

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

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 - Neil Eckles	Resigned 12/1/2015
BOARD MEMBER - Tim Juba	2017 - Appointed 12/1/2015
GENERAL MANAGER - Tim Stoner	Appointed-Indefinite
ACCOUNTANT - Paul I. Leland	Subcontracted

SECTION II  
FINANCIAL SECTION

**DENNIS E. OBERLOH, LTD.**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**P.O. BOX 186 • 530 WEST PARK ROAD**  
**REDWOOD FALLS, MN 56283**

**Telephone: (507) 644-6400**  
**Fax: (507) 644-6401**

**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, 2015, 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 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting*

As described in Note 12 to the basic financial statements, the Board of Public Works adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68 "Accounting and Financial Reporting for Pensions" (an amendment of GASB Statement No. 27) and Statement No. 71 "Pension Transition for Contributions made Subsequent to the Measurement Date" (an amendment to GASB Statement No. 68) for the year ended December 31, 2015. Our opinions are not modified with respect to this matter.

## **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.

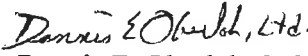
### *Other Information*

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 April 18, 2016 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.

April 18, 2016



BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

	<u>Business-Type Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,553,602
Receivables:	
Customer Accounts Receivable	715,009
Contract Negotiation Expense - Current	46,743
Notes Receivable - Current	5,850
Prepaid Expense	120,886
Inventory	515,550
Capital assets not being depreciated:	
Land	219,376
Other capital assets:	
Capital Assets	28,638,349
Accumulated Depreciation	(12,825,581)
Restricted Cash	29,342
Bond Discount - Net	40,444
Contract Negotiation Expense	62,324
Special Assessment Receivable	55,346
<b>TOTAL ASSETS</b>	<u>19,177,240</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to Pensions	<u>100,043</u>
<b>LIABILITIES</b>	
Accounts Payable	335,796
Other Accrued Expenses	49,017
Accrued Interest	50,368
Accrued Salaries	12,618
Due to City	170,747
Accrued Compensated Absences	84,168
Noncurrent liabilities:	
Due within one year	601,941
Due in more than one year	4,231,061
Patron's Meter Deposits	29,342
Unearned Revenue	535,664
Net Pension Liability	720,370
Post Retirement Benefits	76,152
Bond Premium - Net	8,708
<b>TOTAL LIABILITIES</b>	<u>6,905,952</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to Pensions	<u>82,120</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	11,028,415
Restricted for:	
Patron's Meter Deposits	29,342
Unrestricted	1,231,454
<b>TOTAL NET POSITION</b>	<u>\$ 12,289,211</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, 2015

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net Sources (Uses) and</u>
Business-Type Activities:	<u>Charges for</u>	<u>Capital Grants</u>	<u>Changes in Net Position</u>
Electric Utility	<u>Services</u>	<u>and</u>	<u>Business-Type Activities</u>
Water Utility	<u>Contributions</u>	<u>Totals</u>	<u>Totals</u>
Total Business-Type Activities	\$ 5,790,624	\$ -	\$ 91,242
	<u>824,885</u>	<u>118,328</u>	<u>107,310</u>
	<u>6,615,509</u>	<u>118,328</u>	<u>198,552</u>
General Revenues:			
Rent Income			2,608
Interest Income			4,284
Other Income			56,039
Loss on Sale of Fixed Assets			<u>(49,759)</u>
Total General Revenues			<u>13,172</u>
Changes in Net Position			<u>211,724</u>
Net Position - January 1 as			
Originally Stated			12,762,309
Change in Accounting			<u>(684,822)</u>
As Restated			<u>12,077,487</u>
Net Position - December 31			<u>\$ 12,289,211</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, 2015

	Electric Fund	Water Fund	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,248,523	\$ 305,080	\$ 1,553,603
Customer Accounts Receivable	518,541	196,465	715,006
Notes Receivable - Current	5,850	-	5,850
Contract Negotiation Expense - Current	46,743	-	46,743
Prepaid Expense	84,980	35,906	120,886
Inventory	<u>496,490</u>	<u>19,060</u>	<u>515,550</u>
Total Current Assets	<u>2,401,127</u>	<u>556,511</u>	<u>2,957,638</u>
<b>NONCURRENT ASSETS</b>			
Capital Assets			
Land	176,121	43,255	219,376
Capital Assets	19,049,616	9,588,733	28,638,349
Accumulated Depreciation	<u>(9,760,137)</u>	<u>(3,065,442)</u>	<u>(12,825,579)</u>
Net Capital Assets	9,465,600	6,566,546	16,032,146
Other Assets			
Restricted Cash	24,942	4,400	29,342
Bond Discount - Net	1,206	39,238	40,444
Contract Negotiation Expense	62,324	-	62,324
Special Assessment Receivable	<u>-</u>	<u>55,346</u>	<u>55,346</u>
Total Noncurrent Assets	<u>9,554,072</u>	<u>6,665,530</u>	<u>16,219,602</u>
<b>TOTAL ASSETS</b>	<u>11,955,199</u>	<u>7,222,041</u>	<u>19,177,240</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Pensions	<u>76,333</u>	<u>23,710</u>	<u>100,043</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 12,031,532</u>	<u>\$ 7,245,751</u>	<u>\$ 19,277,283</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, 2015

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 326,327	\$ 9,469	\$ 335,796
Other Accrued Expenses	36,453	12,564	49,017
Due to City	-	170,747	170,747
Accrued Salaries	9,539	3,079	12,618
Accrued Compensated Absences	61,406	22,762	84,168
Current Amount of Long-Term Debt	178,996	422,945	601,941
Accrued Interest	-	50,368	50,368
Total Current Liabilities	<u>612,721</u>	<u>691,934</u>	<u>1,304,655</u>
<b>LONG-TERM LIABILITIES</b>			
Post Retirement Benefits	58,614	17,538	76,152
Bonds Payable	464,930	3,766,131	4,231,061
Patron's Meter Deposits	24,942	4,400	29,342
Net Pension Liability	549,641	170,729	720,370
Unearned Revenue	40,171	495,493	535,664
Bond Premium - Net	-	8,708	8,708
Total Long-Term Liabilities	<u>1,138,298</u>	<u>4,462,999</u>	<u>5,601,297</u>
<b>TOTAL LIABILITIES</b>	1,751,019	5,154,933	6,905,952
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	<u>62,658</u>	<u>19,462</u>	<u>82,120</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	8,821,674	2,206,741	11,028,415
Patron's Meter Deposits	24,942	4,400	29,342
Unrestricted (Deficit)	1,371,239	(139,785)	1,231,454
Total Net Position	<u>10,217,855</u>	<u>2,071,356</u>	<u>12,289,211</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 12,031,532</u>	<u>\$ 7,245,751</u>	<u>\$19,277,283</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, 2015

	Electric Fund	Water Fund	Total
<b>OPERATING REVENUES</b>			
Sales	\$ 5,578,399	\$ 810,503	\$ 6,388,902
Transmission Revenue	267,350	-	267,350
Penalties	<u>36,117</u>	<u>3,364</u>	<u>39,481</u>
Total Operating Revenues	<u>5,881,866</u>	<u>813,867</u>	<u>6,695,733</u>
<b>OPERATING EXPENSES</b>			
Operational Expenses	4,020,691	153,903	4,174,594
Personnel Expenses	744,322	290,087	1,034,409
Fixed Expenses	643,903	248,902	892,805
Administrative Expenses	<u>333,791</u>	<u>28,352</u>	<u>362,143</u>
Total Operating Expenses	<u>5,742,707</u>	<u>721,244</u>	<u>6,463,951</u>
<b>OPERATING INCOME</b>	<u>139,159</u>	<u>92,623</u>	<u>231,782</u>
<b>NON OPERATING INCOME AND EXPENSE</b>			
Interest Income	4,316	-	4,316
Water Assessments	-	26,967	26,967
Other Income	50,725	5,311	56,036
Rent Income	2,599	9	2,608
Grant Income	-	91,361	91,361
Loss on Sale of Fixed Assets	(49,318)	(441)	(49,759)
Community Support Programs	(23,206)	(2,134)	(25,340)
Interest Expense	(9,944)	(95,735)	(105,679)
Other Expense	(14,300)	(1,332)	(15,632)
Amortization of Bond Discount/Premium	<u>(467)</u>	<u>(4,469)</u>	<u>(4,936)</u>
Total Non Operating Income and Expense	<u>(39,595)</u>	<u>19,537</u>	<u>(20,058)</u>
<b>CHANGE IN NET POSITION</b>	<u>99,564</u>	<u>112,160</u>	<u>211,724</u>
<b>NET POSITION - January 1</b>			
Originally Stated	10,640,810	2,121,499	12,762,309
Change in Accounting	<u>(522,519)</u>	<u>(162,303)</u>	<u>(684,822)</u>
As Restated	<u>10,118,291</u>	<u>1,959,196</u>	<u>12,077,487</u>
<b>NET POSITION - December 31</b>	<u>\$ 10,217,855</u>	<u>\$ 2,071,356</u>	<u>\$ 12,289,211</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, 2015

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from Customers	\$ 5,918,174	\$ 803,692	\$ 6,721,866
Payments to Vendors	(4,444,197)	(484,350)	(4,928,547)
Payments to Employees	(721,998)	(288,333)	(1,010,331)
Other Receipts and Payments	<u>36,425</u>	<u>3,979</u>	<u>40,404</u>
Net Cash Provided By Operating Activities	<u>788,404</u>	<u>34,988</u>	<u>823,392</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Principal Received on Note Receivable	7,021	-	7,021
Cash Paid on Community Support	(23,206)	(2,134)	(25,340)
Rental Income	2,599	9	2,608
Due to (from) Other Funds	<u>36,691</u>	<u>(36,691)</u>	<u>-</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>23,105</u>	<u>(38,816)</u>	<u>(15,711)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of Capital Assets	(1,827,403)	(748,342)	(2,575,745)
Special Assessments	-	480,720	480,720
Net Proceeds from Bond Issuance	479,966	744,082	1,224,048
Principal Paid on Capital Debt	(137,972)	(325,044)	(463,016)
Interest Paid on Capital Debt	(9,944)	(87,217)	(97,161)
Grant Income	-	91,361	91,361
Due to City	<u>-</u>	<u>(220,854)</u>	<u>(220,854)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(1,495,353)</u>	<u>(65,294)</u>	<u>(1,560,647)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest Received	<u>4,316</u>	<u>-</u>	<u>4,316</u>
Net Cash Provided By Investing Activities	<u>4,316</u>	<u>-</u>	<u>4,316</u>
<b>NET DECREASE IN CASH</b>	(679,528)	(69,122)	(748,650)
<b>CASH AND CASH EQUIVALENTS - January 1</b>	<u>1,952,993</u>	<u>378,602</u>	<u>2,331,595</u>
<b>CASH AND CASH EQUIVALENTS - December 31</b>	<u>\$ 1,273,465</u>	<u>\$ 309,480</u>	<u>\$ 1,582,945</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and Investments per Statement of Net Position	\$ 1,248,523	\$ 305,080	\$ 1,553,603
Restricted Cash and Investments per Statement of Net Position	<u>24,942</u>	<u>4,400</u>	<u>29,342</u>
<b>CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS</b>	<u>\$ 1,273,465</u>	<u>\$ 309,480</u>	<u>\$ 1,582,945</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, 2015

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided			
By Operating Activities			
Operating Income	\$ 139,159	\$ 92,623	\$ 231,782
Adjustments to Reconcile Operating Income to Net Cash			
Provided By Operating Activities			
Depreciation	574,121	231,469	805,590
Noncash Pension Expense	13,447	4,178	17,625
Changes in Assets and Liabilities			
Accounts Receivable	48,743	(5,825)	42,918
Contract Negotiation Expense	46,743	-	46,743
Inventory	61,835	3,378	65,213
Prepaid Expenses	608	(3,953)	(3,345)
Accounts Payable	(124,016)	(269,082)	(393,098)
Other Accrued Expenses	1,262	(1,481)	(219)
Accrued Salaries	2,732	568	3,300
Accrued Compensated Absences	6,145	1,187	7,332
Other	(18,800)	(22,053)	(40,853)
Other Receipts and Payments	<u>36,425</u>	<u>3,979</u>	<u>40,404</u>
Net Cash Provided By Operating Activities	<u>\$ 788,404</u>	<u>\$ 34,988</u>	<u>\$ 823,392</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, 2015 are determined on the basis of current salary rates and include salary related payments. Amounts earned but not yet used totaled \$84,168 as of December 31, 2015.

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, 2015 was \$109,549.

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 Board’s carrying amount of deposits was \$1,582,645 and the bank balance was \$1,804,171 including certificates of deposits of \$458,164. Of the bank balance, \$708,179 was covered by federal depository insurance. Of the remaining balance, \$1,095,992 was collateralized with securities held by the pledging financial institution’s trust department in the Board’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	\$	1,582,545
Total Cash on Hand		400
		1,582,945
		\$ 1,582,945
Statement of Net Position		
Cash and Cash Investments	\$	1,582,945
		\$ 1,582,945

E. Restricted Assets

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

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>December 31</u>	<u>Loans</u> <u>Issued</u>	<u>Loans</u> <u>Retired</u>	<u>Balance</u> <u>December 31</u>
Note Receivable	\$ 12,871	\$ -	\$ 7,020	\$ 5,851
	\$ 12,871	\$ -	\$ 7,020	\$ 5,851

4. DUE TO AND FROM OTHER FUNDS

Due to and from other funds at December 31, 2015, follows:

	<u>Due to Other</u> <u>Funds</u>
City of Blue Earth	\$ 170,747
	\$ 170,747

The Board borrowed money from the city during 2015 to pay construction costs related to improvements. The loan is interest free and expected to be repaid during 2016 from financing of bonds.

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

5. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 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
Construction in Progress	<u>620,634</u>	<u>-</u>	<u>(620,634)</u>	<u>-</u>
Subtotal	<u>796,755</u>	<u>-</u>	<u>(620,634)</u>	<u>176,121</u>
Other Capital Assets:				
Production	3,129,871	1,156,955	-	4,286,826
Power Plant	1,083,527	55,933	-	1,139,460
Transmission	2,515,879	-	-	2,515,879
Distribution	8,892,049	998,216	(90,592)	9,799,673
General	<u>1,249,707</u>	<u>236,933</u>	<u>(178,862)</u>	<u>1,307,778</u>
Subtotal	<u>16,871,033</u>	<u>2,448,037</u>	<u>(269,454)</u>	<u>19,049,616</u>
Less: Accumulated Depreciation				
Production	1,737,225	111,296	-	1,848,521
Power Plant	795,820	24,963	-	820,783
Transmission	2,032,420	26,166	-	2,058,586
Distribution	4,300,239	339,306	(189,322)	4,450,223
General	<u>540,448</u>	<u>72,390</u>	<u>(30,814)</u>	<u>582,024</u>
Subtotal	<u>9,406,152</u>	<u>574,121</u>	<u>(220,136)</u>	<u>9,760,137</u>
Net Other Capital Assets	<u>7,464,881</u>	<u>1,873,916</u>	<u>(49,318)</u>	<u>9,289,479</u>
Net Electric Plant	<u>\$ 8,261,636</u>	<u>\$ 1,873,916</u>	<u>\$ (669,952)</u>	<u>\$ 9,465,600</u>

Capital asset activity for the year ended December 31, 2015 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	\$ 65,620	\$ -	\$ (22,365)	\$ 43,255
Construction in Progress	<u>20,226</u>	<u>-</u>	<u>(20,226)</u>	<u>-</u>
Subtotal	<u>85,846</u>	<u>-</u>	<u>(42,591)</u>	<u>43,255</u>
Other Capital Assets:				
Water Department	<u>8,897,919</u>	<u>768,568</u>	<u>(77,754)</u>	<u>9,588,733</u>
Subtotal	<u>8,897,919</u>	<u>768,568</u>	<u>(77,754)</u>	<u>9,588,733</u>
Less: Accumulated Depreciation				
Water Department	<u>2,933,652</u>	<u>231,469</u>	<u>(99,679)</u>	<u>3,065,442</u>
Subtotal	<u>2,933,652</u>	<u>231,469</u>	<u>(99,679)</u>	<u>3,065,442</u>
Net Other Capital Assets	<u>5,964,267</u>	<u>537,099</u>	<u>21,925</u>	<u>6,523,291</u>
Net Water Plant	<u>\$ 6,050,113</u>	<u>\$ 537,099</u>	<u>\$ (20,666)</u>	<u>\$ 6,566,546</u>

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

5. CHANGES IN CAPITAL ASSETS (Cont.)

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

Business-Type Activities:

Electric Fund	\$	574,121
Water Fund		231,469
Total Depreciation Expense - Business-Type Activities	\$	<u>805,590</u>

6. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Board for the year ended December 31, 2015.

	<u>Balance</u> <u>January 1</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance</u> <u>December 31</u>	<u>Current</u> <u>Amount</u>
GO Improvement Bonds	\$ 2,246,717	\$ 564,776	\$ 96,230	\$ 2,715,263	\$ 178,067
GO Refunding Bonds	60,333	-	8,122	52,211	8,122
GO Revenue Note	1,019,000	-	75,000	944,000	75,000
Master Tax Exempt Lease	<u>754,833</u>	<u>650,360</u>	<u>283,665</u>	<u>1,121,528</u>	<u>340,752</u>
Totals	<u>\$ 4,080,883</u>	<u>\$ 1,215,136</u>	<u>\$ 463,017</u>	<u>\$ 4,833,002</u>	<u>\$ 601,941</u>

Bonds outstanding at December 31, 2015 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. \$ 217,469

\$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. 426,457

Total Electric Fund 643,926

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. 326,204

\$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. 151,398

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. 574,795

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. 1,024,080

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

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

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.	52,211
\$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.	188,000
\$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.	756,000
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.	326,612
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.	225,000
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.	<u>564,776</u>
Total Long-Term Debt	<u>\$ 4,833,002</u>

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>
2016	\$ 340,752	\$ 18,397	\$ 359,149	\$ 9,282	\$ 1,085	\$ 10,367
2017	346,983	12,165	359,148	10,442	917	11,359
2018	242,747	6,079	248,826	10,442	695	11,137
2019	134,282	2,646	136,928	10,442	429	10,871
2020	56,764	290	57,054	11,603	148	11,751
2021-2025	-	-	-	-	-	-
2026-2030	-	-	-	-	-	-
2031-2035	-	-	-	-	-	-
Total	<u>\$1,121,528</u>	<u>\$ 39,577</u>	<u>\$1,161,105</u>	<u>\$ 52,211</u>	<u>\$ 3,274</u>	<u>\$ 55,485</u>



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

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

	GO Improvement Bonds			GO Revenue Notes		
	<u>Business-Type Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 162,122	\$ 69,248	\$ 231,370	\$ 76,000	\$ 22,976	\$ 98,976
2017	191,244	67,672	258,916	77,000	21,126	98,126
2018	204,514	63,143	267,657	80,000	19,253	99,253
2019	209,459	60,929	270,388	81,000	17,305	98,305
2020	210,795	53,143	263,938	84,000	15,334	99,334
2021-2025	889,479	194,057	1,083,536	450,000	45,027	495,027
2026-2030	801,208	62,790	863,998	96,000	2,336	98,336
2031-2035	46,441	697	47,138	-	-	-
Total	<u>\$2,715,262</u>	<u>\$ 571,679</u>	<u>\$3,286,941</u>	<u>\$ 944,000</u>	<u>\$ 143,357</u>	<u>\$1,087,357</u>

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

Business-Type Activities:	
Electric Fund	\$ 9,944
Water Fund	<u>95,735</u>
Total Interest Expense - Business-Type Activities	<u>\$ 105,679</u>

7. NET POSITION/FUND BALANCES

Net position reported on the statement of net position at December 31, 2015 include the following:

Business-Type Activities

Net investment in capital assets

Capital assets, net of accumulated depreciation	\$ 16,032,146
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(5,003,731)</u>
Total Invested in Capital Assets	<u>11,028,415</u>

Restricted

Patron's Meter Deposits	<u>29,342</u>
Total Restricted	<u>29,342</u>

Unrestricted

Total Business-Type Activities Net Position	<u>1,231,454</u>
	<u>\$ 12,289,211</u>

8. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

The Board 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.

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

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

A. Plan Description (Cont.)

**1. General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the Board are covered by the General Employees Retirement Fund (GERF). 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. 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% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% 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.

**1. GERF Benefits**

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% of average salary for each of the first ten years of service and 2.7% 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% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% 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. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

C. Contributions

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

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

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

C. Contributions (Cont.)

1. **GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in 2015. The Board was required to contribute 11.78% for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Board contributions to the GERV for the year ended December 31, 2015, were \$59,956. The Board contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. **GERF Pension Costs**

At December 31, 2015, the Board reported a liability of \$720,370 for its proportionate share of the GERV's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board proportion of the net pension liability was based on the Board contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Board proportion was 0.0139%.

For the year ended December 31, 2015, the Board recognized pension expense of \$80,757 for its proportionate share of the GERV's pension expense.

At December 31, 2015, the Blue Earth Light & Water, Minnesota reported its proportionate share of the GERV's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 36,319
Difference between projected and actual investment earnings	68,194	-
Changes in proportion	-	45,801
Contributions paid to PERA subsequent to the measurement date	<u>31,849</u>	<u>-</u>
Total	<u>\$ 100,043</u>	<u>\$ 82,120</u>

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

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

D. Pension Costs (Cont.)

\$31,849 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. 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>
2016	\$ (10,325)
2017	\$ (10,325)
2018	\$ (10,323)
2019	\$ 17,047
2020	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The tonal pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<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	2%	0.50%

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the Board 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 Board proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
Board's proportionate share of the GERF Net Pension Liability:	\$ 1,132,678	\$ 720,370	\$ 379,867

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); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

9. 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.

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

9. DEFINED CONTRIBUTION PLAN (Cont.)

Total contributions made by the Board of Public Works of the City of Blue Earth, Minnesota during fiscal year 2015 were:

		<u>Contribution Amount</u>		<u>Required Percentage of Covered Payroll</u>	
	<u>Employee</u>	<u>Employer</u>		<u>Employee</u>	<u>Employer</u>
\$	500	\$	500	5.0 %	5.0 %

10. 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 2015 was \$197,117.

11. 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.

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

12. ACCOUNTING CHANGE

Governmental Accounting Standard Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (an amendment of GASB Statement No. 27) will improve accounting and financial reporting by state and local governments for pensions in addition to information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 71 "Pension Transition for Contributions made Subsequent to the Measurement Date" (an amendment to GASB Statement No. 68) addresses an issue regarding application of the transition provisions of Statement No. 68, related to the amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Board implemented these standards for the fiscal year end December 31, 2015.

The implementation of GASB Statement No. 68 and 71 resulted in the reclassification of certain funds and restatement of the Board's financial statements. This statement had the following effect on fund equity of the Electric and Water funds as they were previously reported:

<u>Fund</u>	Fund Equity 12/31/2014 as Previously Reported	Prior Period Restatement (1)	Fund Equity 1/1/2015 as Restated
Electric Fund	\$ 10,640,810	\$ (522,519)	\$ 10,118,291
Water Fund	2,121,499	(162,303)	1,959,196
Business-Type Activities	<u>\$ 12,762,309</u>	<u>\$ (684,822)</u>	<u>\$ 12,077,487</u>

- (1) Recognition of Net Pension Liability as of June 30, 2014 and Deferred Outflows of Resources related to contributions paid during 2014 for the measurement period July 1, 2014 through December 31, 2014

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, 2015

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, 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, 2015

<u>Fiscal Year Ended</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contributions Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
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, 2015

OPERATING REVENUES

Operating Revenues	\$
Sales	<u>5,578,399</u>
Total Sales of Electricity	<u>5,578,399</u>
Penalties	36,117
Transmission Revenue	<u>267,350</u>
Total Other Operating Revenues	<u>267,350</u>
Total Operating Revenues	<u>5,845,749</u>

OPERATING EXPENSES

Operational Expenses	
Interdepartment Charges	(18,177)
Purchased Power	2,454,108
Transmission	619,024
Capacity	417,007
Franchise Tax and Other Fees	197,117
Chemicals	8,312
Fuel	5,680
Repairs and Maintenance	233,428
Supplies	8,492
Training	8,496
Tools	3,174
Utilities	20,336
Transportation Expense	28,418
Safety Expense	<u>35,276</u>
Total Operational Expenses	<u>4,020,691</u>
Personnel Expenses	
Salaries and Wages	483,355
Payroll Tax	47,268
Group Health and Life Insurance	137,400
Pension and Incentives	61,900
Other Employer Expense	<u>14,399</u>
Total Personnel Expenses	<u>744,322</u>
Fixed Expenses	
Insurance	63,847
Depreciation	574,121
Lease and Rental	<u>5,935</u>
Total Fixed Expenses	<u>643,903</u>

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BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING EXPENSES (Cont.)

Administrative Expenses

Advertising and Promotion	10,665
Bad Debt Expense	9,379
Bank Charges and Credit Card Fees	6,153
Computer and Data Processing	47,129
Conservation/Rebate Program	120,848
Dues and Subscriptions	14,804
Director's Fees and Expenses	9,301
Legal and Professional	48,985
Meetings, Travel and Mileage	14,035
Office Supplies and Equipment	21,938
Telephone	<u>30,554</u>

Total Administrative Expenses

333,791

Total Operating Expenses

5,742,707

OPERATING INCOME

\$ 103,042

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 BOARD OF PUBLIC WORKS  
 BLUE EARTH LIGHT & WATER  
 WATER UTILITY OPERATING REVENUES AND EXPENSES  
 FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES	
Operating Revenues	\$
Sales	<u>810,503</u>
Total Sales of Electricity	<u>810,503</u>
Penalties	3,364
Total Operating Revenues	<u>810,503</u>
OPERATING EXPENSES	
Operational Expenses	
Interdepartment Charges	18,177
Chemicals	24,810
Fuel	73
Repairs and Maintenance	91,898
Supplies	1,255
Training	2,319
Tools	1,372
Utilities	9,925
Transportation Expense	2,647
Safety Expense	<u>1,427</u>
Total Operational Expenses	<u>153,903</u>
Personnel Expenses	
Salaries and Wages	209,840
Payroll Tax	14,683
Group Health and Life Insurance	42,679
Pension and Incentives	19,228
Other Employer Expense	<u>3,657</u>
Total Personnel Expenses	<u>290,087</u>
Fixed Expenses	
Insurance	16,880
Depreciation	231,469
Lease and Rental	<u>553</u>
Total Fixed Expenses	<u>248,902</u>
Administrative Expenses	
Advertising and Promotion	993
Bad Debt Expense	873
Bank Charges and Credit Card Fees	573
Computer and Data Processing	8,464
Dues and Subscriptions	35
Director's Fees and Expenses	866
Legal and Professional	6,140
Meetings, Travel and Mileage	2,451
Office Supplies and Equipment	899
Telephone	2,940
Wellhead Protection Study	<u>4,118</u>
Total Administrative Expenses	<u>28,352</u>
Total Operating Expenses	<u>721,244</u>
OPERATING INCOME	<u>\$ 89,259</u>

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
STATEMENT OF REVENUES AND EXPENSES  
COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Operating Revenues	\$ <u>6,695,733</u>	\$ <u>6,855,226</u>	\$ <u>(159,493)</u>
OPERATING EXPENSES			
Operational Expenses	4,174,594	4,293,885	119,291
Personnel Expenses	1,034,409	1,061,517	27,108
Fixed Expenses	892,805	862,490	(30,315)
Administrative Expenses	<u>362,143</u>	<u>362,629</u>	<u>486</u>
Total Operating Expenses	<u>6,463,951</u>	<u>6,580,521</u>	<u>116,570</u>
OPERATING INCOME	231,782	274,705	(42,923)
NON OPERATING REVENUES (EXPENSES)	<u>(20,064)</u>	<u>(73,741)</u>	<u>53,677</u>
NET INCOME	\$ <u>211,718</u>	\$ <u>200,964</u>	\$ <u>10,754</u>

SECTION IV

OTHER REQUIRED REPORTS



**DENNIS E. OBERLOH, LTD.**

**CERTIFIED PUBLIC ACCOUNTANT  
P.O. BOX 186 • 530 WEST PARK ROAD  
REDWOOD FALLS, MN 56283**

**Telephone: (507) 644-6400**

**Fax: (507) 644-6401**

**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, 2015, 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 April 18, 2016.

**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 2015-001.

### **Compliance and Other Matters**

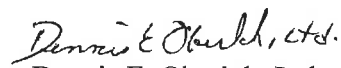
As part of obtaining reasonable assurance about whether the Board of Public Works Blue Earth Light & Water's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which 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.

April 18, 2016

BOARD OF PUBLIC WORKS  
BLUE EARTH LIGHT & WATER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2015

INTERNAL CONTROL FINDINGS

Audit Finding 2015-001

*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.

**DENNIS E. OBERLOH, LTD.**  
CERTIFIED PUBLIC ACCOUNTANT  
P.O. BOX 186 • 530 WEST PARK ROAD  
REDWOOD FALLS, MN 56283

Telephone: (507) 644-6400  
Fax: (507) 644-6401

AUDITOR'S REPORT ON LEGAL COMPLIANCE

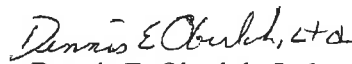
To the Board of Public Works  
Blue Earth Light & Water  
Blue Earth, Minnesota

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 18, 2016.

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.

April 18, 2016