



City of
Blue Earth

**CITY OF BLUE EARTH
AGENDA
CITY COUNCIL WORKSESSION
MONDAY, AUGUST 17, 2020 @ 4:30 P.M.**

- 1. Call to order.**
- 2. Roll call.**
- 3. Old Business.**
- 4. New Business.**
 - 4.1 2019 Audit Presentation (CLA).
- 5. Adjourn.**

By Order of the Blue Earth City Council

Post @ City Hall-Friday, August 14, 2020 through Monday, August 17, 2020
Distribute to Mayor & Council members-Media & file

CITY OF BLUE EARTH, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019

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**CITY OF BLUE EARTH, MINNESOTA
OFFICIALS
DECEMBER 31, 2019**

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, 2019, 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, 2019, 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, 2019, 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.

Emphasis of a Matter Regarding the Correction of an Error

As described in Note 7 to the financial statements, an error resulting in an understatement of net position in Governmental Activities was discovered by management of the City during the current year. Accordingly, the amount reported for net position in Governmental Activities has been restated to correct the error. Our opinion is unmodified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer’s share of net pension liability, and the schedule of employer’s contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

Honorable Mayor and City Council
City of Blue Earth

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America 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.

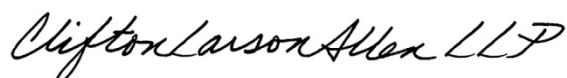
Other Information

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 August 12, 2020, on our consideration of the City of Blue Earth, Minnesota'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 results of that testing, and not to provide an opinion on the effectiveness of the City of Blue Earth, Minnesota'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, Minnesota's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
August 12, 2020

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**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Cash and Investments	\$ 7,547,233	\$ 1,070,355	\$ 8,617,588	\$ 2,026,859
Restricted Cash and Investments:				
Customer Deposits	-	-	-	38,059
Rate Stabilization Fund	-	-	-	113,055
Receivables:				
Taxes	52,590	-	52,590	-
Special Assessments	2,774,964	94,721	2,869,685	55,346
Accounts	64,971	221,113	286,084	752,573
Interest	6,561	-	6,561	-
Notes	466,500	-	466,500	-
Prepaid Items	47,144	10,371	57,515	154,593
Inventory	-	291,260	291,260	583,764
Land Held for Resale	261,289	-	261,289	-
Other Assets	-	-	-	21,535
Capital Assets:				
Land and Construction in Progress	2,601,002	219,035	2,820,037	140,526
Other Capital Assets, Net of Depreciation	33,260,730	15,548,657	48,809,387	15,964,237
Total Assets	<u>47,082,984</u>	<u>17,455,512</u>	<u>64,538,496</u>	<u>19,850,547</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	367,995	24,080	392,075	111,715
OPEB Related	-	-	-	117,746
Total Deferred Outflows of Resources	<u>367,995</u>	<u>24,080</u>	<u>392,075</u>	<u>229,461</u>

See accompanying Notes to Financial Statements.

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2019

	Primary Government			Board of Public Works Component Unit
	Governmental Activities	Business-Type Activities	Totals	
CURRENT LIABILITIES				
Accounts Payable	\$ 726,954	\$ 125,979	\$ 852,933	\$ 296,609
Other Payables	-	-	-	17,873
Accrued Vacation and Sick Leave	-	-	-	99,872
Accrued Salaries and Wages	34,808	18,652	53,460	39,949
Unearned Revenue	-	-	-	514,418
Interest Payable	179,248	51,437	230,685	42,904
Total Current Liabilities	<u>941,010</u>	<u>196,068</u>	<u>1,137,078</u>	<u>1,011,625</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Customer Deposits Payable	-	-	-	38,059
NONCURRENT LIABILITIES				
Net Pension Liability	853,823	311,461	1,165,284	729,798
Post Employment Benefit	-	-	-	250,293
Due Within One Year	1,377,720	897,175	2,274,895	595,355
Due in More Than One Year	16,010,830	8,943,655	24,954,485	3,581,702
Total Noncurrent Liabilities	<u>18,242,373</u>	<u>10,152,291</u>	<u>28,394,664</u>	<u>5,157,148</u>
 Total Liabilities	 19,183,383	 10,348,359	 29,531,742	 6,206,832
DEFERRED INFLOWS OF RESOURCES				
Pension Related	585,719	57,612	643,331	208,912
OPEB Related	-	-	-	3,842
Total Deferred Outflows of Resources	<u>585,719</u>	<u>57,612</u>	<u>643,331</u>	<u>212,754</u>
NET POSITION				
Net Investment in Capital Assets	18,688,824	6,237,907	24,926,731	11,933,970
Restricted:				
Debt Service	4,110,888	-	4,110,888	-
Other Purposes	1,489,759	-	1,489,759	38,059
Unrestricted	<u>3,392,406</u>	<u>835,714</u>	<u>4,228,120</u>	<u>1,688,393</u>
 Total Net Position	 <u>\$ 27,681,877</u>	 <u>\$ 7,073,621</u>	 <u>\$ 34,755,498</u>	 <u>\$ 13,660,422</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

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	\$ 434,063	\$ 133,393	\$ -	\$ -	\$ (300,670)	\$ -	\$ (300,670)	
Public Safety	1,020,324	54,372	76,769	-	(889,183)	-	(889,183)	
Streets and Highways	2,347,853	170,359	20,070	-	(2,157,424)	-	(2,157,424)	
Culture and Recreation	579,429	52,397	-	-	(527,032)	-	(527,032)	
Housing and Economic Development	783,925	53,786	-	-	(730,139)	-	(730,139)	
Interest and Other Charges on Long-Term Debt	675,183	-	-	-	(675,183)	-	(675,183)	
Total Governmental Activities	5,840,777	464,307	96,839	-	(5,279,631)	-	(5,279,631)	
Business-Type Activities:								
Sewer	1,156,795	1,262,409	-	-	-	105,614	105,614	
Liquor	1,587,447	1,669,898	-	-	-	82,451	82,451	
Fitness Center	181,793	193,693	-	-	-	11,900	11,900	
Total Business-Type Activities	2,926,035	3,126,000	-	-	-	199,965	199,965	
Total Primary Government	\$ 8,766,812	\$ 3,590,307	\$ 96,839	\$ -	(5,279,631)	199,965	(5,079,666)	
Component Unit:								
Electric	\$ 5,641,058	\$ 6,033,311	\$ -					\$ 392,253
Water	882,654	1,034,190	33,466					185,002
Total Component Unit	\$ 6,523,712	\$ 7,067,501	\$ 33,466					577,255
GENERAL REVENUES								
Taxes:								
Property Taxes					1,737,437	-	1,737,437	-
Special Assessments					402,754	-	402,754	-
State Aid					2,042,089	-	2,042,089	-
Franchise Tax					266,650	-	266,650	-
Fees and Fines					555	-	555	-
License and Permits					37,983	-	37,983	-
Donations					60,474	-	60,474	-
Earnings on Investments					186,254	25,434	211,688	39,880
Lease Payments					307,253	-	307,253	1,932
Miscellaneous					106,003	-	106,003	110,002
Transfers					75,000	(75,000)	-	-
Total General Revenue and Transfers					5,222,452	(49,566)	5,172,886	151,814
CHANGE IN NET POSITION					(57,179)	150,399	93,220	729,069
Net Position – Beginning of Year, as Restated					27,739,056	6,923,222	34,662,278	12,931,353
NET POSITION – END OF YEAR					\$ 27,681,877	\$ 7,073,621	\$ 34,755,498	\$ 13,660,422

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	General Obligation 2016A	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Investments	\$ 2,675,971	\$ 315,562	\$ -	\$ 1,184,636	\$ 267,931	\$ 184,333	\$ 2,918,800	\$ 7,547,233
Receivables:								
Taxes	19,558	2,645	8	-	4,530	2,432	23,417	52,590
Special Assessments	129,261	-	-	-	776,312	470,156	1,399,235	2,774,964
Interest	6,561	-	-	-	-	-	-	6,561
Accounts	43,877	20,635	459	-	-	-	-	64,971
Notes	-	173,738	-	-	-	-	292,762	466,500
Due from Other Funds	201,860	-	-	-	-	-	-	201,860
Land Held for Resale	-	152,038	-	-	-	-	109,251	261,289
Prepaid Items	33,071	475	13,598	-	-	-	-	47,144
Total Assets	\$ 3,110,159	\$ 665,093	\$ 14,065	\$ 1,184,636	\$ 1,048,773	\$ 656,921	\$ 4,743,465	\$ 11,423,112
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
LIABILITIES								
Accounts Payable	\$ 95,493	\$ 37,162	\$ 1,669	\$ 538,706	\$ 200	\$ -	\$ 53,723	\$ 726,953
Accrued Salaries and Wages	32,469	2,030	-	-	-	-	309	34,808
Due to Other Funds	-	-	201,860	-	-	-	-	201,860
Total Liabilities	127,962	39,192	203,529	538,706	200	-	54,032	963,621
DEFERRED INFLOWS OF RESOURCES								
Unavailable Revenue	142,377	175,731	8	-	775,898	471,704	1,707,577	3,273,295
FUND BALANCES								
Nonspendable	33,071	152,513	13,598	-	-	-	109,251	308,433
Restricted	39,645	297,657	-	645,930	272,675	185,217	2,879,274	4,320,398
Assigned	744,084	-	-	-	-	-	-	744,084
Unassigned	2,023,020	-	(203,070)	-	-	-	(6,669)	1,813,281
Total Fund Balances	2,839,820	450,170	(189,472)	645,930	272,675	185,217	2,981,856	7,186,196
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,110,159	\$ 665,093	\$ 14,065	\$ 1,184,636	\$ 1,048,773	\$ 656,921	\$ 4,743,465	\$ 11,423,112

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, 2019**

Total Fund Balances for Governmental Funds \$ 7,186,196

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. 35,861,731

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. 3,273,295

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (179,248)

Deferred outflows and inflows of resources related to pensions are applicable to future periods, and therefore are not reported in the governmental funds. (217,724)

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	\$ (16,975,773)	
Net Pension Liability	(853,823)	
Unamortized Bond Premium	(242,026)	
Compensated Absence Payable	(68,573)	
Note Payable	(102,178)	
	(18,242,373)	(18,242,373)

Total Net Position for Governmental Activities \$ 27,681,877

CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	General Obligation 2016A	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property Taxes	\$ 483,590	\$ 72,613	\$ 8	\$ -	\$ 138,145	\$ 74,561	\$ 799,807	\$ 1,568,724
Franchise Taxes	268,022	-	-	-	-	-	-	268,022
Special Assessments	3,638	-	-	-	106,799	39,218	253,099	402,754
Fees and Fines	555	-	-	-	-	-	-	555
Licenses and Permits	37,983	-	-	-	-	-	-	37,983
Intergovernmental	2,085,315	13,543	20,070	-	-	-	-	2,118,928
Charges for Services	321,060	46,286	88,486	-	-	-	-	455,832
Interest Earnings	93,124	6,382	-	12,835	2,018	1,907	50,964	167,230
Rent Payments	26,112	277,278	-	-	-	-	-	303,390
Donations	60,474	-	-	-	-	-	-	60,474
Miscellaneous	75,913	28,350	-	-	-	-	27,728	131,991
Total Revenues	<u>3,455,786</u>	<u>444,452</u>	<u>108,564</u>	<u>12,835</u>	<u>246,962</u>	<u>115,686</u>	<u>1,131,598</u>	<u>5,515,883</u>
EXPENDITURES								
Current:								
General Government	456,729	-	-	-	-	-	-	456,729
Public Safety	846,929	-	-	-	-	-	-	846,929
Capital Outlay	27,708	-	-	-	-	-	-	27,708
Public Works	1,082,794	-	-	-	-	-	-	1,082,794
Capital Outlay	116,319	-	-	2,241,391	-	-	-	2,357,710
Culture and Recreation	433,479	-	-	-	-	-	-	433,479
Capital Outlay	105,845	-	-	-	-	-	-	105,845
Economic Development	-	451,705	-	-	-	-	41,651	493,356
Capital Outlay	-	6,595	-	-	-	-	73,039	79,634
Storm Water	30,980	-	-	-	-	-	-	30,980
Capital Outlay	17,488	-	-	-	-	-	-	17,488
Airport	-	-	96,859	-	-	-	-	96,859
Capital Outlay	-	-	-	-	-	-	-	-
Miscellaneous	107,187	-	-	-	3,300	3,075	161,937	275,499
Debt Services:								
Principal	8,843	-	-	-	163,800	127,310	871,301	1,171,254
Bond Issuance Costs	-	-	-	24,718	500	450	43,883	69,551
Interest and Other Charges	4,681	-	-	-	60,872	38,681	330,143	434,377
Total Expenditures	<u>3,238,982</u>	<u>458,300</u>	<u>96,859</u>	<u>2,266,109</u>	<u>228,472</u>	<u>169,516</u>	<u>1,521,954</u>	<u>7,980,192</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	216,804	(13,848)	11,705	(2,253,274)	18,490	(53,830)	(390,356)	(2,464,309)
OTHER FINANCING SOURCES (USES)								
Sale of Assets	2,165	4,878	-	-	-	-	-	7,043
Bond Premium	-	-	-	69,463	-	-	1,434	70,897
Proceeds from Bond Issuance	-	-	-	1,949,752	-	-	40,248	1,990,000
Transfers In	125,000	-	-	-	50,000	50,000	201,543	426,543
Transfers Out	(350,000)	(1,543)	-	-	-	-	-	(351,543)
Total Other Financing Sources (Uses)	<u>(222,835)</u>	<u>3,335</u>	<u>-</u>	<u>2,019,215</u>	<u>50,000</u>	<u>50,000</u>	<u>243,225</u>	<u>2,142,940</u>
NET CHANGE IN FUND BALANCES	(6,031)	(10,513)	11,705	(234,059)	68,490	(3,830)	(147,131)	(321,369)
Fund Balances - Beginning of Year	2,845,851	460,683	(201,177)	879,989	204,185	189,047	3,128,987	7,507,565
FUNDS BALANCES – END OF YEAR	<u>\$ 2,839,820</u>	<u>\$ 450,170</u>	<u>\$ (189,472)</u>	<u>\$ 645,930</u>	<u>\$ 272,675</u>	<u>\$ 185,217</u>	<u>\$ 2,981,856</u>	<u>\$ 7,186,196</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, 2019

Total Net Changes in Fund Balances – Governmental Funds \$ (321,369)

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	2,467,708
Depreciation Expense	(1,461,209)

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	(1,990,000)
Bond Premium	(70,897)

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.

15,375

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.

166,650

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.

1,171,254

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).

(7,485)

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.

(44,124)

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.

16,918

Change in Net Position of Governmental Activities

\$ (57,179)

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

	Sewer	Liquor	Fitness Center	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 286,735	\$ 320,547	\$ 463,073	\$ 1,070,355
Receivables:				
Special Assessments	94,721	-	-	94,721
Accounts	219,740	1,373	-	221,113
Prepaid Items	5,962	3,104	1,305	10,371
Inventory	-	291,260	-	291,260
Total Current Assets	<u>607,158</u>	<u>616,284</u>	<u>464,378</u>	<u>1,687,820</u>
Noncurrent Assets:				
Capital Assets Not Being Depreciated:				
Land	119,035	100,000	-	219,035
Capital Assets, Net of Accumulated Depreciation:				
Buildings and Infrastructure	10,557,645	326,951	543,506	11,428,102
Equipment	4,067,866	28,359	24,330	4,120,555
Total Noncurrent Assets	<u>14,744,546</u>	<u>455,310</u>	<u>567,836</u>	<u>15,767,692</u>
Total Assets	15,351,704	1,071,594	1,032,214	17,455,512
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plans	11,726	9,607	2,747	24,080
LIABILITIES				
Current Liabilities:				
Accounts Payable	17,255	104,206	4,518	125,979
Accrued Salaries and Wages	24,078	11,326	6,651	42,055
Bonds Payable – Current	843,772	-	30,000	873,772
Interest Payable	47,348	-	4,089	51,437
Total Current Liabilities	<u>932,453</u>	<u>115,532</u>	<u>45,258</u>	<u>1,093,243</u>
NONCURRENT LIABILITIES				
Net Pension Liability	151,670	124,263	35,528	311,461
Bonds Payable	8,614,999	-	328,656	8,943,655
Total Noncurrent Liabilities	<u>8,766,669</u>	<u>124,263</u>	<u>364,184</u>	<u>9,255,116</u>
Total Liabilities	9,699,122	239,795	409,442	10,348,359
DEFERRED INFLOWS OF RESOURCES				
Pension Plans	28,055	22,985	6,572	57,612
NET POSITION				
Net Investment in Capital Assets	5,285,775	455,310	200,524	5,941,609
Unrestricted	350,478	363,111	418,423	1,132,012
Total Net Position	<u>\$ 5,636,253</u>	<u>\$ 818,421</u>	<u>\$ 618,947</u>	<u>\$ 7,073,621</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, 2019

	Sewer	Liquor	Fitness Center	Total
OPERATING REVENUES				
Service and Fees	\$ 1,264,692	\$ -	\$ 193,693	\$ 1,458,385
Sales	-	1,655,345	-	1,655,345
Total Operating Revenues	<u>1,264,692</u>	<u>1,655,345</u>	<u>193,693</u>	<u>3,113,730</u>
OPERATING EXPENSES				
Salaries and Benefits	280,404	232,324	78,439	591,167
Costs of Goods Sold	-	1,237,855	-	1,237,855
Supplies	31,545	5,481	5,904	42,930
Utilities	115,039	17,902	17,833	150,774
Other Services and Charges	43,604	6,521	6,466	56,591
Repairs and Maintenance	37,740	23,195	17,207	78,142
Depreciation	488,352	18,958	35,616	542,926
Miscellaneous	27,008	45,211	11,251	83,470
Total Operating Expenses	<u>1,023,692</u>	<u>1,587,447</u>	<u>172,716</u>	<u>2,783,855</u>
OPERATING INCOME	241,000	67,898	20,977	329,875
NONOPERATING REVENUES (EXPENSES)				
Refunds and Reimbursements	(2,533)	14,553	-	12,020
Interest and Investment Revenue	7,516	8,046	9,872	25,434
Amortization Expense	-	-	866	866
Interest Expense	(133,103)	-	(9,943)	(143,046)
Miscellaneous Revenue	250	-	-	250
Total Nonoperating Revenues (Expenses)	<u>(127,870)</u>	<u>22,599</u>	<u>795</u>	<u>(104,476)</u>
INCOME BEFORE TRANSFERS	113,130	90,497	21,772	225,399
TRANSFERS				
Transfers In	50,000	-	-	50,000
Transfers Out	-	(100,000)	(25,000)	(125,000)
Net Transfers	<u>50,000</u>	<u>(100,000)</u>	<u>(25,000)</u>	<u>(75,000)</u>
CHANGE IN NET POSITION	163,130	(9,503)	(3,228)	150,399
Net Position – Beginning of Year	<u>5,473,123</u>	<u>827,924</u>	<u>622,175</u>	<u>6,923,222</u>
NET POSITION – END OF YEAR	<u>\$ 5,636,253</u>	<u>\$ 818,421</u>	<u>\$ 618,947</u>	<u>\$ 7,073,621</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2019**

	Sewer	Liquor	Fitness Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,238,417	\$ 1,654,498	\$ 193,693	\$ 3,086,608
Payments to Employees	(291,627)	(239,032)	(59,724)	(590,383)
Payments to Suppliers	(263,406)	(1,368,293)	(72,709)	(1,704,408)
Net Cash Provided by Operating Activities	<u>683,384</u>	<u>47,173</u>	<u>61,260</u>	<u>791,817</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous Receipts	2,783	-	-	2,783
Transfers (In) Out	50,000	(100,000)	(25,000)	(75,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>52,783</u>	<u>(100,000)</u>	<u>(25,000)</u>	<u>(72,217)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Issuance of Long-Term Debt	839,243	-	-	839,243
Payments on Long-Term Debt	(845,000)	-	(25,000)	(870,000)
Purchase of Capital Assets	(358,800)	-	-	(358,800)
Interest Paid on Debt	(132,676)	-	(10,150)	(142,826)
Refunds and Reimbursements	(2,533)	14,553	-	12,020
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(499,766)</u>	<u>14,553</u>	<u>(35,150)</u>	<u>(520,363)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on Investments and Cash	7,516	8,046	9,872	25,434
NET CHANGE IN CASH AND CASH EQUIVALENTS	243,917	(30,228)	10,982	224,671
Cash and Cash Equivalents – Beginning of Year	42,818	350,775	452,091	845,684
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 286,735</u>	<u>\$ 320,547</u>	<u>\$ 463,073</u>	<u>\$ 1,070,355</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income	\$ 241,000	\$ 67,898	\$ 20,977	\$ 329,875
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	488,352	18,958	35,616	542,926
Deferred Outflows – Pension	15,808	14,985	3,337	34,130
Net Pension Liabilities	6,650	(5,259)	3,482	4,873
Deferred Inflows – Pension	(8,871)	(9,995)	(1,588)	(20,454)
Changes in Assets and Liabilities:				
Accounts Receivable	(26,275)	(847)	-	(27,122)
Inventory	-	(33,473)	-	(33,473)
Prepaid Items	(1,066)	(513)	(251)	(1,830)
Accounts Payable	(35,625)	1,858	(812)	(34,579)
Accrued Expense	3,411	(6,439)	499	(2,529)
Net Cash Provided by Operating Activities	<u>\$ 683,384</u>	<u>\$ 47,173</u>	<u>\$ 61,260</u>	<u>\$ 791,817</u>

See accompanying Notes to Financial Statements.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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.

Discrete Presentation 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. Separately issued financial statements are available for Blue Earth Board of Public Works and may be obtained by contacting the Board of Public Works.

Blended Presentation Component Unit

The Blue Earth Economic Development Authority (EDA) is an entity legally separate from the City. The EDA is governed by seven commissioners. At least two of the seven commissioners must be members of the City Council and will be appointed by the Mayor to serve as commissioners of the EDA. Although it is legally separate from the City, it is reported as a part of the City's operations as a major fund because the EDA provides services primarily to the City of Blue Earth and is acting to fulfill the City's comprehensive plan.

Blended Presentation Component Unit

The Housing and Redevelopment Authority of the City of Blue Earth, Minnesota (HRA) is an entity legally separate from the City. The HRA is governed by six commissioners who are appointed by the Mayor of the City of Blue Earth and confirmation by the City Council. Although it is legally separate from the City, it is reported as a part of the City's operations because the HRA provides services primarily to the City of Blue Earth. The HRA is comprised the Special Revenue Fund - Housing Loan Fund.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2019**

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 *General Obligation 2016A* debt service fund provides for the debt service of the 2016A 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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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 Blue Earth Board of Public Works have been set aside for rate stabilization 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 net realizable value. 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 30 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 29 and through December 20 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 20, 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, 2019**

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 and nonmajor governmental funds.

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, 2019**

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

Component Unit:

Buildings and Structures	20 to 50 Years
Generation	20 to 33 Years
Transmission System	20 to 33 Years
Distribution System	20 to 33 Years
General Equipment	5 to 20 Years
Vehicles	7 to 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 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, 2019**

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, 2019**

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, 2019**

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)

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, 2019, 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, 2019**

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, 2019, expenditures exceeded budget in the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source to Cover Excess Expenditures</u>
General Fund	\$ (155,567)	A portion of these expenditures were covered by proceeds from G.O. Improvement bonds of 2018, Series A, revenues which also exceeded budget, and existing fund balance.
Special Revenue Funds:		
EDA	(110,085)	Greater than Anticipated Revenues and Available Fund Balance covered these expenditures.
Airport	(9,709)	Federal Airport Improvement Grant covered these expenditures.

Deficit Fund Equity

The following governmental funds had deficit fund equity at December 31, 2019:

Special Revenue Fund:	
Airport	\$ (189,472)
Debt Service Fund:	
TIF 8-1	(6,553)
TIF 9-1	(116)
Total	<u>\$ (196,141)</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, 2019**

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, 2019, none of the City’s bank balances were exposed to custodial credit risk.

Investments

As of December 31, 2019, the City had the following investments:

Investment Type	Level 1	Level 2	Level 3	Total
Federal Home Loan Bank	\$ -	\$ 175,002	\$ -	\$ 175,002
Total Fair Value	<u>\$ -</u>	<u>\$ 175,002</u>	<u>\$ -</u>	<u>\$ 175,002</u>

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

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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, 2019, the City's Federal Home Loan Bank investments were rated AAA.

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 (58%).

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, 2019, 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	\$ 7,636,627
Investments	175,002
Certificates of Deposits	805,959
Total Cash and Investments	<u>\$ 8,617,588</u>
Cash and Investments	<u>\$ 8,617,588</u>
Total Cash and Investments	<u>\$ 8,617,588</u>

Receivables

The City's Housing Loan fund had notes receivable of \$292,762 at year-end. A balance of \$78,642 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 \$214,120 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 \$173,738 at year-end. Of this amount, \$137,197 represents loans due from businesses in monthly installments with rates of interest ranging from 1.5% 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, 2019**

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	\$ 3,136
Public Safety	132,615
Public Works	861,271
Airport	266,310
Culture and Recreation	144,707
Housing and Economic Development	53,170
Total Depreciation Expense	<u>\$ 1,461,209</u>

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 724,720	\$ -	\$ -	\$ 724,720
Construction in Progress	3,831,176	2,270,179	4,225,074	1,876,281
Total Capital Assets, Not Being Depreciated	4,555,896	2,270,179	4,225,074	2,601,001
Capital Assets Being Depreciated:				
Buildings	9,491,858	969,369	-	10,461,227
Road Network	34,779,473	3,292,293	-	38,071,766
Equipment	2,379,410	101,200	-	2,480,610
Vehicles	1,841,864	59,741	-	1,901,605
Total Capital Assets Being Depreciated	48,492,605	4,422,603	-	52,915,208
Less: Accumulated Depreciation for:				
Buildings	3,089,024	262,632	-	3,351,656
Road Network	12,855,787	992,369	-	13,848,156
Equipment	1,232,986	97,874	-	1,330,860
Vehicles	1,015,472	108,334	-	1,123,806
Total Accumulated Depreciation	18,193,269	1,461,209	-	19,654,478
Total Capital Assets Being Depreciated, Net	30,299,336	2,961,394	-	33,260,730
Governmental Activities Capital Assets, Net	<u>\$ 34,855,232</u>	<u>\$ 5,231,573</u>	<u>\$ 4,225,074</u>	<u>\$ 35,861,731</u>

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

Sewer	\$ 488,352
Fitness Center	35,616
Liquor	18,958
Total Depreciation Expense	<u>\$ 542,926</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2019 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	7,155,764	219,896	7,375,660	-
Total Capital Assets, Not Being Depreciated	7,374,799	219,896	7,375,660	219,035
Capital Assets Being Depreciated:				
Buildings and Infrastructure	10,149,607	7,375,660	-	17,525,267
Equipment	5,832,592	-	-	5,832,592
Total Capital Assets Being Depreciated	15,982,199	7,375,660	-	23,357,859
Less: Accumulated Depreciation for:				
Buildings and Infrastructure	5,722,069	384,058	-	6,106,127
Equipment	1,544,207	158,868	-	1,703,075
Total Accumulated Depreciation	7,266,276	542,926	-	7,809,202
Total Capital Assets Being Depreciated, Net	8,715,923	6,832,734	-	15,548,657
Governmental Activities Capital Assets, Net	<u>\$ 16,090,722</u>	<u>\$ 7,052,630</u>	<u>\$ 7,375,660</u>	<u>\$ 15,767,692</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Component Unit				
Capital Assets Not Being Depreciated:				
Land	\$ 140,526	\$ -	\$ -	\$ 140,526
Capital Assets Being Depreciated:				
Production Equipment	5,666,426	651	-	5,667,077
Transmission Equipment	2,571,546	-	-	2,571,546
Distribution Equipment	18,833,397	328,372	138,248	19,023,521
General Equipment	4,565,137	131,138	2,099	4,694,176
Total Capital Assets Being Depreciated	31,636,506	460,161	140,347	31,956,320
Less: Accumulated Depreciation for:				
Production Equipment	3,220,824	168,755	-	3,389,579
Transmission Equipment	2,138,476	28,617	-	2,167,093
Distribution Equipment	7,428,469	518,886	138,248	7,809,107
General Equipment	2,419,597	208,806	2,099	2,626,304
Total Accumulated Depreciation	15,207,366	925,064	140,347	15,992,083
Total Capital Assets Being Depreciated, Net	16,429,140	(464,903)	-	15,964,237
Governmental Activities Capital Assets, Net	<u>\$ 16,569,666</u>	<u>\$ (464,903)</u>	<u>\$ -</u>	<u>\$ 16,104,763</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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%	\$ 1,856,700
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%	385,000
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%	692,090
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%	38,398
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%	1,696,815
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%	1,020,000
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%	595,000
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%	956,250
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%	2,107,560

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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 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%	\$ 2,698,632
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%	350,000
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%	305,000
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%	392,000
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%	745,000
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%	280,000
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%	246,000
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%	194,000
USDA Promissory Note of \$180,000, due in annual installments of \$2,544 to \$13,100 through February 26, 2029.	4.0%	102,178
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%	3,359,328
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%	6,876,771
G.O. Improvement Bonds of 2019, Series A, of \$1,990,000 due in annual installments of \$95,000 to \$160,000 through February 1, 2035.	2.0% to 4.0%	<u>1,990,000</u>
Total General Obligations Bond and Notes Payable		<u>\$ 26,886,722</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

Interest
Rates

Amounts

Electric Fund

\$426,000 Master Tax Exempt Lease of 2013, Series A, due in monthly installments of \$7,407. The purpose of this issue was to improve the Electric infrastructure.

1.68%

\$ 40,849

\$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%

78,850

\$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%

178,495

Total Electric Fund

298,194

Water Fund

\$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%

26,672

\$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%

15,914

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.

0.5% to 3.375%

282,910

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%

787,440

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.

0.4% to 2.55%

11,603

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%

126,000

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%

504,000

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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)

	Interest Rates	Amounts
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.	2.0% to 2.65%	\$ 233,184
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.	3.0% to 3.75%	168,750
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%	475,640
\$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%	16,514
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%	183,300
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, 2034. This is the component unit's share of the bonds with the City.	3.0% to 3.25%	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%	315,000
Total Water Fund		3,872,599
Total Discretely Presented Component Unit General Obligation Bonds and Lease Payable		\$ 4,170,793

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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
2020	\$ 1,299,910	\$ 411,083	\$ 873,772	\$ 144,720	\$ 595,355	\$ 106,707
2021	1,397,542	367,577	700,000	132,082	443,849	94,409
2022	1,452,247	332,999	710,000	121,690	411,224	83,361
2023	1,341,908	298,548	720,000	110,982	362,574	73,515
2024	1,386,446	265,137	727,000	100,070	371,507	63,547
2025-2029	6,617,479	794,057	2,933,000	344,664	1,488,935	170,271
2030-2034	3,112,419	179,806	2,543,000	164,158	497,349	28,290
2035-2039	470,000	27,650	601,999	33,545	-	-
Total	<u>\$ 17,077,951</u>	<u>\$ 2,676,857</u>	<u>\$ 9,808,771</u>	<u>\$ 1,151,911</u>	<u>\$ 4,170,793</u>	<u>\$ 620,100</u>

Changes in Long-Term Liabilities. During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Balance January 1 (as restated)	Additions	Reductions	Balance December 31	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 16,148,184	\$ 1,990,000	\$ 1,162,411	\$ 16,975,773	\$ 1,299,910
Bond Premium	186,504	70,897	15,375	242,026	-
Total Bonds Payable	16,334,688	2,060,897	1,177,786	17,217,799	1,299,910
Note Payable	111,021	-	8,843	102,178	9,237
Compensated Absences	61,088	15,595	8,110	68,573	68,573
Governmental Activities					
Long-Term Liabilities	<u>\$ 16,506,797</u>	<u>\$ 2,076,492</u>	<u>\$ 1,194,739</u>	<u>\$ 17,388,550</u>	<u>\$ 1,377,720</u>
Business-Type Activities					
Bonds Payable:					
G.O. Revenue Bonds	\$ 9,839,528	\$ 839,243	\$ 870,000	\$ 9,808,771	\$ 873,772
Bond Premium	9,522	-	866	8,656	-
Total Bonds Payable	9,849,050	839,243	870,866	9,817,427	873,772
Compensated Absences	26,626	5,198	8,421	23,403	23,403
Business-Type Activities					
Long-Term Liabilities	<u>\$ 9,875,676</u>	<u>\$ 844,441</u>	<u>\$ 879,287</u>	<u>\$ 9,840,830</u>	<u>\$ 897,175</u>
Discretely Presented					
Component Unit:					
G.O. Revenue Bonds	\$ 4,794,865	\$ -	\$ 624,072	\$ 4,170,793	\$ 595,355
Compensated Absences	104,551	-	4,679	99,872	99,872
Discretely Presented					
Component Unit:					
Long-Term Liabilities	<u>\$ 4,899,416</u>	<u>\$ -</u>	<u>\$ 628,751</u>	<u>\$ 4,270,665</u>	<u>\$ 695,227</u>

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

Interfund Balances and Transfers

Interfund transfers and balances for the year ended December 31, 2019 consisted of the following:

Transferred from	Transferred to					Total
	General Fund	General Obligation 2014A	General Obligation 2016A	Other Governmental Funds	Enterprise Fund Sewer	
General Fund	\$ -	\$ 50,000	\$ 50,000	\$ 200,000	\$ 50,000	\$ 350,000
Economic Development Authority	-	-	-	1,543	-	1,543
Enterprise Fund – Liquor	100,000	-	-	-	-	100,000
Enterprise Fund - Fitness Center	25,000	-	-	-	-	25,000
Total	\$ 125,000	\$ 50,000	\$ 50,000	\$ 201,543	\$ 50,000	\$ 476,543

Due from	Due to
	General Fund
Airport Fund	\$ 201,860
Total	\$ 201,860

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.
- The Fitness Center Fund transferred funds to the General Fund for the pool slide project.
- The Airport fund has a due to the general fund as it is awaiting future financing for on-going projects.

Fund Balances and Restricted for Other Purposes Net Position

Fund Balances as of December 31, 2019:

	General Fund	Economic Development Authority	Airport Fund	Capital Projects	General Obligation 2014A	General Obligation 2016A	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:								
Land Held for Resale	\$ -	\$ 152,038	\$ -	\$ -	\$ -	\$ -	\$ 109,251	\$ 261,289
Prepaid Items	33,071	475	13,598	-	-	-	-	47,144
Total Nonspendable	33,071	152,513	13,598	-	-	-	109,251	308,433
Reserved:								
Debt Service	-	-	-	-	272,675	185,217	2,417,431	2,875,323
Economic Development	-	297,657	-	-	-	-	461,843	759,500
Capital Projects	39,645	-	-	645,930	-	-	-	685,575
Total Reserved	39,645	297,657	-	645,930	272,675	185,217	2,879,274	4,320,398
Assigned:								
Special Purpose	17,143	-	-	-	-	-	-	17,143
Public Safety	11,994	-	-	-	-	-	-	11,994
Street Infrastructure	696,907	-	-	-	-	-	-	696,907
Senior Donation	18,040	-	-	-	-	-	-	18,040
Total Assigned	744,084	-	-	-	-	-	-	744,084
Unassigned	2,023,020	-	(203,070)	-	-	-	(6,669)	1,813,281
Total Fund Balance	\$ 2,839,820	\$ 450,170	\$ (189,472)	\$ 645,930	\$ 272,675	\$ 185,217	\$ 2,981,856	\$ 7,186,196

**CITY OF BLUE EARTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

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

Fund Balances and Restricted for Other Purposes Net Position (Continued)

Restricted net position for Other Purposes Balance in Net Position as of December 31, 2019:

Restricted for EDA	\$ 625,901
Restricted for Housing Loan	863,858
Total	<u>\$ 1,489,759</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 2019 was \$193,469.

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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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. GERS 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. 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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. PEPFP Benefits (Continued)

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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 2019 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, 2019 were \$81,272. The City's contributions were equal to the required contributions as set by state statute.

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 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019 were \$52,375. 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, 2019, the City reported a liability of \$845,903 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 2019. 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 \$26,332. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0151%, which was no change from its proportion measured as of June 30, 2018.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

For the year ended December 31, 2019, the City recognized pension expense of \$112,474 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,972 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, 2019, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 23,443	\$ -
Changes in Actuarial Assumptions	-	66,489
Difference Between Projected and Actual Investment Earnings	-	85,742
Change in Proportion and Differences Between Contributions Made and City's Proportionate Share of Contributions	12,396	4,098
City's Contributions to GERF Subsequent to the Measurement Date	29,558	-
Total	\$ 65,397	\$ 156,329

\$29,558 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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Amount
2020	\$ (44,581)
2021	(63,448)
2022	(13,823)
2023	1,362
Total	\$ (120,490)

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$319,381 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion was 0.0300%, which is an increase of 0.0019% from its proportion measured as of June 30, 2018. The City also recognized \$4,050 for the year ended December 31, 2019, 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 until the plan is 90% funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$64,332 for its proportionate share of the PEPFF's pension expense.

At December 31, 2019, 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	\$ 13,561	\$ 48,613
Changes in Actuarial Assumptions	265,035	358,566
Difference Between Projected and Actual		
Investment Earnings	-	66,519
Change in Proportion and Differences Between Contributions Made and City's Proportionate Share of Contributions	31,226	13,304
City's Contributions to PEPFF Subsequent to the Measurement Date	16,856	-
Total	\$ 326,678	\$ 487,002

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$16,856 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ (19,263)
2021	(40,769)
2022	(124,552)
2023	2,350
2024	5,054
Total	<u>\$ (177,180)</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

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

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, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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 geometric 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 Equity	35.5 %	5.10%
Private Markets	25.0	5.90%
Fixed Income	20.0	75.00%
International Equity	17.5	5.90%
Cash Equivalents	2.0	0.00%
Totals	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50%. 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, the Police and Fire Fund, and the Correctional 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.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

<u>Description</u>	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's Proportionate Share of the General Employee's Plan Net Pension Liability	\$ 1,390,619	\$ 845,903	\$ 396,132
City's Proportionate Share of the Police and Fire Plan Net Pension Liability	\$ 698,106	\$ 319,381	\$ 6

H. Aggregate Pension Costs

At December 31, 2019, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

	<u>General Employees Retirement Plan</u>	<u>Public Employees Police and Fire Fund</u>	<u>Total</u>
Net Pension Liability	\$ 845,903	\$ 319,381	\$ 1,165,284
Deferred Outflows of Resources	65,397	326,678	392,075
Deferred Inflows of Resources	156,329	487,002	643,331
Pension Expense	114,446	64,332	178,778

I. Pension Plan Fiduciary Net Position

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

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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.

Property and casualty insurance is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portion of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements.

The City continues to carry commercial insurance for all other risks of loss, including disability and employee health insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Contingencies

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

NOTE 7 PRIOR PERIOD ADJUSTMENT

During the year, the City discovered it had overstated the amount of previously reported long-term debt in the governmental activities. Accordingly, the amount reported for net position in governmental activities has been restated as of January 1, 2019 to correct the error. The impact of this restatement is as follows:

	Net Position As Previously Reported	Restatement	Net Position As Restated
Governmental Activities	\$ 27,013,384	\$ 725,672	\$ 27,739,056

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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, 2019**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes:				
Property	\$ 602,011	\$ 602,011	\$ 483,590	\$ (118,421)
Franchise	267,250	267,250	268,022	772
Special Assessments	2,500	2,500	3,638	1,138
Licenses and Permits	30,578	30,578	37,983	7,405
Intergovernmental Revenue:				
Local Government Aid	1,879,970	1,879,970	1,879,970	-
Sales Tax Revenue		-	37,242	37,242
Residential Market Value Credit	1,000	1,000	690	(310)
Other State Aids and Grants	87,832	87,832	90,644	2,812
Police Aid	42,000	42,000	45,798	3,798
Fire Aid	32,000	32,000	30,971	(1,029)
Charges for Services:				
General Government	11,200	11,200	12,151	951
Police and Fire Contracts	45,060	45,060	54,372	9,312
Garbage and Recycling	105,000	105,000	107,377	2,377
Parks and Recreation	61,000	61,000	65,287	4,287
Storm Water	85,000	85,000	81,873	(3,127)
Fines and Forfeits	3,200	3,200	555	(2,645)
Interest Earnings	45,000	45,000	93,124	48,124
Miscellaneous Revenue:				
Rental	18,024	18,024	26,112	8,088
Miscellaneous	51,750	51,750	75,913	24,163
Donations	-	-	60,474	60,474
Total Revenues	<u>3,370,375</u>	<u>3,370,375</u>	<u>3,455,786</u>	<u>85,411</u>
EXPENDITURES				
General Government:				
Mayor and Council	29,655	29,655	32,369	(2,714)
Administration and Finance	318,528	318,528	335,336	(16,808)
Other General Government	75,950	75,950	89,024	(13,074)
Public Safety:				
Police:				
Current Expenditures	622,704	622,704	656,516	(33,812)
Capital Outlay	4,500	4,500	8,684	(4,184)
Fire:				
Current Expenditures	194,100	194,100	190,413	3,687
Capital Outlay	80,000	80,000	19,024	60,976
Public Works:				
Streets and Highways:				
Street Maintenance	907,968	907,968	1,022,654	(114,686)
Sanitation and Health	34,175	34,175	31,675	2,500
Street Lighting	75,000	75,000	28,465	46,535
Street – Other Capital Outlay	40,150	40,150	116,319	(76,169)

**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
EXPENDITURES (CONTINUED)				
Culture and Recreation:				
Library – Current Expenditures	\$ 193,531	\$ 193,531	\$ 203,945	\$ (10,414)
Library – Capital Outlay	500	500	-	500
Senior Center – Current Expenditures	86,392	86,392	91,474	(5,082)
Senior Center – Capital Outlay	750	750	500	250
Swimming Pool – Current Expenditures	149,547	149,547	138,060	11,487
Swimming Pool – Capital Outlay	95,000	95,000	105,345	(10,345)
Storm Water:				
Current Expenditures	25,000	25,000	30,980	(5,980)
Capital Outlay	-	-	17,488	(17,488)
Debt Service:				
Principal	8,843	8,843	8,843	-
Interest	4,681	4,681	4,681	-
All Other – Current Expenditures	136,441	136,441	107,187	29,254
Total Expenditures	<u>3,083,415</u>	<u>3,083,415</u>	<u>3,238,982</u>	<u>(155,567)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	286,960	286,960	216,804	(70,156)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	(500)	(500)	2,165	2,665
Transfers In	(100,000)	(100,000)	125,000	225,000
Transfers Out	365,000	365,000	(350,000)	(715,000)
Total Other Financing Sources (Uses)	<u>264,500</u>	<u>264,500</u>	<u>(222,835)</u>	<u>(487,335)</u>
NET CHANGE IN FUND BALANCES				
	<u>\$ 551,460</u>	<u>\$ 551,460</u>	(6,031)	<u>\$ (557,491)</u>
Fund Balances – Beginning of Year			<u>2,845,851</u>	
FUND BALANCES – END OF YEAR			<u>\$ 2,839,820</u>	

**CITY OF BLUE EARTH, MINNESOTA
BUDGETARY COMPARISON SCHEDULES
EDA AND AIRPORT FUNDS
YEAR ENDED DECEMBER 31, 2019**

EDA FUND

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
Property Taxes	\$ 72,000	\$ 72,000	\$ 72,613	\$ 613
Federal Grants	-	-	13,543	13,543
Charges for Services	3,479	3,479	46,286	42,807
Rent Payments	261,000	261,000	277,278	16,278
Interest Received	-	-	6,382	6,382
Miscellaneous	20,000	20,000	28,350	8,350
Total Revenues	<u>356,479</u>	<u>356,479</u>	<u>444,452</u>	<u>87,973</u>
EXPENDITURES				
Economic Development	348,215	348,215	451,705	(103,490)
Capital Outlay	-	-	6,595	(6,595)
Total Expenditures	<u>348,215</u>	<u>348,215</u>	<u>458,300</u>	<u>(110,085)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	8,264	8,264	(13,848)	(22,112)
OTHER FINANCING SOURCES (USES)				
Sale of Assets	-	-	4,878	4,878
Transfers Out	-	-	(1,543)	(1,543)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>3,335</u>	<u>3,335</u>
NET CHANGE IN FUND BALANCES				
	<u>\$ 8,264</u>	<u>\$ 8,264</u>	(10,513)	<u>\$ (18,777)</u>
Fund Balances – Beginning of Year			<u>460,683</u>	
FUND BALANCES – END OF YEAR			<u>\$ 450,170</u>	

AIRPORT FUND

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES				
State Aid and Grants	\$ 17,500	\$ 17,500	\$ 20,078	\$ 2,578
Charges for Services	87,300	87,300	88,486	1,186
Total Revenues	<u>104,800</u>	<u>104,800</u>	<u>108,564</u>	<u>3,764</u>
EXPENDITURES				
Airport – Current	87,150	87,150	96,859	(9,709)
Total Expenditures	<u>87,150</u>	<u>87,150</u>	<u>96,859</u>	<u>(9,709)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>\$ 17,650</u>	<u>\$ 17,650</u>	11,705	<u>\$ (5,945)</u>
Fund Balances – Beginning of Year			<u>(201,177)</u>	
FUND BALANCES – END OF YEAR			<u>\$ (189,472)</u>	

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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, 2019

Pension Plan	Measurement Date	City's Proportion of the Net Pension Liability (Asset) (Percentage)	City's Proportionate Share of the Net Pension Liability (Asset) (Amount) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (Amount) (b)	Total (d) (a+b)	City's Covered Payroll (e)	City's 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	06/30/19	0.0153%	\$ 845,903	\$ 26,332	\$ 872,235	\$ 1,081,741	80.6%	80.2%
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	06/30/19	0.0300%	319,381	N/A	319,381	316,910	100.8%	89.3%
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)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
GERF	12/31/19	\$ 81,272	\$ 81,272	\$ -	\$ 1,081,741	7.5%
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	12/31/19	52,375	52,375	-	316,910	16.5%
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%

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**CITY OF BLUE EARTH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

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, 2019, 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, 2019, expenditures exceed budget in the following funds:

Fund	Amount	Funding Source to Cover Excess Expenditures
General Fund	\$ (155,567)	A portion of these expenditures were covered by proceeds from G.O. Improvement bonds of 2018, Series A, revenues which also exceeded budget, and existing fund balance.
Special Revenue Funds:		
EDA	(110,085)	Greater than Anticipated Revenues and Available Fund Balance covered these expenditures.
Airport	(9,709)	Federal Airport Improvement Grant covered these expenditures.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

NOTE 3 CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the years ended June 30:

A. General Employees Fund

2019

The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017

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

2016

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

B. Police and Fire Fund

2019

The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

NOTE 3 CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2017

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33.00% for vested members and 2.0% for nonvested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00% to 60.00%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.60% per annum to 7.50% per annum.

2016

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%.
- The single discount rate was changed from 7.9% to 7.5%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**CITY OF BLUE EARTH, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

NOTE 3 CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

B. Police and Fire Fund (Continued)

2015

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2037 and 2.50% per year thereafter.

The following changes were reflected in the valuation performed for the City's OPEB Plan for the year ended December 31:

2019

- The discount rate was changed from 3.31% to 3.71%.
- The medical trend rate was changed from 6.90% decreasing to 4.40% in 2075, to 6.30% decreasing to 4.40% in 2075.

2018

- The discount rate was changed from 6.75% to 6.50%.
- The inflation rate was changed from 3.78% to 2.75%.

SUPPLEMENTAL SCHEDULES

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**CITY OF BLUE EARTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUND
DECEMBER 31, 2019**

	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 2018A	General Obligation 2019A	TIF 7-1	TIF 6-1	TIF 8-1		TIF 9-1
ASSETS														
Cash and Investments	\$ 664,009	\$ 100,886	\$ 88,359	\$ 562,741	\$ 420,242	\$ 48,573	\$ 358,662	\$ 161,261	\$ 29,745	\$ 3,989	\$ 1,376	\$ (6,553)	\$ (116)	\$ 2,433,174
Receivables:														
Taxes	2,597	3,105	2,368	1,723	1,994	2,181	5,045	4,125	-	-	-	-	-	23,138
Special Assessments	183,009	-	26,612	214,173	149,207	258,921	247,126	320,187	-	-	-	-	-	1,399,235
Total Assets	<u>\$ 849,615</u>	<u>\$ 103,991</u>	<u>\$ 117,339</u>	<u>\$ 778,637</u>	<u>\$ 571,443</u>	<u>\$ 309,675</u>	<u>\$ 610,833</u>	<u>\$ 485,573</u>	<u>\$ 29,745</u>	<u>\$ 3,989</u>	<u>\$ 1,376</u>	<u>\$ (6,553)</u>	<u>\$ (116)</u>	<u>\$ 3,855,547</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE														
LIABILITIES														
Accounts Payable	\$ 200	\$ 200	\$ 700	\$ 200	\$ 200	\$ 200	\$ 200	\$ 199	\$ 27,873	\$ -	\$ -	\$ -	\$ -	\$ 29,972
DEFERRED INFLOW OF RESOURCES														
Unavailable Revenue	183,370	2,327	28,440	215,066	151,065	260,593	250,941	323,011	-	-	-	-	-	1,414,813
FUND BALANCE														
Restricted	666,045	101,464	88,199	563,371	420,178	48,882	359,692	162,363	1,872	3,989	1,376	-	-	2,417,431
Unassigned	-	-	-	-	-	-	-	-	-	-	-	(6,553)	(116)	(6,669)
Total Fund Balance	<u>666,045</u>	<u>101,464</u>	<u>88,199</u>	<u>563,371</u>	<u>420,178</u>	<u>48,882</u>	<u>359,692</u>	<u>162,363</u>	<u>1,872</u>	<u>3,989</u>	<u>1,376</u>	<u>(6,553)</u>	<u>(116)</u>	<u>2,410,762</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 849,615</u>	<u>\$ 103,991</u>	<u>\$ 117,339</u>	<u>\$ 778,637</u>	<u>\$ 571,443</u>	<u>\$ 309,675</u>	<u>\$ 610,833</u>	<u>\$ 485,573</u>	<u>\$ 29,745</u>	<u>\$ 3,989</u>	<u>\$ 1,376</u>	<u>\$ (6,553)</u>	<u>\$ (116)</u>	<u>\$ 3,855,547</u>

**CITY OF BLUE EARTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – NONMAJOR DEBT SERVICE FUNDS
YEAR ENDED DECEMBER 31, 2019**

	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 2018A	General Obligation 2019A	TIF 7-1	TIF 6-1	TIF 8-1		TIF 9-1
REVENUES														
Property Taxes	\$ 234,775	\$ 82,337	\$ 50,959	\$ 50,431	\$ 5,890	\$ 59,237	\$ 138,555	\$ 139,558	\$ -	\$ 7,430	\$ -	\$ -	\$ -	\$ 769,172
Special Assessments	32,451	-	5,787	42,855	16,988	42,106	52,683	60,229	-	-	-	-	-	253,099
Interest Earnings	11,286	1,194	1,272	11,148	9,092	(951)	5,203	1,641	73	103	30	(146)	-	39,945
Total Revenues	<u>278,512</u>	<u>83,531</u>	<u>58,018</u>	<u>104,434</u>	<u>31,970</u>	<u>100,392</u>	<u>196,441</u>	<u>201,428</u>	<u>73</u>	<u>7,533</u>	<u>30</u>	<u>(146)</u>	<u>-</u>	<u>1,062,216</u>
EXPENDITURES														
Miscellaneous – Current	200	200	200	200	200	200	200	152,990	-	7,431	-	-	116	161,937
Debt Service:														
Principal	241,066	65,000	120,000	88,635	34,558	135,000	187,042	-	-	-	-	-	-	871,301
Interest and Fiscal Charges	54,232	12,943	15,588	23,392	1,420	30,894	83,786	107,888	-	-	-	-	-	330,143
Bond Issuance Costs	500	500	500	500	500	500	500	500	39,883	-	-	-	-	43,883
Total Expenditures	<u>295,998</u>	<u>78,643</u>	<u>136,288</u>	<u>112,727</u>	<u>36,678</u>	<u>166,594</u>	<u>271,528</u>	<u>261,378</u>	<u>39,883</u>	<u>7,431</u>	<u>-</u>	<u>-</u>	<u>116</u>	<u>1,407,264</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,486)	4,888	(78,270)	(8,293)	(4,708)	(66,202)	(75,087)	(59,950)	(39,810)	102	30	(146)	(116)	(345,048)
OTHER FINANCING SOURCES (USES)														
Bond Premium	-	-	-	-	-	-	-	-	1,434	-	-	-	-	1,434
Bond Proceeds	-	-	-	-	-	-	-	-	40,248	-	-	-	-	40,248
Operating Transfers In	-	-	-	-	-	50,000	50,000	101,543	-	-	-	-	-	201,543
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>101,543</u>	<u>41,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243,225</u>
NET CHANGE IN FUND BALANCE	(17,486)	4,888	(78,270)	(8,293)	(4,708)	(16,202)	(25,087)	41,593	1,872	102	30	(146)	(116)	(101,823)
Fund Balance – Beginning of Year	<u>683,531</u>	<u>96,576</u>	<u>166,469</u>	<u>571,664</u>	<u>424,886</u>	<u>65,084</u>	<u>384,779</u>	<u>120,770</u>	<u>-</u>	<u>3,887</u>	<u>1,346</u>	<u>(6,407)</u>	<u>-</u>	<u>2,512,585</u>
FUND BALANCE – END OF YEAR	<u>\$ 666,045</u>	<u>\$ 101,464</u>	<u>\$ 88,199</u>	<u>\$ 563,371</u>	<u>\$ 420,178</u>	<u>\$ 48,882</u>	<u>\$ 359,692</u>	<u>\$ 162,363</u>	<u>\$ 1,872</u>	<u>\$ 3,989</u>	<u>\$ 1,376</u>	<u>\$ (6,553)</u>	<u>\$ (116)</u>	<u>\$ 2,410,762</u>

**CITY OF BLUE EARTH, MINNESOTA
 COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS AND
 TOTAL NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2019**

	Special Revenue Fund Housing Loan Fund	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	\$ 485,626	\$ 2,433,174	\$ 2,918,800
Receivables:			
Taxes	279	23,138	23,417
Special Assessments	-	1,399,235	1,399,235
Accounts	-	-	-
Notes	292,762	-	292,762
Land Held for Resale	109,251	-	109,251
	<u>\$ 887,918</u>	<u>\$ 3,855,547</u>	<u>\$ 4,743,465</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 23,751	\$ 29,972	\$ 53,723
Accrued Wages and Salaries	309	-	309
Total Liabilities	<u>24,060</u>	<u>29,972</u>	<u>54,032</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue	292,764	1,414,813	1,707,577
FUND BALANCES			
Nonspendable	109,251	-	109,251
Restricted	461,843	2,417,431	2,879,274
Unassigned	-	(6,669)	(6,669)
Total Fund Balances	<u>571,094</u>	<u>2,410,762</u>	<u>2,981,856</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 887,918</u>	<u>\$ 3,855,547</u>	<u>\$ 4,743,465</u>

**CITY OF BLUE EARTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

	<u>Special Revenue Fund Housing Loan Fund</u>	<u>Total Nonmajor Debt Service Funds</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Property Taxes	\$ 30,635	\$ 769,172	\$ 799,807
Special Assessments	-	253,099	253,099
Interest Received	11,019	39,945	50,964
Miscellaneous	<u>27,728</u>	-	<u>27,728</u>
Total Revenues	69,382	<u>1,062,216</u>	<u>1,131,598</u>
EXPENDITURES			
Economic Development – Current Expenditures	41,651	-	41,651
Economic Development – Capital Outlay	73,039	-	73,039
Miscellaneous – Current	-	161,937	161,937
Debt Service:			
Principal	-	871,301	871,301
Interest and Fiscal Charges	-	330,143	330,143
Bond Issuance Costs	<u>-</u>	<u>43,883</u>	<u>43,883</u>
Total Expenditures	<u>114,690</u>	<u>1,407,264</u>	<u>1,521,954</u>
OTHER FINANCING SOURCES			
Bond Premium	-	1,434	1,434
Bond Proceeds	-	40,248	40,248
Operating Transfers In	<u>-</u>	<u>201,543</u>	<u>201,543</u>
NET CHANGE IN FUND BALANCES	(45,308)	(101,823)	(147,131)
Fund Balances – Beginning of Year	<u>616,402</u>	<u>2,512,585</u>	<u>3,128,987</u>
FUND BALANCES – END OF YEAR	<u><u>\$ 571,094</u></u>	<u><u>\$ 2,410,762</u></u>	<u><u>\$ 2,981,856</u></u>



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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Blue Earth, Minnesota (the City) as of and for the year ended December 31, 2019, and have issued our report thereon dated August 12, 2020. Our report includes a reference to other auditors who audited the financial statements of Blue Earth Board of Public Works as described in our report on the City's financial statements. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Blue Earth are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2019.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of depreciation expense on capital assets is based on management's estimates of useful lives on those assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the compensated absences liability is based on management's estimates of accumulated hours and pay rates for City employees. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability is based on an actuarially determined calculation of the City's proportionate share of the net pension liability of cost-sharing multiple-employer pension plans sponsored by the Public Employees Retirement Association of Minnesota, in which the City participates. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We noted that the City has not recorded a liability for other postemployment benefits, which is estimated to be \$173,307 for governmental activities, \$28,211 for business-type activities, \$12,091 for sewer fund, \$8,060 for liquor fund, and \$8,060 for fitness center. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

The following material and immaterial misstatements detected as a result of audit procedures were corrected by management: adjustments to record pension activity, capital assets, land held for resale, notes receivable, accounts payable, property taxes, and special assessments.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated August 12, 2020.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other audit findings or issues

We have provided a separate letter to you dated August 12, 2020, communicating internal control related matters identified during the audit.

Audits of group financial statements

We have provided a separate letter to you dated August 12, 2020, communicating internal control related matters relevant to the group audit and identified by us or by a component auditor during the audit.

Quality of component auditor’s work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work.

Limitations on the group audit

There were no restrictions on our access to information of components or other limitations on the group audit.

Fraud or suspected fraud

No instances were identified of fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others in which a material misstatement of the group financial statements has or may have resulted from fraud.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Honorable Mayor and
Members of the City Council
City of Blue Earth, Minnesota
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With respect to the combining and individual nonmajor fund financial statements (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated August 12, 2020.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

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



CliftonLarsonAllen LLP

Rochester, Minnesota
August 12, 2020



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

In planning and performing our audit of the financial statements of City of Blue Earth (the City), Minnesota as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comment and suggestions regarding this matter is summarized below. This letter does not affect our report on the financial statements dated August 12, 2020, or our internal control communication dated August 12, 2020 which communicated material weaknesses in the City's internal control.

Lack of Unique Username and Passwords

During our legal compliance testing for the audit, we noted three employees were using the same PIN number for making electronic transfers from the City's bank account. Unique username and passwords by each employee making electronic transfers allows for identification of originator of the transaction and allows for termination of access rights when employees are no longer City employees. We recommend that the City have each employee making electronic transfers have a unique username and password.

We will review the status of this comment during our next audit engagement. We have already discussed this comment with various City personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter.

This communication is intended solely for the information and use of management, the Mayor, members of the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
August 12, 2020



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Blue Earth (the City), Minnesota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 12, 2020. Our report on the City's financial statements contains a qualified opinion on the governmental activities opinion unit because Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, has not been implemented with respect to the fire relief association. Our report on the City's financial statements includes a reference to other auditors who audited the financial statements of Blue Earth Board of Public Works as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 to be material weaknesses.

Compliance and Other Matters

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

City of Blue Earth's Responses to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Rochester, Minnesota
August 12, 2020



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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Blue Earth, Minnesota (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated August 12, 2020. Our report on the financial statements contains a qualified opinion on the governmental activities opinion unit because Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, has not been implemented with respect to the fire relief association. Our report includes a reference to other auditors who audited the financial statements of Blue Earth Board of Public Works as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of Minnesota Legal Compliance that are reported on separately by those auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

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Rochester, Minnesota
August 12, 2020

**CITY OF BLUE EARTH, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019**

PART I: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

2019-001 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles.

Condition: The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with accounting principles generally accepted in the United States of America.

Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

Cause: The City engages the audit firm to prepare the annual financial statements and related footnote disclosures. However, the City has reviewed and approved the annual financial statements and the related footnote disclosures.

Repeat Finding: This is a repeat finding in the immediately prior audit and was identified as finding 2018-001.

Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the City's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

**Views of
Responsible
Officials:**

There is no disagreement with the finding.

The City will continue to evaluate whether an internal control policy over financial reporting would be beneficial.

**CITY OF BLUE EARTH, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

PART I: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

2019-002	Material Audit Adjustments
Condition:	The audit firm proposed and the City posted to its general ledger journal entries to correct certain year-end account balances related to pension activity, capital assets, land held for resale, notes receivable, accounts payable, property taxes, and special assessments.
Criteria:	The City should be able to prevent or detect and correct a material misstatement in the annual financial statements including footnote disclosures in a timely manner.
Context:	Management has informed us that they do not have an internal control policy in place over the annual financial reporting process.
Effect:	The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the City's internal controls.
Cause:	The City engages the audit firm to propose such adjustments as are necessary to adjust accounts in accordance with accounting principles generally accepted in the United States of America. However, the entries are reviewed and approved prior to recording them.
Repeat Finding:	This is a repeat finding in the immediately prior audit and was identified as finding 2018-002.
Recommendation:	The City should continue to evaluate their internal processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with accounting principles generally accepted in the United States of America.
Views of Responsible Officials:	<p>There is no disagreement with the finding.</p> <p>The City will evaluate whether additional internal control policies should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with accounting principles generally accepted in the United States of America.</p>

PART II: FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE

There were no Minnesota Legal Compliance audit findings in the current year.