	71,103	-	71,103
Enterprise Fund – Liquor	120,000	-	200,000	-	-	320,000
Enterprise Fund - Sewer	-	10,000	-	20,000	-	30,000
Total	\$ 120,000	\$ 80,000	\$ 200,000	\$ 350,103	\$ 50,000	\$ 800,103

Due from	Due to General Fund
Airport Fund	\$ 221,612
Total	\$ 221,612

Purpose for Interfund Transfers and Balances:

- The general fund transferred funds to the 2014A, sewer fund, and the other governmental funds to aid in the payment of bonds and notes.
- The liquor fund transferred funds to the general fund to reflect the budget transfer and to EDA for Green Giant Museum.
- The Airport fund has a due to the general fund as it is awaiting future financing for on-going projects.
- The sewer fund transferred funds to the 2014A and the other governmental funds to aid in the payment of bonds and notes.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Fund Balances and Restricted for Other Purposes Net Position

Fund Balances as of December 31, 2018:

	General Fund	Economic Development Authority	Airport Fund	Street Improvement Project	General Obligation 2014A	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Land Held for Resale	\$ -	\$ 185,420	\$ -	\$ -	\$ -	\$ 114,501	\$ 299,921
Prepaid Items	26,214	1,003	10,663	-	-	-	37,880
Total Nonspendable	26,214	186,423	10,663	-	-	114,501	337,801
Restricted:							
Debt Service	-	-	-	-	204,185	2,708,039	2,912,224
Economic Development	-	274,260	-	-	-	501,901	776,161
Capital Projects	-	-	-	879,989	-	-	879,989
Total Restricted	-	274,260	-	879,989	204,185	3,209,940	4,568,374
Assigned:							
Special Purpose	25,888	-	-	-	-	-	25,888
Public Safety	14,479	-	-	-	-	-	14,479
Street Infrastructure	846,907	-	-	-	-	-	846,907
Senior Donation	15,748	-	-	-	-	-	15,748
Total Assigned	903,022	-	-	-	-	-	903,022
Unassigned	1,916,615	-	(211,840)	-	-	(6,407)	1,698,368
Total Fund Balance	\$ 2,845,851	\$ 460,683	\$ (201,177)	\$ 879,989	\$ 204,185	\$ 3,318,034	\$ 7,507,565

Restricted net position for Other Purposes Balance in Net Position as of December 31, 2018:

Restricted for EDA	\$ 662,196
Restricted for Housing Loan	978,601
Total	<u>\$ 1,640,797</u>

NOTE 4 FRANCHISE FEE

During 1994, the Board of Public Works and the City of Blue Earth agreed to a new method of figuring the franchise fee, which is in lieu of taxes. The agreement states that the franchise fee is to be calculated by multiplying a base factor of .0035 (3.5 mills), per kilowatt hour sold of all retail sales of kilowatt hours sold within the utility service territory rounded to the nearest 1,000 kilowatt hour. The payment for 2018 was \$187,061.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to the Coordinated Plan, and are covered by Social Security.

2. Public Employees Police and Fire Plan (PEPFP)

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a prorata increase.

2. PEPFP Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the postretirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a prorata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

C. Contributions

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

1. GERF Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018 were \$72,688. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. PEPFP Contributions

Plan members were required to contribute 10.8% of their annual covered salary and the City was required to contribute 16.20% of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$124,248. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2018, the City reported a liability of \$837,686 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer contributing entity and the state's contributions meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$27,486. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At December 31, 2018, the City's proportionate share was 0.0151%, a decrease of 0.0001% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$13,570 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$6,410 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERS Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 22,172	\$ 24,432
Changes in Actuarial Assumptions	80,020	94,123
Difference Between Projected and Actual		
Investment Earnings	-	85,598
Change in Proportion and Differences Between Contributions Made and City's Proportionate Share of Contributions	14,515	9,146
City's Contributions to GERS Subsequent to the Measurement Date	42,341	-
Total	\$ 159,048	\$ 213,299

\$42,341 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31.</u>	
2019	\$ 35,524
2020	(48,270)
2021	(66,361)
2022	(17,485)
Total	\$ (96,592)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$299,517 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At December 31, 2018, the City's proportion was 0.0281%, which is a decrease of 0.0009% from its proportion measured as of June 30, 2017. The City also recognized \$2,529 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

For the year ended December 31, 2018, the City recognized pension expense of \$8,739 for its proportionate share of the PEPFF's pension expense.

At December 31, 2018, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 12,157	\$ 73,479
Changes in Actuarial Assumptions	387,546	440,928
Difference Between Projected and Actual Investment Earnings	-	62,735
Change in Proportion and Differences Between Contributions Made and City's Proportionate Share of Contributions	6,525	18,242
City's Contributions to PEPFF Subsequent to the Measurement Date	26,743	-
Total	\$ 432,971	\$ 595,384

\$26,743 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,		
2019	\$	5,174
2020		(23,990)
2021		(43,992)
2022		(122,606)
2023		(3,742)

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

	<u>GERF</u>	<u>PEFP</u>
Inflation	2.50 Percent per Year	2.50 Percent per Year
Active Member Payroll Growth	3.25 Percent per Year	3.25 Percent per Year
Investment Rate of Return	7.50 Percent	7.50 Percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan and 1.0% per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36 %	5.10%
International Stocks	17	5.30%
Private Markets	25	5.90%
Fixed Income	20	0.75%
Cash	2	0.00%
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

Description	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate Share of the General Employee's Plan Net Pension Liability	\$ 1,361,347	\$ 837,686	\$ 405,419
City's Proportionate Share of the Police and Fire Plan Net Pension Liability	\$ 642,183	\$ 299,517	\$ 16,146

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Aggregate Pension Costs

At December 31, 2018, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

	General Employees Retirement Plan	Public Employees Police and Fire Fund	Total
Net Pension Liability	\$ 837,686	\$ 299,517	\$ 1,137,203
Deferred Outflows of Resources	159,048	432,971	592,019
Deferred Inflows of Resources	213,299	595,384	808,683
Pension Expense	13,570	8,739	22,309

I. Pension Plan Fiduciary Net Position

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

NOTE 6 OTHER INFORMATION

Risk Management

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

Contingencies

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes:				
Property	\$ 495,267	\$ 495,267	\$ 596,331	\$ 101,064
Franchise	266,500	266,500	242,337	(24,163)
Special Assessments	3,500	3,500	11,124	7,624
Licenses and Permits	32,143	32,143	56,325	24,182
Intergovernmental Revenue:				
Local Government Aid	1,876,088	1,876,088	1,876,089	1
Residential Market Value Credit	500	500	868	368
Other State Aids and Grants	93,723	93,723	117,975	24,252
Police Aid	36,000	36,000	42,775	6,775
Fire Aid	35,000	35,000	30,790	(4,210)
Federal Revenue	-	-	19,418	19,418
Charges for Services:				
General Government	6,000	6,000	16,946	10,946
Police and Fire Contracts	43,550	43,550	47,088	3,538
Garbage and Recycling	66,500	66,500	76,153	9,653
Parks and Recreation	57,500	57,500	66,506	9,006
Storm Water	85,000	85,000	75,860	(9,140)
Fines and Forfeits	3,500	3,500	1,350	(2,150)
Interest Earnings	31,970	31,970	40,591	8,621
Miscellaneous Revenue:				
Rental	19,604	19,604	20,904	1,300
Miscellaneous	48,150	48,150	73,579	25,429
Donations	-	-	7,509	7,509
Total Revenues	3,200,495	3,200,495	3,420,518	220,023
EXPENDITURES				
General Government:				
Mayor and Council	31,650	31,650	28,874	(2,776)
Administration and Finance	326,553	326,553	318,745	(7,808)
Other General Government	75,020	75,020	77,128	2,108
Public Safety:				
Police:				
Current Expenditures	625,825	625,825	609,702	(16,123)
Capital Outlay	42,500	42,500	43,861	1,361
Fire:				
Current Expenditures	207,850	207,850	194,124	(13,726)
Capital Outlay	180,000	180,000	169,846	(10,154)
Public Works:				
Streets and Highways:				
Street Maintenance	921,280	921,280	1,048,032	126,752
Sanitation and Health	36,350	36,350	29,712	(6,638)
Street Lighting	70,000	70,000	80,474	10,474
Street – Other Capital Outlay	20,000	20,000	862,950	842,950

**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
EXPENDITURES (CONTINUED)				
Culture and Recreation:				
Library – Current Expenditures	\$ 205,657	\$ 205,657	\$ 183,595	\$ (22,062)
Library – Capital Outlay	1,000	1,000	6,055	5,055
Senior Center – Current Expenditures	79,333	79,333	88,101	8,768
Senior Center – Capital Outlay	2,000	2,000	479	(1,521)
Swimming Pool – Current Expenditures	151,141	151,141	152,782	1,641
Swimming Pool – Capital Outlay	27,500	27,500	-	(27,500)
Storm Water	28,100	28,100	28,431	331
Debt Service:				
Principal	13,524	13,524	13,524	-
Bond Issuance Costs	-	-	27,374	27,374
All Other – Current Expenditures	94,909	94,909	113,629	18,720
Total Expenditures	<u>3,140,192</u>	<u>3,140,192</u>	<u>4,077,418</u>	<u>937,226</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	60,303	60,303	(656,900)	(717,203)
OTHER FINANCING SOURCES (USES)				
Bond issuance	-	-	1,000,000	1,000,000
Sale of Capital Assets	(500)	(500)	886	1,386
Transfers In	(70,000)	(70,000)	120,000	190,000
Transfers Out	20,000	20,000	(379,000)	(399,000)
Total Other Financing Sources (Uses)	<u>(50,500)</u>	<u>(50,500)</u>	<u>741,886</u>	<u>792,386</u>
NET CHANGE IN FUND BALANCES	9,803	9,803	84,986	75,183
Fund Balances – Beginning of Year	<u>3,060,413</u>	<u>3,060,413</u>	<u>2,760,865</u>	<u>(299,548)</u>
FUND BALANCES – END OF YEAR	<u>\$ 3,070,216</u>	<u>\$ 3,070,216</u>	<u>\$ 2,845,851</u>	<u>\$ (224,365)</u>

**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULES
EDA AND AIRPORT FUNDS
YEAR ENDED DECEMBER 31, 2018**

EDA FUND

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Property Taxes	\$ 80,650	\$ 80,650	\$ 79,843	\$ (807)
Charges for Services	3,000	3,000	36,479	33,479
Rent Payments	250,000	250,000	271,293	21,293
Interest Received	-	-	14,597	14,597
Miscellaneous	20,000	20,000	22,034	2,034
Total Revenues	<u>353,650</u>	<u>353,650</u>	<u>764,588</u>	<u>410,938</u>
EXPENDITURES				
Economic Development	320,554	320,554	613,085	292,531
Capital Outlay	-	-	1,015,999	1,015,999
Total Expenditures	<u>320,554</u>	<u>320,554</u>	<u>1,629,084</u>	<u>1,308,530</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	33,096	33,096	(864,496)	(897,592)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	200,000	200,000
Transfers Out	-	-	(71,103)	(71,103)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>128,897</u>	<u>128,897</u>
NET CHANGE IN FUND BALANCES	33,096	33,096	(735,599)	(768,695)
Fund Balances – Beginning of Year	1,498,953	1,498,953	1,196,282	(302,671)
FUND BALANCES – END OF YEAR	<u>\$ 1,532,049</u>	<u>\$ 1,532,049</u>	<u>\$ 460,683</u>	<u>\$ (1,071,366)</u>

AIRPORT FUND

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
State Aid and Grants	\$ 17,500	\$ 17,500	\$ 425,545	\$ 408,045
Charges for Services	84,370	84,370	88,718	4,348
Total Revenues	<u>101,870</u>	<u>101,870</u>	<u>514,263</u>	<u>412,393</u>
EXPENDITURES				
Airport – Current	81,200	81,200	95,482	14,282
Capital Outlay	-	-	68,808	68,808
Total Expenditures	<u>81,200</u>	<u>81,200</u>	<u>164,290</u>	<u>83,090</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,670	20,670	349,973	329,303
Fund Balances – Beginning of Year	(249,315)	(249,315)	(551,150)	(301,835)
FUND BALANCES – END OF YEAR	<u>\$ (228,645)</u>	<u>\$ (228,645)</u>	<u>\$ (201,177)</u>	<u>\$ 27,468</u>

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**CITY OF BLUE EARTH, MINNESOTA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2018**

NOTE 1 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year-end. The actual revenues, expenditures, and transfers for the year ended December 31, 2018, have been compared to the City's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the City Council.

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

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

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the City Council. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 EXCESS OF EXPENDITURES OVER BUDGET

For the year ended December 31, 2018, expenditures exceed budget in the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source to Cover Excess Expenditures</u>
General Fund	\$ 937,226	Proceeds from G.O. Improvement bonds of 2018, Series A were used to cover these expenditures which had not been budgeted for because intent was to offset against loan proceeds.
Special Revenue Funds:		
EDA	1,308,530	Greater than Anticipated Revenues and Available Fund Balance covered these expenditures that were not budgeted for in current year.
Airport	83,090	Federal Airport Improvement Grant covered these expenditures that were more than budgeted.

CITY OF BLUE EARTH, MINNESOTA
SCHEDULE OF EMPLOYER'S SHARE OF COLLECTIVE NET PENSION LIABILITY AND
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2018

Pension Plan	Measurement Date	City's Proportion of the Net Pension Liability (Asset) (Percentage)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	Total (a+b)	City's Covered Payroll (e)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	06/30/18	0.0151%	\$ 837,686	\$ 27,486	\$ 865,172	\$ 1,017,585	85.0%	75.9%
GERF	06/30/17	0.0150%	957,590	12,076	969,666	969,595	100.0%	75.9%
GERF	06/30/16	0.0153%	1,242,284	16,225	1,258,509	882,750	140.7%	78.2%
GERF	06/30/15	0.0146%	756,648	N/A	756,648	893,140	84.7%	78.2%
GERF	06/30/14	0.0173%	812,667	N/A	812,667	885,808	94.7%	78.9%
PEPFF	06/30/18	0.0281%	299,517	N/A	299,517	295,860	101.2%	88.8%
PEPFF	06/30/17	0.029%	391,533	N/A	391,533	300,552	130.3%	85.4%
PEPFF	06/30/16	0.029%	1,163,820	N/A	1,163,820	276,502	420.9%	86.6%
PEPFF	06/30/15	0.028%	318,146	N/A	318,146	271,492	117.2%	86.6%
PEPFF	06/30/14	0.029%	313,212	N/A	313,212	247,116	126.7%	87.1%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
GERF	12/31/18	\$ 76,300	\$ 76,300	\$ -	\$ 1,017,585	7.5%
GERF	12/31/17	72,688	72,688	-	969,595	7.5%
GERF	12/31/16	59,920	59,920	-	921,842	6.5%
GERF	12/31/15	66,985	66,985	-	994,471	6.7%
GERF	12/31/14	64,454	64,454	-	935,709	6.9%
PEPFF	12/31/18	47,929	47,929	-	295,860	16.2%
PEPFF	12/31/17	48,689	48,689	-	300,552	16.2%
PEPFF	12/31/16	31,285	31,285	-	289,675	10.8%
PEPFF	12/31/15	43,982	43,982	-	370,968	11.9%
PEPFF	12/31/14	37,809	37,809	-	336,580	11.2%

SUPPLEMENTAL SCHEDULES

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**CITY OF BLUE EARTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
DECEMBER 31, 2018**

	Debt Service Funds											Total Debt Service Nonmajor Funds	
	General Obligation 2012A	General Obligation 2013A	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	General Obligation 2015A	General Obligation 2016A	General Obligation 2018A	TIF 7-1	TIF 6-1		TIF 8-1
ASSETS													
Cash and Investments	\$ 683,531	\$ 96,576	\$ 166,969	\$ 571,664	\$ 424,886	\$ 65,084	\$ 384,779	\$ 189,047	\$ 120,770	\$ 3,887	\$ 1,346	\$ (6,407)	\$ 2,702,132
Receivables:													
Taxes	4,552	2,395	3,130	831	1,019	2,536	5,445	1,882	-	-	-	-	21,790
Special Assessments	209,056	-	39,956	248,146	74,907	289,568	298,428	369,491	-	-	-	-	1,529,552
Total Assets	\$ 897,139	\$ 98,971	\$ 210,055	\$ 820,641	\$ 500,812	\$ 357,188	\$ 688,652	\$ 560,420	\$ 120,770	\$ 3,887	\$ 1,346	\$ (6,407)	\$ 4,253,474
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE													
LIABILITIES													
Accounts Payable	\$ -	\$ -	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500
DEFERRED INFLOW OF RESOURCES													
Unavailable Revenue	213,608	2,395	43,086	248,977	75,926	292,104	303,873	371,373	-	-	-	-	1,551,342
FUND BALANCE													
Restricted	683,531	96,576	166,469	571,664	424,886	65,084	384,779	189,047	120,770	3,887	1,346	-	2,708,039
Unassigned	-	-	-	-	-	-	-	-	-	-	-	(6,407)	(6,407)
Total Fund Balance	683,531	96,576	166,469	571,664	424,886	65,084	384,779	189,047	120,770	3,887	1,346	(6,407)	2,701,632
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 897,139	\$ 98,971	\$ 210,055	\$ 820,641	\$ 500,812	\$ 357,188	\$ 688,652	\$ 560,420	\$ 120,770	\$ 3,887	\$ 1,346	\$ (6,407)	\$ 4,253,474

**CITY OF BLUE EARTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – NONMAJOR DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2018**

	Debt Service Funds												
	General Obligation 2012A	General Obligation 2013A	General Obligation 2009	General Obligation 2010A	General Obligation 2011A	General Obligation 2013B	General Obligation 2015A	General Obligation 2016A	General Obligation 2018A	TIF 7-1	TIF 6-1	TIF 8-1	Total Debt Service Nonmajor Funds
REVENUES													
Property Taxes	\$ 135,876	\$ 77,228	\$ 99,859	\$ 20,313	\$ 677	\$ 93,922	\$ 217,145	\$ 83,782	\$ (1,100)	\$ 7,157	\$ -	\$ -	\$ 734,859
Special Assessments	258,869	-	9,177	79,669	20,808	33,305	44,152	57,108	-	-	-	-	503,088
Interest Earnings	8,412	1,148	2,271	10,833	8,977	(2,035)	3,574	1,552	714	95	29	(12)	35,558
Total Revenues	403,157	78,376	111,307	110,815	30,462	125,192	264,871	142,442	(386)	7,252	29	(12)	1,273,505
EXPENDITURES													
Miscellaneous – Current	3,657	557	556	555	555	3,654	556	3,431	46,223	7,157	-	6,395	73,296
Debt Service:													
Principal	241,836	70,000	115,000	84,200	34,558	130,750	178,540	118,015	-	-	-	-	972,899
Interest and Fiscal Charges	59,063	13,753	19,145	24,861	2,301	34,880	64,070	33,786	-	-	-	-	251,859
Bond Issuance Costs	500	500	950	500	500	500	500	450	12,398	-	-	-	16,798
Total Expenditures	305,056	84,810	135,651	110,116	37,914	169,784	243,666	155,682	58,621	7,157	-	6,395	1,314,852
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	98,101	(6,434)	(24,344)	699	(7,452)	(44,592)	21,205	(13,240)	(59,007)	95	29	(6,407)	(41,347)
OTHER FINANCING SOURCES (USES)													
Bond Proceeds	-	-	-	-	-	-	-	-	108,674	-	-	-	108,674
Operating Transfers In	60,000	-	-	-	-	120,000	50,000	49,000	71,103	-	-	-	350,103
Operating Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	60,000	-	-	-	-	120,000	50,000	49,000	179,777	-	-	-	458,777
NET CHANGE IN FUND BALANCE	158,101	(6,434)	(24,344)	699	(7,452)	75,408	71,205	35,760	120,770	95	29	(6,407)	417,430
Fund Balance – Beginning of Year	525,430	103,010	190,813	570,965	432,338	(10,324)	313,574	153,287	-	3,792	1,317	-	2,284,202
FUND BALANCE – END OF YEAR	\$ 683,531	\$ 96,576	\$ 166,469	\$ 571,664	\$ 424,886	\$ 65,084	\$ 384,779	\$ 189,047	\$ 120,770	\$ 3,887	\$ 1,346	\$ (6,407)	\$ 2,701,632

**CITY OF BLUE EARTH, MINNESOTA
 COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS AND
 TOTAL NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	Special Revenue Fund Housing Loan Fund	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	\$ 501,457	\$ 2,702,132	\$ 3,203,589
Receivables:			
Taxes	2	21,790	21,792
Special Assessments	-	1,529,552	1,529,552
Accounts	719	-	719
Notes	362,199	-	362,199
Land Held for Resale	114,501	-	114,501
Total Assets	\$ 978,878	\$ 4,253,474	\$ 5,232,352
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ 500	\$ 500
Accrued Wages and Salaries	275	-	275
Total Liabilities	275	500	775
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue	362,201	1,551,342	1,913,543
FUND BALANCES			
Nonspendable	114,501	-	114,501
Restricted	501,901	2,708,039	3,209,940
Unassigned	-	(6,407)	(6,407)
Total Fund Balances	616,402	2,701,632	3,318,034
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 978,878	\$ 4,253,474	\$ 5,232,352

**CITY OF BLUE EARTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2018**

	Special Revenue Fund Housing Loan Fund	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES			
Property Taxes	\$ 27,151	\$ 734,859	\$ 762,010
Special Assessments	-	503,088	503,088
Interest Received	11,052	35,558	46,610
Miscellaneous	32,890	-	32,890
Total Revenues	71,093	1,273,505	1,344,598
EXPENDITURES			
Economic Development – Current Expenditures	18,426	-	18,426
Economic Development – Capital Outlay	91,105	-	91,105
Miscellaneous – Current	-	73,296	73,296
Debt Service:			
Principal	-	972,899	972,899
Interest and Fiscal Charges	-	251,859	251,859
Bond Issuance Costs	-	16,798	16,798
Total Expenditures	109,531	1,314,852	1,424,383
OTHER FINANCING SOURCES			
Sale of Assets	2,796	-	2,796
Bond Proceeds	-	108,674	108,674
Operating Transfers In	-	350,103	350,103
Total Other Financing Sources	2,796	458,777	458,777
NET CHANGE IN FUND BALANCES	(35,642)	417,430	381,788
Fund Balances – Beginning of Year	652,044	2,284,202	2,936,246
FUND BALANCES – END OF YEAR	\$ 616,402	\$ 2,701,632	\$ 3,318,034