

FINANCIAL REPORT  
BOARD OF PUBLIC WORKS COMMISSION  
CITY OF BLUE EARTH  
BLUE EARTH, MINNESOTA  
FOR THE YEAR ENDED  
DECEMBER 31, 2014

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OFFICIALS  
DECEMBER 31, 2014

Board Members

Vice Chairman	Mark Loge	2000 - 2014
Board Member	Neil Eckles	1973 - 2014
Board Member	Bernie Kriewall	1977 - 2014
Secretary	Dan Mensing	2003 - 2014
Chairman	Lars Bierly	2006 - 2014

Administrative Staff

Paul I. Leland	Subcontracted Accountant
Tim Stoner	General Manager

# *Roessler, Nuss & Co., P.A.*

*Certified Public Accountants*

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Board of Public Works  
City of Blue Earth  
Blue Earth, Minnesota

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of the Board of Public Works, City of Blue Earth, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Board of Public Works' 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.

### 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 of 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 the aggregate remaining fund information of the Board of Public Works, City of Blue Earth, Minnesota, as of December 31, 2014 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

The Board of Public Works, City of Blue Earth, Minnesota has omitted the management 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 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 made for the purpose of forming opinions on the financial statements that collectively comprise the Board of Public Works, City of Blue Earth, Minnesota's basic financial statements. The list of officials and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The list of officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Roesler, Nuss, & Co., P.A.*  
May 11, 2015

STATEMENT OF NET POSITION  
DECEMBER 31, 2014

Business-Type  
Activities

ASSETS

Cash and investments (Note 2)	2 250 598
Receivables	757 924
Notes receivable - current (Note 4)	7 020
Prepaid items	117 541
Inventories (Note 3)	580 763
Debt issuance cost - current	6 079
Contract negotiation expense - current	46 743
Notes receivable - non current (Note 4)	5 851
Restricted cash - non current (Note 2)	80 997
Special assessment receivable	487 826
Debt issuance cost - non current	39 504
Contract negotiation expense - non current	109 067
Capital assets (Net) (Note 5)	<u>14 311 747</u>
Total Assets	18 801 660

LIABILITIES

Accounts payable	728 894
Other accrued expenses	177 240
Due to City (Note 7)	391 601
Non current liabilities	
Due within one year	
Bonds payable (Note 6)	372 780
Due in more than one year	
Bonds payable (Note 6)	3 708 103
Post retirement health benefits	100 215
Patron's meter deposits	28 911
Unearned revenue	<u>531 607</u>
Total non current liabilities	<u>4 741 616</u>
Total Liabilities	<u>6 039 351</u>

NET POSITION

Net investment in capital assets	9 884 846
Restricted for:	
CAP-X reserve	52 086
Patron's meter deposits	28 911
Unrestricted	<u>2 796 466</u>
Total Net Position	<u>12 762 309</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>	
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	
			<u>Contributions</u>	<u>Contributions</u>	
				<u>Net Position</u>	
				<u>Business</u>	
				<u>type</u>	
				<u>Activities</u>	
<u>Business Type Activities</u>					
Electric	5 541 224	5 732 490	77 515	268 781	
Water	<u>803 990</u>	<u>756 284</u>		<u>(47 706)</u>	
Total Business-type Activities	<u>6 345 214</u>	<u>6 488 774</u>	<u>77 515</u>	221 075	
General Revenues:					
Interest earnings					3 282
Rent					2 608
Loss on sale of capital assets					<u>(7 626)</u>
Total general revenues and special items					<u>(1 736)</u>
Change in net position					219 339
Net position - beginning					<u>12 542 970</u>
Net position - ending					<u>12 762 309</u>

See notes to basic financial statements.

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

DECEMBER 31, 2014

	Electric Fund	Water Fund	Totals	
			(Memorandum Only)	
			2014	2013
<u>ASSETS</u>				
<u>Current Assets</u>				
Petty Cash	400		400	400
Cash and investments (Note 2)	1 880 346	369 852	2 250 198	2 530 742
Accounts receivable	567 284	190 640	757 924	711 766
Note receivable - current (Note 4)	7 020		7 020	14 733
Inventory (Note 3)	558 325	22 438	580 763	505 746
Prepaid items	85 588	31 953	117 541	105 709
Debt issuance cost - current	1 243	4 836	6 079	7 942
Contract negotiation expense - current	46 743		46 743	46 743
Due from Water Fund	36 691		36 691	36 691
Total Current Assets	3 183 640	619 719	3 803 359	3 960 472
<u>Non current Assets</u>				
Restricted cash (Note 2)	72 247	8 750	80 997	201 839
Capital assets (Net) (Note 5)	8 261 634	6 050 113	14 311 747	13 039 015
Note receivable (Note 4)	5 851		5 851	12 871
Special assessment receivable		487 826	487 826	294 670
Debt issuance cost	9 872	29 632	39 504	44 208
Contract negotiation expense	109 067		109 067	155 810
Total Non-Current Assets	8 458 671	6 576 321	15 034 992	13 748 413
Total Assets	11 642 311	7 196 040	18 838 351	17 708 885
<u>Liabilities and Net Position</u>				
<u>Current Liabilities</u>				
Accounts payable	450 343	278 551	728 894	322 284
Other accrued expenses	97 259	38 131	135 390	224 727
Interest payable		41 850	41 850	23 010
Revenue bonds payable - current (Note 6)	77 371	295 409	372 780	519 129
Due to city (Note 7)		391 601	391 601	450 000
Due to Electric Fund		36 691	36 691	36 691
Total Current Liabilities	624 973	1 082 233	1 707 206	1 575 841
<u>Non Current Liabilities</u>				
Revenue bonds payable (Note 6)	224 562	3 483 541	3 708 103	3 074 241
Unearned revenue	57 387	474 220	531 607	355 667
Patron's meter deposits	20 161	8 750	28 911	30 439
Post retirement benefits	74 418	25 797	100 215	129 727
Total Non-Current Liabilities	376 528	3 992 308	4 368 836	3 590 074
<u>Net Position</u>				
Net investment in Capital Assets	7 970 816	1 914 030	9 884 846	9 047 795
Restricted for:				
CAP-X reserve	52 086		52 086	171 400
Patron's meter deposit	20 161	8 750	28 911	30 439
Unrestricted (Deficit)	2 597 747	198 719	2 796 466	3 293 336
Total Net Position	10 640 810	2 121 499	12 762 309	12 542 970
Total Liabilities and Net Position	11 642 311	7 196 040	18 838 351	17 708 885

See notes to basic financial statements.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Electric</u> <u>Fund</u>	<u>Water</u> <u>Fund</u>	<u>Totals</u> <u>(Memorandum Only)</u>	
			<u>2014</u>	<u>2013</u>
<u>Income</u>				
Electric Income	5 390 329		5 390 329	5 502 557
Water Income		740 104	740 104	699 800
Total Income	5 390 329	740 104	6 130 433	6 202 357
<u>Other Operating Income</u>				
Penalties	29 097	2 710	31 807	32 017
Transmission Revenue	294 743		294 743	253 674
Total Other Operating Income	323 840	2 710	326 550	285 691
Total Income	5 714 169	742 814	6 456 983	6 488 048
<u>Operating Expenses</u>				
<u>Operation</u>				
Interdepartment charges	(19 538)	19 538		
Purchased power	2 088 239		2 088 239	2 362 918
Transmission	562 728		562 728	628 311
Capacity	437 859		437 859	432 085
Franchise tax and other fees	202 765		202 765	203 222
Repairs and maintenance	267 912	114 943	382 855	214 777
Chemicals	5 194	26 396	31 590	34 092
Transportation expense	40 236	3 747	43 983	33 963
Tools expense	5 828	3 078	8 906	8 556
Supplies	7 418	3 028	10 446	11 179
Fuel	7 312	26	7 338	7 932
Utilities	33 627	12 882	46 509	36 992
Safety expense	21 230	2 090	23 320	27 938
Training	7 267	1 127	8 394	10 498
Total Operation Expenses	3 668 077	186 855	3 854 932	4 012 463
<u>Personnel Expenses</u>				
Early retirement benefits and severance				33 193
Salaries and wages	507 637	205 591	713 228	748 743
Payroll tax	45 560	14 151	59 711	64 537
Group health and life insurance	124 696	38 733	163 429	149 763
Pension and incentive	43 918	13 642	57 560	54 437
Other employer expense	9 846	2 246	12 092	28 175
Total Personnel Expenses	731 657	274 363	1 006 020	1 078 848

See notes to basic financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Electric</u> <u>Fund</u>	<u>Water</u> <u>Fund</u>	<u>Totals</u> (Memorandum Only)	
			<u>2014</u>	<u>2013</u>
<u>Operating Expenses (Cont.)</u>				
<u>Fixed Expenses</u>				
Insurance	76 985	20 165	97 150	97 433
Depreciation expense	523 512	198 360	721 872	732 167
Lease and rental	6 366	593	6 959	8 400
Total Fixed Expenses	606 863	219 118	825 981	838 000
<u>Administrative Expenses</u>				
Wellhead protection study		2 030	2 030	4 524
Bad debt expense	6 606	615	7 221	8 289
Telephone	27 850	2 594	30 444	20 319
Office supplies and equipment	8 191	763	8 954	12 491
Postage	11 981	1 116	13 097	11 788
Legal and professional	71 755	6 336	78 091	99 267
Meetings, travel and mileage	10 837	1 009	11 846	16 196
Advertising and promotional	14 387	1 340	15 727	22 081
Director's fees and expenses	9 148	852	10 000	10 000
Bank charges and credit card	5 474	510	5 984	5 559
Dues and subscriptions	14 683	35	14 718	13 148
Computer and data processing	50 624	6 864	57 488	47 127
Conservation/Rebate program	112 545		112 545	105 372
Total Administrative Expenses	344 081	24 064	368 145	376 161
Total Operating Expenses	5 350 678	704 400	6 055 078	6 305 472
Operating Income (Loss)	363 491	38 414	401 905	182 576
<u>Non-Operating Revenues (Expenses)</u>				
Water assessments		11 764	11 764	6 264
Information services				125
Interest income	3 282		3 282	3 920
Interest expense	(9 647)	(80 889)	(90 536)	(73 119)
Other income	18 321	1 706	20 027	27 706
Other expense	(18 123)	(1 564)	(19 687)	(8 467)
Community support programs	(116 586)	(12 509)	(129 095)	(25 650)
Gain (loss) on sale of capital assets	(7 626)		(7 626)	
Rental income	2 599	9	2 608	2 608
Amortization of debt issuance cost	(3 359)	(4 628)	(7 987)	(8 290)
FEMA revenue	77 515		77 515	
FEMA expense	(42 831)		(42 831)	
Total Non-Operating Revenues (Expenses)	(96 455)	(86 111)	(182 566)	(74 903)
Increase (decrease) in net position	267 036	(47 697)	219 339	107 673
Net Position at beginning of year	10 373 774	2 169 196	12 542 970	12 435 297
Net Position at end of year	10 640 810	2 121 499	12 762 309	12 542 970

See notes to basic financial statement.

STATEMENTS OF CASH FLOWS - PROPRIETY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total 2014</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	5 650 368	741 713	6 392 081
Payments to suppliers	(4 269 311)	(120 167)	(4 389 478)
Payments to employees	(495 119)	(200 954)	(696 073)
Net cash provided by operating activities	885 938	420 592	1 306 530
<u>Cash Flows from Non Capital Financing Activities</u>			
Principal received on note receivable	14 733		14 733
Cash paid on community support	(116 586)	(12 509)	(129 095)
Cash provided on sales of time and material	198	142	340
Net cash provided (used) by non-capital financing activities	(101 655)	(12 367)	(114 022)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Cash paid on FEMA claim	(42 831)		(42 831)
FEMA money received	77 515		77 515
Assessments		11 764	11 764
Cash paid on bond costs		(1 420)	(1 420)
Rental income	2 599	9	2 608
Principal paid on revenue bond	(243 058)	(293 509)	(536 567)
Interest paid on revenue bond	(10 301)	(61 395)	(71 696)
Proceeds from bond issuance		1 024 080	1 024 080
Acquisition and construction of capital assets	(1 341 627)	(660 603)	(2 002 230)
Decrease in due to city		(58 399)	(58 399)
Net cash used by capital and financing activities	(1 557 703)	(39 473)	(1 597 176)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	3 282		3 282
Net cash provided by investing activities	3 282		3 282
Net Increase (Decrease) in Cash	(770 138)	368 752	(401 386)
Cash beginning of year	2 723 131	9 850	2 732 981
Cash end of year	<u>1 952 993</u>	<u>378 602</u>	<u>2 331 595</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	363 491	38 414	401 905
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	523 512	198 360	721 872
(Increase) decrease in assets:			
Accounts receivable	(46 158)	(193 156)	(239 314)
Inventory	(76 222)	1 205	(75 017)
Prepaid expense	(31 485)	19 653	(11 832)
Contract negotiation expense	46 743		46 743
Increase (decrease) in liabilities:			
Accounts payable	146 039	260 571	406 610
Other accrued expenses	(22 339)	(96 510)	(118 849)
Unearned revenue	(17 215)	193 155	175 940
Patron's meter deposits	(428)	(1 100)	(1 528)
Net cash provided by operating activities	<u>885 938</u>	<u>420 592</u>	<u>1 306 530</u>

See notes to basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies:

(a) Reporting Entity

The Board of Public Works is a component unit of the City of Blue Earth, Blue Earth, Minnesota. It operates as an enterprise fund. This report includes only those enterprise funds that comprise the Board of Public Works.

Joint ventures - the municipality has agreements with other entities that provide reduced costs, better service, and additional benefits to the participants. These programs are listed below:

Utilities Plus

On December 31, 1999, Utilities Plus, a joint power association with Central Minnesota Municipal Power Agency (CMMPA) and Midwest Municipal Gas Agency, which Board of Public Works is a member, has calculated the equity portion, which the members share, of the Utilities Plus company. Utilities Plus provides services in the purchasing of electrical energy and natural gas fuel. Utilities Plus is a legally separate and independent entity. The municipality does not appoint a voting majority of the Board. Investment in Utilities Plus was stated using the equity method of accounting for long-term investments, however, during 2011 the accounting for this changed due to the change in the accounting done at Utilities Plus. We now do not have any equity in Utilities Plus.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(a) Reporting Entity (Cont.)

CMMPA

CMMPA, which stands for Central Minnesota Municipal Power Agency, is a group that helps smaller utilities with contracts and energy needs.

CMMPA is a legally separate and independent entity. The municipality does not appoint a voting majority of the Board.

(b) Government-wide and Fund Statements

The basic financial statements include both government-wide and fund financial statements of the Public Utility Commission. While the fund financial statement model emphasizes fund types (the total of all funds of a particular type), in the government-wide model the focus is on either the municipality as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resources measurement focus, which incorporates long-term assets, receivables, and deferred outflows as well as long-term debt, obligations, and deferred inflows.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(b) Government-wide and Fund Statements

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position flow assumption

In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the utilities policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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

(b) Government-wide and Fund Statements (Cont.)

The government-wide Statement of Activities reflects both the gross cost and the net cost per functional category (general services, development services, public works, etc.), which are otherwise being supported by general revenues (property taxes, special assessments, franchise and public service taxes, interest income, etc.). The Statement of Activities reduces gross expenses (including depreciation) by the related program revenues, and operating/capital grants and contributions. The program revenues must be directly associated with the function (general services, development services, public works, etc.) or a business-type activity. Program revenues are derived directly from the program itself or from parties outside the municipality's taxpayers or citizenry, as a whole. The municipality does not allocate indirect expenses.

The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column includes capital-specific grants.

The focus of the GASB Statement No. 34 reporting model is on the municipality as a whole and on the municipality's major funds, including enterprise funds. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(b) Government-wide and Fund Statements (Cont.)

In the fund financial statements, financial transactions and accounts of the municipality are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Major Proprietary Funds

The municipality reports the following major proprietary funds:

Electric Fund

This fund is used to account for the provision of electric services to the municipality's residents.

Water Fund

This fund is used to account for the provision of water services to the municipality's residents.

(c) Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus.



NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(c) Measurement Focus and Basis of Accounting (Cont.)

Proprietary Funds:

*Measurement Focus:* Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets, including fixed assets and deferred outflows, and all liabilities, including long-term liabilities and deferred inflows, associated with fund activity are included on the balance sheets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

*Basis of Accounting:* Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded at the time liabilities are incurred. Unbilled utility service receivables are recorded at year-end. All applicable GASB pronouncements have been applied to the Proprietary Funds. Additionally, the following pronouncements issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures.

*Operating versus Nonoperating Items:* 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 connections with a proprietary

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(c) Measurement Focus and Basis of Accounting (Cont.)

Proprietary Funds: (Cont.)

fund's principal ongoing operations. The principal operating revenue of the municipality's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) Cash

For purposes of the statement of cash flows, cash equivalents includes cash on hand, cash in the checking account, restricted cash as well as certificates of deposit. Earnings from cash balances are allocated on the basis of average cash balance participation by each of the funds involved.

(e) Accounts Receivable

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

(f) Inventory

Inventory is recorded at the lower of cost or market. Cost is determined generally on a first-in, first-out method.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(g) Capital Assets

Capital assets are recorded at cost of acquisition including labor and materials from inventory. Depreciation is computed using the straight-line method over the estimated useful lives ranging as below. No depreciation is taken in the year of acquisition, but a full year is taken in the year of disposal.

	<u>Years</u>
Buildings and Structures	20-50
Generation	20-33
Transmission System	20-33
Distribution System	20-33
General Equipment	5-20
Vehicles	7-20

(h) Debt Issuance Costs

The costs of issuance of debt are being amortized on the straight-line method, over the life of the bonds. The bond costs are reported net of amortization. These costs are expected to be recovered through future user fees.

(i) Prepaid Items

Prepaid items includes prepaid insurance, water tower maintenance, engine maintenance, and comprehensive water study. The costs of the water tower maintenance and engine maintenance are being amortized over a ten year period, and the comprehensive water study is being amortized over a five year period which is the general practice of the utility.

(j) Contract Negotiation Expenses

The cost of negotiating the contract extension with Alliant Energy is being amortized on the straight line method, over the life of the contract extension, which runs through April 2018.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

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

(k) Unearned Revenue

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

(l) Post Retirement Benefits

The Board of Public Works has early retirement agreements with two former employees. The agreements include payouts of accumulated vacation and sick leave on the termination date, as well as continuation of medical insurance until age 65 (currently through August 2018.) Insurance benefits are capped at \$450 per month (\$550 per month for one employee beginning in calendar year 2010), and were discounted to present value using a three percent interest rate. The liability for termination benefits at December 31, 2014 and 2013, was \$129 727 and \$158 368, respectively.

(m) Compensated Absences

Employees of the utility are entitled to paid vacation and sick leave depending on length of service and other factors. Amounts earned but not yet used totaled \$76 835 and \$63 134 as of December 31, 2014 and 2013, respectively.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

(n) Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure, as the underlying net asset is not available for current appropriation or expenditure or is legally segregated for a specific future use.

(o) Total Memorandum Only - Columns

Total columns on the Proprietary Fund statements are captioned "memorandum only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position or results of operations in conformance with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(p) Use of Estimates

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

(q) Subsequent Events

Subsequent events have been evaluated through May 11, 2015, which is the date the financial statements were available to be issued, and determined that no events occurred that require disclosure.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 2. Cash and Investments

At year end the carrying amount of the City's deposits was \$2 331 195 and the bank balance was \$2 564 842. The bank balance was covered by federal depository insurance or by collateral held by the municipality's agent in the municipality's name.

	<u>Carrying Amount</u>	<u>Balance Per Bank</u>
<u>DEPOSITS AND SAVINGS ACCOUNTS</u>		
Checking and Savings Accounts- Insured (FDIC) or collateral held by municipality's agent in the municipality's name	1 698 878	1 932 525
Certificates of Deposit - Insured (FDIC) or collateral held by municipality's agent in the municipality's name	<u>632 317</u>	<u>632 317</u>
Total Deposits and Savings	<u><u>2 331 195</u></u>	<u><u>2 564 842</u></u>

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

Cash and Investments	2 250 198
Restricted cash	<u>80 997</u>
Total Deposit and Savings	2 331 195
Add Petty Cash	<u>400</u>
Total Cash and Cash Equivalents For Cash flow Statement	<u><u>2 331 595</u></u>

Restricted cash is for the coverage of meter deposits and cash to comply with debt servicing purposes.

State statutes require collateral of 110% of value in excess of the \$250 000 provided by federal deposit insurance. Collateral pledged by the various banks is held in safekeeping departments or banks other than the pledging bank or the Federal Reserve Bank and held in the name of the utility. It is required that the utility sign authorizations releasing collateral once it is pledged.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 2. Cash and Investments (Cont.)

Investments

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

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

The following schedule classifies the investments as of December 31, 2014, into the above categories:

	Category			Carrying Amount	Market Value
	1	2	3		
Certificates of Deposit	632 317			632 317	632 317
	<u>632 317</u>			<u>632 317</u>	<u>632 317</u>

Note 3. Inventories

Inventories consist of the following:

	2014	2013
Electric	481 345	409 652
Diesel parts	1 617	4 169
Fuel and lube oil	38 622	47 631
Miscellaneous	5 300	5 300
Water	22 438	23 643
Retail	<u>31 441</u>	<u>15 351</u>
Total Inventories	<u>580 763</u>	<u>505 746</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 4. Note Receivable

	<u>2014</u>	<u>2013</u>
City of Blue Earth non-interest bearing loan payable in monthly installments of \$353, due 11-15-2014. Unsecured.		3 530
Express Diagnostics International non-interest bearing loan receivable on monthly installments of \$585, due 10-15-16. Unsecured.	12 871	19 891
Armon Decorating non-interest bearing loan receivable in monthly installments of \$147, due 3-31-14. Unsecured.		440
Michele's non-interest bearing loan receivable in monthly installments of \$64, due 3-30-14. Unsecured.		193
Faribault County Register non-interest bearing loan receivable in monthly installments of \$167, due 3-31-14. Unsecured.		500
Makotah Vet Center non-interest bearing loan receivable in monthly installments of \$61, due 5-31-14. Unsecured.		303



NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 4. Note Receivable (Cont.)

	<u>2014</u>	<u>2013</u>
Hanson Auto non-interest bearing loan receivable in monthly installments of \$167, due 5-31-14. Unsecured.		833
Associate Optometrists non-interest bearing loan receivable in monthly installments of \$87, due 5-31-14. Unsecured.		435
Edward Jones non-interest bearing loan receivable in monthly installments of \$167, due 5-31-14. Unsecured.		833
F & M Welding non-interest bearing loan receivable in monthly installments of \$108, due 6-30-14. Unsecured		646
Total notes receivable	12 871	27 604
Less current maturities	<u>7 020</u>	<u>14 733</u>
Total long term portion	<u><u>5 851</u></u>	<u><u>12 871</u></u>

The above notes receivable has scheduled maturities as follows:

Year Ended <u>December 31</u>	
2015	7 020
2016	<u>5 851</u>
Total	<u><u>12 871</u></u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 5. Capital Assets

The following is a summary of capital assets:

<u>ELECTRIC UTILITY</u>	<u>Balance</u> <u>1-1-14</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>12-31-14</u>
<u>Non depreciable:</u>					
Land - Production	37 600				37 600
Land - Transmission	4 155				4 155
Land - Distribution	23 188	100 000			123 188
Land - General	11 178				11 178
 <u>Construction in Progress:</u>					
Power Plant Boiler		22 484			22 484
Derrick Truck		104 884			104 884
Generator Purchase		130 504			130 504
Capacitor Banks		181			181
Rice St. Substation					
Relays/Controls	50 137	312 444			362 581
North Industrial Park	2 446		(2 446)		
 Total Non Depreciable	 128 704	 670 497	 (2 446)		 796 755
 <u>Depreciable:</u>					
<u>Production</u>					
Structures and improve.	973 282				973 282
Cooling towers	100 711				100 711
Transformers	6 489				6 489
Generation assets	3 074 251				3 074 251
Plant boiler system	25 030			25 030	
General equipment	55 619				55 619
Tools and equipment	3 046				3 046
 Total Production	 4 238 428			 25 030	 4 213 398
 <u>Transmission</u>					
Transmission poles and lines	591 922				591 922
Substation equipment	1 923 957				1 923 957
 Total Transmission	 2 515 879				 2 515 879
 <u>Distribution</u>					
General equipment	67 601	17 281			84 882
Structures & improve.	154 058	9 328			163 386
Substation equipment	687 801	30 604			718 405
Tools and equipment	39 200				39 200
Trucks and equipment	785 398	6 132			791 530
Underground distribution System	3 373 763	345 473			3 719 236
Transformers	1 055 383	92 508			1 147 891
Meters	166 483	28 904			195 387

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

Note 5. Capital Assets (Cont.)

<u>ELECTRIC UTILITY</u> (Cont.)	Balance <u>1-1-14</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>12-31-14</u>
<u>Depreciable</u> (Cont.)					
<u>Distribution</u> (Cont.)					
Customer Service Assets	61 137				61 137
Street lighting & Signal system	206 141	12 908			219 049
Overhead distribution System	1 527 455				1 527 455
Customer Generation	<u>224 490</u>				<u>224 490</u>
Total Distribution	8 348 910	543 138			8 892 048
<u>General</u>					
Structures & Improve.	387 867				387 867
Load management	254 885	116 185			371 070
Office furniture & equip.	10 272	5 118			15 390
Computer/Comm. systems	225 752	9 135		8 061	226 826
General & other Capital assets	<u>248 554</u>				<u>248 554</u>
Total General	<u>1 127 330</u>	<u>130 438</u>		<u>8 061</u>	<u>1 249 707</u>
Total Depreciable	<u>16 230 547</u>	<u>673 576</u>		<u>33 091</u>	<u>16 871 032</u>
Total at Historical Cost	16 359 251	1 344 073	(2 446)	33 091	17 667 787
Less accumulated depreciation for:					
<u>Production</u>					
Structures and improve.	(709 541)	(19 056)			(728 597)
Cooling towers	(58 567)	(3 453)			(62 020)
Transformers	(2 920)	(324)			(3 244)
Generation assets	(1 590 000)	(98 194)			(1 688 194)
Plant boiler system	(16 419)	(986)		17 405	
General equipment	(47 562)	(1 470)			(49 032)
Tools and equipment	<u>(1 806)</u>	<u>(152)</u>			<u>(1 958)</u>
Total Production	(2 426 815)	(123 635)		17 405	(2 533 045)
<u>Transmission</u>					
Transmission poles and line	(313 587)	(11 567)			(325 154)
Substation equipment	<u>(1 680 137)</u>	<u>(27 129)</u>			<u>(1 707 266)</u>
Total Transmission	(1 993 724)	(38 696)			(2 032 420)

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 5. Capital Assets (Cont.)

<u>ELECTRIC UTILITY</u> (Cont.)	<u>Balance</u> <u>1-1-14</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>12-31-14</u>
Less accumulated depreciation for: (Cont.)					
<u>Distribution</u>					
General equipment	(34 552)	(5 736)			(40 288)
Structures & improve.	(65 793)	(4 088)			(69 881)
Substation equipment	(641 225)	(8 116)			(649 341)
Tools and equipment	(26 437)	(3 164)			(29 601)
Trucks and equipment	(528 042)	(60 545)			(588 587)
Underground distribution System	(1 233 172)	(99 906)			(1 333 078)
Transformers	(554 746)	(36 612)			(591 358)
Meters	(102 366)	(9 321)			(111 687)
Customer service assets	(43 690)	(1 092)			(44 782)
Street lighting & Signal system	(41 229)	(6 370)			(47 599)
Overhead distribution System	(593 952)	(46 138)			(640 090)
Customer generation	<u>(140 618)</u>	<u>(11 224)</u>			<u>(151 842)</u>
Total Distribution	(4 005 822)	(292 312)			(4 298 134)
<u>General</u>					
Structure & improve.	(187 460)	(11 399)			(198 859)
Load management	(64 034)	(20 768)			(84 802)
Office furniture & equip.	(8 169)	(337)			(8 506)
Computer/Comm. system	(102 155)	(27 433)		8 060	(121 528)
General & other Capital assets	<u>(119 927)</u>	<u>(8 932)</u>			<u>(128 859)</u>
Total General	<u>(481 745)</u>	<u>(68 869)</u>		<u>8 060</u>	<u>(542 554)</u>
Total Accumulated Depreciation	<u>(8 908 106)</u>	<u>(523 512)</u>		<u>25 465</u>	<u>(9 406 153)</u>
Net Electric Utility	<u>7 451 145</u>	<u>820 561</u>	<u>(2 446)</u>	<u>7 626</u>	<u>8 261 634</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

Note 5. Capital Assets (Cont.)

<u>WATER UTILITY</u>	<u>Balance</u> <u>1-1-14</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>12-31-14</u>
<u>Non depreciable</u>					
Land	65 620				65 620
Construction in Progress:					
East Water Plant	<u>9 244</u>	<u>10 982</u>			<u>20 226</u>
Total non depreciable	74 864	10 982			85 846
<u>Depreciable</u>					
<u>General</u>					
Structures & improve.	190 576				190 576
Computer/Comm. systems	90 965	4 290		2 092	93 163
Furniture and fixtures	10 273	5 117			15 390
General & other					
Capital assets	40 867				40 867
Load management/AMR		<u>15 208</u>			<u>15 208</u>
Total General	332 681	24 615		2 092	355 204
<u>Water Distribution</u>					
Structure & improve.	59 424				59 424
Pumps and motors	45 590				45 590
Water tower	1 206 891				1 206 891
Wells	270 567				270 567
Water system valves	1 124 540	7 634			1 132 174
Hydrants	108 731				108 731
Meters	148 305	90 321			238 626
Water mains	3 404 219	483 441			3 887 660
Water plant	1 428 655				1 428 655
General equip.	41 642				41 642
Transportation equip.	<u>79 146</u>	<u>43 610</u>			<u>122 756</u>
Total Water Distribution	<u>7 917 710</u>	<u>625 006</u>			<u>8 542 716</u>
Total Depreciable	<u>8 250 391</u>	<u>649 621</u>		<u>2 092</u>	<u>8 897 920</u>
Total at Historical Cost	8 325 255	660 603		2 092	8 983 766
Less accumulated depreciation for:					
<u>General</u>					
Structures & improve.	(88 994)	(5 573)			(94 567)
Computer/Comm. systems	(38 519)	(12 132)		2 092	(48 559)
Furniture and fixtures	(8 169)	(337)			(8 506)
General & other					
Capital assets	<u>(25 617)</u>	<u>(2 903)</u>			<u>(28 520)</u>
Total General	(161 299)	(20 945)		2 092	(180 152)

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

Note 5. Capital Assets (Cont.)

<u>WATER UTILITY</u> (Cont.)	Balance <u>1-1-14</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>12-31-14</u>
Less accumulated depreciation for (Cont.)					
<u>Water Distribution</u>					
Structure & improve.	(37 693)	(2 273)			(39 966)
Pumps and motors	(10 031)	(6 201)			(16 232)
Water tower	(146 037)	(24 585)			(170 622)
Wells	(205 765)	(10 800)			(216 565)
Water system valves	(816 136)	(15 358)			(831 494)
Hydrants	(74 421)	(1 686)			(76 107)
Meters	(93 619)	(7 156)			(100 775)
Water mains	(282 158)	(68 085)			(350 243)
Water plant	(837 253)	(31 888)			(869 141)
General equip.	(24 667)	(3 016)			(27 683)
Transportation equip.	(48 306)	(6 367)			(54 673)
Total Water					
Distribution	<u>(2 576 086)</u>	<u>(177 415)</u>			<u>(2 753 501)</u>
Total Accumulated					
Depreciation	<u>(2 737 385)</u>	<u>(198 360)</u>		<u>2 092</u>	<u>(2 933 653)</u>
Net Water Utility	<u>5 587 870</u>	<u>462 243</u>			<u>6 050 113</u>
Capital Assets - Net	<u>13 039 015</u>	<u>1 282 804</u>	<u>(2 446)</u>	<u>7 626</u>	<u>14 311 747</u>

Note 6. Long-Term Debt

The following is a summary of outstanding long-term debt at December 31, 2014:

Utilities share of \$2 140 000  
GO Bond of 2010A, due in annual  
February 1 principal installments of  
\$32 305 to \$76 365 through February 1,  
2026; with .5% to 3.375% interest  
payments due February 1 and August 1.  
The purpose of this issue is to  
finance watermain improvements. Water Fund 639 655

Utilities share of \$3 765 000  
GO Bonds of 2014, due in annual  
February 1 principal installments of  
\$57 120 to \$82 960 through February 1,  
2030; with 2% to 3% interest payments  
due February 1 and August 1. The  
purpose of this issue is to finance  
watermain improvements. Water Fund 1 024 080

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 6. Long-Term Debt (Cont.)

\$1 065 000 Equipment Revenue Bonds of 2013A, due in monthly installments of \$18 518; with interest at 1.68%. The purpose of this issue was to improve the Electric and Water infrastructure.

Electric Fund	301 933
Water Fund	452 900

Utility share of \$370 000 GO Refunding Bond of 2011, this refunds the 2004C bond series. Due in annual April 1 principal installments of \$6 962 to \$11 603 through April 1, 2020; with .4% to 2.55% interest payments due April 1 and October 1. The purpose of this was to refund the 2004C bond issue on Rice Street improvement project.

Water Fund	60 333
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Utilities share of \$324 500 GO Improvement Bond of 2006, due in annual August 20 principal installments of \$6 500 to \$21 000 through August 20, 2026; with 2.57% interest payments due February 20 and August 20. The purpose of this issue was to fund South Watermain Improvement

Water Fund	203 000
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\$1 174 600 GO Revenue Bond of 2007, due in annual August 20 principal installments of \$29 600 to \$77 000 through August 20, 2026 with 2.4% interest payments due February 20 and August 20. The purpose of this issue was to construct a new water tower and demolish the old water tower.

Water Fund	816 000
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Utilities share of 2 395 000 GO Improvement Bond of 2012A, due in annual February 1 principal installments of \$21 620 to \$29 340 through February 1, 2028 with 2.00% to 2.65% interest payment due February 1 and August 1. The purpose of this issue was to fund 10<sup>th</sup> Street and Galbraith Street improvements.

Water Fund	348 232
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Utilities share of \$1 565 000 GO Bond of 2013B, due in annual February 1 principal installments of \$9 750 to \$19 500 through February 1, 2029; with 3.0% to 3.75% interest payments due February 1 and August 1. The purpose of this issue is to finance watermain improvements.

Water Fund	234 750
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	<u>4 080 883</u>
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

Note 6. Long-Term Debt (Cont.)

	<u>Payable</u> <u>1-1-14</u>	<u>Principal</u> <u>Issued</u>	<u>Principal</u> <u>Retired</u>	<u>Payable</u> <u>12-31-14</u>	<u>Due Within</u> <u>One Year</u>
\$1 545 000 Public Utility Revenue Refunding Bonds of 2002	160 000		160 000		
\$1 065 000 Equipment Revenue Bonds of 2013A	962 478		207 645	754 833	193 428
Utility share of \$1 565 000 GO Bond of 2013B	234 750			234 750	9 750
Utility share of \$324 000 GO Improvement Bond of 2006	217 000		14 000	203 000	15 000
Utility share of \$2 140 000 GO Bond of 2010A	704 515		64 860	639 655	64 860
\$1 174 600 GO Revenue Bond of 2007	874 000		58 000	816 000	60 000
Utility share of \$2 395 000 GO Bond of 2012A	369 852		21 620	348 232	21 620
\$370 000 GO Refunding Bonds of 2011 - Utility Share	70 775		10 442	60 333	8 122
Utility share of GO Bond of 2014		<u>1 024 080</u>		<u>1 024 080</u>	
Total	<u>3 593 370</u>	<u>1 024 080</u>	<u>536 567</u>	<u>4 080 883</u>	<u>372 780</u>

<u>December 31</u>	<u>Electric Fund</u>		<u>Water Fund</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	77 371	4 110	295 409	95 300	472 190
2016	85 774	3 114	376 065	86 792	551 745
2017	87 226	1 662	384 807	78 672	552 367
2018	51 562	289	340 839	70 096	462 786
2019			267 943	62 619	330 562
2020-2024			1 186 807	216 833	1 403 640
2025-2029			844 120	65 236	909 356
2030			82 960	1 244	84 204
Total	<u>301 933</u>	<u>9 175</u>	<u>3 778 950</u>	<u>676 792</u>	<u>4 766 850</u>



NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 7. Due to City

The Board of Public Works borrowed money from the city in 2012, 2013 and 2014 to help with the construction of watermains that is unsecured. The loans are interest free and are due December 31, 2014.

<u>Payable 1-1-14</u>	<u>Principal Issued</u>	<u>Principal Retired</u>	<u>Payable 12-31-14</u>	<u>Due Within One Year</u>
<u>450 000</u>	<u>391 601</u>	<u>450 000</u>	<u>391 601</u>	<u>391 601</u>

Note 8 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 2014 and 2013 was \$202 765 and \$203 222, respectively.

Note 9. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the Board of Public Works of the City of Blue Earth, Minnesota are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 9 Defined Benefit Pension Plan (Cont.)

A. Plan Description (Cont.)

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

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 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 9 Defined Benefit Pension Plan (Cont.)

A. Plan Description (Cont.)

For GERP members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 9 Defined Benefit Pension Plan (Cont.)

A. Plan Description (Cont.)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088, or by calling 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. Board of Public Works makes annual contributions to the pension plan equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014.

The Board of Public Works is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members.

The public utility contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$58 733, \$59 257, and \$56 208, respectively. The public utilities contributions were equal to the contractually required contributions for each year as set by statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2014

Note 10. Defined Contribution Plan

Five board 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 2014 were:

<u>Contribution Amount</u>		<u>Required Percentage of Covered Payroll</u>	
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
<u>500</u>	<u>500</u>	<u>5%</u>	<u>5%</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2014

Note 11. Risk Management

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

The utility has joined together with other cities and utilities of 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 a common risk management and insurance program for member cities and utilities. Premiums are used to purchase reinsurance through commercial companies. The administrators of these plans believe assessment to participating cities and utilities for future losses sustained is extremely remote.

The utility is self-insured for unemployment compensation.

BOARD OF PUBLIC WORKS  
OPERATING STATEMENT - ELECTRIC DEPARTMENT  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

<u>Income</u>	<u>2014</u>	<u>2013</u>
Electric Income	5 390 329	5 502 557
 <u>Other Operating Income</u>		
Penalties	29 097	29 289
Transmission Revenue	<u>294 743</u>	<u>253 674</u>
Total Other Operating Income	<u>323 840</u>	<u>282 963</u>
Total Income	5 714 169	5 785 520
 <u>Operating Expenses</u>		
<u>Operation</u>		
Purchased power	2 088 239	2 362 918
Transmission	562 728	628 311
Capacity	437 859	432 085
Franchise tax and other fees	202 765	203 222
Repairs and maintenance	267 912	127 163
Chemicals	5 194	9 533
Transportation expense	40 236	31 069
Tools expense	5 828	6 481
Inter departmental charges	(19 538)	(19 479)
Supplies	7 418	9 038
Fuel	7 312	7 865
Utilities	33 627	27 334
Safety expense	21 230	24 810
Training	<u>7 267</u>	<u>9 362</u>
Total Operation Expenses	3 668 077	3 859 712
 <u>Personnel Expenses</u>		
Early retirement benefits		33 193
Salaries and wages	507 637	546 978
Payroll tax	45 560	49 242
Group health and life insurance	124 696	114 269
Pension and incentive	43 918	41 535
Other employer expense	<u>9 846</u>	<u>24 207</u>
Total Personnel Expenses	731 657	809 424

BOARD OF PUBLIC WORKS  
OPERATING STATEMENT - ELECTRIC DEPARTMENT  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

<u>Operating Expenses (Cont.)</u>	<u>2014</u>	<u>2013</u>
<u>Fixed Expenses</u>		
Insurance	76 985	77 308
Depreciation expense	523 512	566 528
Lease and rental	<u>6 366</u>	<u>7 684</u>
Total Fixed Expenses	606 863	651 520
<u>Administrative Expenses</u>		
Bad debt expense	6 606	7 583
Telephone	27 850	18 588
Office supplies and equipment	8 191	11 426
Postage	11 981	10 784
Legal and Professional	71 755	95 749
Meetings, travel and mileage	10 837	14 816
Advertising and promotional	14 387	20 200
Director's fees and expenses	9 148	9 148
Bank charges and credit card	5 474	5 085
Dues and subscriptions	14 683	13 116
Computer and Data processing	50 624	41 192
Conservation/Rebate program	<u>112 545</u>	<u>105 372</u>
Total Administrative Expenses	<u>344 081</u>	<u>353 059</u>
Total Operating Expenses	<u>5 350 678</u>	<u>5 673 715</u>
Operating Income	363 491	111 805
<u>Non-Operating Revenue (Expenses)</u>		
Gain (Loss) on sale of fixed assets	(7 626)	
Information services		125
Interest income	3 282	3 920
Interest expense	(9 647)	(13 736)
Other income	18 321	25 346
Other expense	(18 123)	(7 858)
Community support programs	(116 586)	(23 485)
Rental income	2 599	2 599
Amortization of debt issuance costs	(3 359)	(4 533)
FEMA revenue	77 515	
FEMA expenses	<u>(42 831)</u>	
Total Non-Operating Revenue (Expenses)	<u>(96 455)</u>	<u>(17 622)</u>
Increase (decrease) in net position	<u>267 036</u>	<u>94 183</u>



BOARD OF PUBLIC WORKS  
OPERATING STATEMENT - WATER DEPARTMENT  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Income</u>		
Water income	740 104	699 800
Penalties	<u>2 710</u>	<u>2 728</u>
Total Income	742 814	702 528
<u>Operating Expenses</u>		
<u>Operation</u>		
Repairs and maintenance	114 943	87 614
Chemicals	26 396	24 559
Transportation expense	3 747	2 894
Tools expense	3 078	2 075
Inter departmental charges	19 538	19 479
Supplies	3 028	2 141
Fuel	26	67
Utilities	12 882	9 658
Safety expense	2 090	3 128
Training	<u>1 127</u>	<u>1 136</u>
Total Operation Expenses	186 855	152 751
<u>Personnel Expenses</u>		
Salaries and wages	205 591	201 765
Payroll tax	14 151	15 295
Group health and life insurance	38 733	35 494
Pension and incentive	13 642	12 902
Other employee expenses	<u>2 246</u>	<u>3 968</u>
Total Personnel Expense	274 363	269 424
<u>Fixed Expenses</u>		
Insurance	20 165	20 125
Depreciation expense	198 360	165 639
Lease and rental	<u>593</u>	<u>716</u>
Total Fixed Expenses	219 118	186 480

BOARD OF PUBLIC WORKS  
OPERATING STATEMENT - WATER DEPARTMENT  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Operating Expenses (Cont.)</u>		
<u>Administrative Expenses</u>		
Wellhead protection study	2 030	4 524
Bad debt expense	615	706
Telephone	2 594	1 731
Office supplies and equipment	763	1 065
Postage	1 116	1 004
Legal and professional	6 336	3 518
Meetings, travel and mileage	1 009	1 380
Advertising and promotional	1 340	1 881
Director's fees and expenses	852	852
Bank charges and credit card	510	474
Dues and subscriptions	35	32
Computer and data processing	<u>6 864</u>	<u>5 935</u>
Total Administrative Expenses	<u>24 064</u>	<u>23 102</u>
Total Operating Expenses	<u>704 400</u>	<u>631 757</u>
Operating Income (Loss)	38 414	70 771
<u>Non-Operating Revenue (Expenses)</u>		
Water assessments	11 764	6 264
Gain (loss) on disposition of capitals assets		
Interest expense	(80 889)	(59 383)
Other income	1 706	2 360
Other expense	(1 564)	(609)
Community support programs	(12 509)	(2 165)
Rental income	9	9
Amortization of debt issuance costs	<u>(4 628)</u>	<u>(3 757)</u>
Total Non-Operating Revenue (Expenses)	<u>(86 111)</u>	<u>(57 281)</u>
Increase (decrease) in net position	<u>(47 697)</u>	<u>13 490</u>

BOARD OF PUBLIC WORKS  
STATEMENT OF REVENUES AND EXPENSES  
COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Gross income	6 456 983	6 900 821	(443 838)
<u>Operating Expenses</u>			
Operation expenses	3 854 932	4 401 545	546 613
Personnel expenses	1 006 020	1 053 263	47 243
Fixed expenses	825 981	842 490	16 509
Administrative expenses	<u>368 145</u>	<u>368 709</u>	<u>564</u>
Total Operating Expenses	<u>6 055 078</u>	<u>6 666 007</u>	<u>610 929</u>
Total Operating Income	401 905	234 814	167 091
Non-Operating Revenues (Expenses)	<u>(182 566)</u>	<u>(89 552)</u>	<u>(93 014)</u>
Net Income for the Year	<u><u>219 339</u></u>	<u><u>145 262</u></u>	<u><u>74 077</u></u>

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

Board of Public Works  
City of Blue Earth  
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 financial statements of the Board of Public Works, Blue Earth, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated May 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board of Public Works, Blue Earth, Minnesota internal control over financial reporting to determine the 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 Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting that is less severe than a material weakness, yet important enough to merit the attention to those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Public Works, Blue Earth, Minnesota'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.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the Board of Public Works 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 Utility's noncompliance with the referenced provisions.

Purpose of this Report

The purpose of this 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 Utility's internal control over financial reporting or on compliance. This report is an integral part of the audit performed in accordance with Government Auditing Standards in considering the Utility's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Roesler, Nuss, & Co., P.A.*

May 11, 2015