

CITY OF GILBERT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2016

CITY OF GILBERT, MINNESOTA

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CITY OF GILBERT, MINNESOTA

**ORGANIZATION
December 31, 2016**

CITY COUNCIL

Mayor

Rob Kutsi

Council Members

John Skalko
Corey Bol
Robert Pontinen
Jeremy Liimatta

ADMINISTRATION

City Clerk-Treasurer

Debra Sakrison

APPOINTED

City Attorney

Michael K. Kearney

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Gilbert, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilbert, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Gilbert, Minnesota's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilbert, Minnesota, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining nonmajor and individual fund financial statements and schedules 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 combining nonmajor and individual fund financial statements and

schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2017, on our consideration of the City of Gilbert, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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* in considering City of Gilbert, Minnesota's internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
July 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

The City of Gilbert, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Gilbert, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$4,588,098, of which \$5,170,376 is the net investment in capital assets, and \$292,178 is restricted.
- Business-type activities have total net position of \$4,677,865; of which \$3,426,320 is the net investment in capital assets, and \$106,495 is restricted.
- The City of Gilbert's net position increased by \$355,998 for the year ended December 31, 2016. Of the increase, the governmental activities' net position decreased by \$245,181, while the business-type activities' net position increased by \$601,179.
- The net cost of governmental activities was \$1,987,797 for the current fiscal year. The net cost was funded by general revenues totaling \$2,112,774.
- Governmental funds' fund balances decreased by \$51,560 with the permanent improvement and replacement capital projects fund reporting the largest decrease totaling \$30,635.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Gilbert, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required and other information in addition to the basic financial statements themselves.

There are two government-wide financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements explain how governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-wide Financial Statements

The statement of net position and the statement of activities report information about the City, as a whole, and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These government-wide statements report the City's net position and how it has changed. You can think of the City's net position — the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources—as one way to measure the City's financial health. Increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and state aid and the condition of the City's buildings and streets also need to be considered in assessing the overall health of the City.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

In the statement of net position and the statement of activities, activities are shown in the governmental activities, or business-type activities.

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, public works, sanitation, culture and recreation, and economic development. Property taxes and state and federal grants and aids finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's water, electric, sewer usage, and sanitation sales and services are reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—governmental and proprietary—use different accounting methods.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Proprietary funds**—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for budgetary comparison information, schedule of funding progress for postemployment benefits plan, schedules of City's proportionate share of net pension liability and City's contribution for defined benefit pension plans, schedule of City's contribution, and schedule of changes in net pension liability/asset. Combining and individual financial statements are presented immediately following the required supplementary information.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that the City of Gilbert's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,265,963, which is an increase from the prior year.

Table 1
Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 1,455,098	\$ 1,560,476	\$ 1,809,385	\$ 1,473,932	\$ 3,264,483	\$ 3,034,408
Capital Assets	<u>5,647,243</u>	<u>5,696,055</u>	<u>5,153,149</u>	<u>4,937,227</u>	<u>10,800,392</u>	<u>10,633,282</u>
Total assets	<u>7,102,341</u>	<u>7,256,531</u>	<u>6,962,534</u>	<u>6,411,159</u>	<u>14,064,875</u>	<u>13,667,690</u>
Deferred outflows related to pensions	<u>1,765,389</u>	<u>260,457</u>	<u>66,563</u>	<u>-</u>	<u>1,831,952</u>	<u>260,457</u>
Long-term liabilities outstanding	<u>3,724,703</u>	<u>2,298,549</u>	<u>2,103,657</u>	<u>2,093,193</u>	<u>5,828,360</u>	<u>4,391,742</u>
Other liabilities	<u>252,262</u>	<u>338,982</u>	<u>229,519</u>	<u>141,693</u>	<u>481,781</u>	<u>480,675</u>
Total liabilities	<u>3,976,965</u>	<u>2,637,531</u>	<u>2,333,176</u>	<u>2,234,886</u>	<u>6,310,141</u>	<u>4,872,417</u>
Deferred inflows related to pensions	<u>302,667</u>	<u>136,938</u>	<u>18,056</u>	<u>-</u>	<u>320,723</u>	<u>136,938</u>
Net Position						
Net investment in capital assets	5,170,376	5,107,358	3,426,319	3,075,638	8,596,695	8,182,996
Restricted	292,178	312,644	106,495	127,421	398,673	440,065
Unrestricted	<u>(874,456)</u>	<u>(677,483)</u>	<u>1,145,051</u>	<u>973,214</u>	<u>270,595</u>	<u>295,731</u>
Total net position	<u>\$ 4,588,098</u>	<u>\$ 4,742,519</u>	<u>\$ 4,677,865</u>	<u>\$ 4,176,273</u>	<u>\$ 9,265,963</u>	<u>\$ 8,918,792</u>

Net position of the City's governmental activities decreased by 3.3 percent (\$4,588,098 compared to \$4,742,519). Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from a \$677,483 deficit at December 31, 2015 to a \$874,456 deficit at the end of this year.

Net position of the City's business-type activities increased by 12.0 percent (\$4,677,865 compared to \$4,176,273) in 2016.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016

**Table 2
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Fees, fines, charges, and other	\$ 617,814	\$ 557,634	\$ 2,384,677	\$ 2,426,999	\$ 3,002,491	\$ 2,984,633
Operating grants and contributions	87,750	107,652	12,249	63,158	99,999	170,810
Capital grants and contributions	414,594	366,420	12,470	10,185	427,064	376,605
General Revenues:						
Property taxes	1,393,254	1,326,319	18,650	18,650	1,411,904	1,344,969
Grants and contributions not restricted to specific programs	712,323	751,687	-	-	712,323	751,687
Unrestricted investment earnings	5,107	6,543	2,756	2,516	7,863	9,059
Gain on sale of capital assets	2,090	4,174	-	-	2,090	4,174
Total revenues	<u>3,232,932</u>	<u>3,120,429</u>	<u>2,430,802</u>	<u>2,521,508</u>	<u>5,663,734</u>	<u>5,641,937</u>
Program expenses:						
General government	796,609	609,145	-	-	796,609	609,145
Public safety	1,065,683	986,185	-	-	1,065,683	986,185
Public works	900,732	777,386	-	-	900,732	777,386
Sanitation	4,618	6,491	180,610	185,670	185,228	192,161
Culture and recreation	308,081	310,172	-	-	308,081	310,172
Economic development	20,000	81,182	-	-	20,000	81,182
Interest on long-term debt	12,232	12,925	-	-	12,232	12,925
Water	-	-	438,237	483,082	438,237	483,082
Electric	-	-	947,289	952,759	947,289	952,759
Sewer usage	-	-	633,645	602,091	633,645	602,091
Total program expenses	<u>3,107,955</u>	<u>2,783,486</u>	<u>2,199,781</u>	<u>2,223,602</u>	<u>5,307,736</u>	<u>5,007,088</u>
Increase (decrease) in net position before transfers	124,977	336,943	231,021	297,906	355,998	634,849
Transfers	<u>(370,158)</u>	<u>(252,513)</u>	<u>370,158</u>	<u>252,513</u>	-	-
Increase (decrease) in net position	(245,181)	84,430	601,179	550,419	355,998	634,849
Net position, January 1	4,742,519	5,655,886	4,176,273	3,625,854	8,918,792	9,281,740
Prior period adjustment	90,760	(997,797)	(99,587)	-	(8,827)	(997,797)
Net position, December 31	<u>\$ 4,588,098</u>	<u>\$ 4,742,519</u>	<u>\$ 4,677,865</u>	<u>\$ 4,176,273</u>	<u>\$ 9,265,963</u>	<u>\$ 8,918,792</u>

Governmental Activities

The most significant revenues of the governmental activities are property taxes and intergovernmental revenues. Property taxes levied for general purposes amount to \$1,176,013, 36% of revenues; while property taxes levied for specific purposes were \$202,617, 6% of revenue. Grants and contributions not restricted to specific programs amounts to \$712,323 or 22% of total revenue while fees, fines, charges, and other revenues are 19% of total revenues. Capital grants and contributions amounted to 13% of total revenues.

Public safety expenses are the most significant (34%), followed by public works (29%), general government (26%), culture and recreation (10%), and interest, sanitation and economic development (1%).

Governmental revenues increased \$112,503 in 2016, primarily due to an increase in changes for services and capital grants. Our taxpayers paid \$1,393,254 in property taxes during the current year, which is an increase of \$66,935 from 2015.

Governmental expenses increased by \$324,469 in the current year. The largest increase was recorded in the general government program (\$609,145 in 2015 to \$796,609 in 2016). The net cost of all governmental activities this year was \$1,987,797 compared to \$1,751,780 last year. Most of the increased cost is attributed to higher general government, public safety, and public works expenses.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Business-Type Activities

Revenues of the City's business-type activities were \$2,430,802 (see Table 2). There was an increase in net position of \$601,179 during the year ended December 31, 2016. The factors driving these results include:

- Operations produced income of \$233,449 for the year ended December 31, 2016.
- Nonoperating revenues and expenses included property taxes of \$18,650 and \$35,138 of interest expense.
- There is a capital contributions of \$422,673 and a transfer out to other funds of \$40,045.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows and balances of spendable resources. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

At December 31, 2016, the City's governmental funds reported total ending fund balances of \$1,072,903, a decrease of \$51,560 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised 7%, or \$75,124 of the total ending fund balance; \$209,952 (20%) of the fund balance was committed; \$863,726 (81%) was assigned; and a deficit of \$75,899 was unassigned.

At the end of the year, the general fund reported a fund balance of \$956,653, decreasing \$5,280 from the prior year. General fund revenues decreased by \$21,319 while general fund expenditures decreased by \$145,572.

The community development revolving loan special revenue fund had a \$15,042 decrease in fund balance during the year ended December 31, 2016. New loans exceeded payments collected by this amount.

The permanent improvement and replacement capital projects fund had a increase in revenues and increase in expenditures while the fund balance decreased by \$210,680 before transfers in. Revenues in 2016 increased because of increased construction projects funded by intergovernmental revenues and special assessments. The expenditures were higher due to increase in sanitation, and water works construction projects. Transfers from the general fund of \$180,045 offset some of these costs.

In the other governmental funds, the fund balance decrease was primarily from expenditures exceeding revenues in the library special revenue fund and the debt service fund. A transfer in to the debt service fund of \$17,135 from the general fund offsets a portion of this deficit.

Proprietary Funds

The proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The water enterprise fund accounts for water operations of the City. In 2016, the water enterprise fund reported an operating income of \$7,214. Revenues decreased from \$462,260 in 2015 to \$439,273 in 2016, while, total operating expenses increased from \$413,364 in 2015 to \$432,059 in 2016. The increase to operating expenses was primarily due to increases in employee benefits, contractual services, and depreciation. These increases all contributed to the smaller operating income.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

The electric enterprise fund accounts for electric operations of the City. In 2015 service revenues were \$1,084,765 and in 2016 service revenues were \$1,080,407. The electric enterprise fund reported an operating income of \$133,158 in 2016 compared to an operating income of \$132,006 in 2015. Operating expenses decreased slightly from \$952,759 in 2015 to \$947,249 in 2016.

The sewer usage enterprise fund accounts for sewer operations of the City. There was a decrease in service revenues from \$682,767 in 2015 to \$680,566 in 2016. Operating expenses in 2016 increased from \$569,531 in 2015 to \$603,559 in 2016. The decrease in revenues and increase in expenses resulted in operating income of \$77,007 compared to an operating income of \$113,236 in 2015.

The sanitation enterprise fund accounts for the collection and disposal related to the City's garbage services. In 2016, this fund recorded operating revenues of \$196,680 and operating expenses \$180,610. This led to operating income of \$16,070 in 2016 compared to operating income of \$11,537 in 2015. The most significant operating expense is the \$170,855 in contractual services.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2016, the City Council did not revise the City's general fund budget. The actual charges to appropriations (expenditures) were \$274,669 less than the final budgeted amount. The most significant positive variances occurred in the City's miscellaneous, general government and public works programs and the most negative variances occurred in the City's general government capital outlay programs. Resources available for appropriation were lower than the budgeted amounts by \$225,272. The City received \$159,107 less tax revenue than expected which was the most significant variance of the revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$10,800,392 invested in a broad range of capital assets, including land and improvements; construction in progress; infrastructure; distribution and production systems; sewage treatment plant; general assets; buildings, improvements and structures; equipment and vehicles; and furniture and fixtures (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$167,110 over last year.

Table 3
Capital Assets at Year-end
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	441,958	281,080	769,791	218,906	1,211,749	499,986
Infrastructure	3,385,198	3,506,041	-	-	3,385,198	3,506,041
Distribution system	-	-	2,256,650	2,413,692	2,256,650	2,413,692
Production system	-	-	683,730	747,068	683,730	747,068
Sewage treatment plant	-	-	1,223,113	1,329,049	1,223,113	1,329,049
General assets	-	-	191,279	199,926	191,279	199,926
Buildings, improvements and structures	1,069,467	1,103,433	-	-	1,069,467	1,103,433
Equipment and vehicles	352,873	398,029	-	-	352,873	398,029
Furniture and fixtures	29,647	39,372	-	-	29,647	39,372
Totals	\$ 5,647,243	\$ 5,696,055	\$ 5,153,149	\$ 4,937,227	\$ 10,800,392	\$ 10,633,282

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016

This year's major additions included:

- East Industrial Park infrastructure
- Wastewater treatment plant and equalization basin upgrades
- Highway 135 water extension
- Genoa sewer lines
- Police car
- Electric upgrades to campground
- Replacement of water lines

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Debt

At year-end, the City had \$2,436,867 in long-term debt outstanding versus \$2,715,697 last year—as shown in Table 4.

**Table 4
Outstanding Debt, at Year-end**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General obligation bonds (backed by the City)	\$ 500,000	\$ 606,000	\$ 400,000	\$ 440,000	\$ 900,000	\$ 1,046,000
General obligation revenue bonds and notes	-	-	1,465,000	1,577,000	1,465,000	1,577,000
Certificate of indebtedness fire truck	71,867	92,697	-	-	71,867	92,697
Total	<u>\$ 571,867</u>	<u>\$ 698,697</u>	<u>\$ 1,865,000</u>	<u>\$ 2,017,000</u>	<u>\$ 2,436,867</u>	<u>\$ 2,715,697</u>

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$246,867 at year end is significantly below this \$1,689,930 State-imposed limit.

Additional information on the City's long-term debt can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2017 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2017 budget included:

- Install new water main from the water high tower to allow the City of McKinley to connect and purchase water from the City of Gilbert's water distribution system
- Improvements to the sanitary sewer system in the Genoa area
- Continued development and implementation of a safety program and purchase of safety equipment for City employees
- Upgrading of computer equipment, firewalls and connectivity
- Improvements to Enterprise Trail to make that area more accessible for development

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Overall 2017 budget goals include the following:

- Maintaining the level of services provided to the Gilbert residents
- Continued transparency of financial, accounting systems and management
- Collaboration with area law enforcement agencies to share IT services and networks
- Work to attract development to increase the tax base
- Work to meet the MPCA permit requirements to meet the new mercury standard for wastewater
- Upgrade the electrical connections at Sherwood Forest Campground to accommodate 50 amp services

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, Debra Sakrison, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

BASIC FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,113,599	\$ 1,229,556	\$ 2,343,155
Taxes receivable	82,373	-	82,373
Special assessments receivable	26,604	241,789	268,393
Accounts receivable	3,640	338,040	341,680
Due from other governments	90,145	-	90,145
Loans receivable	106,432	-	106,432
Net pension asset	32,305	-	32,305
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	441,958	769,791	1,211,749
Capital assets net of accumulated depreciation			
Infrastructure	3,385,198	-	3,385,198
Distribution system	-	2,256,650	2,256,650
Production system	-	683,730	683,730
Sewage treatment plant	-	1,223,113	1,223,113
General assets	-	191,279	191,279
Buildings, improvements and structures	1,069,467	-	1,069,467
Equipment and vehicles	352,873	-	352,873
Furniture and fixtures	29,647	-	29,647
TOTAL ASSETS	7,102,341	6,962,534	14,064,875
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	1,765,389	66,563	1,831,952
LIABILITIES			
Accounts payable	94,155	187,208	281,363
Salaries payable	46,046	10,740	56,786
Due to other governments	-	7,668	7,668
Customer deposits	-	10,385	10,385
Unearned revenues	109,397	-	109,397
Accrued interest payable	2,664	13,518	16,182
Noncurrent liabilities			
Due within one year			
Bonds payable, notes payable and certificates of indebtedness	127,417	164,000	291,417
Due in more than one year			
Bonds payable, notes payable and certificates of indebtedness	444,450	1,701,000	2,145,450
Severance benefits	15,252	5,390	20,642
Other postemployment benefits payable	389,384	73,150	462,534
Net pension liability	2,748,200	160,117	2,908,317
TOTAL LIABILITIES	3,976,965	2,333,176	6,310,141
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	302,667	18,056	320,723
NET POSITION			
Net investment in capital assets	5,170,376	3,426,319	8,596,695
Restricted for:			
Debt service	3,578	106,495	110,073
Community development	139,923	-	139,923
Culture and recreation	148,677	-	148,677
Unrestricted	(874,456)	1,145,051	270,595
TOTAL NET POSITION	\$ 4,588,098	\$ 4,677,865	\$ 9,265,963

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 796,609	\$ 106,007	\$ -	\$ -
Public safety	1,065,683	373,003	70,098	7,266
Public works	900,732	26,033	-	334,505
Sanitation	4,618	-	-	-
Culture and recreation	308,081	112,771	15,219	-
Economic development	20,000	-	-	72,823
Interest on long-term debt	12,232	-	2,433	-
Total Governmental Activities	3,107,955	617,814	87,750	414,594
Business-type Activities				
Water	438,237	439,040	233	2,405
Electric	947,289	1,068,623	11,784	-
Sewer usage	633,645	680,334	232	10,065
Sanitation	180,610	196,680	-	-
Total Business-type Activities	2,199,781	2,384,677	12,249	12,470
TOTAL PRIMARY GOVERNMENT	\$ 5,307,736	\$ 3,002,491	\$ 99,999	\$ 427,064

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers**Total General Revenues and Transfers****CHANGE IN NET POSITION****NET POSITION - JANUARY 1**

Prior period adjustment

NET POSITION - DECEMBER 31

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (690,602)	\$ -	\$ (690,602)
(615,316)	-	(615,316)
(540,194)	-	(540,194)
(4,618)	-	(4,618)
(180,091)	-	(180,091)
52,823	-	52,823
(9,799)	-	(9,799)
<u>(1,987,797)</u>	<u>-</u>	<u>(1,987,797)</u>
-	3,441	3,441
-	133,118	133,118
-	56,986	56,986
-	16,070	16,070
<u>-</u>	<u>209,615</u>	<u>209,615</u>
<u>(1,987,797)</u>	<u>209,615</u>	<u>(1,778,182)</u>
1,176,013	-	1,176,013
202,617	18,650	221,267
14,624	-	14,624
712,323	-	712,323
5,107	2,756	7,863
2,090	-	2,090
<u>(370,158)</u>	<u>370,158</u>	<u>-</u>
<u>1,742,616</u>	<u>391,564</u>	<u>2,134,180</u>
(245,181)	601,179	355,998
4,742,519	4,176,273	8,918,792
<u>90,760</u>	<u>(99,587)</u>	<u>(8,827)</u>
<u>\$ 4,588,098</u>	<u>\$ 4,677,865</u>	<u>\$ 9,265,963</u>

CITY OF GILBERT, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	<u>General Fund</u>	<u>Community Development Revolving Loan Special Revenue Fund</u>	<u>Permanent Improvement and Replacement Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 824,591	\$ 134,673	\$ -	\$ 154,335	\$ 1,113,599
Taxes receivable	80,513	-	-	1,860	82,373
Special assessments receivable	2,088	-	20,000	4,516	26,604
Accounts receivable	3,640	-	-	-	3,640
Due from other funds	168,826	-	-	-	168,826
Due from other governments	90,145	-	-	-	90,145
Loans receivables	-	106,432	-	-	106,432
TOTAL ASSETS	<u>\$ 1,169,803</u>	<u>\$ 241,105</u>	<u>\$ 20,000</u>	<u>\$ 160,711</u>	<u>\$ 1,591,619</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 91,310	\$ -	\$ -	\$ 2,845	\$ 94,155
Salaries payable	43,099	-	-	2,947	46,046
Due to other funds	-	-	168,826	-	168,826
Contracts payable	-	-	-	-	-
Unearned revenue	8,215	101,182	-	-	109,397
TOTAL LIABILITIES	<u>142,624</u>	<u>101,182</u>	<u>168,826</u>	<u>5,792</u>	<u>418,424</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	68,438	-	-	-	68,438
Unavailable revenue-special assessments	2,088	-	20,000	4,516	26,604
Unavailable revenue-loans receivable	-	5,250	-	-	5,250
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>70,526</u>	<u>5,250</u>	<u>20,000</u>	<u>4,516</u>	<u>100,292</u>
FUND BALANCES					
Restricted	-	73,398	-	1,726	75,124
Committed	-	61,275	-	148,677	209,952
Assigned	863,726	-	-	-	863,726
Unassigned reported in					
General fund	92,927	-	-	-	92,927
Capital projects funds	-	-	(168,826)	-	(168,826)
TOTAL FUND BALANCES	<u>956,653</u>	<u>134,673</u>	<u>(168,826)</u>	<u>150,403</u>	<u>1,072,903</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,169,803</u>	<u>\$ 241,105</u>	<u>\$ 20,000</u>	<u>\$ 160,711</u>	<u>\$ 1,591,619</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF NET POSITION
December 31, 2016**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 1,072,903
Net pension asset used in governmental activities is not a current financial resource and therefore is not reported in the governmental funds.	32,305
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,647,243
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.	100,292
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(2,664)
Long-term liabilities, including bonds payable, notes payable, other postemployment benefits, compensated absences and net pension liability are not due and payable in the current period and therefore not reported in the governmental funds.	(3,724,703)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore not reported in the governmental funds.	
Deferred outflows of resources related to pensions	1,765,389
Deferred inflows of resources related to pensions	(302,667)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,588,098</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,181,115	\$ -	\$ -	\$ 198,542	\$ 1,379,657
Special assessments	-	-	6,000	141	6,141
Licenses and permits	11,686	-	-	-	11,686
Intergovernmental	806,141	-	407,328	2,433	1,215,902
Charges for services	378,094	-	-	99,998	478,092
Fines	18,058	-	-	1,579	19,637
Gifts and contributions	-	-	-	15,219	15,219
Interest	4,765	-	-	342	5,107
Miscellaneous	62,093	4,958	-	6,852	73,903
TOTAL REVENUES	2,461,952	4,958	413,328	325,106	3,205,344
EXPENDITURES					
Current					
General government	338,732	-	-	-	338,732
Public safety	862,910	-	-	-	862,910
Public works	615,500	-	-	-	615,500
Sanitation	2,527	-	-	-	2,527
Culture and recreation	67,510	-	-	192,723	260,233
Economic development	-	20,000	-	-	20,000
Miscellaneous	319,501	-	-	-	319,501
Debt Service					
Principal	20,830	-	-	106,000	126,830
Interest and fiscal charges	2,294	-	-	10,215	12,509
Capital Outlay					
General government	24,022	-	-	-	24,022
Public safety	58,361	-	-	-	58,361
Public works	-	-	90,804	-	90,804
Sanitation	-	-	218,993	-	218,993
Water works	-	-	314,211	-	314,211
Culture and recreation	-	-	-	33,906	33,906
TOTAL EXPENDITURES	2,312,187	20,000	624,008	342,844	3,299,039
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	149,765	(15,042)	(210,680)	(17,738)	(93,695)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	180,045	17,135	197,180
Transfers out	(157,135)	-	-	-	(157,135)
Sale of capital assets	2,090	-	-	-	2,090
TOTAL OTHER FINANCING SOURCES (USES)	(155,045)	-	180,045	17,135	42,135
NET CHANGE IN FUND BALANCES	(5,280)	(15,042)	(30,635)	(603)	(51,560)
FUND BALANCES - JANUARY 1	961,933	149,715	(138,191)	151,006	1,124,463
FUND BALANCES - DECEMBER 31	\$ 956,653	\$ 134,673	\$ (168,826)	\$ 150,403	\$ 1,072,903

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (51,560)

Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	235,816	
Less current year depreciation	<u>(284,628)</u>	
Net capital assets		(48,812)

Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.

Change in unavailable revenue - delinquent property taxes	13,597	
Change in unavailable revenue - special assessments	19,859	
Change in unavailable revenue - loans receivable	<u>(4,958)</u>	
		28,498

Repayments of debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.

Principal payments		126,830
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Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	278	
Change in long-term severance benefits	(2,476)	
Change in long-term other postemployment benefits	13,852	
Change in net pension liabilities and assets, and related deferred outflows and inflows	<u>(311,791)</u>	
		<u>(300,137)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (245,181)</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 68,998	\$ 1,021,410	\$ 109,291	\$ 29,857	\$ 1,229,556
Special assessments receivable	54,731	-	187,058	-	241,789
Accounts receivable	57,626	174,903	88,931	16,580	338,040
Advances to other funds	-	100,000	-	-	100,000
TOTAL CURRENT ASSETS	<u>181,355</u>	<u>1,296,313</u>	<u>385,280</u>	<u>46,437</u>	<u>1,909,385</u>
NONCURRENT ASSETS					
Capital assets					
Land and improvements	10,500	-	18,086	-	28,586
Construction in progress	484,565	-	285,226	-	769,791
Distribution system	2,969,587	1,147,363	1,318,311	-	5,435,261
Production system	1,966,008	-	-	-	1,966,008
Sewage treatment plant	-	-	4,229,607	-	4,229,607
General assets	159,969	321,922	76,142	33,608	591,641
Less accumulated depreciation	(3,216,347)	(1,160,605)	(3,484,071)	(6,722)	(7,867,745)
TOTAL NONCURRENT ASSETS	<u>2,374,282</u>	<u>308,680</u>	<u>2,443,301</u>	<u>26,886</u>	<u>5,153,149</u>
TOTAL ASSETS	<u>2,555,637</u>	<u>1,604,993</u>	<u>2,828,581</u>	<u>73,323</u>	<u>7,062,534</u>
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	24,961	16,641	24,961	-	66,563
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	13,618	89,867	73,837	9,886	187,208
Salaries payable	4,351	2,038	4,351	-	10,740
Accrued interest payable	2,219	-	11,299	-	13,518
Advance from other funds	50,000	-	50,000	-	100,000
Due to other governments	-	5,628	-	2,040	7,668
Customer deposits	-	10,385	-	-	10,385
Notes payable - current	9,000	-	65,000	-	74,000
Bonds payable - current	27,628	-	62,372	-	90,000
TOTAL CURRENT LIABILITIES	<u>106,816</u>	<u>107,918</u>	<u>266,859</u>	<u>11,926</u>	<u>493,519</u>
NONCURRENT LIABILITIES					
Severance benefits	895	3,600	895	-	5,390
Other postemployment benefits payable	12,779	23,233	37,138	-	73,150
Notes payable	57,000	-	899,000	-	956,000
Bonds payable	242,748	-	502,252	-	745,000
Net pension liability	60,044	40,029	60,044	-	160,117
TOTAL NONCURRENT LIABILITIES	<u>373,466</u>	<u>66,862</u>	<u>1,499,329</u>	<u>-</u>	<u>1,939,657</u>
TOTAL LIABILITIES	<u>480,282</u>	<u>174,780</u>	<u>1,766,188</u>	<u>11,926</u>	<u>2,433,176</u>
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	6,771	4,514	6,771	-	18,056
NET POSITION					
Net investment in capital assets	2,122,367	308,680	968,386	26,886	3,426,319
Restricted for debt service	-	-	106,495	-	106,495
Unrestricted (deficit)	(28,822)	1,133,660	5,702	34,511	1,145,051
TOTAL NET POSITION	<u>\$ 2,093,545</u>	<u>\$ 1,442,340</u>	<u>\$ 1,080,583</u>	<u>\$ 61,397</u>	<u>\$ 4,677,865</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
REVENUES					
Charges for services	\$ 439,040	\$ 1,068,623	\$ 680,334	\$ 196,680	\$ 2,384,677
Miscellaneous	233	11,784	232	-	12,249
TOTAL OPERATING REVENUES	<u>439,273</u>	<u>1,080,407</u>	<u>680,566</u>	<u>196,680</u>	<u>2,396,926</u>
OPERATING EXPENSES					
Source of supply	-	732,257	-	-	732,257
Personal services	78,906	51,547	78,906	-	209,359
Employee benefits	79,786	35,424	57,903	-	173,113
Contractual services	30,955	72,625	123,583	170,855	398,018
Utilities	29,411	1,767	97,907	-	129,085
Repairs and maintenance	22,938	380	23,224	2,085	48,627
Other supplies and expenses	41,715	18,435	39,901	4,309	104,360
Depreciation	146,338	25,802	175,813	3,361	351,314
Miscellaneous	2,010	9,012	6,322	-	17,344
TOTAL OPERATING EXPENSES	<u>432,059</u>	<u>947,249</u>	<u>603,559</u>	<u>180,610</u>	<u>2,163,477</u>
OPERATING INCOME	<u>7,214</u>	<u>133,158</u>	<u>77,007</u>	<u>16,070</u>	<u>233,449</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	2,756	-	-	2,756
Property taxes	-	-	18,650	-	18,650
Fiscal agent fees	(265)	-	(901)	-	(1,166)
Interest expense	(5,913)	(40)	(29,185)	-	(35,138)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(6,178)</u>	<u>2,716</u>	<u>(11,436)</u>	<u>-</u>	<u>(14,898)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>1,036</u>	<u>135,874</u>	<u>65,571</u>	<u>16,070</u>	<u>218,551</u>
Capital contributions	316,900	-	105,773	-	422,673
Transfers out	-	-	(40,045)	-	(40,045)
CHANGE IN NET POSITION	<u>317,936</u>	<u>135,874</u>	<u>131,299</u>	<u>16,070</u>	<u>601,179</u>
TOTAL NET POSITION - JANUARY 1	<u>1,812,954</u>	<u>1,331,363</u>	<u>986,629</u>	<u>45,327</u>	<u>4,176,273</u>
Prior period adjustment	<u>(37,345)</u>	<u>(24,897)</u>	<u>(37,345)</u>	<u>-</u>	<u>(99,587)</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 2,093,545</u>	<u>\$ 1,442,340</u>	<u>\$ 1,080,583</u>	<u>\$ 61,397</u>	<u>\$ 4,677,865</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds				
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 446,448	\$ 1,067,070	\$ 679,309	\$ 195,844	\$ 2,388,671
Cash paid to suppliers	(184,984)	(838,648)	(296,492)	(176,070)	(1,496,194)
Cash paid to employees	(78,089)	(51,315)	(78,083)	-	(207,487)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>183,375</u>	<u>177,107</u>	<u>304,734</u>	<u>19,774</u>	<u>684,990</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(25,000)	50,000	(65,045)	-	(40,045)
Prior year water fund cash deficit implicitly financed	(48,217)	48,217	-	-	-
Interest paid on customer deposits	-	(40)	-	-	(40)
Property taxes received	-	-	18,650	-	18,650
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(73,217)</u>	<u>98,177</u>	<u>(46,395)</u>	<u>-</u>	<u>(21,435)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(9,991)	-	(147,042)	-	(157,033)
Fiscal agent fees	(265)	-	(901)	-	(1,166)
Principal paid on long-term debt	(32,388)	-	(119,612)	-	(152,000)
Interest paid on long-term debt	(6,067)	-	(30,102)	-	(36,169)
Capital contributions from special assessments	7,551	-	33,515	-	41,066
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(41,160)</u>	<u>-</u>	<u>(264,142)</u>	<u>-</u>	<u>(305,302)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	-	2,756	-	-	2,756
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	68,998	278,040	(5,803)	19,774	361,009
CASH AND CASH EQUIVALENTS, JANUARY 1	-	743,370	115,094	10,083	868,547
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 68,998</u>	<u>\$ 1,021,410</u>	<u>\$ 109,291</u>	<u>\$ 29,857</u>	<u>\$ 1,229,556</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GILBERT, MINNESOTA

STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended December 31, 2016

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 7,214	\$ 133,158	\$ 77,007	\$ 16,070	\$ 233,449
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	146,338	25,802	175,813	3,361	351,314
Net pension liability, deferred outflows, and deferred inflows related to pensions	4,509	3,005	4,509	-	12,023
Changes in assets and liabilities (Increase) decrease in:					
Accounts receivable	7,175	(8,122)	(1,257)	(836)	(3,040)
Increase (decrease) in:					
Accounts payable	7,421	25,997	58,012	1,192	92,622
Salaries payable	641	232	648	-	1,521
Due to other governments	-	(18)	-	(13)	(31)
Customer deposits	-	(5,215)	-	-	(5,215)
Severance benefits	176	-	175	-	351
Other postemployment benefits	9,901	2,268	(10,173)	-	1,996
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 183,375</u>	<u>\$ 177,107</u>	<u>\$ 304,734</u>	<u>\$ 19,774</u>	<u>\$ 684,990</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Total capital asset additions	\$ 324,486	\$ -	\$ 242,750	\$ -	\$ 567,236
City capital asset contributions	(314,495)	-	(95,708)	-	(410,203)
Cash paid for purchase or construction of capital assets	<u>\$ 9,991</u>	<u>\$ -</u>	<u>\$ 147,042</u>	<u>\$ -</u>	<u>\$ 157,033</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note.

A. Financial Reporting Entity

The City of Gilbert, Minnesota, a political subdivision of the State of Minnesota, is a charter city. The charter was adopted on November 6, 1941 (amended effective January 1, 1978 and December 17, 2002). The City is governed by elected officials and operates under a council-mayor form of government.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 the given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate fund statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The description of the funds included in this report are as follows:

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following governmental funds:

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

The General Fund is used to account and report all financial resources not accounted for and reported in another fund.

The Community Development Revolving Loan Special Revenue Fund is used to account for and report grants received and loans disbursed to provide financing for new or existing business operations located in the City.

The Permanent Improvement and Replacement Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay including acquisition or construction of capital facilities and other capital assets within the City other than those financed by proprietary funds.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital assets other than those financed by proprietary funds.

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets, deferred outflows of resources, liabilities and deferred inflows of resources are included on the Statement of Net Position. The City has presented the following proprietary funds:

Major Proprietary Funds:

The Water Enterprise Fund is used to account for revenues generated from the charges for water services provided to the residential and commercial users of the City.

The Electric Enterprise Fund is used to account for revenues generated from the charges for electric services provided to the residential and commercial users of the City.

The Sewer Usage Enterprise Fund is used to account for revenues generated from the charges for wastewater treatment services provided to the residential and commercial users of the City.

The Sanitation Enterprise Fund is used to account for revenues generated from the charges for garbage services provided to the residential and commercial users of the City.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Grant revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item or service is to be used and debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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 City's enterprise funds are charges to customers. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments purchased with a maturity of three months or less.

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

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.
- 3) The City has no significant inventories and records supplies and materials as expenditures when purchased.
- 4) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 5) Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements and proprietary fund statements.
- 6) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds," or "advances to/from other funds."

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

- 7) Capital assets, which include land and improvements; construction in progress; infrastructure; distribution system; production system; sewage treatment plant; general assets; buildings, improvements and structures; equipment and vehicles; and furniture and fixtures are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. General infrastructure assets acquired or constructed prior to January 1, 2004, are not reported in the basic financial statements. The City maintains a threshold level of \$2,500 or more for capitalizing everything except land. The threshold for capitalizing land is \$10,000 or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 10 to 40 years for infrastructure; 10 to 40 years for distribution system; 5 to 40 years for production system; 20 years for the sewage treatment plant; 5 to 10 years for general assets; 20 to 75 years for buildings, improvements, and structures; 5 to 20 years for equipment and vehicles; and 10 to 20 years for furniture and fixtures. Capital assets not being depreciated include land and improvements and construction in progress.

- 8) Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has one item in this category, related to pensions. See Notes 17 and 18 for details.
- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred inflow of resources in the general fund because they are not available to finance the current year operations of the City. Deferred inflows of resources are also recorded in other funds and represents loans receivable and special assessments receivable.

- 10) In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, if material, are reported as deferred charges and amortized over the life of the related debt using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are expenses in the period incurred. The long-term liabilities consists primarily of general obligation bonds, general obligation revenue notes payable, certificates of indebtedness, other postemployment benefits, net pension liability and severance payable.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Payment of principal and interest, along with severance pay and post-employment benefits, are recognized as expenditures when paid.

11) Defined Benefit Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 12) Deferred inflows of resources represent 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. The City has only two items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the General Fund, special assessments, which are reported in the General, Permanent Improvement and Replacement Capital Projects Fund and Debt Service Funds, and loans receivable, which are reported in the Community Development Revolving Loan Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of deferred inflows of resources is related to pensions. See Notes 17 and 18 for details.
- 13) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

In the fund financial statements, proprietary fund equity is classified the same as in the government-wide statements. Fund balances of the governmental funds represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Fund balances of the governmental funds are classified as follows:

Nonspendable—amounts that cannot be spent either because they are in nonspendable form, such as inventory and prepaid items, or because they are legally or contractually required to be maintained intact.

Restricted—amounts that can be spent only for specific purposes because of enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed—amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through resolutions approved by the City Council.

Assigned—amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City Council or an individual or committee authorized by the City Council may assign amounts for specific purposes.

Unassigned—all other spendable amounts.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

- 14) The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

F. Revenues and Expenditures

- 1) The property tax calendar in Minnesota follows the calendar year. Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Property taxes become a lien on the property the following January 1. The County generally remits taxes to the City at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

St. Louis County also collects special assessments throughout the year and remits them to the City in three settlements. In the government-wide and proprietary fund financial statements, special assessments revenue is recognized in the year levied and recorded as a receivable at the date they become a lien on the property. In governmental funds, revenue is recognized on a modified accrual basis; therefore special assessments not received within sixty days of year-end are reported as unavailable revenue.

Federal, state, and other revenues are reported under the legal and contractual requirements of the individual programs and are classified into essentially two types of revenues. In one, monies must be expended for the specific purpose before any amounts will be paid to the City; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure, and the resources are recorded as revenue at the time of receipt or earlier if they are available.

- 2) Employees earn vacation and sick leave based on various bargaining units and length of service. Vacation time must be used annually. Sick leave is available to employees in the event of illness related absences and is recorded as an expenditure when taken. Vested unused sick leave will be paid as severance pay upon retirement and is accrued in the government-wide and proprietary fund financial statements.
- 3) As provided in union and employment contracts, qualified employees meeting all of the service requirements may be eligible for certain other postemployment benefits from the City.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Fund and Net Position Deficits

The following fund had a deficit fund balance or net position at December 31, 2016:

Government Fund	
Permanent Improvement and Replacement Capital Projects Fund	\$168,826

The City anticipates that the deficit will be eliminated by future revenues or transfers from other funds.

NOTE 3 - CASH AND CASH EQUIVALENTS

The City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota statutes. This pool functions essentially as a demand account for all participating funds. Each fund's portion of this pool is displayed on the financial statements as "cash and cash equivalents". Several funds hold cash and investments separate from the cash and investment pool.

"Cash and cash equivalents" recorded are comprised of:

Petty cash	\$ 650
Cash	1,952,823
Certificates of Deposit	318,000
Investments	71,682
Total	<u>\$ 2,343,155</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. The City's deposit policy for custodial credit risk requires deposits to be insured by FDIC insurance and collateralized.

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$2,270,823; the bank balance was \$2,337,995. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's investment policy requires brokers to have Securities Investor Protection Insurance (SIPC).

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk and Concentration of Credit Risk

The City's investment policy requires safety and preservation of principal as the primary objective of each investment transaction. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. The City places no limit on the amount the City may invest in any one issuer.

As of December 31, 2016, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money Market (4M) Fund	\$ 59,715	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>11,967</u>	Not Rated
	<u>\$ 71,682</u>	

The City utilizes the Minnesota Municipal Money Market (4M) Fund which is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City minimizes interest rate risk by structuring their investments so that securities mature to meet cash requirements for ongoing operations. During 2016, the City did not invest in securities.

Fair Value of Investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability – either directly or indirectly.
- Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The City's investments of \$71,682 at December 31, 2016 are not subject to measurement.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LOANS RECEIVABLE

The City is involved in several economic/community development projects. Several businesses received loans from the City during the year and in prior years. The unpaid principal balance on these loans as of December 31, 2016 was \$106,432 and is recorded as loans receivable in the Community Development Revolving Loan Special Revenue Fund.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land and improvements	\$ 368,100	\$ -	\$ -	\$ 368,100
Construction in progress	281,080	160,878	-	441,958
Total capital assets, not being depreciated	<u>649,180</u>	<u>160,878</u>	<u>-</u>	<u>810,058</u>
Capital assets, being depreciated:				-
Infrastructure	4,043,055	26,916	-	4,069,971
Buildings, improvements and structures	2,657,731	-	-	2,657,731
Equipment and vehicles	1,928,587	48,022	-	1,976,609
Furniture and fixtures	356,994	-	-	356,994
Total capital assets, being depreciated	<u>8,986,367</u>	<u>74,938</u>	<u>-</u>	<u>9,061,305</u>
Less accumulated depreciation for:				
Infrastructure	(537,014)	(147,759)	-	(684,773)
Buildings, improvements and structures	(1,554,298)	(33,966)	-	(1,588,264)
Equipment and vehicles	(1,530,558)	(93,178)	-	(1,623,736)
Furniture and fixtures	(317,622)	(9,725)	-	(327,347)
Total accumulated depreciation	<u>(3,939,492)</u>	<u>(284,628)</u>	<u>-</u>	<u>(4,224,120)</u>
Total capital assets, being depreciated, net	<u>5,046,875</u>	<u>(209,690)</u>	<u>-</u>	<u>4,837,185</u>
Governmental activities capital assets, net	<u>\$ 5,696,055</u>	<u>\$ (48,812)</u>	<u>\$ -</u>	<u>\$ 5,647,243</u>
Business-type activities				
Capital assets, not being depreciated				
Land and improvements	\$ 28,586	\$ -	\$ -	\$ 28,586
Construction in progress	218,906	550,885	-	769,791
Total capital assets, not being depreciated	<u>247,492</u>	<u>550,885</u>	<u>-</u>	<u>798,377</u>
Capital assets, being depreciated:				
Distribution system	5,435,261	-	-	5,435,261
Production system	1,966,008	-	-	1,966,008
Sewage treatment plant	4,229,607	-	-	4,229,607
General assets	575,290	16,351	-	591,641
Total capital assets, being depreciated	<u>12,206,166</u>	<u>16,351</u>	<u>-</u>	<u>12,222,517</u>
Less accumulated depreciation for:				
Distribution system	(3,021,569)	(157,042)	-	(3,178,611)
Production system	(1,218,940)	(63,338)	-	(1,282,278)
Sewage treatment plant	(2,900,558)	(105,936)	-	(3,006,494)
General assets	(375,364)	(24,998)	-	(400,362)
Total accumulated depreciation	<u>(7,516,431)</u>	<u>(351,314)</u>	<u>-</u>	<u>(7,867,745)</u>
Total capital assets, being depreciated, net	<u>4,689,735</u>	<u>(334,963)</u>	<u>-</u>	<u>4,354,772</u>
Business-type activities capital assets, net	<u>\$ 4,937,227</u>	<u>\$ 215,922</u>	<u>\$ -</u>	<u>\$ 5,153,149</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 42,869
Public safety	66,607
Public works	132,056
Sanitation	40,859
Recreation	<u>2,237</u>
Total depreciation expense - governmental activities	<u>\$284,628</u>
Business-type activities	
Water	\$146,338
Electric	25,802
Sewer usage	175,813
Sanitation	<u>3,361</u>
Total depreciation expense - business-type activities	<u>\$351,314</u>

NOTE 6 - LONG-TERM DEBT

The City issues general obligation bonds, revenue notes, and certificates of indebtedness to finance the construction of major capital facilities, improvements, and acquisition of equipment. The bonds and notes have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The certificate of indebtedness is being paid from the applicable general government revenue sources. For governmental activities, claims and judgments, other postemployment benefits payable and compensated absences are generally liquidated by the general fund. For business-type activities, claims and judgments, other postemployment benefits payable and compensated absences are liquidated by the appropriate enterprise fund.

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 65,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	325,000
GO Bonds, Equipment Certificates, Series 2012A	03/01/2012	0.40-1.80%	\$ 75,000	05/01/2021	15,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>95,000</u>
Total GO Bonds payable					500,000
Certificate of Indebtedness – Fire Truck	03/23/2015	2.75%	\$ 108,000	03/16/2020	<u>71,867</u>
Governmental activities long-term debt					<u>571,867</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Business-type activities					
GO bonds and notes					
GO Improvement Bonds, Series 2008A	05/01/2008	3.10-4.40%	\$ 665,000	02/01/2024	\$ 400,000
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	285,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	150,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	66,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$1,337,076	08/20/2030	<u>964,000</u>
Business-type activities long-term debt					<u>1,865,000</u>
Total long-term debt					<u><u>\$ 2,436,867</u></u>

Governmental funds

In 2012, the City issued \$1,025,000 in GO Bonds, Series 2012A. \$585,000 of the bonds issued were to refund the \$770,000 GO refunding improvement bonds issued in 2005 of which those proceeds were used to effect a crossover refunding of \$725,000 of the outstanding GO Improvement Bonds of 1999 issued to finance the costs of street, curb, gutter, storm sewer as well as related water and sewer improvements within the City. Principal and interest paid for the current year was \$69,840. At December 31, 2016, principal and interest to maturity in 2021 on the refunding bonds to be paid from special assessments against benefited property and ad valorem taxes on all taxable property within the City totaled \$337,930.

\$75,000 of the \$1,025,000 GO Bonds, Series 2012A issued in 2012 was used to purchase a police squad car and two public utility vehicles. Principal and interest paid for the current year totaled \$15,210. At December 31, 2016, principal and interest to maturity in 2017 on the refunding bonds to be paid from ad valorem taxes on all taxable property within the City totaled \$15,075.

In 2012, the City issued \$350,000 Taxable General Obligation Improvement Plan and Utility Revenue Bonds, Series 2012B. \$140,000 of these bonds were used to finance the energy conservation improvements to the City Hall and Library facilities. Principal and interest paid for the current year totaled \$17,606. At December 31, 2016, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$104,319.

In 2012, the City issued \$113,000 GO Tax Abatement Bonds, Series 2012C to refund the \$155,000 GO Abatement Bonds issued in 2004 to finance a public improvement project. Principal and interest paid for the current year was \$12,870. At December 31, 2016, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$69,221.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Enterprise funds

The City has pledged future water fund revenues, net of any normal and reasonable expenses of operations, to repay a \$157,764 GO revenue note issued in 2003. Proceeds from this note were used to connect two wells to the water treatment plant. Principal and interest paid for the current year was \$10,131. At December 31, 2016, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$73,776.

The City has pledged future sewer usage fund revenues, net of any normal and reasonable expenses of operations, to repay \$665,000 in GO improvement bonds issued in 2008 and a \$1,337,076 GO revenue note issued in 2010. Proceeds from the 2008 bonds were used to construct a sewer line extension and proceeds from the 2010 revenue note were used to finance a wastewater treatment project. Principal and interest paid for the current year on both issues was \$131,920. At December 31, 2016, principal and interest on the 2008 bonds to maturity in 2024 to be paid from pledged future revenues totaled \$472,225 and on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$1,037,840.

Of the \$1,025,000 GO Bonds, Series 2012A, \$236,500 of the bonds were used to finance improvements to the City's water utility system while \$128,500 of the bonds were used for improvements to the City's sewer utility system. Principal and interest paid for the current year on both issues totaled \$25,830. At December 31, 2016, principal and interest to maturity in 2027 on the bonds to be paid from net revenues of the City's municipal sewer and water utility systems totaled \$208,878 for the water bonds and \$113,497 for the sewer bonds.

Of the \$350,000 Taxable General Obligation Improvement Plan and Utility Revenue Bonds, Series 2012B, \$120,000 was used to finance the energy conservation improvements to the City's water plant and \$90,000 was used to finance the energy conservation improvements to the City's sewer plant. Principal and interest paid for the current year totaled \$24,425. At December 31, 2016, principal and interest to maturity in 2023 which will be paid from net revenues of the water and wastewater systems totaled \$94,416 for the water bonds and \$70,809 for the sewer bonds.

Long-term debt activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
General obligation bonds					
GO Abatement Refunding					
Bonds, Series 2012C	\$ 76,000	\$ -	\$ (11,000)	\$ 65,000	\$ 16,000
GO Refunding Bonds, Series 2012A	390,000	-	(65,000)	325,000	60,000
GO Bonds, Equipment Certificates, Series 2012A	30,000	-	(15,000)	15,000	15,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	110,000	-	(15,000)	95,000	15,000
Total GO bonds payable					
Certificates of Indebtedness					
Fire Truck 2015	92,697	-	(20,830)	71,867	21,417
Total governmental activities – long-term debt	<u>\$ 698,697</u>	<u>\$ -</u>	<u>\$ (126,830)</u>	<u>\$ 571,867</u>	<u>\$ 127,417</u>

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type activities					
Bonds payable					
GO Improvement Bonds, Series 2008A	\$ 440,000	\$ -	\$ (40,000)	\$ 400,000	\$ 45,000
GO Utility Revenue Bonds, Series 2012A	305,000	-	(20,000)	285,000	25,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	170,000	-	(20,000)	150,000	20,000
Revenue Notes payable					
GO Revenue Note of 2003	74,000	-	(8,000)	66,000	9,000
GO Revenue Note of 2010	1,028,000	-	(64,000)	964,000	65,000
Total business-type activities long-term debt	<u>\$ 2,017,000</u>	<u>\$ -</u>	<u>\$ (152,000)</u>	<u>\$ 1,865,000</u>	<u>\$ 164,000</u>

Minimum annual principal and interest payments required to retire long-term debt are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 127,417	\$ 9,973	\$ 164,000	\$ 36,973	\$ 291,417	\$ 46,946
2018	112,013	7,917	164,000	33,585	276,013	41,502
2019	117,626	5,778	165,000	30,076	282,626	35,854
2020	100,811	3,561	175,000	26,188	275,811	29,749
2021	84,000	1,759	177,000	21,994	261,000	23,753
2022-2026	30,000	900	701,000	49,990	731,000	50,890
2027-2031	-	-	319,000	7,635	319,000	7,635
Total	<u>\$ 571,867</u>	<u>\$ 29,888</u>	<u>\$ 1,865,000</u>	<u>\$ 206,441</u>	<u>\$ 2,436,867</u>	<u>\$ 236,329</u>

No interest was capitalized during 2016; interest incurred and charged to expense totaled \$50,528.

NOTE 7 - LEASE OBLIGATIONS

Copy Machine Agreements

The City leases copy machines under non-cancelable operating leases. Total costs for such leases were \$5,585 for the year ended December 31, 2016. The future minimum lease payments are as follows:

Year Ended December 31	Amount
2017	\$ 3,788
2018	3,788
2019	3,681
2020	2,508
Total	<u>\$ 13,765</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. There are 4 active and 11 retired members in the plan as of December 31, 2015. Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees.

Funding Policy

The City has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For 2016, 11 retirees received postemployment benefits. The City provided required contributions of \$173,058 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$19,215. Required contributions are based on projected pay-as-you-go financing.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	Governmental Activities	Business-type Activities	Total
Normal cost (service cost for one year)	\$ 22,632	\$ 11,755	\$ 34,387
Amortization of unfunded actuarial accrued liability	82,756	37,448	120,204
Interest on normal cost and amortization	4,552	2,059	6,611
Annual required contribution	109,940	51,262	161,202
Adjustment to annual required contribution	-	-	-
Annual OPEB cost (expense)	109,940	51,262	161,202
Contributions toward the OPEB cost	(123,792)	(49,266)	(173,058)
Increase (decrease) in net OPEB obligation	(13,852)	1,996	(11,856)
Net OPEB obligation, beginning of year	403,236	71,154	474,390
Net OPEB obligation, end of year	\$ 389,384	\$ 73,150	\$ 462,534

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2016	\$ 161,202	107.4%	\$ 462,534
12/31/2015	\$ 161,202	103.1%	\$ 474,390
12/31/2014	\$ 168,850	83.5%	\$ 479,446

Funding Status and Funding Progress

The funding status of the plan as of January 1, 2015, the date of the latest actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
1/1/2015	\$ -	\$ 2,602,159	\$ 2,602,159	0.0%	\$ 1,230,910	211.4%

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City's OPEB alternative method calculation valuation as of January 1, 2015, used the entry age cost method to estimate both the unfunded actuarial liability as of December 31, 2016 and to estimate the City's 2016 annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 2 percent rate of return on invested assets, which is the City's long-term expectation of investment returns under its investment policy. The actuarial assumptions include an initial annual healthcare cost trend rate of 7.5% the first year, and then reduced by .5% per year to an ultimate rate of 4.5% after 6 years. The unfunded actuarial accrued liability is being amortized using the level percentage of payroll method over 30 years on an open basis.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2016, is as follows:

Due to/from other funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Permanent Improvement and Replacement Capital Projects	\$ 168,826

These balances resulted from the elimination of cash deficits.

Advances to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise	Water Enterprise	\$ 50,000
Electric Enterprise	Sewer Usage Enterprise	50,000
Total All Funds		<u>\$ 100,000</u>

In 2014, the electric enterprise fund advanced \$100,000 each to the water and sewer usage enterprise funds. Due to cash flow, these advances were part of each fund's capital project funding to the permanent improvements and replacement capital projects fund. The loan is scheduled to be paid back \$25,000 from both funds for four years as special assessments are collected.

Interfund transfers for the year ended December 31, 2016, consisted of the following:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
Permanent Improvement and Replacement Capital Projects	General	\$ 140,000
	Sewer Usage Enterprise	40,045
Nonmajor Debt Service	General	17,135
Total All Funds		<u>\$ 197,180</u>

The transfers were made to fund project costs and debt service costs.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - FUND EQUITY

Fund Balances

As of December 31, 2016, fund balances are comprised of the following:

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Nonmajor Governmental Funds	Total
Restricted:					
Rehabilitation loans	\$ -	\$ 73,398	\$ -	\$ -	\$ 73,398
Debt service	-	-	-	1,726	1,726
Total Restricted	-	73,398	-	1,726	75,124
Committed:					
Storefront loans	-	61,275	-	-	61,275
Library	-	-	-	60,709	60,709
Campground	-	-	-	87,968	87,968
Total Committed	-	61,275	-	148,677	209,952
Assigned:					
Cash flow	850,950	-	-	-	850,950
Compensated absences	12,776	-	-	-	12,776
Total Assigned	863,726	-	-	-	863,726
Unassigned	92,927	-	(168,826)	-	(75,899)
Total fund balances	<u>\$956,653</u>	<u>\$ 134,673</u>	<u>\$ (168,826)</u>	<u>\$ 150,403</u>	<u>\$1,072,903</u>

NOTE 11 – PRIOR PERIOD ADJUSTMENT

Due to reallocating the PERA net pension liability and related deferred inflows and deferred outflows of resources from the governmental funds to the enterprise funds and due to reporting the fire relief net pension asset and related deferred inflows and deferred outflows of resources as of December 31, 2016 as opposed to one year prior, as it was reported in the past, net position has been restated as follows:

	Governmental Activities	Business-type Activities	Proprietary Funds		
			Water Enterprise Fund	Electric Disposal Enterprise Fund	Sewer Usage Enterprise Fund
Net Position January 1, 2016, prior to restatement	<u>\$ 4,742,519</u>	<u>\$ 4,176,273</u>	<u>\$ 1,812,954</u>	<u>\$ 1,331,363</u>	<u>\$ 986,629</u>
Restatement for GASB 68 pension liabilities allocation	99,587	(99,587)	(37,345)	(24,897)	(37,345)
Restatement for change in measurement date of fire relief net pension asset	<u>(8,827)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total prior period adjustment	<u>90,760</u>	<u>(99,587)</u>	<u>(37,345)</u>	<u>(24,897)</u>	<u>(37,345)</u>
Net Position January 1, 2016, as restated	<u>\$ 4,833,279</u>	<u>\$ 4,076,686</u>	<u>\$ 1,775,609</u>	<u>\$ 1,306,466</u>	<u>\$ 949,284</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participating in the League of Minnesota Cities Insurance Trust. The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operating as a common risk management and insurance program for its members. The City pays annual premiums to the Trust Fund for its insurance coverage. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

NOTE 13 - TAX ABATEMENTS

The City is authorized by *Minnesota Statutes*, Section 469.1812 through 469.1815, to enter into property tax abatements for the purpose of attracting or retaining businesses. Tax abatements may not exceed ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or \$200,000, whichever is greater. Tax abatements may be granted to any business located within or promising to relocate to the City if:

- 1) the City expects its benefits of the proposed abatement agreement to at least equal the costs to the political subdivision of the proposed agreement, or intends the abatement to phase in a property tax increase; and
- 2) finds that doing so is in the public interest because it will:
 - a. increase or preserve the tax base;
 - b. provide employment opportunities in the City;
 - c. provide or help acquire or construct public facilities;
 - d. help redevelop or renew blighted areas;
 - e. help provide access to service for residents of the City;
 - f. finance or provide public infrastructure;
 - g. phase in a property tax increase on the parcel resulting from an increase of 50 percent or more in one year on the estimated market value of the parcel, other than increase attributable to improvement of the parcel; or
 - h. stabilize the tax base through equalization of property tax revenues for a specified period of time with respect to a taxpayer whose real and personal property is subject to valuation under Minnesota Rules, chapter 8100.

In 2004, the City approved a 15-year abatement for the Delta Dental development project, commencing 2006 and ending in 2021. The City will add to its levy amount for the current year the total estimated amount of the current year abatement. The amount of the abatement is pledged by the City for payment of principal and interest on the GO Tax Abatement Bonds that were issued to finance the project. In the year-ended December 31, 2016, the City abated \$16,138 in property taxes for this bonded debt.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 14 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Construction Projects

The City had outstanding construction projects as of December 31, 2016. The projects were evidenced by contractual commitments with contractors and engineers.

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Lower Louisiana Project	\$ 318,314	\$ 23,257
Highway 135 McKinley Water Extension	390,081	34,455
Genoa Sanitary Sewer	95,562	12,101
Wastewater Treatment Plant & Equalization Basin	140,683	485,659
Total	<u>\$ 944,640</u>	<u>\$ 555,472</u>

Electric Utility Commitments

The City of Gilbert, Minnesota has entered into several agreements with Minnesota Power relating to the City's electrical distribution system. The Electric Service Agreement provides that Minnesota Power will supply electric power and associated energy sufficient for the City to meet its electric system requirements for resale to its retail customers in its service area. This agreement is in effect until December 31, 2024 and will continue thereafter with either Minnesota Power or the City having the right to terminate the agreement upon three years written notice to the other party after December 31, 2021. The contract also provides for rate adjustments throughout the term of the contract.

The Electric Maintenance Agreement establishes the rights, duties and responsibilities with respect to Minnesota Power's performance of the electric system maintenance for the City. The City has retained the services of Minnesota Power to perform routine maintenance and upkeep, including emergency and non-emergency service calls, for the electric system owned and operated by the City of Gilbert. This agreement will terminate upon the earlier of 1) termination of the Electric Service Agreement with Minnesota Power; or 2) one year after written notice of termination by either party. The costs of these services are determined on agreed upon rates and rates will be revised annually.

Other Commitment

The City has a contract with an area business for solid waste removal services within the City of Gilbert, Minnesota. The contractor collects and disposes of all refuse and any other waste materials as set forth by the City. This contract is in effect until December 31, 2018. The contractor charges the City an agreed upon rate times the number of residential customers. The contract provided for no increase to the rate for 2016, and two and a half percent increases for 2017 and 2018.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 15 - JOINT VENTURES

Police Services

The City has entered into a joint powers agreement with the City of Biwabik, Minnesota, to provide police services for the City of Biwabik. Both cities appoint members to a joint advisory commission which will review and monitor the services to ensure the agreement is meeting the expectations of both cities. Any recommendations of the commission are strictly advisory.

The agreement sets forth the terms and conditions under which the City of Gilbert will provide police services to the City of Biwabik. The City of Gilbert has full authority and responsibility to provide services in accordance with all enabling legislation under the laws of the State of Minnesota and the ordinances of the City of Biwabik. The agreement will continue until terminated by either city. Notification to terminate must be given by April 1 of the year the party intends to terminate. Termination will then be effective at the end of the calendar year.

In consideration of services, the City of Biwabik has agreed to pay an annual fee to the City of Gilbert. This fee is established by the Cities of Gilbert and Biwabik on an annual basis by September 7 of each year. The City of Gilbert requests payment from the City of Biwabik on a quarterly basis. During 2016, the City of Biwabik paid the City of Gilbert \$325,099 for police services.

Tri-Cities Biosolids Disposal Authority

The City is a member in a joint authority agreement with the Cities of Mountain Iron and Eveleth, Minnesota for the operation of the Tri-Cities Biosolids Disposal Authority, which owns and operates a biosolids truck for the member cities. Each city appoints one member to the Tri-Cities Biosolids Disposal Authority Board which oversees the operations.

Upon termination, if the expenses and liabilities of the Authority exceed the proceeds received from the sale, the loss shall be divided between the members on the same basis as member contributions to capital and operation cost. If upon termination, the assets of the Authority exceed its liabilities, the net proceeds from the sale thereof shall be divided between the members on the same basis as the contributions to capital and operation cost.

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Gilbert's contribution to the Authority's budget during 2016 was \$20,832. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Biosolids Disposal Site Authority

The City is a member in a joint authority agreement with the Cities of Mountain Iron, Eveleth, and Virginia, Minnesota for the operation of the Biosolids Disposal Site Authority, which owns and manages the Biosolids Site property. Each city appoints one member to the Biosolids Disposal Site Authority Board which oversees the operations.

Upon termination, if the expenses and liabilities of the Authority exceed the proceeds received from the sale, the loss shall be divided between the members on the same basis as member contributions to capital and operation cost. If upon termination, the assets of the Authority exceed its liabilities, the net proceeds from the sale thereof shall be divided between the members on the same basis as the contributions to capital and operation cost.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 15 - JOINT VENTURES (CONTINUED)

Each member city contributes to the budget of the Authority based on the per capita reported in the 2010 Census. The City of Gilbert's contribution to the Authority's budget for 2016 was \$3,725. Complete financial information can be obtained from the Biosolids Disposal Site Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

The City is a member in a joint powers agreement with the Cities of Mountain Iron, Eveleth, and Virginia, Minnesota to cooperatively acquire property, construct a building, maintain the property and building and operate the Quad Cities Joint Recreational Authority. The Authority is governed by nine commissioners; two commissioners are appointed by each member city. One at-large commissioner is appointed by the governing board.

In the event of dissolution and following the payment of all outstanding obligations, assets of the Authority will be distributed between the members in direct proportion to their cumulative annual membership contributions. If those obligations exceed the assets of the Authority, the net deficit of the Authority will be charged to and paid by the then existing members in direct proportion to their cumulative annual membership contributions.

The City of Gilbert's contribution to the Authority's budget during 2016 was \$4,032. Complete financial information can be obtained from the Quad Cities Recreation Center, P.O. Box 707, Eveleth, Minnesota 55734.

Joint Recreation Board

The City entered into a joint powers agreement with the City of Eveleth, Independent School District No. 2154 Eveleth-Gilbert, and Town of Fayal, Minnesota to organize, manage, conduct, and operate recreational programs and facilities for their residents, constituents, and patrons. The Joint Recreation Board is governed by a nine-member board composed of two members from the City of Gilbert, three from the City of Eveleth, two from Independent School District No. 2154 Eveleth-Gilbert, and two from the Town of Fayal.

If the agreement is terminated, all real and personal property will be sold and any surplus money and property remaining after payment of all liabilities shall be returned to the parties in proportion to each party's total contribution over the three years prior to termination.

The City of Gilbert contributed \$15,484 during 2016 to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, P.O. Box 536, Eveleth, Minnesota 55734.

ATV/OHM/Snowmobile Trail Board

The City has entered into a joint powers agreement with the City of Eveleth, Minnesota to sponsor, construct, maintain, and manage ATV/OHM/Snowmobile and off-road vehicle trails located between the City of Eveleth and the City of Gilbert. The ATV/OHM/Snowmobile Trail Board will organize, lease real estate, construct trails on public and private property, and maintain and manage the trails between the Cities of Gilbert and Eveleth.

The ATV/OHM/Snowmobile Trail Board is governed by a five-member board composed of two members appointed by each city, with those four members appointing one member. In the event of dissolution and following the payment of all outstanding obligations, assets will be distributed between the members in a proportion commensurate with the party's representation on the Board, or as otherwise agreed upon by the parties.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 15 - JOINT VENTURES (CONTINUED)

The City of Gilbert contributed \$7,309 to the ATV/OHM/Snowmobile Trail Board during 2016. Complete financial information can be obtained from the ATV/OHM/Snowmobile Trail Board, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

NOTE 16 - SEVERANCE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. Severance activity for the year ended December 31, 2016 was as follows:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016
Governmental activities	\$ 12,776	\$ 2,476	\$ -	\$ 15,252
Business-type activities	5,039	351	-	5,390
Total	<u>\$ 17,815</u>	<u>\$ 2,827</u>	<u>\$ -</u>	<u>\$ 20,642</u>

NOTE 17- DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

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

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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 17- DEFINED BENEFIT PENSION PLANS (CONTINUED)

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% 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. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% 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% 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.

2. Police and Fire Plan Benefits

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

B. Contributions

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$52,833. The City of Gilbert, Minnesota contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$76,729. The City of Gilbert, Minnesota's contributions were equal to the required contributions as set by state statute.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 17- DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the City of Gilbert, Minnesota reported a liability of \$941,862 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$12,247. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0116% which was a decrease of 0.0005% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City of Gilbert, Minnesota recognized pension expense of \$130,545 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$3,652 as pension expense and grant revenue for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 77,383
Changes in actuarial assumptions	184,417	-
Difference between projected and actual investment earnings	180,609	-
Changes in proportion	-	28,829
Contributions paid to PERA subsequent to the measurement date	26,518	-
Totals	\$ 391,544	\$ 106,212

\$26,518 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2017	\$ 69,852
2018	\$ 69,852
2019	\$ 85,089
2020	\$ 34,021
2021	\$ -
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 17- DEFINED BENEFIT PENSION PLANS (CONTINUED)

2. Police and Fire Pension Costs

At December 31, 2016, the City reported a liability of \$1,966,455 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.049% which was the same as its proportion measured as of June 30, 2015. The City also recognized \$4,410 for the year ended December 31, 2016, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2016, the City of Gilbert, Minnesota recognized pension expense of \$334,375 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2016, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 213,551
Changes in actuarial assumptions	1,082,226	-
Difference between projected and actual investment earnings	300,095	-
Changes in proportion	12,001	-
Contributions paid to PERA subsequent to the measurement date	39,577	-
Totals	\$ 1,433,899	\$ 213,551

\$39,577 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2017	\$ 242,763
2018	\$ 242,766
2019	\$ 266,859
2020	\$ 242,609
2021	\$ 185,774
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 17- DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Actuarial Assumptions

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

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan and Police and Fire Plan.

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

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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 using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 17- DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contribution from plan members and employers will be made at the rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

F. Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability at Current Single Discount Rate				
	General Employees Fund		Police and Fire Fund	
1% Lower	6.50%	\$ 1,337,724	4.60%	\$ 2,752,776
Current Discount Rate	7.50%	\$ 941,862	5.60%	\$ 1,966,455
1% Higher	8.50%	\$ 615,780	6.60%	\$ 1,323,971

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 17- DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Plan Fiduciary Net Position

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

NOTE 18 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT

Plan Description

The City of Gilbert, Minnesota Volunteer Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2016, the plan covered 19 active firefighters and 2 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

Benefits Provided

The Volunteer Firefighter Plan provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*. The State of Minnesota contributed \$12,859 in fire state aid to the fund for the year ended December 31, 2016. Required employer contributions are calculated annually based on statutory provisions. The City was not required to make any statutorily required contributions to the Volunteer Firefighter Plan for the year ended December 31, 2016.

Pension Costs

At December 31, 2016, the City reported a net pension asset of \$32,305 for the Volunteer Firefighter Plan. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/15	\$ 194,187	\$ 221,172	\$ (26,985)
Changes for the Year			
Service Cost	11,331	-	11,331
Interest on Pension Liability	12,331	-	12,331
Actuarial Experience (Gains)/Losses	(1,200)	-	(1,200)
Projected Investment Earnings	-	13,270	(13,270)
Contributions (Employer)	-	-	-
Contributions (State)	-	12,859	(12,859)
Asset (Gain)/Loss	-	2,300	(2,300)
Benefit Payouts	-	-	-
PERA Administrative Fee	-	(647)	647
Net Changes	22,462	27,782	(5,320)
Balance End of Year 12/31/16	\$ 216,649	\$ 248,954	\$ (32,305)

For the year ended December 31, 2016, the City recognized pension expense of \$10,339.

At December 31, 2016, the City reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ 6,509	\$ -
Difference between actuarial assumptions and actual experience	-	960
Total	\$ 6,509	\$ 960

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2016	\$ (2,084)
2017	\$ (2,084)
2018	\$ (2,081)
2019	\$ 700
2020	\$ -
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 18 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

Actuarial Assumptions

The total pension liability at December 31, 2016, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0%
- Inflation rate of 3.0%

There were no changes in actuarial assumptions in 2016.

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension (Asset)	\$ 24,500	\$ 32,305	\$ 39,836

Plan Investments

Investment Policy:

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 18 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan (VOLP) that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during Fiscal Year 2016 for the Statewide Volunteer Firefighter Retirement Plan.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2016, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GILBERT, MINNESOTA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,340,222	\$ 1,340,222	\$ 1,181,115	\$ (159,107)
Licenses and permits	12,565	12,565	11,686	(879)
Intergovernmental	808,823	808,823	806,141	(2,682)
Charges for services	365,595	365,595	378,094	12,499
Fines	23,000	23,000	18,058	(4,942)
Interest	-	-	4,765	4,765
Miscellaneous	137,019	137,019	62,093	(74,926)
TOTAL REVENUES	2,687,224	2,687,224	2,461,952	(225,272)
EXPENDITURES				
Current				
General government	413,965	413,965	338,732	75,233
Public safety	870,985	870,985	862,910	8,075
Public works	656,726	656,726	615,500	41,226
Sanitation	4,000	4,000	2,527	1,473
Culture and recreation	78,259	78,259	67,510	10,749
Miscellaneous	427,546	427,546	319,501	108,045
Debt Service				
Principal	20,830	20,830	20,830	-
Interest and other charges	2,295	2,295	2,294	1
Capital Outlay				
General government	10,000	10,000	24,022	(14,022)
Public safety	52,250	52,250	58,361	(6,111)
Public works	30,000	30,000	-	30,000
Miscellaneous	20,000	20,000	-	20,000
TOTAL EXPENDITURES	2,586,856	2,586,856	2,312,187	274,669
EXCESS OF REVENUES OVER EXPENDITURES	100,368	100,368	149,765	49,397
OTHER FINANCING SOURCES (USES)				
Transfers out	(100,000)	(100,000)	(157,135)	(57,135)
Sale of capital assets	-	-	2,090	2,090
TOTAL OTHER FINANCING SOURCES (USES)	(100,000)	(100,000)	(155,045)	(55,045)
NET CHANGE IN FUND BALANCES	368	368	(5,280)	(5,648)
FUND BALANCE - JANUARY 1	961,933	961,933	961,933	-
FUND BALANCE - DECEMBER 31	\$ 962,301	\$ 962,301	\$ 956,653	\$ (5,648)

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 4,958	\$ 1,958
EXPENDITURES				
Current				
Economic development	-	-	20,000	(20,000)
NET CHANGE IN FUND BALANCES	3,000	3,000	(15,042)	(18,042)
FUND BALANCE - JANUARY 1	149,715	149,715	149,715	-
FUND BALANCE - DECEMBER 31	<u>\$ 152,715</u>	<u>\$ 152,715</u>	<u>\$ 134,673</u>	<u>\$ (18,042)</u>

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS PLAN
Year Ended December 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Governmental Activities						
1/1/2011	\$ -	\$ 1,729,382	\$ 1,729,382	0.00%	\$ 874,821	197.70%
1/1/2013	\$ -	\$ 1,610,872	\$ 1,610,872	0.00%	\$ 949,024	169.70%
1/1/2015	\$ -	\$ 1,791,500	\$ 1,791,500	0.00%	\$ 1,014,419	176.60%
Business-type Activities						
1/1/2011	\$ -	\$ 923,065	\$ 923,065	0.00%	\$ 143,146	644.80%
1/1/2013	\$ -	\$ 753,596	\$ 753,596	0.00%	\$ 162,371	464.10%
1/1/2015	\$ -	\$ 810,659	\$ 810,659	0.00%	\$ 216,491	374.50%

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLANS
Year Ended December 31, 2016**

**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With City (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/16	0.0116%	\$ 941,862	\$ 12,247	\$ 954,109	\$ 719,187	132.66%	68.91%
6/30/15	0.0121%	\$ 627,085	\$ -	\$ 627,085	\$ 710,177	88.30%	78.19%

Note: This schedule is provided prospectively beginning with the fiscal year ended June 30, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages."

**SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
12/31/16	\$ 52,833	\$ 52,833	\$ -	\$ 704,440	7.50%
12/31/15	\$ 54,510	\$ 54,510	\$ -	\$ 726,802	7.50%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages."

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLANS
Year Ended December 31, 2016**

**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES POLICE AND FIRE FUND**

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/16	0.0490%	\$ 1,966,455	\$ 468,574	419.67%	63.88%
6/30/15	0.0490%	\$ 556,755	\$ 462,408	120.40%	86.61%

Note: This schedule is provided prospectively beginning with the fiscal year ended June 30, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages."

**SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES POLICES AND FIRE FUND**

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
12/31/16	\$ 76,729	\$ 76,729	\$ -	\$ 473,636	16.20%
12/31/15	\$ 75,797	\$ 75,797	\$ -	\$ 467,883	16.20%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages."

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULES OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2016**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
GILBERT VOLUNTEER FIRE DEPARTMENT**

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 11,331	\$ 11,001
Interest on the pension liability	12,331	11,878
Actuarial experience (gains)/losses	(1,200)	438
Benefit payments	<u>-</u>	<u>(32,200)</u>
Net Change in Total Pension Liability	22,462	(8,883)
Total Pension Liability - Beginning	<u>194,187</u>	<u>203,070</u>
Total Pension Liability - Ending (a)	<u><u>\$ 216,649</u></u>	<u><u>\$ 194,187</u></u>
Plan Fiduciary Net Position		
Contributions:		
Fire state aid	\$ 9,544	\$ 9,562
Fire supplemental aid	2,315	2,340
Supplemental Benefit Reimbursement	1,000	1,000
Voluntary Municipal Contribution	-	-
Required Municipal Contribution	-	6,993
Net Investment Income	15,570	534
PERA administrative fee	(630)	(600)
SBI Investment Fee	(17)	(7)
Benefit Payments	<u>-</u>	<u>(32,200)</u>
Net Change in Plan Fiduciary Net Position	27,782	(12,378)
Plan Fiduciary Net Position - Beginning	<u>221,172</u>	<u>233,550</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 248,954</u></u>	<u><u>\$ 221,172</u></u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (32,305)</u></u>	<u><u>\$ (26,985)</u></u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	114.9%	113.9%

Notes:

This Schedule is built prospectively until it contains ten years of data.

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF CITY CONTRIBUTIONS
Year Ended December 31, 2016**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
GILBERT VOLUNTEER FIRE DEPARTMENT**

	2016	2015	2014
Actuarially determined contribution	\$ -	\$ 6,993	\$ -
Actual contributions paid	-	6,993	6,780
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ 13,986</u>	<u>\$ 6,780</u>

Notes:

The annual required contributions of the municipality and State are determined by statute.

Because all active plan members are volunteers, there is no actual payroll.

The schedule is built prospectively until it contains ten years of data.

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2016**

NOTE 1 - BUDGETING

The City Clerk-Treasurer prepares a proposed budget for the City's funds on the same basis as the fund financial statements. The City Council adopts an annual budget for the fiscal year for the General Fund and special revenue funds.

Legal budgetary control is at the fund account level; management control is exercised at line-item levels. Budget appropriations lapse at year end, if unexpended.

Budgeted amounts are as originally adopted or as amended by the City Council. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund and the Community Development Revolving Loan Special Revenue Fund present comparisons of budgetary data to actual results.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2016 :

Community Development Revolving Loan Special Revenue Fund	<u>Excess</u> \$ 20,000
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This excess was funded by available fund balance.

**NOTE 3 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN PROVISIONS AND DISCOUNT RATE**

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2016**

**NOTE 3 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN PROVISIONS AND DISCOUNT RATE (CONTINUED)**

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

**NOTE 4 - PUBLIC EMPLOYEES POLICE AND FIRE RETIREMENT FUND CHANGES IN
PROVISIONS AND DISCOUNT RATE**

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions:

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

OTHER INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific resources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Library Special Revenue Fund is used to account for and report the revenues to be used for the operation of the City's library.

The Campground Special Revenue Fund is used to account for and report financial resources used for the City's campground.

Debt Service Fund

Debt Service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The Debt Service Fund is used to account for and report resources accumulated and payments made for principal, interest and related costs on the City's long-term debt of governmental funds.

Capital Projects Fund

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds.

The City did not have any nonmajor capital projects funds for the year ended December 31, 2016.

CITY OF GILBERT, MINNESOTA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2016**

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 66,205	\$ 88,130	\$ -	\$ 154,335
Taxes receivable	134	-	1,726	1,860
Special assessments receivable	-	-	4,516	4,516
TOTAL ASSETS	<u>\$ 66,339</u>	<u>\$ 88,130</u>	<u>\$ 6,242</u>	<u>\$ 160,711</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 2,683	\$ 162	\$ -	\$ 2,845
Salaries payable	2,947	-	-	2,947
TOTAL LIABILITIES	<u>5,630</u>	<u>162</u>	<u>-</u>	<u>5,792</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-special assessments	-	-	4,516	4,516
FUND BALANCES				
Restricted	-	-	1,726	1,726
Committed	60,709	87,968	-	148,677
TOTAL FUND BALANCES	<u>60,709</u>	<u>87,968</u>	<u>1,726</u>	<u>150,403</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 66,339</u>	<u>\$ 88,130</u>	<u>\$ 6,242</u>	<u>\$ 160,711</u>

CITY OF GILBERT, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2016**

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 101,901	\$ -	\$ 96,641	\$ 198,542
Special assessments	-	-	141	141
Intergovernmental	-	-	2,433	2,433
Charges for services	-	99,998	-	99,998
Fines	1,579	-	-	1,579
Gifts and contributions	15,219	-	-	15,219
Interest	-	342	-	342
Miscellaneous	3,193	3,659	-	6,852
TOTAL REVENUES	<u>121,892</u>	<u>103,999</u>	<u>99,215</u>	<u>325,106</u>
EXPENDITURES				
Current				
Culture and recreation	125,515	67,208	-	192,723
Debt Service				
Principal	-	-	106,000	106,000
Interest and other charges	-	-	10,215	10,215
Capital Outlay				
Culture and recreation	6,990	26,916	-	33,906
TOTAL EXPENDITURES	<u>132,505</u>	<u>94,124</u>	<u>116,215</u>	<u>342,844</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,613)	9,875	(17,000)	(17,738)
OTHER FINANCING SOURCES				
Transfers in	-	-	17,135	17,135
NET CHANGE IN FUND BALANCES	(10,613)	9,875	135	(603)
FUND BALANCES - JANUARY 1	<u>71,322</u>	<u>78,093</u>	<u>1,591</u>	<u>151,006</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ 60,709</u></u>	<u><u>\$ 87,968</u></u>	<u><u>\$ 1,726</u></u>	<u><u>\$ 150,403</u></u>

CITY OF GILBERT, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2016**

REVENUES

Taxes

General property	\$ 511,456
Taconite production	12,200
Taconite mining effects	49,253
Taconite homestead credit	122,796
Taconite municipal aid	192,245
Franchise	14,624
Other	278,541
Total Taxes	<u>1,181,115</u>

Licenses and Permits	<u>11,686</u>
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Intergovernmental

State	
Local government aid	708,687
Police training	2,189
PERA aid	3,636
Police aid	56,504
Other	11,643
DNR grant for fire department	2,672
DNR grant for OHV trails	7,266
County	
OHV trail grant	11,954
Safe and sober	1,590
Total Intergovernmental	<u>806,141</u>

Charges for Services

General government	
Rent	63
Miscellaneous	38,363
Public safety	
City of Biwabik's share of police	328,255
Other	120
Public works	
Other	33
Cemetery	11,260
Total Charges for Services	<u>378,094</u>

CITY OF GILBERT, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2016**

REVENUES (CONTINUED)

Fines

Court fines	\$ 11,725
Police forfeitures	1,756
Trespass fines	595
Administrative fines	<u>3,982</u>
Total Fines	<u>18,058</u>

Interest

Interest income	<u>4,765</u>
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Miscellaneous

Insurance recoveries	6,146
Insurance dividends	39,268
Donations	3,000
Reimbursements and refunds	9,760
D.A.R.E.	50
Other	<u>3,869</u>
Total Miscellaneous	<u>62,093</u>

TOTAL REVENUES

2,461,952

EXPENDITURES

Current

General Government

Mayor and council	31,539
City clerk-treasurer	225,228
Elections	2,810
Independent audit	18,000
Legal	7,554
Planning and zoning	4,046
Community center	17,183
Information technology	623
Other	<u>31,749</u>
Total General Government	<u>338,732</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2016

EXPENDITURES

Current (continued)

Public Safety

Police	\$ 802,396
Fire	43,690
Animal control	5,500
First responders	11,324
Total Public Safety	<u>862,910</u>

Public Works

Maintenance	585,934
Street lighting	29,566
Total Public Works	<u>615,500</u>

Sanitation

Recycling	<u>2,527</u>
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Culture and Recreation

Recreation center	49,095
Mesabi trail maintenance	480
Contribution to range recreation civic center	4,032
OHV parks and trails	13,903
Total Culture and Recreation	<u>67,510</u>

Miscellaneous

Insurance	181,665
Employer-paid insurance	123,792
Utilities	8,034
Cemetery	3,167
Other	2,843
Total Miscellaneous	<u>319,501</u>

Debt Service

Principal	<u>20,830</u>
Interest and other charges	<u>2,294</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2016

EXPENDITURES (CONTINUED)

Capital Outlay

General Government

Community center	\$ 9,807
City clerk	5,103
City hall	9,112
Total General Government	<u>24,022</u>

Public Safety

Police	44,124
Fire	14,237
Total Public Safety	<u>58,361</u>

TOTAL EXPENDITURES	<u>2,312,187</u>
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EXCESS OF REVENUES OVER EXPENDITURES	<u>149,765</u>
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OTHER FINANCING SOURCES (USES)

Transfers out	(157,135)
Sale of capital assets	2,090
TOTAL OTHER FINANCING SOURCES (USES)	<u>(155,045)</u>

NET CHANGE IN FUND BALANCE	(5,280)
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FUND BALANCE - JANUARY 1	<u>961,933</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 956,653</u>
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CITY OF GILBERT, MINNESOTA

**COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2016**

REVENUES

Miscellaneous

Principal on loan payments	\$	4,958
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EXPENDITURES

Current

Economic Development

Storefront loans	<u>20,000</u>
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NET CHANGE IN FUND BALANCE	(15,042)
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FUND BALANCE - JANUARY 1	<u>149,715</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 134,673</u>
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CITY OF GILBERT, MINNESOTA

**PERMANENT IMPROVEMENT AND REPLACEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2016**

REVENUES

Special Assessments

Principal \$ 6,000

Intergovernmental

Federal grants

Community Development Block Grant 72,823

State

Iron Range Resources 334,505

Total Intergovernmental 407,328

TOTAL REVENUES 413,328

EXPENDITURES

Capital Outlay

Public Works

Lawn mower 12,863

2013 infrastructure project 65

Kansas residential project 40,000

Lower Louisiana Avenue project 37,876

Total Public Works 90,804

Sanitation

East Industrial Park project 123,431

Genoa sanitary sewer project 95,562

Total Sanitation 218,993

Water Works

McKinley water extension 314,211

TOTAL EXPENDITURES 624,008

**DEFICIENCY OF REVENUES OVER
EXPENDITURES**

(210,680)

OTHER FINANCING SOURCES

Transfers in 180,045

NET CHANGE IN FUND BALANCE (30,635)

FUND BALANCE - JANUARY 1 (138,191)

FUND BALANCE - DECEMBER 31 \$ (168,826)

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 107,000	\$ 107,000	\$ 101,901	\$ (5,099)
Fines	3,000	3,000	1,579	(1,421)
Gifts and contributions	7,220	7,220	15,219	7,999
Miscellaneous	-	-	3,193	3,193
TOTAL REVENUES	117,220	117,220	121,892	4,672
EXPENDITURES				
Current				
Culture and recreation	129,622	129,622	125,515	4,107
Capital Outlay				
Culture and recreation	500	500	6,990	(6,490)
TOTAL EXPENDITURES	130,122	130,122	132,505	(2,383)
NET CHANGE IN FUND BALANCE	(12,902)	(12,902)	(10,613)	2,289
FUND BALANCE - JANUARY 1	71,322	71,322	71,322	-
FUND BALANCE - DECEMBER 31	\$ 58,420	\$ 58,420	\$ 60,709	\$ 2,289

CITY OF GILBERT, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2016

REVENUES

Taxes

General property	\$ 84,898
Taconite homestead credit	5,785
Other	<u>11,218</u>

Total Taxes 101,901

Fines

Library fines 1,579

Gifts and Contributions 15,219

Miscellaneous

Other 3,193

TOTAL REVENUES 121,892

EXPENDITURES

Current

Culture and Recreation

Personal services	102,343
Supplies	17,180
Other services and charges	4,604
Other	<u>1,388</u>

Total Culture and Recreation 125,515

Capital Outlay

Culture and Recreation

Equipment, computers and software 6,990

TOTAL EXPENDITURES 132,505

NET CHANGE IN FUND BALANCE (10,613)

FUND BALANCE - JANUARY 1 71,322

FUND BALANCE - DECEMBER 31 \$ 60,709

CITY OF GILBERT, MINNESOTA

CAMPGROUND SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 102,000	\$ 102,000	\$ 99,998	\$ (2,002)
Interest	-	-	342	342
Miscellaneous	500	500	3,659	3,159
TOTAL REVENUES	<u>102,500</u>	<u>102,500</u>	<u>103,999</u>	<u>1,499</u>
EXPENDITURES				
Current				
Culture and recreation	69,700	69,700	67,208	2,492
Capital Outlay				
Culture and recreation	<u>4,000</u>	<u>4,000</u>	<u>26,916</u>	<u>(22,916)</u>
TOTAL EXPENDITURES	<u>73,700</u>	<u>73,700</u>	<u>94,124</u>	<u>(20,424)</u>
NET CHANGE IN FUND BALANCE	<u>28,800</u>	<u>28,800</u>	<u>9,875</u>	<u>(18,925)</u>
FUND BALANCE - JANUARY 1	<u>78,093</u>	<u>78,093</u>	<u>78,093</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 106,893</u>	<u>\$ 106,893</u>	<u>\$ 87,968</u>	<u>\$ (18,925)</u>

CITY OF GILBERT, MINNESOTA

**CAMPGROUND SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2016**

REVENUES

Charges for Services

Culture and recreation	
Campground fees	\$ 89,270
Other	<u>10,728</u>
Total Charges for Services	99,998

Interest	342
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Miscellaneous

Other	<u>3,659</u>
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TOTAL REVENUES	<u>103,999</u>
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EXPENDITURES

Current

Culture and Recreation

Supplies	5,509
Other services and charges	56,484
Other	<u>5,215</u>
Total Culture and Recreation	67,208

Capital Outlay

Culture and Recreation

Equipment	<u>26,916</u>
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TOTAL EXPENDITURES	<u>94,124</u>
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NET CHANGE IN FUND BALANCE	9,875
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FUND BALANCE - JANUARY 1	<u>78,093</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 87,968</u>
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CITY OF GILBERT, MINNESOTA

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2016

REVENUES

Taxes

General property	\$ 49,465
Taconite homestead credit	14,742
Other	<u>32,434</u>

Total Taxes 96,641

Special Assessments

Principal 141

Intergovernmental

Federal grants	
Interest reimbursement	<u>2,433</u>

TOTAL REVENUES 99,215

EXPENDITURES

Debt Service

Principal	106,000
Interest and fiscal charges	<u>10,215</u>

TOTAL EXPENDITURES 116,215

**DEFICIENCY OF REVENUES OVER
EXPENDITURES** (17,000)

OTHER FINANCING SOURCES

Transfers in 17,135

NET CHANGE IN FUND BALANCE 135

FUND BALANCE - JANUARY 1 1,591

FUND BALANCE - DECEMBER 31 \$ 1,726

**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 City Council
City of Gilbert, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilbert, Minnesota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Gilbert, Minnesota's basic financial statements, and have issued our report thereon dated July 27, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-002 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, 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, except that we did not test for compliance with the provisions for tax increment financing because the City does not have a tax increment financing district.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Gilbert, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Gilbert, Minnesota's noncompliance with the above referenced provisions.

Other Matters

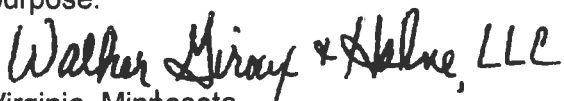
We noted certain matters that we reported to management of City of Gilbert, Minnesota in a separate letter dated July 27, 2017, included under this cover.

City of Gilbert, Minnesota's Response to Findings

City of Gilbert, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Gilbert, Minnesota'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 result 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.


Virginia, Minnesota
July 27, 2017

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES Year Ended December 31, 2016

2016-001. SEGREGATION OF DUTIES

Condition

Due to the limited number of personnel within the City's business office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. A reduction in the limited number of personnel further weakened controls relating to segregation of duties.

Criteria

The concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view.

Effect

Because of the weakness in segregation of duties, the City has not provided adequate internal control. Internal control is significantly affected in the payroll, vendor disbursement, receipts, and bank reconciliation areas due to the reduction of staff.

Cause

This occurred because of staffing limitations caused by fiscal constraints and further reduced staffing.

Recommendations

The City Council should be aware of this condition, to segregate duties as much as possible and provide oversight to partially compensate for this deficiency. Also, the City Council should consider re-establishing the number of personnel in the business office.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City Council will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints. The City Council is considering re-establishing the number of personnel in the business office.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City Clerk-Treasurer has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2016

2016-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

As part of the audit, management requested that the auditor prepare a draft of the City's financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management does not possess the technical expertise to comply with governmental accounting standards.

Effect

The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the City's internal control.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

In order to provide controls over the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.
3. Official Responsible for Ensuring CAP
None – see number 2 above.
4. Planned Completion Date for CAP
None – see number 2 above.
5. Plan to Monitor Completion of CAP
None – see number 2 above.

MANAGEMENT LETTER

To the City Council
City of Gilbert, Minnesota

In planning and performing our audit of the financial statements of City of Gilbert, Minnesota, as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Gilbert, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated July 27, 2017, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated July 27, 2017, on the financial statements of City of Gilbert, Minnesota.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. The Permanent Improvement and Replacement Capital Projects Fund has a deficit fund balance of \$168,826 at December 31, 2016. The City must review this deficit fund balance and determine ways to eliminate it, including future transfers from other funds or other revenue sources.
2. Some checks were pre-signed by the Mayor and only one other employee is involved in writing and signing checks. The Mayor should be signing the checks after they are written to maintain control over the City's assets.
3. The customer deposit account on the Caselle software did not match the customer deposit spreadsheet kept by the utility clerk. The customer deposit account from Caselle should be reconciled monthly to the utility clerk's spreadsheet.

4. Some original invoices were kept in project files and others were kept in vendor files. This made searching for invoices very time consuming. We suggest all original invoices be kept in vendor files and copies of the original invoices be kept in project files.
5. The City does not have a council approved policy for electronic transfers. The Council should approve a policy for electronic transfers to strengthen controls in this area.
6. The City has not updated their Internal Control Procedures Policy in numerous years. Since it was last updated, there have been changes that are not reflected in the procedures policy. We suggest the Internal Control Procedures Policy be updated to reflect current procedures.

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

Walker, Giroux & Helne, LLC

Virginia, Minnesota
July 27, 2017