

CITY OF GILBERT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2017

CITY OF GILBERT, MINNESOTA

TABLE OF CONTENTS
December 31, 2017

	<u>Page</u>
ORGANIZATION	1
FINANCIAL SECTION	
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental	
Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures,	
and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues,	
Expenditures, and Changes in Fund Balances of	
Governmental Funds to the Statement of Activities	19
Proprietary Funds	
Statement of Net Position	20
Statement of Revenues, Expenses, and Changes	
in Net Position	21
Statement of Cash Flows	22
Notes to Financial Statements	24
Required Supplementary Information	
General Fund - Schedule of Revenues, Expenditures,	
and Changes in Fund Balance - Budget and Actual	56
Community Development Revolving Loan Special Revenue Fund - Schedule of	
Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	57
Schedule of Funding Progress for Postemployment Benefits Plan	58
Schedules of City's Proportionate Share of Net Pension Liability	
and City's Contributions for Defined Benefit Pension Plans	59
Schedule of Changes in Net Pension Liability/Asset	61
Schedule of City Contributions	62
Notes to Required Supplementary Information	63
Other Information	
Nonmajor Governmental Funds	
Combining Balance Sheet	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	67
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance	68

CITY OF GILBERT, MINNESOTA

TABLE OF CONTENTS (CONTINUED)
December 31, 2017

	<u>Page</u>
Other Information (continued)	
Community Development Revolving Loan Special Revenue Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	72
Permanent Improvement and Replacement Capital Projects Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	73
Library Special Revenue Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	74
Statement of Revenues, Expenditures, and Changes in Fund Balance	75
Campground Special Revenue Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	76
Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	77
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 <i>GOVERNMENT AUDITING STANDARDS</i>	78
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	80
SCHEDULE OF FINDINGS AND RESPONSES	81
REPRESENTATION OF CITY OF GILBERT, MINNESOTA CORRECTIVE ACTION PLAN	83
MANAGEMENT LETTER	84

CITY OF GILBERT, MINNESOTA

**ORGANIZATION
December 31, 2017**

CITY COUNCIL

Mayor

Dorothy Elizabeth Milos

Council Members

Corey Bol
Rebecca Robich
Robert Pontinen
Rudy Vertachnik (resigned
November 14, 2017)

ADMINISTRATION

City Clerk-Treasurer

Debra Sakrison

APPOINTED

City Attorney

Bryan Lindsay

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

P.O. Box 960 • 225 1st Street North, Suite 2400, Virginia, Minnesota 55792
218-749-4880 • FAX 218-749-8528

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, 2017, 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, 2017, 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, schedules of City's proportionate share of net pension liability and City's contributions for defined benefits pension plans, schedule of changes in net pension liability/asset, and schedule of City contributions, 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, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor and individual fund financial statements and schedule 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 schedule 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 June 29, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Gilbert, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gilbert, Minnesota's internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
July 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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, 2017. 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 \$4,461,250, of which \$5,057,283 is the net investment in capital assets, and \$324,801 is restricted.
- Business-type activities have total net position of \$5,438,470; of which \$3,449,684 is the net investment in capital assets, and \$221,076 is restricted.
- The City of Gilbert's net position increased by \$633,757 for the year ended December 31, 2017. Of the increase, the governmental activities' net position decreased by \$126,848, while the business-type activities' net position increased by \$760,605.
- The net cost of governmental activities was \$2,184,526 for the current fiscal year. The net cost was funded by general revenues totaling \$2,123,220.
- Governmental funds' fund balances increased by \$123,276 with the permanent improvement and replacement capital projects fund reporting the largest increase totaling \$168,826.

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, 2017

In the statement of net position and the statement of activities, all 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 contributions for defined benefit pension plans, schedule of changes in net pension liability/asset, and schedule of City contributions. Combining and individual financial statements are presented immediately following the required supplementary information.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

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 \$9,899,720, which is an increase from the prior year.

Table 1
Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 1,525,689	\$ 1,455,098	\$ 2,546,077	\$ 1,809,385	\$ 4,071,766	\$ 3,264,483
Capital Assets	5,421,734	5,647,243	6,374,714	5,153,149	11,796,448	10,800,392
Total assets	<u>6,947,423</u>	<u>7,102,341</u>	<u>8,920,791</u>	<u>6,962,534</u>	<u>15,868,214</u>	<u>14,064,875</u>
Deferred outflows related to pensions	1,097,413	1,765,389	31,131	66,563	1,128,544	1,831,952
Long-term liabilities outstanding	2,076,623	3,724,703	3,230,114	2,103,657	5,306,737	5,828,360
Other liabilities	233,690	252,262	253,985	229,519	487,675	481,781
Total liabilities	<u>2,310,313</u>	<u>3,976,965</u>	<u>3,484,099</u>	<u>2,333,176</u>	<u>5,794,412</u>	<u>6,310,141</u>
Deferred inflows related to pensions	1,273,273	302,667	29,353	18,056	1,302,626	320,723
Net Position						
Net investment in capital assets	5,057,283	5,170,376	3,449,684	3,426,319	8,506,967	8,596,695
Restricted	324,801	292,178	221,076	106,495	545,877	398,673
Unrestricted	(920,834)	(874,456)	1,767,710	1,145,051	846,876	270,595
Total net position	<u>\$ 4,461,250</u>	<u>\$ 4,588,098</u>	<u>\$ 5,438,470</u>	<u>\$ 4,677,865</u>	<u>\$ 9,899,720</u>	<u>\$ 9,265,963</u>

Net position of the City's governmental activities decreased by 2.8 percent (\$4,461,250 compared to \$4,588,098). 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 \$874,456 deficit at December 31, 2016 to a \$920,834 deficit at the end of this year.

Net position of the City's business-type activities increased by 16.3 percent (\$5,438,470 compared to \$4,677,865) in 2017.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

**Table 2
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program Revenues:						
Fees, fines, charges, and other	\$ 548,609	\$ 617,814	\$ 2,441,997	\$ 2,384,677	\$ 2,990,606	\$ 3,002,491
Operating grants and contributions	72,749	87,750	9,666	12,249	82,415	99,999
Capital grants and contributions	62,680	414,594	410,972	12,470	473,652	427,064
General Revenues:						
Property taxes	1,369,461	1,393,254	18,650	18,650	1,388,111	1,411,904
Grants and contributions not restricted to specific programs	730,710	712,323	-	-	730,710	712,323
Unrestricted investment earnings	6,042	5,107	4,415	2,756	10,457	7,863
Gain on sale of capital assets	17,007	2,090	-	-	17,007	2,090
Total revenues	<u>2,807,258</u>	<u>3,232,932</u>	<u>2,885,700</u>	<u>2,430,802</u>	<u>5,692,958</u>	<u>5,663,734</u>
Program expenses:						
General government	653,822	796,609	-	-	653,822	796,609
Public safety	1,084,109	1,065,683	-	-	1,084,109	1,065,683
Public works	829,960	900,732	-	-	829,960	900,732
Sanitation	5,003	4,618	182,665	180,610	187,668	185,228
Culture and recreation	284,947	308,081	-	-	284,947	308,081
Economic development	-	20,000	-	-	-	20,000
Interest on long-term debt	10,723	12,232	-	-	10,723	12,232
Water	-	-	433,575	438,237	433,575	438,237
Electric	-	-	952,670	947,289	952,670	947,289
Sewer usage	-	-	621,727	633,645	621,727	633,645
Total program expenses	<u>2,868,564</u>	<u>3,107,955</u>	<u>2,190,637</u>	<u>2,199,781</u>	<u>5,059,201</u>	<u>5,307,736</u>
Increase (decrease) in net position before transfers	(61,306)	124,977	695,063	231,021	633,757	355,998
Transfers	<u>(65,542)</u>	<u>(370,158)</u>	<u>65,542</u>	<u>370,158</u>	-	-
Increase (decrease) in net position	(126,848)	(245,181)	760,605	601,179	633,757	355,998
Net position, January 1	4,588,098	4,742,519	4,677,865	4,176,273	9,265,963	8,918,792
Prior period adjustment	-	90,760	-	(99,587)	-	(8,827)
Net position, December 31	<u>\$ 4,461,250</u>	<u>\$ 4,588,098</u>	<u>\$ 5,438,470</u>	<u>\$ 4,677,865</u>	<u>\$ 9,899,720</u>	<u>\$ 9,265,963</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 \$1,149,210, 41% of revenues; while property taxes levied for specific purposes and franchise taxes were \$220,251, 8% of revenue. Grants and contributions not restricted to specific programs amounts to \$730,710 or 26% of total revenue while fees, fines, charges, and other revenues are 20% of total revenues. Capital grants and contributions amounted to 2% of total revenues.

Public safety expenses are the most significant (38%), followed by public works (29%), general government (22%), culture and recreation (10%), and interest and sanitation (1%).

Governmental revenues decreased \$425,674 in 2017, primarily due to decreased capital grant revenue reported in 2017 compared to 2016. Our taxpayers paid \$1,369,461 in property taxes during the current year, which is a decrease of \$23,793 from 2016.

Governmental expenses decreased by \$239,391 in the current year. The largest decrease was recorded in the general government program (\$796,609 in 2016 to \$653,822 in 2017). The net cost of all governmental activities this year was \$2,184,526 compared to \$1,987,797 last year. Most of the decrease in expense is attributed to lower general government, culture and recreation, public works, and economic development expenses.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

Business-Type Activities

Revenues of the City's business-type activities were \$2,885,700 (see Table 2). There was an increase in net position of \$760,605 during the year ended December 31, 2017. The factors driving these results include:

- Operations produced income of \$305,682 for the year ended December 31, 2017.
- Nonoperating revenues and expenses included property taxes of \$18,650 and \$43,455 of interest expense.
- There are capital grants and contributions totaling \$410,972 and a transfer in from other funds of \$65,542.

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, 2017, the City's governmental funds reported total ending fund balances of \$1,196,179, an increase of \$123,276 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised 6%, or \$76,200 of the total ending fund balance; \$244,452 (21%) of the fund balance was committed; \$829,515 (69%) was assigned; and \$46,012 (4%) was unassigned.

At the end of the year, the general fund reported a fund balance of \$875,527, decreasing \$81,126 from the prior year. General fund revenues decreased by \$32,807 while general fund expenditures increased by \$4,209.

The community development revolving loan special revenue fund had a \$3,000 increase in fund balance during the year ended December 31, 2017.

The permanent improvement and replacement capital projects fund had decreases in revenues and expenditures decreasing the fund balance by \$40,452 before transfers in. Revenues in 2016 were higher because of increased construction projects funded by intergovernmental revenues and special assessments compared to 2017. The expenditures were lower due to decreased sanitation and water works construction projects compared to 2016. Transfers from the general fund of \$209,278 offset these costs.

In the other governmental funds, the fund balance increase was primarily from revenues exceeding expenditures in the library special revenue fund and the campground special revenue fund. A transfer in to the debt service fund of \$17,344 from the general fund offsets the fund's expenditures over revenues.

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 2017, the water enterprise fund reported an operating income of \$33,326. Revenues increased from \$439,273 in 2016 to \$461,008 in 2017, while, total operating expenses decreased from \$432,059 in 2016 to \$427,682 in 2017. The increase in operating income was primarily due to increased usage which generated more revenue.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

The electric enterprise fund accounts for electric operations of the City. In 2016 service revenues were \$1,080,407 and in 2017 service revenues were \$1,085,627. The electric enterprise fund reported operating income of \$132,965 in 2017 compared to operating income of \$133,158 in 2016. Operating expenses increased slightly from \$947,249 in 2016 to \$952,662 in 2017.

The sewer usage enterprise fund accounts for sewer operations of the City. There was an increase in service revenues from \$680,566 in 2016 to \$714,265 in 2017. Operating expenses in 2017 decreased from \$603,559 in 2016 to \$582,972 in 2017. The increase in revenues and decrease in expenses resulted in operating income of \$131,293 compared to operating income of \$77,007 in 2016.

The sanitation enterprise fund accounts for the collection and disposal related to the City's garbage services. In 2017, this fund recorded operating revenues of \$190,763 and operating expenses of \$182,665. This led to operating income of \$8,098 in 2017 compared to operating income of \$16,070 in 2016. The most significant operating expense is the \$171,070 in contractual services.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2017, the City Council did not revise the City's general fund budget. The actual charges to appropriations (expenditures) were \$196,698 less than the final budgeted amount. The most significant positive variances occurred in the City's capital outlay, general government, and miscellaneous programs and the most negative variances occurred in the City's public safety and public works programs. Resources available for appropriation were lower than the budgeted amounts by \$74,096. The City received less tax, charges for services, and miscellaneous revenues than expected and were the most significant variances of the revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City had \$11,796,448 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 \$996,056 over last year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	24,647	441,958	1,604,732	769,791	1,629,379	1,211,749
Infrastructure	3,677,967	3,385,198	-	-	3,677,967	3,385,198
Distribution system	-	-	2,830,768	2,256,650	2,830,768	2,256,650
Production system	-	-	622,027	683,730	622,027	683,730
Sewage treatment plant	-	-	1,117,176	1,223,113	1,117,176	1,223,113
General assets	-	-	171,425	191,279	171,425	191,279
Buildings, improvements and structures	1,035,878	1,069,467	-	-	1,035,878	1,069,467
Equipment and vehicles	294,326	352,873	-	-	294,326	352,873
Furniture and fixtures	20,816	29,647	-	-	20,816	29,647
Totals	\$ 5,421,734	\$ 5,647,243	\$ 6,374,714	\$ 5,153,149	\$ 11,796,448	\$ 10,800,392

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017

This year's major additions included:

- East Industrial Park infrastructure
- Wastewater treatment plant and equalization basin upgrades
- Genoa sewer infrastructure
- Lower Florida/Louisiana water and sewer project
- Police car
- Electric upgrades to campground
- McKinley water extension

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Debt

At year-end, the City had \$3,477,451 in long-term debt outstanding versus \$2,436,867 last year—as shown in Table 4.

In 2017 the City issued \$1,332,000 in GO Revenue Notes. Proceeds from this note are being used to finance construction at the sewer plant.

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds (backed by the City)	\$ 394,000	\$ 500,000	\$ 745,000	\$ 835,000	\$ 1,139,000	\$ 1,335,000
General obligation revenue bonds and notes	-	-	2,288,000	1,030,000	2,288,000	1,030,000
Certificate of indebtedness fire truck	50,451	71,867	-	-	50,451	71,867
Total	<u>\$ 444,451</u>	<u>\$ 571,867</u>	<u>\$ 3,033,000</u>	<u>\$ 1,865,000</u>	<u>\$ 3,477,451</u>	<u>\$ 2,436,867</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 \$179,451 at year end is significantly below this \$2,213,064 State-imposed limit.

Additional information on the City's long-term debt can be found in Note 5 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 2018 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2018 budget included:

- Pursue economic development activities to increase the tax base for the City of Gilbert.
- Continue to move forward with construction of and financing for a new waste water treatment facility to meet mercury standard limits imposed by MPCA to comply with levels defined by the Great Lakes Clean Water Initiative.
- Continue to work on the safety program and to strive to provide the employees with the necessary training and tools to keep them safe on the job.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

- Pursue funding to help expand and improve the Sherwood Forest Campground and Lake Ore-Be-Gone recreational area to provide additional amenities and expand the campground to accommodate the anticipated additional demand the new OHV park expansion in Virginia will provide.

Overall 2018 budget goals include the following:

- Maintaining the level of services provided to the Gilbert residents while attempting to lower the tax burden of the residential taxpayers.
- Continued transparency of financial, accounting systems and management
- Work to attract development to increase the tax base
- Work to meet the MPCA to mitigate environmental impacts of lime softening at the water plant and to meet the mercury standards for the waste water treatment plant.
- Provide the firefighters with compliant fire turnout gear and wildland fire equipment.

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, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

BASIC FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2017

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,222,763	\$ 1,786,348	\$ 3,009,111
Taxes receivable	81,939	-	81,939
Special assessments receivable	24,511	218,042	242,553
Accounts receivable	3,221	364,419	367,640
Due from other governments	89,823	50,000	139,823
Loans receivable	103,432	-	103,432
Restricted assets			
Restricted cash and cash equivalents	-	127,268	127,268
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	24,647	1,604,732	1,629,379
Capital assets net of accumulated depreciation			
Infrastructure	3,677,967	-	3,677,967
Distribution system	-	2,830,768	2,830,768
Production system	-	622,027	622,027
Sewage treatment plant	-	1,117,176	1,117,176
General assets	-	171,425	171,425
Buildings, improvements and structures	1,035,878	-	1,035,878
Equipment and vehicles	294,326	-	294,326
Furniture and fixtures	20,816	-	20,816
TOTAL ASSETS	6,947,423	8,920,791	15,868,214
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	1,097,413	31,131	1,128,544
LIABILITIES			
Accounts payable	38,004	202,046	240,050
Salaries payable	84,099	9,914	94,013
Due to other governments	-	6,984	6,984
Customer deposits	-	10,210	10,210
Unearned revenues	109,397	1,300	110,697
Accrued interest payable	2,190	23,531	25,721
Noncurrent liabilities			
Due within one year			
Bonds payable, notes payable and certificates of indebtedness	112,013	164,000	276,013
Due in more than one year			
Bonds payable, notes payable and certificates of indebtedness	332,438	2,869,000	3,201,438
Severance benefits	18,777	1,876	20,653
Other postemployment benefits payable	382,686	75,859	458,545
Net pension liability	1,230,709	119,379	1,350,088
TOTAL LIABILITIES	2,310,313	3,484,099	5,794,412
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	1,273,273	29,353	1,302,626
NET POSITION			
Net investment in capital assets	5,057,283	3,449,684	8,506,967
Restricted for:			
Debt service	4,701	93,808	98,509
Capital projects	-	127,268	127,268
Community development	139,923	-	139,923
Culture and recreation	180,177	-	180,177
Unrestricted	(920,834)	1,767,710	846,876
TOTAL NET POSITION	\$ 4,461,250	\$ 5,438,470	\$ 9,899,720

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 653,822	\$ 57,132	\$ 215	\$ -
Public safety	1,084,109	375,026	59,590	25,202
Public works	829,960	1,676	-	27,478
Sanitation	5,003	-	-	-
Culture and recreation	284,947	114,775	10,740	10,000
Interest on long-term debt	10,723	-	2,204	-
Total Governmental Activities	<u>2,868,564</u>	<u>548,609</u>	<u>72,749</u>	<u>62,680</u>
Business-type Activities				
Water	433,575	460,992	16	2,193
Electric	952,670	1,080,783	4,844	-
Sewer usage	621,727	709,459	4,806	408,779
Sanitation	182,665	190,763	-	-
Total Business-type Activities	<u>2,190,637</u>	<u>2,441,997</u>	<u>9,666</u>	<u>410,972</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,059,201</u>	<u>\$ 2,990,606</u>	<u>\$ 82,415</u>	<u>\$ 473,652</u>

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****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
\$ (596,475)	\$ -	\$ (596,475)
(624,291)	-	(624,291)
(800,806)	-	(800,806)
(5,003)	-	(5,003)
(149,432)	-	(149,432)
(8,519)	-	(8,519)
<u>(2,184,526)</u>	<u>-</u>	<u>(2,184,526)</u>
-	29,626	29,626
-	132,957	132,957
-	501,317	501,317
-	8,098	8,098
<u>-</u>	<u>671,998</u>	<u>671,998</u>
<u>(2,184,526)</u>	<u>671,998</u>	<u>(1,512,528)</u>
1,149,210	-	1,149,210
207,004	18,650	225,654
13,247	-	13,247
730,710	-	730,710
6,042	4,415	10,457
17,007	-	17,007
<u>(65,542)</u>	<u>65,542</u>	<u>-</u>
<u>2,057,678</u>	<u>88,607</u>	<u>2,146,285</u>
(126,848)	760,605	633,757
<u>4,588,098</u>	<u>4,677,865</u>	<u>9,265,963</u>
<u>\$ 4,461,250</u>	<u>\$ 5,438,470</u>	<u>\$ 9,899,720</u>

CITY OF GILBERT, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 900,022	\$ 137,673	\$ -	\$ 185,068	\$ 1,222,763
Taxes receivable	78,898	-	-	3,041	81,939
Special assessments receivable	2,088	-	18,334	4,089	24,511
Accounts receivable	3,221	-	-	-	3,221
Due from other governments	89,823	-	-	-	89,823
Loans receivable	-	103,432	-	-	103,432
TOTAL ASSETS	\$ 1,074,052	\$ 241,105	\$ 18,334	\$ 192,198	\$ 1,525,689
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 35,389	\$ -	\$ -	\$ 2,615	\$ 38,004
Salaries payable	81,584	-	-	2,515	84,099
Unearned revenue	8,215	101,182	-	-	109,397
TOTAL LIABILITIES	125,188	101,182	-	5,130	231,500
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	71,249	-	-	-	71,249
Unavailable revenue-special assessments	2,088	-	18,334	4,089	24,511
Unavailable revenue-loans receivable	-	2,250	-	-	2,250
TOTAL DEFERRED INFLOWS OF RESOURCES	73,337	2,250	18,334	4,089	98,010
FUND BALANCES					
Restricted	-	73,398	-	2,802	76,200
Committed	-	64,275	-	180,177	244,452
Assigned	829,515	-	-	-	829,515
Unassigned reported in					
General fund	46,012	-	-	-	46,012
TOTAL FUND BALANCES	875,527	137,673	-	182,979	1,196,179
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,074,052	\$ 241,105	\$ 18,334	\$ 192,198	\$ 1,525,689

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, 2017**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 1,196,179
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,421,734
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.	98,010
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(2,190)
Long-term liabilities, including bonds payable, notes payable, certificates of indebtedness, 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.	(2,076,623)
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	1,097,413
Deferred inflows of resources related to pensions	<u>(1,273,273)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,461,250</u></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, 2017

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,163,898	\$ -	\$ -	\$ 202,753	\$ 1,366,651
Special assessments	-	-	2,712	426	3,138
Licenses and permits	12,196	-	-	-	12,196
Intergovernmental	832,306	-	27,478	2,204	861,988
Charges for services	367,231	-	-	107,719	474,950
Fines	10,487	-	-	1,143	11,630
Gifts and contributions	-	-	-	10,740	10,740
Interest	5,824	-	-	219	6,043
Miscellaneous	37,203	3,000	-	4,995	45,198
TOTAL REVENUES	2,429,145	3,000	30,190	330,199	2,792,534
EXPENDITURES					
Current					
General government	349,858	-	-	-	349,858
Public safety	968,284	-	-	-	968,284
Public works	651,070	-	-	-	651,070
Sanitation	2,766	-	-	-	2,766
Culture and recreation	64,202	-	-	179,974	244,176
Miscellaneous	213,695	-	-	-	213,695
Debt Service					
Principal	21,416	-	-	106,000	127,416
Interest and fiscal charges	1,708	-	-	9,490	11,198
Capital Outlay					
Public safety	43,397	-	-	-	43,397
Sanitation	-	-	27,693	-	27,693
Water works	-	-	42,949	-	42,949
Culture and recreation	-	-	-	11,203	11,203
TOTAL EXPENDITURES	2,316,396	-	70,642	306,667	2,693,705
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	112,749	3,000	(40,452)	23,532	98,829
OTHER FINANCING SOURCES (USES)					
Transfers in	13,400	-	209,278	17,344	240,022
Transfers out	(226,622)	-	-	(8,300)	(234,922)
Sale of capital assets	19,347	-	-	-	19,347
TOTAL OTHER FINANCING SOURCES (USES)	(193,875)	-	209,278	9,044	24,447
NET CHANGE IN FUND BALANCES	(81,126)	3,000	168,826	32,576	123,276
FUND BALANCES - JANUARY 1	956,653	134,673	(168,826)	150,403	1,072,903
FUND BALANCES - DECEMBER 31	\$ 875,527	\$ 137,673	\$ -	\$ 182,979	\$ 1,196,179

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, 2017**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 123,276

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	54,600	
Less current year depreciation	<u>(277,769)</u>	
Net capital assets		(223,169)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the net book value of the asset sold or disposed. (2,340)

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	2,811	
Change in unavailable revenue - special assessments	(2,093)	
Change in unavailable revenue - loans receivable	<u>(3,000)</u>	
		(2,282)

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	127,416
--------------------	---------

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	474	
Change in long-term severance benefits	(3,525)	
Change in long-term other postemployment benefits payable	6,698	
Change in net pension liabilities and assets, and related deferred outflows and inflows of resources	<u>(153,396)</u>	
		<u>(149,749)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (126,848)

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

	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	\$ 201,589	\$ 1,219,817	\$ 323,368	\$ 41,574	\$ 1,786,348
Special assessments receivable	48,261	-	169,781	-	218,042
Accounts receivable	59,126	173,640	115,869	15,784	364,419
Advances to other funds	-	50,000	-	-	50,000
Due from other governments	-	-	50,000	-	50,000
TOTAL CURRENT ASSETS	308,976	1,443,457	659,018	57,358	2,468,809
RESTRICTED ASSETS					
Restricted for capital projects - Cash and cash equivalents	-	-	127,268	-	127,268
NONCURRENT ASSETS					
Capital assets					
Land and improvements	10,500	-	18,086	-	28,586
Construction in progress	-	-	1,604,732	-	1,604,732
Distribution system	3,497,101	1,189,312	1,490,547	-	6,176,960
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	(3,365,924)	(1,186,408)	(3,660,406)	(10,082)	(8,222,820)
TOTAL NONCURRENT ASSETS	2,267,654	324,826	3,758,708	23,526	6,374,714
TOTAL ASSETS	2,576,630	1,768,283	4,544,994	80,884	8,970,791
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	11,674	7,783	11,674	-	31,131
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	8,589	125,851	57,665	9,941	202,046
Salaries payable	4,007	1,900	4,007	-	9,914
Accrued interest payable	1,999	-	21,532	-	23,531
Advance from other funds	25,000	-	25,000	-	50,000
Due to other governments	-	5,536	-	1,448	6,984
Customer deposits	-	10,210	-	-	10,210
Unearned revenue	1,300	-	-	-	1,300
Notes payable - current	9,000	-	65,000	-	74,000
Bonds payable - current	27,628	-	62,372	-	90,000
TOTAL CURRENT LIABILITIES	77,523	143,497	235,576	11,389	467,985
NONCURRENT LIABILITIES					
Severance benefits	938	-	938	-	1,876
Other postemployment benefits payable	24,828	20,774	30,257	-	75,859
Notes payable	48,000	-	2,166,000	-	2,214,000
Bonds payable	215,120	-	439,880	-	655,000
Net pension liability	44,767	29,845	44,767	-	119,379
TOTAL NONCURRENT LIABILITIES	333,653	50,619	2,681,842	-	3,066,114
TOTAL LIABILITIES	411,176	194,116	2,917,418	11,389	3,534,099
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	11,008	7,338	11,007	-	29,353
NET POSITION					
Net investment in capital assets	2,041,052	324,826	1,060,280	23,526	3,449,684
Restricted for debt service	-	-	93,808	-	93,808
Restricted for capital projects	-	-	127,268	-	127,268
Unrestricted	125,068	1,249,786	346,887	45,969	1,767,710
TOTAL NET POSITION	\$ 2,166,120	\$ 1,574,612	\$ 1,628,243	\$ 69,495	\$ 5,438,470

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, 2017

	Business-type Activities - Enterprise Funds				
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
REVENUES					
Charges for services	\$ 460,992	\$ 1,080,783	\$ 709,459	\$ 190,383	\$ 2,441,617
Miscellaneous	16	4,844	4,806	380	10,046
TOTAL OPERATING REVENUES	<u>461,008</u>	<u>1,085,627</u>	<u>714,265</u>	<u>190,763</u>	<u>2,451,663</u>
OPERATING EXPENSES					
Source of supply	-	778,173	-	-	778,173
Personal services	83,347	44,856	83,347	-	211,550
Employee benefits	70,452	32,582	69,626	-	172,660
Contractual services	27,249	50,452	75,760	171,070	324,531
Utilities	36,235	1,742	90,637	-	128,614
Repairs and maintenance	20,981	1,113	34,677	4,850	61,621
Other supplies and expenses	32,901	12,890	27,638	3,385	76,814
Insurance claims and expenses	5,052	-	5,587	-	10,639
Depreciation	149,577	25,803	176,335	3,360	355,075
Miscellaneous	1,888	5,051	19,365	-	26,304
TOTAL OPERATING EXPENSES	<u>427,682</u>	<u>952,662</u>	<u>582,972</u>	<u>182,665</u>	<u>2,145,981</u>
OPERATING INCOME	<u>33,326</u>	<u>132,965</u>	<u>131,293</u>	<u>8,098</u>	<u>305,682</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	4,415	-	-	4,415
Property taxes	-	-	18,650	-	18,650
Fiscal agent fees	(413)	-	(788)	-	(1,201)
Interest expense	(5,480)	(8)	(37,967)	-	(43,455)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(5,893)</u>	<u>4,407</u>	<u>(20,105)</u>	<u>-</u>	<u>(21,591)</u>
INCOME BEFORE CAPITAL GRANTS, CAPITAL CONTRIBUTIONS, AND TRANSFERS	27,433	137,372	111,188	8,098	284,091
Capital grants	-	-	400,000	-	400,000
Capital contributions	45,142	-	36,472	-	81,614
Transfers out	-	(5,100)	-	-	(5,100)
CHANGE IN NET POSITION	72,575	132,272	547,660	8,098	760,605
TOTAL NET POSITION - JANUARY 1	<u>2,093,545</u>	<u>1,442,340</u>	<u>1,080,583</u>	<u>61,397</u>	<u>4,677,865</u>
TOTAL NET POSITION - DECEMBER 31	<u><u>\$ 2,166,120</u></u>	<u><u>\$ 1,574,612</u></u>	<u><u>\$ 1,628,243</u></u>	<u><u>\$ 69,495</u></u>	<u><u>\$ 5,438,470</u></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, 2017

	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	\$ 460,808	\$ 1,086,715	\$ 687,327	\$ 191,559	\$ 2,426,409
Cash paid to suppliers	(185,491)	(847,072)	(344,097)	(179,842)	(1,556,502)
Cash paid to employees	(83,648)	(48,594)	(83,648)	-	(215,890)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>191,669</u>	<u>191,049</u>	<u>259,582</u>	<u>11,717</u>	<u>654,017</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	(5,100)	-	-	(5,100)
Advances repaid	(25,000)	50,000	(25,000)	-	-
Interest paid on customer deposits	-	(8)	-	-	(8)
Property taxes received	-	-	18,650	-	18,650
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(25,000)</u>	<u>44,892</u>	<u>(6,350)</u>	<u>-</u>	<u>13,542</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	-	(41,949)	(1,464,049)	-	(1,505,998)
Proceeds from general obligation revenue notes	-	-	1,332,000	-	1,332,000
Fiscal agent fees	(413)	-	(788)	-	(1,201)
Principal paid on long-term debt	(36,628)	-	(127,372)	-	(164,000)
Interest paid on long-term debt	(5,700)	-	(27,734)	-	(33,434)
Capital grants	-	-	350,000	-	350,000
Capital contributions from special assessments	8,663	-	26,056	-	34,719
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(34,078)</u>	<u>(41,949)</u>	<u>88,113</u>	<u>-</u>	<u>12,086</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	-	4,415	-	-	4,415
NET INCREASE IN CASH AND CASH EQUIVALENTS	132,591	198,407	341,345	11,717	684,060
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>68,998</u>	<u>1,021,410</u>	<u>109,291</u>	<u>29,857</u>	<u>1,229,556</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 201,589</u>	<u>\$ 1,219,817</u>	<u>\$ 450,636</u>	<u>\$ 41,574</u>	<u>\$ 1,913,616</u>
CASH AND CASH EQUIVALENTS ARE REPORTED AS FOLLOWS:					
Cash and cash equivalents	\$ 201,589	\$ 1,219,817	\$ 323,368	\$ 41,574	\$ 1,786,348
Restricted cash and cash equivalents	-	-	127,268	-	127,268
TOTAL	<u>\$ 201,589</u>	<u>\$ 1,219,817</u>	<u>\$ 450,636</u>	<u>\$ 41,574</u>	<u>\$ 1,913,616</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, 2017

	Business-type Activities - Enterprise Funds				Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 33,326	\$ 132,965	\$ 131,293	\$ 8,098	\$ 305,682
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	149,577	25,803	176,335	3,360	355,075
Net pension liability, deferred outflows, and deferred inflows related to pensions	2,247	1,498	2,246	-	5,991
Changes in assets and liabilities					
(Increase) decrease in:					
Accounts receivable	(1,500)	1,263	(26,938)	796	(26,379)
Increase (decrease) in:					
Accounts payable	(5,029)	35,984	(16,172)	55	14,838
Salaries payable	(344)	(138)	(344)	-	(826)
Due to other governments	-	(92)	-	(592)	(684)
Customer deposits	-	(175)	-	-	(175)
Unearned revenue	1,300	-	-	-	1,300
Severance benefits	43	(3,600)	43	-	(3,514)
Other postemployment benefits	12,049	(2,459)	(6,881)	-	2,709
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 191,669	\$ 191,049	\$ 259,582	\$ 11,717	\$ 654,017
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Total capital asset additions	\$ 42,949	\$ 41,949	\$ 1,491,742	\$ -	\$ 1,576,640
City capital asset contributions	(42,949)	-	(27,693)	-	(70,642)
Cash paid for purchase or construction of capital assets	\$ -	\$ 41,949	\$ 1,464,049	\$ -	\$ 1,505,998
Capital grants	\$ -	\$ -	\$ 400,000	\$ -	\$ 400,000
Due from other governments current year	-	-	(50,000)	-	(50,000)
Cash received from capital grants	\$ -	\$ -	\$ 350,000	\$ -	\$ 350,000
Capital contributions	\$ 45,142	\$ -	\$ 36,472	\$ -	\$ 81,614
City capital asset contributions	(42,949)	-	(27,693)	-	(70,642)
Special assessments receivable current year	(48,261)	-	(169,781)	-	(218,042)
Special assessments receivable prior year	54,731	-	187,058	-	241,789
Cash received for capital contributions from special assessments	\$ 8,663	\$ -	\$ 26,056	\$ -	\$ 34,719

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, 2017

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, 2017**

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, 2017

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, 2017

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, 2017

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 15 and 16 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 payable, net pension liability and severance benefits.

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) 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, 2017

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 15 and 16 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, 2017**

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.

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, 2017

NOTE 2 - 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	2,740,315
Certificates of Deposit	310,000
Investments	85,414
Total	<u>\$ 3,136,379</u>

Reconciliation to financial statements:

Statement of Net Position	
Cash and cash equivalents	\$ 3,009,111
Restricted cash and cash equivalents	<u>127,268</u>
Total	<u>\$ 3,136,379</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 \$3,050,315; the bank balance was \$3,121,244. 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, 2017

NOTE 2 - 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, 2017, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money Market (4M) Fund	\$ 60,097	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>25,317</u>	Not Rated
	<u>\$ 85,414</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 2017, 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 \$85,414 at December 31, 2017 are not subject to measurement.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - 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, 2017 was \$103,432 and is recorded as loans receivable in the Community Development Revolving Loan Special Revenue Fund.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, 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	441,958	24,647	(441,958)	24,647
Total capital assets, not being depreciated	<u>810,058</u>	<u>24,647</u>	<u>(441,958)</u>	<u>392,747</u>
Capital assets, being depreciated:				
Infrastructure	4,069,971	453,161	-	4,523,132
Buildings, improvements and structures	2,657,731	-	-	2,657,731
Equipment and vehicles	1,976,609	18,750	(73,037)	1,922,322
Furniture and fixtures	356,994	-	-	356,994
Total capital assets, being depreciated	<u>9,061,305</u>	<u>471,911</u>	<u>(73,037)</u>	<u>9,460,179</u>
Less accumulated depreciation for:				
Infrastructure	(684,773)	(160,392)	-	(845,165)
Buildings, improvements and structures	(1,588,264)	(33,589)	-	(1,621,853)
Equipment and vehicles	(1,623,736)	(74,957)	70,697	(1,627,996)
Furniture and fixtures	(327,347)	(8,831)	-	(336,178)
Total accumulated depreciation	<u>(4,224,120)</u>	<u>(277,769)</u>	<u>70,697</u>	<u>(4,431,192)</u>
Total capital assets, being depreciated, net	<u>4,837,185</u>	<u>194,142</u>	<u>(2,340)</u>	<u>5,028,987</u>
Governmental activities capital assets, net	<u><u>\$ 5,647,243</u></u>	<u><u>\$ 218,789</u></u>	<u><u>\$ (444,298)</u></u>	<u><u>\$ 5,421,734</u></u>
Business-type activities				
Capital assets, not being depreciated				
Land and improvements	\$ 28,586	\$ -	\$ -	\$ 28,586
Construction in progress	769,791	1,464,049	(629,108)	1,604,732
Total capital assets, not being depreciated	<u>798,377</u>	<u>1,464,049</u>	<u>(629,108)</u>	<u>1,633,318</u>
Capital assets, being depreciated:				
Distribution system	5,435,261	741,699	-	6,176,960
Production system	1,966,008	-	-	1,966,008
Sewage treatment plant	4,229,607	-	-	4,229,607
General assets	591,641	-	-	591,641
Total capital assets, being depreciated	<u>12,222,517</u>	<u>741,699</u>	<u>-</u>	<u>12,964,216</u>
Less accumulated depreciation for:				
Distribution system	(3,178,611)	(167,581)	-	(3,346,192)
Production system	(1,282,278)	(61,703)	-	(1,343,981)
Sewage treatment plant	(3,006,494)	(105,937)	-	(3,112,431)
General assets	(400,362)	(19,854)	-	(420,216)
Total accumulated depreciation	<u>(7,867,745)</u>	<u>(355,075)</u>	<u>-</u>	<u>(8,222,820)</u>
Total capital assets, being depreciated, net	<u>4,354,772</u>	<u>386,624</u>	<u>-</u>	<u>4,741,396</u>
Business-type activities capital assets, net	<u><u>\$ 5,153,149</u></u>	<u><u>\$ 1,850,673</u></u>	<u><u>\$ (629,108)</u></u>	<u><u>\$ 6,374,714</u></u>

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 53,595
Public safety	59,051
Public works	122,115
Sanitation	2,237
Recreation	<u>40,771</u>
Total depreciation expense - governmental activities	<u>\$ 277,769</u>
Business-type activities	
Water	\$ 149,577
Electric	25,803
Sewer usage	176,335
Sanitation	<u>3,360</u>
Total depreciation expense - business-type activities	<u>\$ 355,075</u>

NOTE 5 - 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:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Governmental activities					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 49,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	265,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>80,000</u>
Total GO Bonds payable					394,000
Certificate of Indebtedness – Fire Truck	03/23/2015	2.75%	\$ 108,000	03/16/2020	<u>50,451</u>
Governmental activities long-term debt					<u>444,451</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Business-type activities					
GO bonds and notes					
GO Improvement Bonds, Series 2008A	05/01/2008	3.10-4.40%	\$ 665,000	02/01/2024	\$ 355,000
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	260,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	130,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	57,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$ 1,337,076	08/20/2030	899,000
GO Revenue Note of 2017	08/22/2017	2.30%	\$ 1,332,000	02/01/2019	<u>1,332,000</u>
Business-type activities long-term debt					<u>3,033,000</u>
Total long-term debt					<u>\$ 3,477,451</u>

Governmental funds

In 2012, the City issued \$1,025,000 in GO Refunding 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 \$64,280. At December 31, 2017, 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 \$273,650.

\$75,000 of the \$1,025,000 GO Refunding 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 \$15,075. At December 31, 2017, the refunding bonds to be paid from ad valorem taxes on all taxable property within the City were paid off.

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 \$17,344. At December 31, 2017, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$86,975.

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 \$17,568. At December 31, 2017, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$51,654.

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 \$10,901. At December 31, 2017, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$62,875.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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 \$135,623. At December 31, 2017, principal and interest on the 2008 bonds to maturity in 2024 to be paid from pledged future revenues totaled \$411,243 and on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$963,200.

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 \$30,625. At December 31, 2017, 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 \$189,033 for the water bonds and \$102,717 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 \$23,825. At December 31, 2017, principal and interest to maturity in 2023 which will be paid from net revenues of the water and sewer systems totaled \$80,802 for the water bonds and \$60,598 for the sewer bonds.

The City has pledged future sewer fund revenues, net of any normal and reasonable expenses of operations, to repay a \$1,332,000 Temporary GO revenue note issued in 2017. Proceeds from this note were used to finance construction at the sewer plant. No principal or interest was paid in 2017. At December 31, 2017, principal and interest to maturity in 2019 to be paid from pledged future revenues totaled \$1,376,167.

Long-term debt activity for the year ended December 31, 2017 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	\$ 65,000	\$ -	\$ (16,000)	\$ 49,000	\$ 10,000
GO Refunding Bonds, Series 2012A	325,000	-	(60,000)	265,000	65,000
GO Bonds, Equipment Certificates, Series 2012A	15,000	-	(15,000)	-	-
Taxable GO CIP Energy Conservation Bonds, Series 2012B	95,000	-	(15,000)	80,000	15,000
Certificates of Indebtedness Fire Truck 2015	71,867	-	(21,416)	50,451	22,013
Total governmental activities – long-term debt	<u>\$ 571,867</u>	<u>\$ -</u>	<u>\$ (127,416)</u>	<u>\$ 444,451</u>	<u>\$ 112,013</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - 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	\$ 400,000	\$ -	\$ (45,000)	\$ 355,000	\$ 45,000
GO Utility Revenue Bonds, Series 2012A	285,000	-	(25,000)	260,000	25,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	150,000	-	(20,000)	130,000	20,000
Revenue Notes payable					
GO Revenue Note of 2003	66,000	-	(9,000)	57,000	9,000
GO Revenue Note of 2010	964,000	-	(65,000)	899,000	65,000
GO Revenue Note of 2017	-	1,332,000	-	1,332,000	-
Total business-type activities long-term debt	\$ 1,865,000	\$ 1,332,000	\$ (164,000)	\$ 3,033,000	\$ 164,000

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
2018	\$ 112,013	\$ 7,917	\$ 164,000	\$ 47,116	\$ 276,013	\$ 55,033
2019	117,626	5,778	1,497,000	45,394	1,614,626	51,172
2020	100,812	3,561	175,000	41,506	275,812	45,067
2021	84,000	1,759	177,000	21,994	261,000	23,753
2022	15,000	675	178,000	17,564	193,000	18,239
2022-2026	15,000	225	624,000	35,691	639,000	35,916
2027-2031	-	-	218,000	4,370	218,000	4,370
Total	\$ 444,451	\$ 19,915	\$ 3,033,000	\$ 213,635	\$ 3,477,451	\$ 233,550

No interest was capitalized during 2017; interest incurred and charged to expense totaled \$56,485.

NOTE 6 - LEASE OBLIGATIONS

Copy Machine Agreements

The City leases copy machines under non-cancelable operating leases. Total costs for such leases were \$3,788 for the year ended December 31, 2017. The future minimum lease payments are as follows:

Year Ended December 31	Amount
2018	\$ 3,788
2019	3,681
2020	2,508
Total	\$ 9,977

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7 - 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 3 active and 10 retired members in the plan as of December 31, 2017. 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 2017, 10 retirees received postemployment benefits. The City provided required contributions of \$152,839 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$16,944. 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)	\$ 21,291	\$ 11,408	\$ 32,699
Amortization of unfunded actuarial accrued liability	75,792	34,304	110,096
Interest on normal cost and amortization	4,169	1,886	6,055
Annual required contribution	101,252	47,598	148,850
Adjustment to annual required contribution	-	-	-
Annual OPEB cost (expense)	101,252	47,598	148,850
Contributions toward the OPEB cost	(107,950)	(44,889)	(152,839)
Increase (decrease) in net OPEB obligation	(6,698)	2,709	(3,989)
Net OPEB obligation, beginning of year	389,384	73,150	462,534
Net OPEB obligation, end of year	\$ 382,686	\$ 75,859	\$ 458,545

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 7 - 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 as of December 31, 2017, and the two preceding years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2017	\$ 148,850	102.7%	\$ 458,545
12/31/2016	\$ 161,202	107.4%	\$ 462,534
12/31/2015	\$ 161,202	103.1%	\$ 474,390

Funding Status and Funding Progress

The funding status of the plan as of January 1, 2017, 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>
1/1/2017	\$ -	\$ 2,383,357	\$ 2,383,357	0.0%	\$ 1,252,279	190.3%

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, 2017, used the entry age cost method to estimate both the unfunded actuarial liability as of December 31, 2017 and to estimate the City's 2017 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 percent the first year, and then reduced by 0.5 percent per year to an ultimate rate of 4.5 percent 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, 2017

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2017, is as follows:

Advances to/from other funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise	Water Enterprise	\$ 25,000
Electric Enterprise	Sewer Usage Enterprise	25,000
Total All Funds		<u>\$ 50,000</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, 2017, consisted of the following:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
General	Electric Enterprise Nonmajor	\$ 5,100
General	Campground Special Revenue	8,300
Permanent Improvement and Replacement Capital Projects	General	209,278
Nonmajor Debt Service	General	17,344
Total All Funds		<u>\$ 240,022</u>

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - FUND EQUITY

Fund Balances

As of December 31, 2017, 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	-	-	-	2,802	2,802
Total Restricted	-	73,398	-	2,802	76,200
Committed:					
Storefront loans	-	64,275	-	-	64,275
Library	-	-	-	73,371	73,371
Campground	-	-	-	106,806	106,806
Total Committed	-	64,275	-	180,177	244,452
Assigned:					
Cash flow	810,738	-	-	-	810,738
Compensated absences	18,777	-	-	-	18,777
Total Assigned	829,515	-	-	-	829,515
Unassigned	46,012	-	-	-	46,012
Total fund balances	<u>\$875,527</u>	<u>\$ 137,673</u>	<u>\$ -</u>	<u>\$ 182,979</u>	<u>\$1,196,179</u>

NOTE 10 - 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 11 - 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:

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 11 - TAX ABATEMENTS (CONTINUED)

- 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, 2017, the City abated \$16,138 in property taxes for this bonded debt.

NOTE 12 - 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, 2017, 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, 2017. The projects were evidenced by contractual commitments with contractors and engineers.

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Wastewater Treatment Plant & Equalization Basin	<u>\$ 1,604,732</u>	<u>\$ 1,245,620</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 two and a half percent increases for 2017 and 2018.

NOTE 13 - 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 2017, the City of Biwabik paid the City of Gilbert \$338,103 for police services.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 13 - JOINT VENTURES (CONTINUED)

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 2017 was \$21,588. 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.

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 2017 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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 13 - JOINT VENTURES (CONTINUED)

The City of Gilbert's contribution to the Authority's budget during 2017 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 2017 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.

The City of Gilbert contributed \$8,473 to the ATV/OHM/Snowmobile Trail Board during 2017. Complete financial information can be obtained from the ATV/OHM/Snowmobile Trail Board, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

NOTE 14 - 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, 2017 was as follows:

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 14 - SEVERANCE BENEFITS (CONTINUED)

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017
Governmental activities	\$ 15,252	\$ 3,525	\$ -	\$ 18,777
Business-type activities	5,390	86	(3,600)	1,876
Total	<u>\$ 20,642</u>	<u>\$ 3,611</u>	<u>\$ (3,600)</u>	<u>\$ 20,653</u>

NOTE 15- 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.

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

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

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 15- DEFINED BENEFIT PENSION PLANS (CONTINUED)

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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 percent after five years up to 100 percent 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 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent 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 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$51,155. 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 percent of their annual covered salary in calendar year 2017. The City was required to contribute 16.20 percent of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$78,120. 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, 2017**

NOTE 15- DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City of Gilbert, Minnesota reported a liability of \$702,232 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 2017. 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 \$8,831. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0110 percent which was a decrease of 0.0006 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City of Gilbert, Minnesota recognized pension expense of \$28,804 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$255 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, 2017, 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	\$ 23,143	\$ 48,075
Changes in actuarial assumptions	122,945	70,399
Difference between projected and actual investment earnings	12,512	-
Changes in proportion	-	54,192
Contributions paid to PERA subsequent to the measurement date	24,521	-
Totals	\$ 183,121	\$ 172,666

\$24,521 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, 2018. 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
2018	\$ 12,112
2019	\$ 27,349
2020	\$ (23,719)
2021	\$ (29,808)
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 15- DEFINED BENEFIT PENSION PLANS (CONTINUED)

2. Police and Fire Pension Costs

At December 31, 2017, the City reported a liability of \$634,556 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0470 percent which was a decrease of 0.0020 percent from its proportion measured as of June 30, 2016. The City also recognized \$4,230 for the year ended December 31, 2017, 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, 2017, the City of Gilbert, Minnesota recognized pension expense of \$(81,571) for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2017, 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	\$ 14,606	\$ 152,783
Changes in actuarial assumptions	865,781	900,912
Difference between projected and actual investment earnings	17,655	-
Changes in proportion	6,001	66,886
Contributions paid to PERA subsequent to the measurement date	39,668	-
Totals	\$ 943,711	\$ 1,120,581

\$39,668 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, 2018. 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
2018	\$ 1,789
2019	\$ 25,882
2020	\$ 1,633
2021	\$ (55,203)
2022	\$ (190,639)
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 15- DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Actuarial Assumptions

The total pension liability in the June 30, 2017 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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1 percent per year for all future years for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 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 most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 15- DEFINED BENEFIT PENSION PLANS (CONTINUED)

- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 15- DEFINED BENEFIT PENSION PLANS (CONTINUED)

Sensitivity of Net Pension Liability at Current Single Discount Rate				
	General Employees Fund		Police and Fire Fund	
1% Lower	6.50%	\$ 1,089,215	6.50%	\$ 1,195,054
Current Discount Rate	7.50%	\$ 702,232	7.50%	\$ 634,556
1% Higher	8.50%	\$ 385,417	8.50%	\$ 171,834

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 16 - 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, 2017, the plan covered 18 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 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 percent through 20 years at 100 percent.

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 \$11,647 in fire state aid to the fund for the year ended December 31, 2017. 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, 2017.

Pension Costs

At December 31, 2017, the City reported a net pension liability of \$13,300 for the Volunteer Firefighter Plan. The net pension liability was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability 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 liability during the year.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/16	\$ 216,649	\$ 248,954	\$ (32,305)
Changes for the Year			
Service Cost	14,494	-	14,494
Interest on Pension Liability	13,107	-	13,107
Actuarial Experience (Gains)/Losses	1,923	-	1,923
Projected Investment Earnings	-	14,937	(14,937)
Changes in Benefit Level	57,857	-	57,857
Contributions (Employer)	-	-	-
Contributions (State)	-	11,647	(11,647)
Asset (Gain)/Loss	-	15,837	(15,837)
Benefit Payouts	(25,400)	(25,400)	-
PERA Administrative Fee	-	(645)	645
Net Changes	61,981	16,376	45,605
Balance End of Year 12/31/17	\$ 278,630	\$ 265,330	\$ 13,300

As of January 1, 2017, the City increased the benefit level from \$1,250 to \$1,600 per year of service for firefighters who have completed at least 5 years of service as a member of the Voluntary Statewide Volunteer Firefighter Retirement Plan.

For the year ended December 31, 2017, the City recognized pension expense of \$68,383.

At December 31, 2017, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 8,659
Difference between actuarial assumptions and actual experience	1,712	720
Total	\$ 1,712	\$ 9,379

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
2018	\$ (698)
2019	\$ (701)
2020	\$ (3,482)
2021	\$ (2,786)
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)

Actuarial Assumptions

The total pension liability at December 31, 2017, 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 percent
- Inflation rate of 3.0 percent

There were no changes in actuarial assumptions in 2017.

Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. 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 liability for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension liability would be if it were calculated using a discount rate 1 percent lower or 1 percent 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 Liability	\$ 22,741	\$ 13,300	\$ 4,088

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 353G.

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 investment 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, 2017

NOTE 16 - 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 Volunteer Firefighter Plan 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%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%

The six percent 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 from a number of investment management and consulting organizations. 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 2017 for the Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2017, 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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,182,997	\$ 1,182,997	\$ 1,163,898	\$ (19,099)
Licenses and permits	11,700	11,700	12,196	496
Intergovernmental	805,846	805,846	832,306	26,460
Charges for services	389,863	389,863	367,231	(22,632)
Fines	17,500	17,500	10,487	(7,013)
Interest	-	-	5,824	5,824
Miscellaneous	95,335	95,335	37,203	(58,132)
TOTAL REVENUES	2,503,241	2,503,241	2,429,145	(74,096)
EXPENDITURES				
Current				
General government	362,582	362,582	349,858	12,724
Public safety	944,062	944,062	968,284	(24,222)
Public works	632,770	632,770	651,070	(18,300)
Sanitation	3,500	3,500	2,766	734
Culture and recreation	63,606	63,606	64,202	(596)
Miscellaneous	395,950	395,950	213,695	182,255
Debt Service				
Principal	21,417	21,416	21,416	-
Interest and other charges	1,707	1,708	1,708	-
Capital Outlay				
General government	22,500	22,500	-	22,500
Public safety	40,000	40,000	43,397	(3,397)
Public works	10,000	10,000	-	10,000
Miscellaneous	15,000	15,000	-	15,000
TOTAL EXPENDITURES	2,513,094	2,513,094	2,316,396	196,698
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,853)	(9,853)	112,749	122,602
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	13,400	13,400
Transfers out	-	-	(226,622)	(226,622)
Sale of capital assets	10,000	10,000	19,347	9,347
TOTAL OTHER FINANCING SOURCES (USES)	10,000	10,000	(193,875)	(203,875)
NET CHANGE IN FUND BALANCES	147	147	(81,126)	(81,273)
FUND BALANCE - JANUARY 1	956,653	956,653	956,653	-
FUND BALANCE - DECEMBER 31	\$ 956,800	\$ 956,800	\$ 875,527	\$ (81,273)

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, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
EXPENDITURES				
Current				
Economic development	-	-	-	-
NET CHANGE IN FUND BALANCES	3,000	3,000	3,000	-
FUND BALANCE - JANUARY 1	134,673	134,673	134,673	-
FUND BALANCE - DECEMBER 31	<u>\$ 137,673</u>	<u>\$ 137,673</u>	<u>\$ 137,673</u>	<u>\$ -</u>

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS PLAN
Year Ended December 31, 2017**

<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>
Governmental Activities						
1/1/2013	\$ -	\$ 1,610,872	\$ 1,610,872	0.0%	\$ 949,024	169.7%
1/1/2015	\$ -	\$ 1,791,500	\$ 1,791,500	0.0%	\$ 1,014,419	176.6%
1/1/2017	\$ -	\$ 1,640,729	\$ 1,640,729	0.0%	\$ 1,042,919	157.3%
Business-type Activities						
1/1/2013	\$ -	\$ 753,596	\$ 753,596	0.0%	\$ 162,371	464.1%
1/1/2015	\$ -	\$ 810,659	\$ 810,659	0.0%	\$ 216,491	374.5%
1/1/2017	\$ -	\$ 742,628	\$ 742,628	0.0%	\$ 209,360	354.7%

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, 2017**

**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
6/30/17	0.0110%	\$ 702,232	\$ 8,831	\$ 711,063	\$ 708,688	100.34%	75.90%
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)
12/31/17	\$ 51,155	\$ 51,155	\$ -	\$ 682,067	7.50%
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, 2017**

**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
6/30/17	0.0470%	\$ 634,556	\$ 481,654	131.75%	85.40%
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)
12/31/17	\$ 78,120	\$ 78,120	\$ -	\$ 482,222	16.20%
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, 2017**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 14,494	\$ 11,331	\$ 11,001
Interest on the pension liability	13,107	12,331	11,878
Actuarial experience (gains)/losses	1,923	(1,200)	438
Changes in benefit level	57,857	-	-
Benefit payments	<u>(25,400)</u>	<u>-</u>	<u>(32,200)</u>
Net Change in Total Pension Liability	61,981	22,462	(8,883)
Total Pension Liability - Beginning	<u>216,649</u>	<u>194,187</u>	<u>203,070</u>
Total Pension Liability - Ending (a)	<u><u>\$ 278,630</u></u>	<u><u>\$ 216,649</u></u>	<u><u>\$ 194,187</u></u>
Plan Fiduciary Net Position			
Contributions:			
Fire state aid	\$ 9,378	\$ 9,544	\$ 9,562
Fire supplemental aid	2,269	2,315	2,340
Supplemental Benefit Reimbursement	-	1,000	1,000
Voluntary Municipal Contribution	-	-	-
Required Municipal Contribution	-	-	6,993
Net Investment Income	30,774	15,570	534
PERA administrative fee	(630)	(630)	(600)
SBI Investment Fee	(15)	(17)	(7)
Benefit Payments	<u>(25,400)</u>	<u>-</u>	<u>(32,200)</u>
Net Change in Plan Fiduciary Net Position	16,376	27,782	(12,378)
Plan Fiduciary Net Position - Beginning	<u>248,954</u>	<u>221,172</u>	<u>233,550</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 265,330</u></u>	<u><u>\$ 248,954</u></u>	<u><u>\$ 221,172</u></u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ 13,300</u></u>	<u><u>\$ (32,305)</u></u>	<u><u>\$ (26,985)</u></u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	95.2%	114.9%	113.9%

Note: 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, 2017

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
GILBERT VOLUNTEER FIRE DEPARTMENT

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ -	\$ -	\$ 6,993
Actual contributions paid	-	-	6,993
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

Note: 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, 2017

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 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS

2017 Changes

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent 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, 2017**

**NOTE 2 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES
IN PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS (CONTINUED)**

Changes in Actuarial Assumptions:

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

**NOTE 3 - PUBLIC EMPLOYEES POLICE AND FIRE RETIREMENT FUND CHANGES IN
PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS**

2017 Changes

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017**

**NOTE 3 - PUBLIC EMPLOYEES POLICE AND FIRE RETIREMENT FUND CHANGES IN
PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS (CONTINUED)**

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

CITY OF GILBERT, MINNESOTA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2017**

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 76,822	\$ 107,016	\$ 1,230	\$ 185,068
Taxes receivable	1,469	-	1,572	3,041
Special assessments receivable	-	-	4,089	4,089
TOTAL ASSETS	<u>\$ 78,291</u>	<u>\$ 107,016</u>	<u>\$ 6,891</u>	<u>\$ 192,198</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 2,405	\$ 210	\$ -	\$ 2,615
Salaries payable	2,515	-	-	2,515
TOTAL LIABILITIES	<u>4,920</u>	<u>210</u>	<u>-</u>	<u>5,130</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-special assessments	-	-	4,089	4,089
FUND BALANCES				
Restricted	-	-	2,802	2,802
Committed	73,371	106,806	-	180,177
TOTAL FUND BALANCES	<u>73,371</u>	<u>106,806</u>	<u>2,802</u>	<u>182,979</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 78,291</u>	<u>\$ 107,016</u>	<u>\$ 6,891</u>	<u>\$ 192,198</u>

CITY OF GILBERT, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2017**

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 106,161	\$ -	\$ 96,592	\$ 202,753
Special assessments	-	-	426	426
Intergovernmental	-	-	2,204	2,204
Charges for services	2,810	104,909	-	107,719
Fines	1,143	-	-	1,143
Gifts and contributions	10,740	-	-	10,740
Interest	-	219	-	219
Miscellaneous	1,677	3,318	-	4,995
TOTAL REVENUES	<u>122,531</u>	<u>108,446</u>	<u>99,222</u>	<u>330,199</u>
EXPENDITURES				
Current				
Culture and recreation	109,869	70,105	-	179,974
Debt Service				
Principal	-	-	106,000	106,000
Interest and other charges	-	-	9,490	9,490
Capital Outlay				
Culture and recreation	-	11,203	-	11,203
TOTAL EXPENDITURES	<u>109,869</u>	<u>81,308</u>	<u>115,490</u>	<u>306,667</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>12,662</u>	<u>27,138</u>	<u>(16,268)</u>	<u>23,532</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	17,344	17,344
Transfers out	-	(8,300)	-	(8,300)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(8,300)</u>	<u>17,344</u>	<u>9,044</u>
NET CHANGE IN FUND BALANCES	12,662	18,838	1,076	32,576
FUND BALANCES - JANUARY 1	<u>60,709</u>	<u>87,968</u>	<u>1,726</u>	<u>150,403</u>
FUND BALANCES - DECEMBER 31	<u>\$ 73,371</u>	<u>\$ 106,806</u>	<u>\$ 2,802</u>	<u>\$ 182,979</u>

CITY OF GILBERT, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017**

REVENUES

Taxes

General property	\$ 560,556
Fiscal disparities	227,224
Taconite production	14,916
Taconite mining effects	48,708
Taconite homestead credit	114,475
Taconite municipal aid	172,995
Franchise	13,247
Other	<u>11,777</u>
Total Taxes	<u>1,163,898</u>

Licenses and Permits

12,196

Intergovernmental

Federal grants	
Fire assistance grant	2,500
State	
Local government aid	709,210
Small cities aid	17,864
Police training	2,226
PERA aid	3,636
Police aid	58,081
Other	10,829
DNR grant for fire department	3,750
DNR grant for OHV trails	22,702
County	
Safe and sober	<u>1,508</u>
Total Intergovernmental	<u>832,306</u>

Charges for Services

General government	
Rent	57
Miscellaneous	12,466
Public safety	
City of Biwabik's share of police	338,103
Other	326
Public works	
Other	629
Cemetery	<u>15,650</u>
Total Charges for Services	<u>367,231</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2017

REVENUES (CONTINUED)

Fines

Court fines	\$ 6,870
Trespass fines	348
Administrative fines	<u>3,269</u>
Total Fines	<u>10,487</u>

Interest

Interest income	<u>5,824</u>
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Miscellaneous

Insurance dividends	8,577
Donations	10,215
Reimbursements and refunds	6,159
Other	<u>12,252</u>
Total Miscellaneous	<u>37,203</u>

TOTAL REVENUES	<u>2,429,145</u>
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EXPENDITURES

Current

General Government

Mayor and council	22,553
City clerk-treasurer	248,718
Elections	531
Independent audit	18,580
Legal	16,859
Planning and zoning	3,488
Community center	15,170
Other	<u>23,959</u>
Total General Government	<u>349,858</u>

CITY OF GILBERT, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2017**

EXPENDITURES

Current (continued)

Public Safety

Police	\$ 903,891
Fire	56,063
Animal control	5,335
First responders	<u>2,995</u>
Total Public Safety	<u>968,284</u>

Public Works

Maintenance	617,158
Engineering	1,922
Street lighting	<u>31,990</u>
Total Public Works	<u>651,070</u>

Sanitation

Recycling	<u>2,766</u>
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Culture and Recreation

Recreation center	44,869
Mesabi trail maintenance	480
Contribution to range recreation civic center	4,032
OHV parks and trails	<u>14,821</u>
Total Culture and Recreation	<u>64,202</u>

Miscellaneous

Insurance	94,074
Employer-paid insurance	107,950
Utilities	7,855
Cemetery	<u>3,816</u>
Total Miscellaneous	<u>213,695</u>

Debt Service

Principal	<u>21,416</u>
Interest and other charges	<u>1,708</u>

CITY OF GILBERT, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2017**

EXPENDITURES (CONTINUED)

Capital Outlay

Public Safety

Police \$ 43,397

TOTAL EXPENDITURES 2,316,396

**EXCESS OF REVENUES OVER
EXPENDITURES** 112,749

OTHER FINANCING SOURCES (USES)

Transfers in 13,400

Transfers out (226,622)

Sale of capital assets 19,347

TOTAL OTHER FINANCING SOURCES (USES) (193,875)

NET CHANGE IN FUND BALANCE (81,126)

FUND BALANCE - JANUARY 1 956,653

FUND BALANCE - DECEMBER 31 \$ 875,527

CITY OF GILBERT, MINNESOTA

**COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017**

REVENUES

Miscellaneous

Principal on loan payments	\$	3,000
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EXPENDITURES

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NET CHANGE IN FUND BALANCE	3,000
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FUND BALANCE - JANUARY 1	<u>134,673</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 137,673</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, 2017**

REVENUES

Special Assessments

Principal \$ 2,712

Intergovernmental

Federal grants
Community Development Block Grant 27,478

TOTAL REVENUES 30,190

EXPENDITURES

Capital Outlay

Sanitation

Genoa sanitary sewer project 27,693

Water Works

McKinley water extension 42,949

TOTAL EXPENDITURES 70,642

**DEFICIENCY OF REVENUES OVER
EXPENDITURES** (40,452)

OTHER FINANCING SOURCES

Transfers in 209,278

NET CHANGE IN FUND BALANCE 168,826

FUND BALANCE - JANUARY 1 (168,826)

FUND BALANCE - DECEMBER 31 \$ -

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 107,000	\$ 107,000	\$ 106,161	\$ (839)
Charges for services	-	-	2,810	2,810
Fines	2,600	2,600	1,143	(1,457)
Gifts and contributions	6,350	6,350	10,740	4,390
Miscellaneous	3,000	3,000	1,677	(1,323)
TOTAL REVENUES	<u>118,950</u>	<u>118,950</u>	<u>122,531</u>	<u>3,581</u>
EXPENDITURES				
Current				
Culture and recreation	135,820	135,820	109,869	25,951
Capital Outlay				
Culture and recreation	<u>800</u>	<u>800</u>	<u>-</u>	<u>800</u>
TOTAL EXPENDITURES	<u>136,620</u>	<u>136,620</u>	<u>109,869</u>	<u>26,751</u>
NET CHANGE IN FUND BALANCE	(17,670)	(17,670)	12,662	30,332
FUND BALANCE - JANUARY 1	<u>60,709</u>	<u>60,709</u>	<u>60,709</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 43,039</u>	<u>\$ 43,039</u>	<u>\$ 73,371</u>	<u>\$ 30,332</u>

CITY OF GILBERT, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017

REVENUES

Taxes

General property	\$ 65,584
Fiscal disparities	26,522
Taconite homestead credit	13,401
Other	<u>654</u>

Total Taxes	106,161
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Charges for Services

Culture and recreation	
Library	2,810

Fines

Library fines	1,143
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Gifts and Contributions	10,740
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Miscellaneous

Other	<u>1,677</u>
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TOTAL REVENUES	<u>122,531</u>
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EXPENDITURES

Current

Culture and Recreation

Personal services	85,397
Supplies	18,163
Other services and charges	<u>6,309</u>

TOTAL EXPENDITURES	<u>109,869</u>
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NET CHANGE IN FUND BALANCE	12,662
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FUND BALANCE - JANUARY 1	<u>60,709</u>
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FUND BALANCE - DECEMBER 31	<u><u>\$ 73,371</u></u>
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CITY OF GILBERT, MINNESOTA

**CAMPGROUND SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017**

REVENUES

Charges for Services

Culture and recreation

 Campground fees

\$ 95,422

 Other

9,487

Total Charges for Services

104,909

Interest

219

Miscellaneous

Other

3,318

TOTAL REVENUES

108,446

EXPENDITURES

Current

Culture and Recreation

 Supplies

2,884

 Other services and charges

59,313

 Other

6,219

 Maintenance and repairs

1,689

Total Culture and Recreation

70,105

Capital Outlay

Culture and Recreation

Equipment

11,203

TOTAL EXPENDITURES

81,308

**EXCESS OF REVENUES
OVER EXPENDITURES**

27,138

OTHER FINANCING USES

Transfers out

(8,300)

NET CHANGE IN FUND BALANCE

18,838

FUND BALANCE - JANUARY 1

87,968

FUND BALANCE - DECEMBER 31

\$ 106,806

CITY OF GILBERT, MINNESOTA

**DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017**

REVENUES

Taxes

General property	\$ 52,396
Fiscal disparities	28,868
Taconite homestead credit	14,532
Other	<u>796</u>

Total Taxes 96,592

Special Assessments

Principal	426
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Intergovernmental

Federal grants	
Interest reimbursement	<u>2,204</u>

TOTAL REVENUES 99,222

EXPENDITURES

Debt Service

Principal	106,000
Interest and fiscal charges	<u>9,490</u>

TOTAL EXPENDITURES 115,490

**DEFICIENCY OF REVENUES OVER
EXPENDITURES** (16,268)

OTHER FINANCING SOURCES

Transfers in	<u>17,344</u>
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NET CHANGE IN FUND BALANCE 1,076

FUND BALANCE - JANUARY 1 1,726

FUND BALANCE - DECEMBER 31 \$ 2,802



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the 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, 2017, 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 June 29, 2018.

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.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, identified in the accompanying schedule of findings and responses that we consider to be material weaknesses as findings 2017-001, 2017-002, and 2017-003.

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 June 29, 2018, 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.

Walther, Miray & Helne, LLC

Virginia, Minnesota
July 10, 2018

CITY OF GILBERT, MINNESOTA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2017**

FINDING 2016-001. SEGREGATION OF DUTIES

Summary of 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.

Summary of Corrective Action Previously Reported

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.

Current Status

Ongoing. The City did hire new employees to partially compensate for the weakened controls, however there continues to be a limited number of personnel that is not sufficient to ensure adequate internal accounting control.

FINDING 2016-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Summary of Condition

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

Summary of Corrective Action Previously Reported

Management determined that the cost and training involved to review or prepare the City's financial statements exceeded the benefit that would result.

Current Status

Ongoing.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017**

2017-001. 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.

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.

Effect

Because of the weakness in segregation of duties, the City has not provided adequate internal control over its transactions.

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

The City Council should be aware of this condition, attempt to segregate duties as much as possible and provide oversight to partially compensate for this deficiency.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The City Clerk-Treasurer will continue to monitor all transactions and the City's administration will 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.

2017-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition

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.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the 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.

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES Year Ended December 31, 2017

2017-003. PRE-SIGNED CITY CHECKS

Criteria

Minnesota law generally requires multiple signatures on checks written by cities. In addition to being required by statute, multiple signatures are part of the cities internal controls. Checks should be approved and signed after they are written in order to maintain proper internal controls over the City's assets.

Condition

The Mayor overrode internal controls by pre-signing the check stock. Due to the limited number of employees in the business office, this control procedure is essential to mitigate control risk.

Effect

Since checks were pre-signed by the Mayor, the potential exists for the Clerk-Treasurer to authorize payment, record transactions in the accounting records and reconcile the bank statement without proper controls.

Cause

This was caused by a lack of proper procedures in writing and signing checks and reviewing disbursements.

Recommendations

The Mayor should review disbursements before authorizing and signing checks.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding. The Mayor will review disbursements before signing checks. City checks will not be pre-signed.

**REPRESENTATION OF
CITY OF GILBERT, MINNESOTA**

**CORRECTIVE ACTION PLAN
Year Ended December 31, 2017**

Finding Number: 2017-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

Debra Sakrison, Clerk-Treasurer

Corrective Action Planned

Management agrees with the audit finding. The City Clerk-Treasurer will continue to monitor all transactions and the City's administration will 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.

Anticipated Completion Date

Ongoing.

Finding Number: 2017-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

Debra Sakrison, Clerk-Treasurer

Corrective Action Planned

Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.

Anticipated Completion Date

Ongoing.

Finding Number: 2017-003

Finding Title: PRE-SIGNED CHECKS

Name of Contact Person Responsible for Corrective Action

Debra Sakrison, Clerk-Treasurer

Corrective Action Planned

The Mayor will review and approve disbursements and checks before signing checks. City checks will not be pre-signed.

Anticipated Completion Date

July 2, 2018.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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, 2017, 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 June 29, 2018, 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 June 29, 2018, 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 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.
2. 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.

3. Payroll liability accounts were not reconciled throughout the year. We suggest the City reconcile these accounts throughout the year to maintain proper controls and to save time at the end of the year.
4. The City has not updated their Internal Control Procedures Policy in many 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.

New Accounting Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which supersedes Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new accounting standard requirements include: (1) changes in the methods that governments may use to measure their liability for OPEB, that depending on the government's particular circumstances may result in a measure of the OPEB liability that is significantly larger than the liability it previously recognized on the face of financial statements and a measure of the OPEB liability that is different than the liability it previously reported in notes to financial statements, (2) change the allowable methods for measuring the OPEB liability in order to improve the comparability of OPEB liability information across governments, and (3) do not change the amounts governments will have to contribute to their OPEB plans or the amount needed to pay the benefits as they come due (on a "pay-as-you-go" basis).

The new accounting standard is effective for periods beginning after June 15, 2017. The City must implement this new standard for the year-ended December 31, 2018. Currently, the City is using the alternative method calculation for its actuarial valuation allowed under Statement No. 45. In order to be ready for implementation, the City should contact an actuary and review the requirements of Statement No. 75 for future actuarial valuations.

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, Miray & Helne, LLC

Virginia, Minnesota
July 10, 2018