

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
BLUE EARTH, MINNESOTA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
BLUE EARTH, MINNESOTA  
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SECTION I

INTRODUCTORY SECTION

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
BLUE EARTH, MINNESOTA  
GENERAL INFORMATION

BOARD OF PUBLIC WORKS

	Term Expires First Business <u>Day in January</u>
CHAIRMAN - Lars Bierly	2017
VICE CHAIRMAN - Mark Loge	2019
SECRETARY - Dan Mensing	2019
BOARD MEMBER - Bernie Kriewall	2017
BOARD MEMBER - Tim Juba	2017
GENERAL MANAGER - Tim Stoner	Appointed-Indefinite

SECTION II  
FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Public Works  
Blue Earth Light & Water  
Blue Earth, Minnesota

**Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund, of the Board of Public Works, Blue Earth Light & Water, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Board of Public Works, Blue Earth Light & Waters' 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 misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Board of Public Works, Blue Earth Light & Water, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension reporting schedules on pages 28 - 29 be presented to supplement the basic financial statements. The Board of Public Works, Blue Earth Light & Water, has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Public Works, Blue Earth Light & Water's basic financial statements. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information as identified in the table of contents is the responsibility of management and was derived from and relates 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 by us. In our opinion, based on our audit, and the procedures performed as described above, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017 on our consideration of the Board of Public Works, Blue Earth Light & Water'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Dennis E. Oberloh, Ltd.  
Dennis E. Oberloh, Ltd.

May 15, 2017



BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	<u>Business-Type Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,366,927
Receivables:	
Customer Accounts Receivable	774,956
Contract Negotiation Expense - Current	46,743
Prepaid Expense	119,859
Inventory	487,420
Capital assets not being depreciated:	
Land	219,376
Other capital assets:	
Capital Assets	30,199,101
Accumulated Depreciation	(13,721,982)
Restricted Cash	417,344
Bond Discount - Net	35,303
Contract Negotiation Expense	15,581
Special Assessment Receivable	55,346
<b>TOTAL ASSETS</b>	<u>20,015,974</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to Pensions	<u>461,648</u>
<b>LIABILITIES</b>	
Accounts Payable	279,771
Other Accrued Expenses	45,477
Accrued Interest	41,026
Accrued Salaries	20,016
Due to City	390,635
Accrued Compensated Absences	90,913
Noncurrent liabilities:	
Due within one year	712,551
Due in more than one year	4,444,308
Patron's Meter Deposits	30,541
Unearned Revenue	484,982
Net Pension Liability	1,112,372
Post Retirement Benefits	47,402
Bond Premium - Net	8,097
<b>TOTAL LIABILITIES</b>	<u>7,708,091</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to Pensions	<u>129,019</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	11,149,656
Restricted for:	
Patron's Meter Deposits	30,541
Restricted for Projects Due to City	386,803
Unrestricted	1,073,512
<b>TOTAL NET POSITION</b>	<u>\$ 12,640,512</u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net Sources (Uses) and Changes in Net Position</u>
Business-Type Activities:	Charges for Services	Capital Grants and Contributions	Business-Type Activities Totals
Electric Utility	\$ 6,075,267	\$ -	\$ 144,997
Water Utility	<u>841,979</u>	<u>33,466</u>	<u>34,332</u>
Total Business-Type Activities	<u>6,917,246</u>	<u>33,466</u>	<u>179,329</u>
General Revenues:			
Rent Income			2,608
Interest Income			8,510
Other Income			160,854
Total General Revenues			<u>171,972</u>
Changes in Net Position			351,301
Net Position - January 1			12,289,211
Net Position - December 31			<u><u>\$ 12,640,512</u></u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2016

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,366,928	\$ -	\$ 1,366,928
Customer Accounts Receivable	543,195	231,760	774,955
Contract Negotiation Expense - Current	46,743	-	46,743
Due from Other Funds	96,146	-	96,146
Prepaid Expense	97,031	22,828	119,859
Inventory	461,870	25,550	487,420
Total Current Assets	<u>2,611,913</u>	<u>280,138</u>	<u>2,892,051</u>
<b>NONCURRENT ASSETS</b>			
Capital Assets			
Land	176,121	43,255	219,376
Capital Assets	19,894,451	10,304,650	30,199,101
Accumulated Depreciation	(10,409,173)	(3,312,809)	(13,721,982)
Net Capital Assets	<u>9,661,399</u>	<u>7,035,096</u>	<u>16,696,495</u>
Other Assets			
Restricted Cash	25,716	391,628	417,344
Bond Discount - Net	739	34,564	35,303
Contract Negotiation Expense	15,581	-	15,581
Special Assessment Receivable	-	55,346	55,346
Total Noncurrent Assets	<u>9,703,435</u>	<u>7,516,634</u>	<u>17,220,069</u>
<b>TOTAL ASSETS</b>	<u>12,315,348</u>	<u>7,796,772</u>	<u>20,112,120</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Pensions	<u>351,058</u>	<u>110,590</u>	<u>461,648</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 12,666,406</u>	<u>\$ 7,907,362</u>	<u>\$ 20,573,768</u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2016

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 270,421	\$ 9,350	\$ 279,771
Other Accrued Expenses	35,587	9,890	45,477
Due to City	3,832	386,803	390,635
Accrued Salaries	15,311	4,705	20,016
Due to Other Fund	-	96,146	96,146
Accrued Compensated Absences	66,810	24,103	90,913
Current Amount of Long-Term Debt	236,800	475,751	712,551
Accrued Interest	-	41,026	41,026
Total Current Liabilities	<u>628,761</u>	<u>1,047,774</u>	<u>1,676,535</u>
<b>LONG-TERM LIABILITIES</b>			
Post Retirement Benefits	38,871	8,531	47,402
Bonds Payable	472,636	3,971,672	4,444,308
Patron's Meter Deposits	25,716	4,825	30,541
Net Pension Liability	847,563	264,809	1,112,372
Unearned Revenue	22,955	462,027	484,982
Bond Premium - Net	-	8,097	8,097
Total Long-Term Liabilities	<u>1,407,741</u>	<u>4,719,961</u>	<u>6,127,702</u>
<b>TOTAL LIABILITIES</b>	<u>2,036,502</u>	<u>5,767,735</u>	<u>7,804,237</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	<u>98,301</u>	<u>30,718</u>	<u>129,019</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	8,948,141	2,201,515	11,149,656
Restricted	25,716	391,628	417,344
Unrestricted (Deficit)	1,557,746	(484,234)	1,073,512
Total Net Position	<u>10,531,603</u>	<u>2,108,909</u>	<u>12,640,512</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 12,666,406</u>	<u>\$ 7,907,362</u>	<u>\$20,573,768</u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
OPERATING REVENUES			
Sales	\$ 5,907,442	\$ 837,531	\$ 6,744,973
Transmission Revenue	275,177	-	275,177
Penalties	37,645	5,314	42,959
Total Operating Revenues	<u>6,220,264</u>	<u>842,845</u>	<u>7,063,109</u>
OPERATING EXPENSES			
Operational Expenses	3,979,944	147,768	4,127,712
Personnel Expenses	1,026,179	295,357	1,321,536
Fixed Expenses	745,804	261,967	1,007,771
Administrative Expenses	281,708	29,482	311,190
Total Operating Expenses	<u>6,033,635</u>	<u>734,574</u>	<u>6,768,209</u>
OPERATING INCOME	<u>186,629</u>	<u>108,271</u>	<u>294,900</u>
NON OPERATING INCOME AND EXPENSE			
Interest Income	7,458	1,055	8,513
Water Assessments	-	33,466	33,466
Other Income	158,685	2,166	160,851
Rent Income	2,608	-	2,608
Community Support Programs	(17,613)	(2,632)	(20,245)
Bond Issuance Costs	-	(4,800)	(4,800)
Interest Expense	(14,698)	(90,268)	(104,966)
Other Expense	(8,854)	(5,642)	(14,496)
Amortization of Bond Discount/Premium	(467)	(4,063)	(4,530)
Total Non Operating Income and Expense	<u>127,119</u>	<u>(70,718)</u>	<u>56,401</u>
CHANGE IN NET POSITION	313,748	37,553	351,301
NET POSITION - January 1	<u>10,217,855</u>	<u>2,071,356</u>	<u>12,289,211</u>
NET POSITION - December 31	<u>\$ 10,531,603</u>	<u>\$ 2,108,909</u>	<u>\$ 12,640,512</u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 6,179,167	\$ 774,509	\$ 6,953,676
Payments to Vendors	(4,345,880)	(188,055)	(4,533,935)
Payments to Employees	(975,906)	(282,941)	(1,258,847)
Other Receipts and Payments	<u>149,831</u>	<u>(3,476)</u>	<u>146,355</u>
Net Cash Provided By Operating Activities	<u>1,007,212</u>	<u>300,037</u>	<u>1,307,249</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Principal Received on Note Receivable	5,850	-	5,850
Cash Paid on Community Support	(17,613)	(2,632)	(20,245)
Rental Income	2,608	-	2,608
Due to (from) Other Funds	<u>(96,146)</u>	<u>96,146</u>	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(105,301)</u>	<u>93,514</u>	<u>(11,787)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of Capital Assets	(844,834)	(715,917)	(1,560,751)
Special Assessments	-	33,466	33,466
Net Proceeds from Bond Issuance	280,363	670,958	951,321
Principal Paid on Capital Debt	(214,853)	(417,411)	(632,264)
Interest Paid on Capital Debt	(14,698)	(99,610)	(114,308)
Due to City	<u>3,832</u>	<u>216,056</u>	<u>219,888</u>
Net Cash Used By Capital and Related Financing Activities	<u>(790,190)</u>	<u>(312,458)</u>	<u>(1,102,648)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Received	<u>7,458</u>	<u>1,055</u>	<u>8,513</u>
Net Cash Provided By Investing Activities	<u>7,458</u>	<u>1,055</u>	<u>8,513</u>
<b>NET INCREASE IN CASH</b>	119,179	82,148	201,327
<b>CASH AND CASH EQUIVALENTS - January 1</b>	<u>1,273,465</u>	<u>309,480</u>	<u>1,582,945</u>
<b>CASH AND CASH EQUIVALENTS - December 31</b>	<u>\$ 1,392,644</u>	<u>\$ 391,628</u>	<u>\$ 1,784,272</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and Investments per Statement of Net Position	\$ 1,366,928	\$ -	\$ 1,366,928
Restricted Cash and Investments per Statement of Net Position	<u>25,716</u>	<u>391,628</u>	<u>417,344</u>
<b>CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS</b>	<u>\$ 1,392,644</u>	<u>\$ 391,628</u>	<u>\$ 1,784,272</u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided			
By Operating Activities			
Operating Income	\$ 186,629	\$ 108,271	\$ 294,900
Adjustments to Reconcile Operating Income to Net Cash			
Provided By Operating Activities			
Depreciation	649,037	247,367	896,404
Noncash Pension Expense	58,840	18,456	77,296
Changes in Assets and Liabilities			
Accounts Receivable	(24,655)	(35,295)	(59,950)
Contract Negotiation Expense	46,743	-	46,743
Inventory	34,620	(6,490)	28,130
Prepaid Expenses	(12,051)	13,078	1,027
Accounts Payable	(55,906)	(119)	(56,025)
Other Accrued Expenses	(866)	(2,674)	(3,540)
Accrued Salaries	5,772	1,626	7,398
Accrued Compensated Absences	5,404	1,341	6,745
Other	(36,186)	(42,048)	(78,234)
Other Receipts and Payments	<u>149,831</u>	<u>(3,476)</u>	<u>146,355</u>
Net Cash Provided By Operating Activities	<u>\$ 1,007,212</u>	<u>\$ 300,037</u>	<u>\$ 1,307,249</u>

The Notes to the Financial Statements are an integral part of this statement.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Public Works, Blue Earth Light & Water (the Board) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Board are described below.

A. Reporting Entity

The Board is a component unit of the City of Blue Earth, Minnesota. It operates as an enterprise fund. These financial statements include only the enterprise funds that comprise the Board.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the non fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these financial statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) capital grants and contributions. Investment income and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

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

Funds are organized as major funds or non-major funds within the proprietary statements. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Board or meets the following criteria:

- a. Total assets, liabilities, revenues and expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all enterprise funds combined.
- c. In addition, any other fund that the Board believes is particularly important to the financial statement users may be reported as a major fund.



BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

The Board reports the following major enterprise funds:

- Electric Fund - This fund is used to account for the sales and related expenses for the electric services provided to the residents.
- Water Fund - This fund is used to account for the water distribution to residents and related expenses.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the Board's water and electric functions and various other functions of the Board. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 Board's enterprise funds are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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 Board's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Restricted Assets

Certain funds of the Board are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Board.

G. Deposits and Investments

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The Board provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated on the government-wide financial statements.

H. Accounts Receivable

Accounts receivable are recorded monthly as charges to customers are incurred. The Board considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is recorded. If accounts become uncollectible, they will be charged to operations when that determination is made.

I. Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County.

J. Inventories

Inventories are generally used for construction and for operation and maintenance work. They are valued at the lower of cost or market utilizing the first in/first out (FIFO) method and charged to construction or operation and maintenance expense when used.

K. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items includes prepaid insurance, prepaid software costs, water tower maintenance, engine maintenance and comprehensive water study. The costs of the water tower maintenance, engine maintenance and the comprehensive water study is being amortized over a five year period.

M. 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 column in the government-wide financial statements. The Board reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

As the Board constructs or acquires assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend it useful life beyond the original estimate. In the case of donations the Board values these capital assets at the estimated fair value of the item at the date of its donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

For financial statement purposes only, capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives: buildings and structures 20-50 years; generation 20-33 years; transmission system 20-33 years; distribution system 20-33 years; general equipment 5-20 years; and vehicles 7-20 years.

N. Compensated Absences

Payments for vacation, sick leave and compensatory time will be made at rates in effect when the benefits are used. Accumulated vacation, sick leave and compensatory time liabilities at December 31, 2016 are determined on the basis of current salary rates and include salary related payments. Amounts earned but not yet used totaled \$90,913 as of December 31, 2016.

O. Unearned Revenue

Unearned revenue consists of a refund from Alliant Energy for additional costs paid to purchase power during contract extension negotiation, and assessments for watermain improvements. Revenue from Alliant Energy is recognized on a straight line method, over the life of the contract, which runs through April 2018. Revenue from the assessments are recognized over the period of the applicable bond that was issued to finance the watermain improvements.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. Post Retirement Benefits

The Board has early retirement agreements with five former employees. The agreements include payouts of accumulated vacation and sick leave on the termination date, as well as continuation of medical insurance until age 65 (currently through August 2018). The insurance benefits are capped at \$550 per month, and were discounted to present value using a three percent interest rate. The liability for termination benefits at December 31, 2016 was \$47,402.

Q. Net Position

Net position represent the difference between assets and liabilities. Net position are displayed in three components:

- (a) Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- (b) Restricted net position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- (c) Unrestricted net position – All other assets that do not meet the definition of “restricted” or “net investment in capital assets”.

2. DEPOSITS AND INVESTMENTS

A. Cash and Cash Investments

Custodial Credit Risk - Custodial Credit Risk for deposits and investments is the risk that in the event of a bank failure the Board’s deposits and investments may not be returned or the Board will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes, the Board maintains deposits at the depository banks, which are authorized by the Board and are members of the Federal Reserve System.

Minnesota Statutes require that all Board deposits be 110% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (140% in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described by state statutes, as well as certain first mortgage notes, and certain other state and local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the Board or in a financial institution other than that furnishing the collateral.

At year end, the Commission’s carrying amount of deposits was \$1,783,971 and the bank balance was \$2,235,161. Of the bank balance, \$250,016 was covered by federal depository insurance. Of the remaining balance, \$1,985,145 was collateralized with securities held by the pledging financial institution’s trust department in the Commission’s name.

B. Investments

The Board maintains no investment accounts other than certificates of deposit reported above.

C. Cash on Hand

Cash in the possession of the Board, consisting of petty cash and change funds, totals \$300.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (Cont.)

D. Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Position follows:

Total Deposits	\$	1,783,971
Total Cash on Hand		<u>300</u>
		<u>\$ 1,784,271</u>
Statement of Net Position		
Cash and Cash Investments	\$	1,366,927
Restricted Assets		<u>417,344</u>
		<u>\$ 1,784,271</u>

E. Restricted Assets

Restricted cash is for the coverage of meter deposits and project costs due to City.

3. NOTES RECEIVABLE

The Board has issued loans to customers for improvements. There is a loan outstanding with Express Diagnostic International due in monthly installments of \$585 through October 15, 2016 at 0.0% interest. This loan is unsecured.

	<u>Balance</u>		<u>Loans</u>		<u>Loans</u>	<u>Balance</u>
	<u>January 1</u>		<u>Issued</u>		<u>Retired</u>	<u>December 31</u>
Note Receivable	\$ <u>5,851</u>	\$ -	\$ -	\$ <u>5,851</u>	\$ -	\$ -
	<u>\$ 5,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,851</u>	<u>\$ -</u>	<u>\$ -</u>

4. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2016, follows:

	<u>Due to Other</u>
	<u>Funds</u>
City of Blue Earth	\$ 390,635
Electric Fund	-
Water Fund	<u>96,146</u>
	<u>\$ 486,781</u>

The Electric Fund advanced \$96,146 of cash to the Water Fund for operating purposes. These funds will be liquidated with future available cash. The Water and Sewer Funds owe the City \$390,635 for project costs from the Main Street Project. These funds will be liquidated through restricted cash from bond proceeds.

5. UNEARNED CONTRACT REVENUE

Revenue recognition in connection with resources that have been received, but not yet earned are deferred in the Statement of Net Position as Unearned Contract Revenue. At the end of the current fiscal year, the various components of unearned revenue reported in the funds were as follows:

	<u>Unearned</u>
Electric Fund	
Unearned Contract Revenue	\$ 22,955
Water Fund	
Unearned Contract Revenue	<u>462,027</u>
Total	<u>\$ 484,982</u>

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 for the Electric Utility was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>December 31</u>
Not Being Depreciated:				
Land	\$ 176,121	\$ -	\$ -	\$ 176,121
Subtotal	<u>176,121</u>	<u>-</u>	<u>-</u>	<u>176,121</u>
Other Capital Assets:				
Production	4,286,826	71,165	-	4,357,991
Power Plant	1,139,460	85,249	-	1,224,709
Transmission	2,515,879	-	-	2,515,879
Distribution	9,799,673	326,968	-	10,126,641
General	<u>1,307,778</u>	<u>361,453</u>	<u>-</u>	<u>1,669,231</u>
Subtotal	<u>19,049,616</u>	<u>844,835</u>	<u>-</u>	<u>19,894,451</u>
Less: Accumulated Depreciation				
Production	1,848,521	147,784	-	1,996,305
Power Plant	820,783	26,746	-	847,529
Transmission	2,058,586	26,166	-	2,084,752
Distribution	4,450,223	363,727	-	4,813,950
General	<u>582,023</u>	<u>84,614</u>	<u>-</u>	<u>666,637</u>
Subtotal	<u>9,760,136</u>	<u>649,037</u>	<u>-</u>	<u>10,409,173</u>
Net Other Capital Assets	<u>9,289,480</u>	<u>195,798</u>	<u>-</u>	<u>9,485,278</u>
Net Electric Plant	<u>\$ 9,465,601</u>	<u>\$ 195,798</u>	<u>\$ -</u>	<u>\$ 9,661,399</u>

Capital asset activity for the year ended December 31, 2016 for the Water Utility was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>December 31</u>
Not Being Depreciated:				
Land	\$ 43,255	\$ -	\$ -	\$ 43,255
Subtotal	<u>43,255</u>	<u>-</u>	<u>-</u>	<u>43,255</u>
Other Capital Assets:				
Water Department	<u>9,588,733</u>	<u>715,917</u>	<u>-</u>	<u>10,304,650</u>
Subtotal	<u>9,588,733</u>	<u>715,917</u>	<u>-</u>	<u>10,304,650</u>
Less: Accumulated Depreciation				
Water Department	<u>3,065,442</u>	<u>247,367</u>	<u>-</u>	<u>3,312,809</u>
Subtotal	<u>3,065,442</u>	<u>247,367</u>	<u>-</u>	<u>3,312,809</u>
Net Other Capital Assets	<u>6,523,291</u>	<u>468,550</u>	<u>-</u>	<u>6,991,841</u>
Net Water Plant	<u>\$ 6,566,546</u>	<u>\$ 468,550</u>	<u>\$ -</u>	<u>\$ 7,035,096</u>

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS (Cont.)

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

Business-Type Activities:

Electric Fund	\$	649,037
Water Fund		<u>247,367</u>
Total Depreciation Expense - Business-Type Activities	\$	<u><u>896,404</u></u>

7. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Board for the year ended December 31, 2016.

	Balance <u>January 1</u>	<u>Debt Issued</u>	Debt <u>Retired</u>	Balance <u>December 31</u>	Current <u>Amount</u>
GO Improvement Bonds	\$ 2,715,263	\$ 207,975	\$ 162,122	\$ 2,761,116	\$ 191,244
GO Refunding Bonds	52,211	-	9,282	42,929	10,442
GO Revenue Note	944,000	404,000	76,000	1,272,000	97,000
Master Tax Exempt Lease	<u>1,121,528</u>	<u>344,146</u>	<u>384,859</u>	<u>1,080,815</u>	<u>413,865</u>
Totals	<u>\$ 4,833,002</u>	<u>\$ 956,121</u>	<u>\$ 632,263</u>	<u>\$ 5,156,860</u>	<u>\$ 712,551</u>

Bonds outstanding at December 31, 2016 are comprised of the following issues:

Electric Fund

\$426,000 Master Tax Exempt Lease of 2013A, due in monthly installments of \$7,407 including interest at 1.68%. The purpose of this issue was to improve the Electric infrastructure. \$ 131,575

\$479,966 Master Tax Exempt Lease of 2015, due in monthly installments of \$8,421 including interest at 2.04%. The purpose of this issue was to improve the Electric infrastructure. 332,983

\$280,363 Master Tax Exempt Lease of 2016, due in monthly installments of \$4,931 including interest at 2.12%. The purpose of this issue was to improve the Electric infrastructure. 244,878

Total Electric Fund 709,436

Water Fund

\$639,000 Master Tax Exempt Lease of 2013A, due in monthly installments of \$11,111 including interest at 1.68%. The purpose of this issue was to improve the water infrastructure. 197,363

\$170,394 Master Tax Exempt Lease of 2015, due in monthly installments of \$2,990 including interest at 2.04%. The purpose of this issue was to improve the water infrastructure. 118,556

Utilities share of \$2,140,000 GO Improvement Bond of 2010A, due in annual installments of \$32,305 to \$76,365 through February 1, 2026 plus interest at 0.5-3.375% due in semi-annual installments. The purpose of this issue is finance watermain improvements. 504,935

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN LONG-TERM DEBT (Cont.)

Utilities share of \$3,765,000 GO Improvement Bonds of 2014, due in annual installments of \$57,120 to \$82,960 through February 1, 2030 plus interest at 2.0-3.0% due in semi-annual installments. The purpose of this issue is finance watermain improvements. 966,960

Utilities share of \$370,000 GO Refunding Bond of 2011, due in annual installments of \$6,962 to \$11,603 through April 1, 2020 plus interest at 0.4-2.55% due in semi-annual installments. The purpose of this issue is to refund the 2004C bond on the Rice Street improvement project. 42,929

\$324,500 GO Revenue Note of 2007A, due in annual installments of \$6,500 to \$21,000 through August 20, 2026 plus interest at 2.57% due in semi-annual installments. The purpose of this issue was for the south watermain improvement project. 173,000

\$1,174,600 GO Revenue Note of 2007, due in annual installments of \$29,600 to \$77,000 through August 20, 2026 plus interest at 2.4% due in semi-annual installments. The purpose of this issue was construct a new water tower. 695,000

Utilities share of \$2,395,000 GO Improvement Bond of 2012A, due in annual installments of \$21,620 to \$29,340 through February 1, 2028 plus interest at 2.0-2.65% interest due in semi-annual installments. The purpose of this issue was to fund 10th Street and Galbraith Street improvements. 304,220

Utilities share of \$1,565,000 GO Improvement Bond of 2013B, due in annual installments of \$9,750 to \$19,500 through February 1, 2029 plus interest at 3.0-3.75% due in semi-annual installments. The purpose of this issue is to finance watermain improvements. 212,250

Utilities share of \$3,770,000 GO Improvement Bonds of 2015, due in annual installments of \$24,718 to \$46,441 through February 1, 2031 plus interest at 3.0% due in semi-annual installments. The purpose of this issue was for 2nd Street and North Industrial improvement project. 564,776

\$63,783 Master Tax Exempt Lease of 2016, due in monthly installments of \$1,119 including interest at 2.12%. The purpose of this issue was to improve the Water infrastructure. 55,459

Utilities share of \$1,475,000 GO Improvement Bonds of 2016A, due in annual installments of \$11,985 to \$15,510 through February 1, 2032 plus interest at 2.0-2.2%. The purpose of this issue was to improve the Water infrastructure. 207,975

\$404,000 GO Revenue Note of 2016, due in annual installments of \$20,000 to \$43,000 through February 1, 2027 plus interest at 2.5% due in semi-annual installments. The purpose of this issue was Water infrastructure improvements. 404,000

Total Water Fund 4,447,423

Total Long-Term Debt \$ 5,156,859



BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN LONG-TERM DEBT (Cont.)

The annual requirements to maturity for long-term liabilities are as follows:

	<u>Master Tax Exempt Lease Purchase Business-Type Activities</u>			<u>G.O. Refunding Bond Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 413,865	\$ 17,885	\$ 431,750	\$ 10,442	\$ 917	\$ 11,359
2018	310,760	9,881	320,641	10,442	695	11,137
2019	204,059	5,471	209,530	10,442	429	10,871
2020	128,036	1,620	129,656	11,603	148	11,751
2021	24,095	106	24,201	-	-	-
2022-2026	-	-	-	-	-	-
2027-2031	-	-	-	-	-	-
2032-2036	-	-	-	-	-	-
Total	<u>\$1,080,815</u>	<u>\$ 34,963</u>	<u>\$1,115,778</u>	<u>\$ 42,929</u>	<u>\$ 2,189</u>	<u>\$ 45,118</u>

	<u>GO Improvement Bonds Business-Type Activities</u>			<u>GO Revenue Notes Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 191,244	\$ 70,803	\$ 262,047	\$ 97,000	\$ 31,818	\$ 128,818
2018	216,499	67,229	283,728	114,000	28,428	142,428
2019	222,149	62,069	284,218	116,000	25,617	141,617
2020	223,485	56,727	280,212	120,000	22,759	142,759
2021	182,307	51,886	234,193	123,000	19,802	142,802
2022-2026	986,748	180,752	1,167,500	659,000	52,088	711,088
2027-2031	723,174	46,422	769,596	43,000	537	43,537
2032-2036	15,510	171	15,681	-	-	-
Total	<u>\$2,761,116</u>	<u>\$ 536,059</u>	<u>\$3,297,175</u>	<u>\$1,272,000</u>	<u>\$ 181,049</u>	<u>\$1,453,049</u>

Interest expense was charged to functions/programs of the Board as follows:

Business-Type Activities:	
Electric Fund	\$ 14,698
Water Fund	<u>90,268</u>
Total Interest Expense - Business-Type Activities	<u>\$ 104,966</u>

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

8. NET POSITION

Net position reported on the statement of net position at December 31, 2016 include the following:

Business-Type Activities

Net investment in capital assets

Land	\$ 219,376
Capital assets, net of accumulated depreciation	16,087,139
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(5,156,859)</u>
Total Invested in Capital Assets	<u>11,149,656</u>

Restricted

Patron's Meter Deposits	<u>30,541</u>
Total Restricted	<u>30,541</u>

Unrestricted

Total Business-Type Activities Net Position	<u>1,460,971</u>
	<u>\$ 12,641,168</u>

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The Blue Earth Light & Water, Minnesota 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 Fund (General Employees Plan (accounted for in the General Employees Fund))**

All full-time and certain part-time employees of the Blue Earth Light & Water, Minnesota are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

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

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

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

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

B. Benefits Provided (Cont.)

**1. General Employees Plan 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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.

C. Contributions

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

**1. General Employees Fund Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in 2016. The Blue Earth Light & Water, Minnesota was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The Blue Earth Light & Water, Minnesota contributions to the General Employees Fund for the year ended December 31, 2016, were \$59,956. The Blue Earth Light & Water, Minnesota contributions were equal to the required contributions as set by state statute.

D. Pension Costs

**1. General Employees Fund Pension Costs**

At December 31, 2016, the Blue Earth Light & Water, Minnesota reported a liability of \$1,112,372 for its proportionate share of the General Employees Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Blue Earth Light & Water, Minnesota proportion of the net pension liability was based on the Blue Earth Light & Water, Minnesota contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Blue Earth Light & Water, Minnesota proportion share was 0.0137% which was an decrease of 0.0002% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Blue Earth Light & Water, Minnesota recognized pension expense of \$151,587 for its proportionate share of the General Employees Plan's pension expense.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

D. Pension Costs (Cont.)

At December 31, 2016, the Blue Earth Light & Water, Minnesota reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 90,712
Changes in actuarial assumptions	217,803	-
Difference between projected and actual investment earnings	211,868	-
Changes in proportion	-	38,307
Contributions paid to PERA subsequent to the measurement date	<u>31,977</u>	<u>-</u>
Total	<u>\$ 461,648</u>	<u>\$ 129,019</u>

\$31,977 reported as deferred outflows of resources related to pensions resulting from Blue Earth Light & Water, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ (77,699)
2018	\$ (77,701)
2019	\$ (105,071)
2020	\$ (40,181)
2021	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

E. Actuarial Assumptions (Cont.)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for the Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

**General Employees Fund**

- The assumed post-retirement benefit increases rate was changed from 1 percent per year through 2035 and 2.5 percent per year thereafter to 1 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- 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 percent to 3.25 percent for payroll growth and 2.5 percent for inflation

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 combines to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	<u>2%</u>	0.50%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumption, the fiduciary net position of the General Employees Fund was 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.

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

9. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Cont.)

G. Pension Liability Sensitivity

The following presents the Blue Earth Light & Water, Minnesota 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 Blue Earth Light & Water, Minnesota proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
General Employees Fund:	\$ 1,579,898	\$ 1,112,372	\$ 727,258

H. 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](http://www.mnpera.org).

10. DEFINED CONTRIBUTION PLAN

Five members of the Board of Public Works of the City of Blue Earth, Minnesota are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer.

Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the Board of Public Works of the City of Blue Earth, Minnesota during fiscal year 2016 were:

<u>Contribution Amount</u>		<u>Required Percentage of Covered Payroll</u>	
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
\$ 508	\$ 508	5.0 %	5.0 %

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
NOTES TO FINANCIAL STATEMENTS

11. FRANCHISE FEE

During 1994 the Board and the City of Blue Earth agreed to a 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 by 0.0035 (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 hours. The payment for 2016 was \$194,662.

12. COMMITMENTS AND CONTINGENCIES

A. Risk Management

The Board is exposed to various risk of loss related to torts, thefts of, damage to or destruction of assets, business interruption, errors and omissions, employee injuries and illness, and natural disasters for which the Board carries insurance. The Board has joined together with other cities and utilities in the Minnesota Cities Insurance Trust Self-Insured Workers Compensation Plan and the General Property and Casualty Insurance Plan. These are public entity risk pools currently operating as common risk management and insurance program for member cities and utilities. Premiums are used to purchase reinsurance through commercial companies.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The Board's management is not aware of any incurred but not reported claims.

B. Claims and Judgments

From time to time, the Board is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Board's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Board's financial position or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION



BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
SCHEDULE OF PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2016

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset)	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.0137 %	1,112,372	850,440	130.80 %	68.90 %
June 30, 2015	0.0139 %	720,370	818,011	88.06 %	78.19 %

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2016

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contributions Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
December 31, 2016	\$ 63,911	\$ 63,911	-	\$ 852,147	7.50 %
December 31, 2015	\$ 59,956	\$ 59,956	-	\$ 799,413	7.50 %

SUPPLEMENTARY INFORMATION

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES

Operating Revenues	\$
Sales	<u>5,907,442</u>
Total Sales of Electricity	<u>5,907,442</u>
Penalties	37,645
Transmission Revenue	<u>275,177</u>
Total Other Operating Revenues	<u>312,822</u>
Total Operating Revenues	<u>6,220,264</u>

OPERATING EXPENSES

Operational Expenses	
Interdepartment Charges	(18,060)
Purchased Power	2,726,523
Transmission	583,691
Capacity	223,020
Franchise Tax and Other Fees	194,662
Fuel	9,281
Repairs and Maintenance	174,337
Supplies	6,458
Training	4,691
Tools	12,426
Utilities	17,518
Transportation Expense	24,112
Safety Expense	<u>21,285</u>
Total Operational Expenses	<u>3,979,944</u>
Personnel Expenses	
Salaries and Wages	672,069
Payroll Tax	48,042
Group Health and Life Insurance	179,170
Pension and Incentives	108,745
Other Employer Expense	<u>18,153</u>
Total Personnel Expenses	<u>1,026,179</u>
Fixed Expenses	
Insurance	90,735
Depreciation	649,037
Lease and Rental	<u>6,032</u>
Total Fixed Expenses	<u>745,804</u>

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING EXPENSES (Cont.)

Administrative Expenses

Advertising and Promotion	8,314
Bad Debt Expense	6,924
Bank Charges and Credit Card Fees	6,908
Computer and Data Processing	37,707
Conservation/Rebate Program	115,223
Dues and Subscriptions	11,739
Director's Fees and Expenses	8,700
Legal and Professional	29,125
Meetings, Travel and Mileage	11,546
Office Supplies and Equipment	17,399
Telephone	<u>28,123</u>

Total Administrative Expenses 281,708

Total Operating Expenses 6,033,635

OPERATING INCOME

\$ 186,629

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
WATER UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	
Operating Revenues	\$
Sales	<u>837,531</u>
Total Sales of Water	<u>837,531</u>
Penalties	<u>5,314</u>
Total Other Operating Revenues	<u>5,314</u>
Total Operating Revenues	<u>842,845</u>
OPERATING EXPENSES	
Operational Expenses	
Interdepartment Charges	18,060
Chemicals	25,935
Fuel	37
Repairs and Maintenance	86,441
Supplies	600
Training	674
Tools	1,453
Utilities	5,552
Transportation Expense	6,141
Safety Expense	<u>2,875</u>
Total Operational Expenses	<u>147,768</u>
Personnel Expenses	
Salaries and Wages	211,229
Payroll Tax	13,766
Group Health and Life Insurance	34,715
Pension and Incentives	32,962
Other Employer Expense	<u>2,685</u>
Total Personnel Expenses	<u>295,357</u>
Fixed Expenses	
Insurance	13,550
Depreciation	247,367
Lease and Rental	<u>1,050</u>
Total Fixed Expenses	<u>261,967</u>
Administrative Expenses	
Advertising and Promotion	1,242
Bad Debt Expense	633
Bank Charges and Credit Card Fees	876
Computer and Data Processing	6,426
Dues and Subscriptions	451
Director's Fees and Expenses	1,300
Legal and Professional	9,812
Meetings, Travel and Mileage	1,559
Office Supplies and Equipment	2,684
Telephone	4,231
Wellhead Protection Study	<u>268</u>
Total Administrative Expenses	<u>29,482</u>
Total Operating Expenses	<u>734,574</u>
OPERATING INCOME	<u>\$ 108,271</u>

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF REVENUES AND EXPENSES  
COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Operating Revenues	\$ <u>7,063,109</u>	\$ <u>6,736,592</u>	\$ <u>326,517</u>
OPERATING EXPENSES			
Operational Expenses	4,127,712	4,202,426	74,714
Personnel Expenses	1,321,536	1,105,071	(216,465)
Fixed Expenses	1,007,771	850,963	(156,808)
Administrative Expenses	<u>311,190</u>	<u>300,108</u>	<u>(11,082)</u>
Total Operating Expenses	<u>6,768,209</u>	<u>6,458,568</u>	<u>(309,641)</u>
OPERATING INCOME	294,900	278,024	16,876
NON OPERATING REVENUES (EXPENSES)	<u>56,409</u>	<u>(97,729)</u>	<u>154,138</u>
NET INCOME	\$ <u><u>351,309</u></u>	\$ <u><u>180,295</u></u>	\$ <u><u>171,014</u></u>

SECTION IV

OTHER REQUIRED REPORTS



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INDEPENDENT AUDITOR'S 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*

To the Board of Public Works  
Blue Earth Light & Water  
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 business-type activities and each major fund of the Board of Public Works, Blue Earth Light & Water, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Board of Public Works, Blue Earth Light & Water's basic financial statements, and have issued our report thereon dated May 15, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board of Public Works, Blue Earth Light & Water'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 the Board of Public Works, Blue Earth Light & Water's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board of Public Works, Blue Earth Light & Water'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 in a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Item 2016-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board of Public Works, Blue Earth Light & Water's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

### **Board of Public Works, Blue Earth Light & Water's Response to Findings**

Board of Public Works, Blue Earth Light & Water's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Board of Public Works, Blue Earth Light & Water's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis E. Oberloh, Ltd.*  
Dennis E. Oberloh, Ltd.

May 15, 2017

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2016

INTERNAL CONTROL FINDINGS

Audit Finding 2016-001

*Criteria:* The Board does not have the internal resources to prepare the full-disclosure financial statements in conformity with generally accepted accounting principles.

*Condition:* The Board's personnel prepare periodic financial information for internal use that meets the needs of management and the Board. However, the Board does not have internal resources to prepare full-disclosure financial statements required by generally accepted accounting principles for external reporting. The Board is aware of this significant deficiency, and obtains our assistance in the preparation of the Board's annual financial statements.

*Cause:* The Board does not have the internal expertise needed to handle all aspects of the external financial reporting.

*Effect:* The Board's management is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

*Recommendations:* For entities of the Board's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

*Managements Response:* Management agrees with the recommendation that it is not cost effective for the Board to prepare the financial statements and maintain a working knowledge of the required disclosures.

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AUDITOR'S REPORT ON LEGAL COMPLIANCE

To the Board of Public Works  
Blue Earth Light & Water  
Blue Earth, Minnesota

We have audited, 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 the basic financial statements of business-type activities and each major fund of the Board of Public Works, Blue Earth Light & Water, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65 contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit included all of the listed categories except tax increment financing because the Board does not maintain any tax increment financing districts.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis E. Oberloh, Ltd.*  
Dennis E. Oberloh, Ltd.

May 15, 2017