

**CITY OF GILBERT, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**Year Ended December 31, 2018**

CITY OF GILBERT, MINNESOTA

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**CITY OF GILBERT, MINNESOTA**

**ORGANIZATION  
December 31, 2018**

**CITY COUNCIL**

Mayor

Dorothy Elizabeth Milos

Council Members

Joseph Pulles  
Rebecca Robich  
Robert Pontinen  
Nick Ouke

**ADMINISTRATION**

Executive Administrative Clerk

James Paulsen

**APPOINTED**

City Attorney

Bryan Lindsay

## FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Gilbert, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilbert, Minnesota, as of and for the year ended December 31, 2018, 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, 2018, 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.

### **Change in Accounting Principle**

As described in Notes 1 and 7 to the financial statements, for the year ended December 31, 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the City's net OPEB liability and related ratios, 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, 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 schedule, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor and individual fund financial statements and schedule and schedule of expenditures of federal awards 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 and the schedule of expenditures of federal awards 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 27, 2019 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, Gray & Helne, LLC*

Virginia, Minnesota  
June 27, 2019



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## CITY OF GILBERT, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2018

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, 2018. 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 \$4,397,245, of which \$4,996,562 is the net investment in capital assets and \$290,195 is restricted.
- Business-type activities have total net position of \$8,490,971; of which \$5,546,693 is the net investment in capital assets and \$80,359 is restricted.
- The City of Gilbert's net position increased by \$3,538,995 for the year ended December 31, 2018. Of the increase, the governmental activities' net position increased by \$228,951, while the business-type activities' net position increased by \$3,310,044.
- The net cost of governmental activities was \$1,910,869 for the current fiscal year. The net cost was funded by general revenues totaling \$2,139,820.
- Governmental funds' fund balances increased by \$120,103 with the permanent improvement and replacement capital projects fund reporting the largest increase totaling \$150,748.

#### 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, 2018

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 changes in the City's net OPEB liability and related ratios, 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, 2018

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 \$12,888,216, which is an increase from the prior year.

Table 1  
Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,651,298	\$ 1,525,689	\$ 4,233,031	\$ 2,546,077	\$ 5,884,329	\$ 4,071,766
Capital Assets	5,263,976	5,421,734	9,634,834	6,374,714	14,898,810	11,796,448
Total assets	<u>6,915,274</u>	<u>6,947,423</u>	<u>13,867,865</u>	<u>8,920,791</u>	<u>20,783,139</u>	<u>15,868,214</u>
Deferred outflows related to pensions	812,744	1,097,413	17,741	31,131	830,485	1,128,544
Long-term liabilities outstanding	1,910,583	2,076,623	4,690,487	3,230,114	6,601,070	5,306,737
Other liabilities	239,949	233,690	667,969	253,985	907,918	487,675
Total liabilities	<u>2,150,532</u>	<u>2,310,313</u>	<u>5,358,456</u>	<u>3,484,099</u>	<u>7,508,988</u>	<u>5,794,412</u>
Deferred inflows related to pensions	1,180,241	1,273,273	36,179	29,353	1,216,420	1,302,626
Net Position						
Net investment in capital assets	4,996,562	5,057,283	5,546,693	3,449,684	10,543,255	8,506,967
Restricted	290,195	324,801	80,359	221,076	370,554	545,877
Unrestricted	(889,512)	(920,834)	2,863,919	1,767,710	1,974,407	846,876
Total net position	<u>\$ 4,397,245</u>	<u>\$ 4,461,250</u>	<u>\$ 8,490,971</u>	<u>\$ 5,438,470</u>	<u>\$ 12,888,216</u>	<u>\$ 9,899,720</u>

Net position of the City's governmental activities decreased by 1.4 percent (\$4,397,245 compared to \$4,461,250). 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 – increased from a \$920,834 deficit at December 31, 2017 to a \$889,512 deficit at the end of this year.

Net position of the City's business-type activities increased by 56.1 percent (\$8,490,971 compared to \$5,438,470) in 2018.

**CITY OF GILBERT, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2018**

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Fees, fines, charges, and other	\$ 592,422	\$ 548,609	\$ 2,643,567	\$ 2,441,997	\$ 3,235,989	\$ 2,990,606
Operating grants and contributions	92,195	72,749	3,787	9,666	95,982	82,415
Capital grants and contributions	8,443	62,680	3,064,489	410,972	3,072,932	473,652
General Revenues:						
Property taxes	1,393,024	1,369,461	18,650	18,650	1,411,674	1,388,111
Grants and contributions not restricted to specific programs	737,098	730,710	-	-	737,098	730,710
Unrestricted investment earnings	7,116	6,042	5,832	4,415	12,948	10,457
Gain on sale of capital assets	2,582	17,007	-	-	2,582	17,007
Total revenues	<u>2,832,880</u>	<u>2,807,258</u>	<u>5,736,325</u>	<u>2,885,700</u>	<u>8,569,205</u>	<u>5,692,958</u>
Program expenses:						
General government	538,356	653,822	-	-	538,356	653,822
Public safety	1,026,791	1,084,109	-	-	1,026,791	1,084,109
Public works	726,794	829,960	-	-	726,794	829,960
Sanitation	4,736	5,003	216,182	182,665	220,918	187,668
Culture and recreation	298,543	284,947	-	-	298,543	284,947
Interest on long-term debt	8,709	10,723	-	-	8,709	10,723
Water	-	-	502,112	433,575	502,112	433,575
Electric	-	-	997,428	952,670	997,428	952,670
Sewer usage	-	-	710,559	621,727	710,559	621,727
Total program expenses	<u>2,603,929</u>	<u>2,868,564</u>	<u>2,426,281</u>	<u>2,190,637</u>	<u>5,030,210</u>	<u>5,059,201</u>
Increase (decrease) in net position before transfers	228,951	(61,306)	3,310,044	695,063	3,538,995	633,757
Transfers	-	(65,542)	-	65,542	-	-
Increase (decrease) in net position	228,951	(126,848)	3,310,044	760,605	3,538,995	633,757
Net position, January 1	4,461,250	4,588,098	5,438,470	4,677,865	9,899,720	9,265,963
Prior period adjustment	(292,956)	-	(257,543)	-	(550,499)	-
Net position, December 31	<u>\$ 4,397,245</u>	<u>\$ 4,461,250</u>	<u>\$ 8,490,971</u>	<u>\$ 5,438,470</u>	<u>\$ 12,888,216</u>	<u>\$ 9,899,720</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 \$1,191,678, 42% of revenues; while property taxes levied for specific purposes and franchise taxes were \$201,346, 7% of revenue. Grants and contributions not restricted to specific programs amounts to \$737,098 or 26% of total revenue while fees, fines, charges, and other revenues are 21% of total revenues. Operating grants and contributions amounted to 3% of total revenues.

Public safety expenses are the most significant (39%), followed by public works (28%), general government (21%), culture and recreation (11%), and interest and sanitation (1%).

Governmental revenues increased \$25,622 in 2018, primarily due to increased fees, fines, charges, and other revenue, operating grant revenue, and property tax revenue reported in 2018 compared to 2017. Our taxpayers paid \$1,393,024 in property taxes during the current year, which is an increase of \$23,563 from 2017.

Governmental expenses decreased by \$264,635 in the current year. The largest decrease was recorded in the general government program (\$653,822 in 2017 to \$538,356 in 2018). The net cost of all governmental activities this year was \$1,910,869 compared to \$2,184,526 last year. Most of the decrease in expense is attributed to lower general government, public safety, and public works expenses.

## CITY OF GILBERT, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2018

#### **Business-Type Activities**

Revenues of the City's business-type activities were \$5,736,325 (see Table 2). There was an increase in net position of \$3,310,044 during the year ended December 31, 2018. The factors driving these results include:

- Capital grants and contributions totaled \$3,064,489
- Operations produced income of \$317,726 for the year ended December 31, 2018.
- Nonoperating revenues and expenses included property taxes of \$18,650, bond issue and fiscal agent fees of \$37,813, and \$58,840 of interest expense.

#### **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, 2018, the City's governmental funds reported total ending fund balances of \$1,316,282, an increase of \$120,103 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised 6%, or \$74,970 of the total ending fund balance; \$361,741 (27%) of the fund balance was committed; \$832,761 (63%) was assigned; and \$46,810 (4%) was unassigned.

At the end of the year, the general fund reported a fund balance of \$879,571, increasing \$4,044 from the prior year. General fund revenues increased by \$135,130 while general fund expenditures increased by \$81,340.

The community development revolving loan special revenue fund had a \$2,250 increase in fund balance during the year ended December 31, 2018.

The permanent improvement and replacement capital projects fund had decreases in revenues and expenditures increasing the fund balance by \$748 before transfers in. Revenues in 2017 were higher because of increased construction projects funded by intergovernmental revenues and special assessments compared to 2018. The expenditures were lower due to decreased sanitation and water works construction projects compared to 2017. Transfers from the general fund of \$150,000 will be used to finance future projects.

In the other governmental funds, the fund balance decrease was primarily from expenditures exceeding revenues in the campground special revenue fund. A transfer in to the debt service fund of \$15,077 from the general fund helped offset the fund's expenditures over revenues; the total decrease in fund balance for the debt service fund was \$1,230.

##### **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 2018, the water enterprise fund reported an operating loss of \$43,017. Revenues decreased from \$461,008 in 2017 to \$453,711 in 2018, while, total operating expenses increased from \$427,682 in 2017 to \$496,728 in 2018. The decrease in operating income was primarily due to decreased usage which generated less revenue. The increase in expenses was primarily due to increased contractual services and utilities compared to the prior year.

The electric enterprise fund accounts for electric operations of the City. In 2017 service revenues were

**CITY OF GILBERT, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2018**

\$1,085,627 and in 2018 service revenues were \$1,162,430. The electric enterprise fund reported operating income of \$165,002 in 2018 compared to operating income of \$132,965 in 2017. Operating expenses increased from \$952,662 in 2017 to \$997,428 in 2018.

The sewer usage enterprise fund accounts for sewer operations of the City. There was an increase in service revenues from \$714,265 in 2017 to \$834,412 in 2018. Operating expenses in 2018 increased from \$582,972 in 2017 to \$619,290 in 2018. The increase in revenues was greater than the increase in expenses, resulting in operating income of \$215,122 compared to operating income of \$131,293 in 2017.

The sanitation enterprise fund accounts for the collection and disposal related to the City's garbage services. In 2018, this fund recorded operating revenues of \$196,801 and operating expenses of \$216,182. This led to an operating loss of \$19,381 in 2018 compared to operating income of \$8,098 in 2017. The most significant operating expense is the \$172,711 in contractual services.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During 2018, the City Council did not revise the City's general fund budget. The actual charges to appropriations (expenditures) were \$103,705 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 variance occurred in the City's public safety program. Resources available for appropriation were lower than the budgeted amounts by \$84,971. The City received less tax, licenses and permits, and fines revenues than expected, with the most significant variances being tax revenue.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2018, the City had \$14,898,810 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 \$3,102,362 over last year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	79,390	24,647	5,207,315	1,604,732	5,286,705	1,629,379
Infrastructure	3,517,200	3,677,967	-	-	3,517,200	3,677,967
Distribution system	-	-	2,670,367	2,830,768	2,670,367	2,830,768
Production system	-	-	561,293	622,027	561,293	622,027
Sewage treatment plant	-	-	1,015,129	1,117,176	1,015,129	1,117,176
General assets	-	-	152,144	171,425	152,144	171,425
Buildings, improvements and structures	1,002,290	1,035,878	-	-	1,002,290	1,035,878
Equipment and vehicles	267,378	294,326	-	-	267,378	294,326
Furniture and fixtures	29,618	20,816	-	-	29,618	20,816
<b>Totals</b>	<b>\$ 5,263,976</b>	<b>\$ 5,421,734</b>	<b>\$ 9,634,834</b>	<b>\$ 6,374,714</b>	<b>\$ 14,898,810</b>	<b>\$ 11,796,448</b>

**CITY OF GILBERT, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2018**

This year's major additions included:

- Wastewater treatment plant and equalization basin upgrades
- Lime lagoon upgrade
- Campground sites and electrical upgrades
- Washing machine
- Thermal imaging camera
- Election ballot machine

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 \$4,636,803 in long-term debt outstanding versus \$3,477,451 last year—as shown in Table 4.

In 2018 the City issued \$315,000 in GO Improvement Refunding Notes. Proceeds from this note were used to pay off the 2008A GO Improvement Bonds. The City also issued \$1,430,389 in GO Revenue Notes. Proceeds from the note are being used to finance construction projects at the sewer plant.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
General obligation bonds (backed by the City)	\$ 304,000	\$ 394,000	\$ 660,000	\$ 745,000	\$ 964,000	\$ 1,139,000
General obligation revenue bonds and notes	-	-	3,644,389	2,288,000	3,644,389	2,288,000
Certificate of indebtedness fire truck	28,414	50,451	-	-	28,414	50,451
<b>Total</b>	<b>\$ 332,414</b>	<b>\$ 444,451</b>	<b>\$ 4,304,389</b>	<b>\$ 3,033,000</b>	<b>\$ 4,636,803</b>	<b>\$ 3,477,451</b>

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 \$132,414 at year end is significantly below this \$2,246,679 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 2019 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2019 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, 2018**

- 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 2019 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, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

## **BASIC FINANCIAL STATEMENTS**

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION  
December 31, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,347,635	\$ 2,046,696	\$ 3,394,331
Taxes receivable	79,758	-	79,758
Special assessments receivable	22,872	192,211	215,083
Accounts receivable	9,587	354,464	364,051
Due from other governments	90,264	1,639,660	1,729,924
Loans receivable	101,182	-	101,182
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	79,390	5,207,315	5,286,705
Capital assets net of accumulated depreciation			
Infrastructure	3,517,200	-	3,517,200
Distribution system	-	2,670,367	2,670,367
Production system	-	561,293	561,293
Sewage treatment plant	-	1,015,129	1,015,129
General assets	-	152,144	152,144
Buildings, improvements and structures	1,002,290	-	1,002,290
Equipment and vehicles	267,378	-	267,378
Furniture and fixtures	29,618	-	29,618
<b>TOTAL ASSETS</b>	<b>6,915,274</b>	<b>13,867,865</b>	<b>20,783,139</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	812,744	17,741	830,485
<b>LIABILITIES</b>			
Accounts payable	75,843	612,985	688,828
Salaries payable	52,013	10,498	62,511
Due to other governments	842	7,382	8,224
Customer deposits	-	12,210	12,210
Unearned revenues	109,472	-	109,472
Accrued interest payable	1,779	24,894	26,673
Noncurrent liabilities			
Due within one year			
Bonds payable, notes payable and certificates of indebtedness	117,626	1,617,432	1,735,058
Due in more than one year			
Bonds payable, notes payable and certificates of indebtedness	214,788	2,686,957	2,901,745
Severance benefits	22,023	2,972	24,995
Other postemployment benefits payable	581,182	287,873	869,055
Net pension liability	974,964	95,253	1,070,217
<b>TOTAL LIABILITIES</b>	<b>2,150,532</b>	<b>5,358,456</b>	<b>7,508,988</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	1,180,241	36,179	1,216,420
<b>NET POSITION</b>			
Net investment in capital assets	4,996,562	5,546,693	10,543,255
Restricted for:			
Debt service	3,554	80,359	83,913
Community development	142,173	-	142,173
Culture and recreation	144,468	-	144,468
Unrestricted	(889,512)	2,863,919	1,974,407
<b>TOTAL NET POSITION</b>	<b>\$ 4,397,245</b>	<b>\$ 8,490,971</b>	<b>\$ 12,888,216</b>

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities</b>				
General government	\$ 538,356	\$ 74,858	\$ 8,200	\$ -
Public safety	1,026,791	385,497	71,495	8,443
Public works	726,794	1,039	-	-
Sanitation	4,736	-	-	-
Culture and recreation	298,543	131,028	10,571	-
Interest on long-term debt	8,709	-	1,929	-
<b>Total Governmental Activities</b>	<u>2,603,929</u>	<u>592,422</u>	<u>92,195</u>	<u>8,443</u>
<b>Business-type Activities</b>				
Water	502,112	453,439	272	2,066
Electric	997,428	1,159,187	3,243	-
Sewer usage	710,559	834,140	272	3,062,423
Sanitation	216,182	196,801	-	-
<b>Total Business-type Activities</b>	<u>2,426,281</u>	<u>2,643,567</u>	<u>3,787</u>	<u>3,064,489</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 5,030,210</u>	<u>\$ 3,235,989</u>	<u>\$ 95,982</u>	<u>\$ 3,072,932</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

**Total General Revenues**

**CHANGE IN NET POSITION**

**NET POSITION - JANUARY 1**

Prior period adjustment

**NET POSITION - DECEMBER 31**

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

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (455,298)	\$ -	\$ (455,298)
(561,356)	-	(561,356)
(725,755)	-	(725,755)
(4,736)	-	(4,736)
(156,944)	-	(156,944)
(6,780)	-	(6,780)
<u>(1,910,869)</u>	<u>-</u>	<u>(1,910,869)</u>
-	(46,335)	(46,335)
-	165,002	165,002
-	3,186,276	3,186,276
-	(19,381)	(19,381)
-	<u>3,285,562</u>	<u>3,285,562</u>
<u>(1,910,869)</u>	<u>3,285,562</u>	<u>1,374,693</u>
1,191,678	-	1,191,678
187,589	18,650	206,239
13,757	-	13,757
737,098	-	737,098
7,116	5,832	12,948
2,582	-	2,582
<u>2,139,820</u>	<u>24,482</u>	<u>2,164,302</u>
228,951	3,310,044	3,538,995
4,461,250	5,438,470	9,899,720
<u>(292,956)</u>	<u>(257,543)</u>	<u>(550,499)</u>
<u>\$ 4,397,245</u>	<u>\$ 8,490,971</u>	<u>\$ 12,888,216</u>

CITY OF GILBERT, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2018

	<u>General Fund</u>	<u>Community Development Revolving Loan Special Revenue Fund</u>	<u>Permanent Improvement and Replacement Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 883,150	\$ 139,923	\$ 150,748	\$ 173,814	\$ 1,347,635
Taxes receivable	78,729	-	-	1,029	79,758
Special assessments receivable	2,088	-	16,820	3,964	22,872
Accounts receivable	9,587	-	-	-	9,587
Due from other governments	90,264	-	-	-	90,264
Loans receivable	-	101,182	-	-	101,182
<b>TOTAL ASSETS</b>	<u>\$ 1,063,818</u>	<u>\$ 241,105</u>	<u>\$ 167,568</u>	<u>\$ 178,807</u>	<u>\$ 1,651,298</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 49,977	\$ -	\$ -	\$ 25,866	\$ 75,843
Salaries payable	49,715	-	-	2,298	52,013
Due to other governments	-	-	-	842	842
Unearned revenue	8,290	101,182	-	-	109,472
<b>TOTAL LIABILITIES</b>	<u>107,982</u>	<u>101,182</u>	<u>-</u>	<u>29,006</u>	<u>238,170</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue-property taxes	74,177	-	-	-	74,177
Unavailable revenue-special assessments	2,088	-	16,820	3,761	22,669
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>76,265</u>	<u>-</u>	<u>16,820</u>	<u>3,761</u>	<u>96,846</u>
<b>FUND BALANCES</b>					
Restricted	-	73,398	-	1,572	74,970
Committed	-	66,525	150,748	144,468	361,741
Assigned	832,761	-	-	-	832,761
Unassigned reported in					
General fund	46,810	-	-	-	46,810
<b>TOTAL FUND BALANCES</b>	<u>879,571</u>	<u>139,923</u>	<u>150,748</u>	<u>146,040</u>	<u>1,316,282</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 1,063,818</u>	<u>\$ 241,105</u>	<u>\$ 167,568</u>	<u>\$ 178,807</u>	<u>\$ 1,651,298</u>

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

CITY OF GILBERT, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT  
OF NET POSITION  
December 31, 2018

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 1,316,282</b>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,263,976
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.	96,846
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(1,779)
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.	(1,910,583)
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	812,744
Deferred inflows of resources related to pensions	<u>(1,180,241)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 4,397,245</u></b>

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, 2018

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 1,207,128	\$ -	\$ -	\$ 182,968	\$ 1,390,096
Special assessments	-	-	2,248	328	2,576
Licenses and permits	11,345	-	-	-	11,345
Intergovernmental	836,571	-	-	1,929	838,500
Charges for services	384,407	-	-	121,275	505,682
Fines	12,715	-	-	907	13,622
Gifts and contributions	-	-	-	10,571	10,571
Interest	6,693	-	-	423	7,116
Miscellaneous	105,416	2,250	-	7,496	115,162
<b>TOTAL REVENUES</b>	<b>2,564,275</b>	<b>2,250</b>	<b>2,248</b>	<b>325,897</b>	<b>2,894,670</b>
<b>EXPENDITURES</b>					
Current					
General government	317,222	-	-	-	317,222
Public safety	1,039,877	-	-	-	1,039,877
Public works	661,175	-	-	-	661,175
Sanitation	2,499	-	-	-	2,499
Culture and recreation	57,963	-	-	200,491	258,454
Miscellaneous	270,613	-	-	-	270,613
Debt Service					
Principal	22,037	-	-	90,000	112,037
Interest and fiscal charges	1,087	-	-	8,032	9,119
Capital Outlay					
General government	5,715	-	-	-	5,715
Public safety	19,548	-	-	-	19,548
Water works	-	-	1,500	-	1,500
Culture and recreation	-	-	-	79,390	79,390
<b>TOTAL EXPENDITURES</b>	<b>2,397,736</b>	<b>-</b>	<b>1,500</b>	<b>377,913</b>	<b>2,777,149</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>166,539</b>	<b>2,250</b>	<b>748</b>	<b>(52,016)</b>	<b>117,521</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	150,000	15,077	165,077
Transfers out	(165,077)	-	-	-	(165,077)
Sale of capital assets	2,582	-	-	-	2,582
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(162,495)</b>	<b>-</b>	<b>150,000</b>	<b>15,077</b>	<b>2,582</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>4,044</b>	<b>2,250</b>	<b>150,748</b>	<b>(36,939)</b>	<b>120,103</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>875,527</b>	<b>137,673</b>	<b>-</b>	<b>182,979</b>	<b>1,196,179</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 879,571</b>	<b>\$ 139,923</b>	<b>\$ 150,748</b>	<b>\$ 146,040</b>	<b>\$ 1,316,282</b>

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, 2018

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

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>		<b>\$ 120,103</b>
<p>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.</p>		
Expenditures for capital assets	104,653	
Less current year depreciation	<u>(262,411)</u>	(157,758)
<p>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.</p>		
Change in unavailable revenue - delinquent property taxes	2,928	
Change in unavailable revenue - special assessments	(1,842)	
Change in unavailable revenue - loans receivable	<u>(2,250)</u>	(1,164)
<p>Repayments of debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.</p>		
Principal payments		112,037
<p>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.</p>		
Change in accrued interest payable on long-term debt	411	
Change in long-term severance benefits	(3,246)	
Change in long-term other postemployment benefits payable	94,460	
Change in net pension liabilities and assets, and related deferred outflows and inflows of resources	<u>64,108</u>	<u>155,733</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 228,951</u></b>

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

## CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2018

	Business-type Activities - Enterprise Funds				
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 227,324	\$ 1,389,758	\$ 393,369	\$ 36,245	\$ 2,046,696
Special assessments receivable	41,606	-	150,605	-	192,211
Accounts receivable	60,532	168,475	108,983	16,474	354,464
Due from other governments	-	-	1,639,660	-	1,639,660
<b>TOTAL CURRENT ASSETS</b>	<b>329,462</b>	<b>1,558,233</b>	<b>2,292,617</b>	<b>52,719</b>	<b>4,233,031</b>
<b>NONCURRENT ASSETS</b>					
Capital assets					
Land and improvements	10,500	-	18,086	-	28,586
Construction in progress	31,352	-	5,175,963	-	5,207,315
Distribution system	3,497,101	1,205,106	1,490,547	-	6,192,754
Production system	1,966,008	-	-	-	1,966,008
Sewage treatment plant	-	-	4,229,607	-	4,229,607
General assets	159,969	321,923	76,141	33,608	591,641
Less accumulated depreciation	(3,518,999)	(1,214,530)	(3,834,105)	(13,443)	(8,581,077)
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,145,931</b>	<b>312,499</b>	<b>7,156,239</b>	<b>20,165</b>	<b>9,634,834</b>
<b>TOTAL ASSETS</b>	<b>2,475,393</b>	<b>1,870,732</b>	<b>9,448,856</b>	<b>72,884</b>	<b>13,867,865</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Related to pensions	6,653	4,435	6,653	-	17,741
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	14,940	76,964	500,258	20,823	612,985
Salaries payable	4,225	2,048	4,225	-	10,498
Accrued interest payable	1,802	-	23,092	-	24,894
Due to other governments	-	5,435	-	1,947	7,382
Customer deposits	-	12,210	-	-	12,210
Notes payable - current	9,000	-	1,563,432	-	1,572,432
Bonds payable - current	27,628	-	17,372	-	45,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>57,595</b>	<b>96,657</b>	<b>2,108,379</b>	<b>22,770</b>	<b>2,285,401</b>
<b>NONCURRENT LIABILITIES</b>					
Severance benefits	1,486	-	1,486	-	2,972
Other postemployment benefits payable	74,059	91,110	122,704	-	287,873
Notes payable	39,000	-	2,347,957	-	2,386,957
Bonds payable	187,492	-	112,508	-	300,000
Net pension liability	35,720	23,813	35,720	-	95,253
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>337,757</b>	<b>114,923</b>	<b>2,620,375</b>	<b>-</b>	<b>3,073,055</b>
<b>TOTAL LIABILITIES</b>	<b>395,352</b>	<b>211,580</b>	<b>4,728,754</b>	<b>22,770</b>	<b>5,358,456</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Related to pensions	13,567	9,045	13,567	-	36,179
<b>NET POSITION</b>					
Net investment in capital assets	1,944,619	312,449	3,269,460	20,165	5,546,693
Restricted for debt service	-	-	80,359	-	80,359
Unrestricted	128,508	1,342,093	1,363,369	29,949	2,863,919
<b>TOTAL NET POSITION</b>	<b>\$ 2,073,127</b>	<b>\$ 1,654,542</b>	<b>\$ 4,713,188</b>	<b>\$ 50,114</b>	<b>\$ 8,490,971</b>

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, 2018

	Business-type Activities - Enterprise Funds				Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
<b>REVENUES</b>					
Charges for services	\$ 453,439	\$ 1,159,187	\$ 834,140	\$ 196,801	\$ 2,643,567
Miscellaneous	272	3,243	272	-	3,787
<b>TOTAL OPERATING REVENUES</b>	<u>453,711</u>	<u>1,162,430</u>	<u>834,412</u>	<u>196,801</u>	<u>2,647,354</u>
<b>OPERATING EXPENSES</b>					
Source of supply	-	827,379	-	-	827,379
Personal services	85,579	51,662	85,579	-	222,820
Employee benefits	54,365	10,392	56,999	-	121,756
Contractual services	59,883	59,698	86,528	172,711	378,820
Utilities	77,494	2,729	151,342	-	231,565
Repairs and maintenance	26,068	746	14,981	1,361	43,156
Other supplies and expenses	34,361	11,718	38,813	37,657	122,549
Insurance claims and expenses	4,404	675	4,873	-	9,952
Depreciation	153,075	28,122	173,699	3,361	358,257
Miscellaneous	1,499	4,307	6,476	1,092	13,374
<b>TOTAL OPERATING EXPENSES</b>	<u>496,728</u>	<u>997,428</u>	<u>619,290</u>	<u>216,182</u>	<u>2,329,628</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(43,017)</u>	<u>165,002</u>	<u>215,122</u>	<u>(19,381)</u>	<u>317,726</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	-	5,832	-	-	5,832
Property taxes	-	-	18,650	-	18,650
Bond issue and fiscal agent fees	(320)	-	(37,493)	-	(37,813)
Interest expense	(5,064)	-	(53,776)	-	(58,840)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(5,384)</u>	<u>5,832</u>	<u>(72,619)</u>	<u>-</u>	<u>(72,171)</u>
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND CAPITAL CONTRIBUTIONS</b>	<u>(48,401)</u>	<u>170,834</u>	<u>142,503</u>	<u>(19,381)</u>	<u>245,555</u>
Capital grants	-	-	3,046,434	-	3,046,434
Capital contributions	2,066	-	15,989	-	18,055
<b>CHANGE IN NET POSITION</b>	<u>(46,335)</u>	<u>170,834</u>	<u>3,204,926</u>	<u>(19,381)</u>	<u>3,310,044</u>
<b>TOTAL NET POSITION - JANUARY 1</b>	<u>2,166,120</u>	<u>1,574,612</u>	<u>1,628,243</u>	<u>69,495</u>	<u>5,438,470</u>
Prior period adjustment	(46,658)	(90,904)	(119,981)	-	(257,543)
<b>TOTAL NET POSITION - DECEMBER 31</b>	<u>\$ 2,073,127</u>	<u>\$ 1,654,542</u>	<u>\$ 4,713,188</u>	<u>\$ 50,114</u>	<u>\$ 8,490,971</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, 2018

	Business-type Activities - Enterprise Funds				Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 451,005	\$ 1,169,595	\$ 841,298	\$ 196,111	\$ 2,658,009
Cash paid to suppliers	(250,617)	(988,178)	(391,578)	(201,440)	(1,831,813)
Cash paid to employees	(84,813)	(51,514)	(84,813)	-	(221,140)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>115,575</u>	<u>129,903</u>	<u>364,907</u>	<u>(5,329)</u>	<u>605,056</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Advances repaid	(25,000)	50,000	(25,000)	-	-
Property taxes received	-	-	18,650	-	18,650
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>-(25,000)</u>	<u>50,000</u>	<u>(6,350)</u>	<u>-</u>	<u>18,650</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase or construction of capital assets	(31,352)	(15,794)	(3,126,071)	-	(3,173,217)
Proceeds from improvement refunding note	-	-	315,000	-	315,000
Proceeds from general obligation revenue notes	-	-	946,809	-	946,809
Fiscal agent fees	(320)	-	(37,493)	-	(37,813)
Principal paid on long-term debt	(36,628)	-	(437,372)	-	(474,000)
Interest paid on long-term debt	(5,261)	-	(52,216)	-	(57,477)
Capital grants	-	-	1,940,354	-	1,940,354
Capital contributions from special assessments	8,721	-	35,165	-	43,886
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(64,840)</u>	<u>(15,794)</u>	<u>(415,824)</u>	<u>-</u>	<u>(496,458)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on investments	-	5,832	-	-	5,832
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>25,735</u>	<u>169,941</u>	<u>(57,267)</u>	<u>(5,329)</u>	<u>133,080</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>201,589</u>	<u>1,219,817</u>	<u>450,636</u>	<u>41,574</u>	<u>1,913,616</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 227,324</u>	<u>\$ 1,389,758</u>	<u>\$ 393,369</u>	<u>\$ 36,245</u>	<u>\$ 2,046,696</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, 2018**

	Business-type Activities - Enterprise Funds				Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ (43,017)	\$ 165,002	\$ 215,122	\$ (19,381)	\$ 317,726
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	153,075	28,122	173,699	3,361	358,257
Net pension liability, deferred outflows, and deferred inflows related to pensions	(1,467)	(978)	(1,465)	-	(3,910)
Changes in assets and liabilities (Increase) decrease in:					
Accounts receivable	(1,406)	5,165	6,886	(690)	9,955
Increase (decrease) in:					
Accounts payable	6,351	(48,887)	(2,567)	10,882	(34,221)
Salaries payable	218	148	218	-	584
Due to other governments	-	(101)	-	499	398
Customer deposits	-	2,000	-	-	2,000
Unearned revenue	(1,300)	-	-	-	(1,300)
Severance benefits	548	-	548	-	1,096
Other postemployment benefits	2,573	(20,568)	(27,534)	-	(45,529)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 115,575</b>	<b>\$ 129,903</b>	<b>\$ 364,907</b>	<b>\$ (5,329)</b>	<b>\$ 605,056</b>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Total capital asset additions	\$ 31,352	\$ 15,794	\$ 3,571,231	\$ -	\$ 3,618,377
Contracts payable current year	-	-	(484,731)	-	(484,731)
Contracts payable prior year	-	-	39,571	-	39,571
Cash paid for purchase or construction of capital assets	<u>\$ 31,352</u>	<u>\$ 15,794</u>	<u>\$ 3,126,071</u>	<u>\$ -</u>	<u>\$ 3,173,217</u>
Capital grants	\$ -	\$ -	\$ 3,046,434	\$ -	\$ 3,046,434
Due from other governments current year	-	-	(1,156,080)	-	(1,156,080)
Due from other governments prior year	-	-	50,000	-	50,000
Cash received from capital grants	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,940,354</u>	<u>\$ -</u>	<u>\$ 1,940,354</u>
Capital contributions	\$ 2,066	\$ -	\$ 15,989	\$ -	\$ 18,055
Special assessments receivable current year	(41,606)	-	(150,605)	-	(192,211)
Special assessments receivable prior year	48,261	-	169,781	-	218,042
Cash received for capital contributions from special assessments	<u>\$ 8,721</u>	<u>\$ -</u>	<u>\$ 35,165</u>	<u>\$ -</u>	<u>\$ 43,886</u>
Debt proceeds from general obligation revenue notes	\$ -	\$ -	\$ 1,430,389	\$ -	\$ 1,430,389
Due from other governments current year	-	-	(483,580)	-	(483,580)
Cash received from debt proceeds from general obligation revenue note	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 946,809</u>	<u>\$ -</u>	<u>\$ 946,809</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**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, 2018**

**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.

Debt Service Funds are 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, 2018

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, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Change in Accounting Principle**

As discussed in Note 7, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to other postemployment benefits. Additionally, it requires the liability of the City's defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The liability is reported on the City's government-wide financial statements and on the business-type activities - enterprise fund financial statements. Beginning governmental and business-type activities net position has been decreased \$292,956 and \$257,543 respectively due to the implementation of this accounting principle.

**E. 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.

**F. 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.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 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 acquisition 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.

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 16 and 17 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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.
- 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 two sources: property taxes, which are reported in the General Fund, and special assessments, which are reported in the General Fund, Permanent Improvement and Replacement Capital Projects Fund, and Debt Service 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 16 and 17 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.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.

**G. 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.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 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.

**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		2,991,774
Certificates of Deposit		310,000
Investments		91,907
Total		<u>\$ 3,394,331</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 \$3,301,774; the bank balance was \$3,758,855. At year end, \$810,000 of the City's deposits were covered by federal depository insurance. The remaining \$3,169,850 of deposits were collateralized with securities held by the pledging institution's agent in the City's name, however securities pledged did not equal 110 percent of the balance as required by Minnesota statutes.

**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, 2018**

**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, 2018, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money Market (4M) Fund	\$ 61,056	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>30,851</u>	Not Rated
	<u>\$ 91,907</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 2018, 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 \$91,907 at December 31, 2018 are not subject to measurement.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**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, 2018 was \$101,182 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, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
<b>Governmental activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 368,100	\$ -	\$ -	\$ -	\$ 368,100
Construction in progress	24,647	79,390	-	(24,647)	79,390
<b>Total capital assets, not being depreciated</b>	<u>392,747</u>	<u>79,390</u>	<u>-</u>	<u>(24,647)</u>	<u>447,490</u>
<b>Capital assets, being depreciated:</b>					
Infrastructure	4,523,132	-	-	-	4,523,132
Buildings, improvements and structures	2,657,731	-	-	-	2,657,731
Equipment and vehicles	1,922,322	7,474	-	24,647	1,954,443
Furniture and fixtures	356,994	17,789	-	-	374,783
<b>Total capital assets, being depreciated</b>	<u>9,460,179</u>	<u>25,263</u>	<u>-</u>	<u>24,647</u>	<u>9,510,089</u>
<b>Less accumulated depreciation for:</b>					
Infrastructure	(845,165)	(160,767)	-	-	(1,005,932)
Buildings, improvements and structures	(1,621,853)	(33,588)	-	-	(1,655,441)
Equipment and vehicles	(1,627,996)	(59,069)	-	-	(1,687,065)
Furniture and fixtures	(336,178)	(8,987)	-	-	(345,165)
<b>Total accumulated depreciation</b>	<u>(4,431,192)</u>	<u>(262,411)</u>	<u>-</u>	<u>-</u>	<u>(4,693,603)</u>
<b>Total capital assets, being depreciated, net</b>	<u>5,028,987</u>	<u>(237,148)</u>	<u>-</u>	<u>24,647</u>	<u>4,816,486</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 5,421,734</u>	<u>\$ (157,758)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,263,976</u>
<b>Business-type activities</b>					
<b>Capital assets, not being depreciated</b>					
Land and improvements	\$ 28,586	\$ -	\$ -	\$ -	\$ 28,586
Construction in progress	1,604,732	3,602,583	-	-	5,207,315
<b>Total capital assets, not being depreciated</b>	<u>1,633,318</u>	<u>3,602,583</u>	<u>-</u>	<u>-</u>	<u>5,235,901</u>
<b>Capital assets, being depreciated:</b>					
Distribution system	6,176,960	15,794	-	-	6,192,754
Production system	1,966,008	-	-	-	1,966,008
Sewage treatment plant	4,229,607	-	-	-	4,229,607
General assets	591,641	-	-	-	591,641
<b>Total capital assets, being depreciated</b>	<u>12,964,216</u>	<u>15,794</u>	<u>-</u>	<u>-</u>	<u>12,980,010</u>
<b>Less accumulated depreciation for:</b>					
Distribution system	(3,346,192)	(176,195)	-	-	(3,522,387)
Production system	(1,343,981)	(60,734)	-	-	(1,404,715)
Sewage treatment plant	(3,112,431)	(102,047)	-	-	(3,214,478)
General assets	(420,216)	(19,281)	-	-	(439,497)
<b>Total accumulated depreciation</b>	<u>(8,222,820)</u>	<u>(358,257)</u>	<u>-</u>	<u>-</u>	<u>(8,581,077)</u>
<b>Total capital assets, being depreciated, net</b>	<u>4,741,396</u>	<u>(342,463)</u>	<u>-</u>	<u>-</u>	<u>4,398,933</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 6,374,714</u>	<u>\$ 3,260,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,634,834</u>



**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs as follows:

<b>Governmental activities</b>	
General government	\$ 53,371
Public safety	44,754
Public works	121,960
Sanitation	2,237
Recreation	<u>40,089</u>
Total depreciation expense - governmental activities	<u>\$262,411</u>
<b>Business-type activities</b>	
Water	\$153,075
Electric	28,122
Sewer usage	173,699
Sanitation	<u>3,361</u>
Total depreciation expense - business-type activities	<u>\$358,257</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
<b>Governmental activities</b>					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 39,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	200,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>65,000</u>
Total GO Bonds payable					304,000
Certificate of Indebtedness – Fire Truck	03/23/2015	2.75%	\$ 108,000	03/16/2020	<u>28,414</u>
<b>Governmental activities long-term debt</b>					<u>332,414</u>

**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>Business-type activities</b>					
GO bonds and notes					
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	\$ 235,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	110,000
GO Improvement Refunding Note 2018A	02/12/2018	2.98%	\$ 315,000	02/01/2024	315,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	48,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$ 1,337,076	08/20/2030	834,000
GO Revenue Note of 2017	08/22/2017	2.30%	\$ 1,332,000	02/01/2019	1,332,000
GO Revenue Note of 2019	08/29/2018	1.00%	\$ 1,430,389	08/20/2038	<u>1,430,389</u>
<b>Business-type activities long-term debt</b>					<u>4,304,389</u>
<b>Total long-term debt</b>					<u>\$ 4,636,803</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 \$68,590. At December 31, 2018, 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 \$205,060.

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 \$17,006. At December 31, 2018, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$69,969.

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 \$11,210. At December 31, 2018, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$40,444.

**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 \$10,642. At December 31, 2018, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$52,233.

The City pledged future sewer usage fund revenues, net of any normal and reasonable expenses of operations, to repay \$365,000 GO improvement bonds issued in 2008. Proceeds were used to construct a sewer line extension. These bonds were refunding in 2018 and paid off. Principal and interest paid in 2018 totaled \$362,960.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

In 2010, the City issued a \$1,337,076 GO revenue note and pledged future sewer usage fund revenues, net of any normal and reasonable expenses of operations, to repay it. Proceeds from the note were used to finance a wastewater treatment project. Principal and interest paid for the current year was \$73,990. At December 31, 2018, principal and interest on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$889,210.

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 \$30,350. At December 31, 2018, 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 \$169,366 for the water bonds and \$92,034 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 \$23,375. At December 31, 2018, principal and interest to maturity in 2023 which will be paid from net revenues of the water and sewer systems totaled \$67,446 for the water bonds and \$50,579 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 was paid during the year; interest was paid totaled \$28,849. At December 31, 2018, principal and interest to maturity in 2019 to be paid from pledged future revenues totaled \$1,362,636.

In 2018, the City issued \$315,000 GO improvement refunding notes, Series 2018A. The proceeds were used to pay off the 2008A improvement bonds which were used for sewer upgrades. Interest paid during the year totaled \$4,407. No principal payments were made during the year. At December 31, 2018, principal and interest to maturity in 2024 to be paid from pledged future revenues totaled \$343,891.

In 2018, the City also issued \$1,430,389 GO Revenue Notes, Series 2019. Proceeds were used to finance construction at the sewer treatment plant. No principal or interest payments were made in 2018. At December 31, 2018, principal and interest to maturity in 2038 to be paid from pledged future sewer revenues totaled \$1,488,030.

**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

Long-term debt activity for the year ended December 31, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities</b>					
General obligation bonds					
GO Abatement Refunding					
Bonds, Series 2012C	\$ 49,000	\$ -	\$ (10,000)	\$ 39,000	\$ 15,000
GO Refunding Bonds, Series 2012A	265,000	-	(65,000)	200,000	65,000
Taxable GO CIP Energy					
Conservation Bonds, Series 2012B	80,000	-	(15,000)	65,000	15,000
Certificates of Indebtedness					
Fire Truck 2015	50,451	-	(22,037)	28,414	22,626
<b>Total governmental activities –     long-term debt</b>	<u>\$ 444,451</u>	<u>\$ -</u>	<u>\$ (112,037)</u>	<u>\$ 332,414</u>	<u>\$ 117,626</u>
<b>Business-type activities</b>					
Bonds payable					
GO Improvement Bonds, Series 2008A	\$ 355,000	\$ -	\$ (355,000)	\$ -	\$ -
GO Utility Revenue Bonds, Series 2012A	260,000	-	(25,000)	235,000	25,000
Taxable GO Utility Revenue Energy					
Conservation Bonds, Series 2012B	130,000	-	(20,000)	110,000	20,000
GO Improvement Refunding Note 2018A	-	315,000	-	315,000	47,000
Revenue Notes payable					
GO Revenue Note of 2003	57,000	-	(9,000)	48,000	9,000
GO Revenue Note of 2010	899,000	-	(65,000)	834,000	66,000
GO Revenue Note of 2017	1,332,000	-	-	1,332,000	1,332,000
GO Revenue Note of 2019	-	1,430,389	-	1,430,389	118,432
<b>Total business-type activities     long-term debt</b>	<u>\$ 3,033,000</u>	<u>\$ 1,745,389</u>	<u>\$ (474,000)</u>	<u>\$ 4,304,389</u>	<u>\$ 1,617,432</u>

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

Year Ending December 31	Governmental Activities		Business-Type Activities		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 117,626	\$ 5,778	\$ 1,617,432	\$ 55,980	\$ 1,735,058	\$ 61,758
2020	100,788	3,561	410,000	51,427	510,788	54,988
2021	84,000	1,759	413,000	30,150	497,000	31,909
2022	15,000	675	416,000	24,036	431,000	24,711
2023	15,000	225	418,000	17,819	433,000	18,044
2024-2028	-	-	883,957	29,434	883,957	29,434
2029-2033	-	-	146,000	2,190	146,000	2,190
<b>Total</b>	<u>\$ 332,414</u>	<u>\$ 11,998</u>	<u>\$ 4,304,389</u>	<u>\$ 211,036</u>	<u>\$ 4,636,803</u>	<u>\$ 223,034</u>

No interest was capitalized during 2018; interest incurred and charged to expense totaled \$69,438.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE 6 - LEASE OBLIGATIONS

**Copy Machine Agreements**

The City leases copy machines under non-cancelable operating leases. Total costs for such leases were \$3,761 for the year ended December 31, 2018. The future minimum lease payments are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Amount</u>
2019	3,708
2020	<u>2,508</u>
Total	<u>\$ 6,216</u>

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. Beginning with the fiscal year ending December 31, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the liability of the City's defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The City elected to report the value of their net OPEB liability in accordance with the Alternative Measurement Method prescribed by GASB 75 for employers with under 100 plan participants. The liability is reported on the City's government-wide financial statements.

**Benefits Provided**

Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. Participants meeting certain eligibility requirements receive a direct City subsidy toward their health insurance premium.

**Plan Membership**

At December 31, 2018 plan membership consisted of the following:

Active employees electing coverage	29
Retirees electing coverage	<u>13</u>
	<u>42</u>

**Contributions**

The City and retirees make contributions toward health insurance premiums based on their employment contracts. During the year ended December 31, 2018, the City pays postemployment benefits on a pay-as-you-go method. Contributions into individual health accounts for current employees are also paid on a pay-as-you-go method. The City has not advance-funded or established a funding methodology. The City will continue to contribute towards the medical premium for grandfathered retirees and employees hired before dates specified in employee contracts. The contribution amount is either part of or the full amount of the medical premium and continues for the life of the retiree. The City will not pay any premiums for future retirees that were hired after dates specified in employee contracts.

**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018**

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Total OPEB Liability**

The City's total OPEB liability of \$869,055 was measured as of December 31, 2018, and was determined by the Alternative Measurement Method prescribed by GASB Statement No. 75 for employers with under 100 plan participants.

**Actuarial Methods and Assumptions**

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.31%
Expected return on plan assets	N/A
Inflation rate	2.75%
Mortality	
General Employees	Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.
Police & Fire	Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.
Healthcare cost trend rate	6.90% for FY2018, gradually decreasing over several decades to an ultimate rate of 4.40% in FY2075 and later years. In addition, the medical trend rates were increased to reflect the projected effect of the Affordable Care Act's Excise Tax on high-cost health insurance plans. The additional trend rate adjustments vary by year, but average 0.35% beginning calendar year 2022 for plans other than Medicare plans.

The discount rate was based on the Fidelity 20-Year Municipal GO AA Index because it meets the GASB requirements and is based on a large amount of municipal security data.

The City has elected to use the GASB 75 "lookback" method where assets and liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The measurement date (when assets and liabilities are measured) is December 31, 2018.

**Changes in the Total OPEB Liability**

	Total OPEB Liability		
	Governmental Funds	Business-type Funds	Total
Balance at 12/31/2017	\$ 382,686	\$ 75,859	\$ 458,545
Restatement	292,956	257,543	550,499
Balance at 12/31/2017 (as restated)	<u>675,642</u>	<u>333,402</u>	<u>1,009,044</u>
Changes for the year:			
Service cost	7,161	6,244	13,405
Interest	237	207	444
Benefit payments paid directly	<u>(101,858)</u>	<u>(51,980)</u>	<u>(153,838)</u>
Net changes	<u>(94,460)</u>	<u>(45,529)</u>	<u>(139,989)</u>
Balance at 12/31/2018	<u>\$ 581,182</u>	<u>\$ 287,873</u>	<u>\$ 869,055</u>

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

The discount rate used to measure the total OPEB liability was 3.31%, a decrease from the 5.50% discount rate used in the last actuarial report measured as of December 31, 2017.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate.

	1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
Net OPEB liability	\$ 944,573	\$ 869,055	\$ 799,765

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following represents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	\$ 787,613	\$ 869,055	\$ 960,967

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended December 31, 2018, the City recognized negative OPEB expense of \$139,989. At December 31, 2018, the City reported no deferred outflows of resources or inflows of resources related to OPEB.

**NOTE 8 - INTERFUND BALANCES AND ACTIVITY**

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfer in	Transfer out	Amount
Permanent Improvement and Replacement Capital Projects	General	\$ 150,000
Nonmajor Debt Service	General	15,077
Total All Funds		\$ 165,077

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

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 9 - FUND EQUITY**

**Fund Balances**

As of December 31, 2018, fund balances are comprised of the following:

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Nonmajor Governmental Funds	Total
Restricted:					
Rehabilitation loans	\$ -	\$ 73,398	\$ -	\$ -	\$ 73,398
Debt service	-	-	-	1,572	1,572
Total Restricted	-	73,398	-	1,572	74,970
Committed:					
Capital outlay	-	-	150,748	-	150,748
Storefront loans	-	66,525	-	-	66,525
Library	-	-	-	85,223	85,223
Campground	-	-	-	59,245	59,245
Total Committed	-	66,525	150,748	144,468	361,741
Assigned:					
Cash flow	810,738	-	-	-	810,738
Compensated absences	22,023	-	-	-	22,023
Total Assigned	832,761	-	-	-	832,761
Unassigned	46,810	-	-	-	46,810
Total fund balances	<u>\$879,571</u>	<u>\$ 139,923</u>	<u>\$ 150,748</u>	<u>\$ 146,040</u>	<u>\$1,316,282</u>

**NOTE 10 – RESTATEMENT OF NET POSITION**

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in a change to the valuation of the net OPEB liability, net position has been restated as follows:

	Governmental Activities	Business-Type Activities				Total
		Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
Net Position January 1, 2018, prior to restatement	\$ 4,461,250	\$2,166,120	\$1,574,612	\$ 1,628,243	\$ 69,495	\$5,438,470
Restatement for net postemployment benefits liability (GASB 75)	(292,956)	(46,658)	(90,904)	(119,981)	-	(257,543)
Net Position January 1, 2018 as restated	<u>\$ 4,168,294</u>	<u>\$2,119,462</u>	<u>\$1,483,708</u>	<u>\$ 1,508,262</u>	<u>\$ 69,495</u>	<u>\$5,180,927</u>



**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 11 - 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 12 - TAX ABATEMENTS**

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

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

In 2004, the City approved a 15-year abatement for the Delta Dental development project, commencing 2006 and ending in 2021. The City will add to its levy amount for the current year the total estimated amount of the current year abatement. The amount of the abatement is pledged by the City for payment of principal and interest on the GO Tax Abatement Bonds that were issued to finance the project. In the year-ended December 31, 2018, the City abated \$16,138 in property taxes for this bonded debt.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 13 - 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, 2018, 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, 2018. 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	\$ 5,173,263	\$ 6,002,956
New Campground Sites & Updates	79,390	36,535
Water - Lime Lagoon Improvements	31,352	5,123
Total All Projects	<u>\$ 5,284,005</u>	<u>\$ 6,044,614</u>

**Electric Utility Commitments**

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

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

**Other Commitment**

The City has a contract with an area business for solid waste removal services within the City of Gilbert, Minnesota. The contractor collects and disposes of all refuse and any other waste materials as set forth by the City. This contract is in effect until December 31, 2021. The contractor charges the City an agreed upon rate times the number of residential customers. The contract provides three percent increases for 2019, 2020, and 2021.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 - 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 2018, the City of Biwabik paid the City of Gilbert \$338,103 for police services.

**Tri-Cities Biosolids Disposal Authority**

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Gilbert's contribution to the Authority's budget during 2018 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.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 14 - JOINT VENTURES (CONTINUED)**

Each member city contributes to the budget of the Authority based on the per capita reported in the 2010 Census. The City of Gilbert's contribution to the Authority's budget for 2018 was \$3,725. Complete financial information can be obtained from the Biosolids Disposal Site Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

**Quad Cities Joint Recreational Authority**

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

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

The City of Gilbert's contribution to the Authority's budget during 2018 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 2018 to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, P.O. Box 536, Eveleth, Minnesota 55734.

**ATV/OHM/Snowmobile Trail Board**

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

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

**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 14 - JOINT VENTURES (CONTINUED)**

The City of Gilbert contributed \$8,727 to the ATV/OHM/Snowmobile Trail Board during 2018. Complete financial information can be obtained from the ATV/OHM/Snowmobile Trail Board, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

**NOTE 15 - 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, 2018 was as follows:

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018
Governmental activities	\$ 18,777	\$ 3,246	\$ -	\$ 22,023
Business-type activities	1,876	1,096	-	2,972
Total	\$ 20,653	\$ 4,342	\$ -	\$ 24,995

**NOTE 16- DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The City 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**

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**2. Public Employees Police and Fire Plan**

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.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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, 2018**

**NOTE 16- 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

**C. 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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$53,224. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)**

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$82,445. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

1. General Employees Fund Pension Costs

At December 31, 2018, the City of Gilbert, Minnesota reported a liability of \$560,308 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 \$16 million to the fund in 2018. 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 \$18,324. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0101 percent which was a decrease of 0.0009 percent from its proportionate share measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$	560,308
State of Minnesota's proportionate share of the net pension liability associated with the City		<u>18,324</u>
Total	\$	<u><u>578,632</u></u>

There were no provision changes during the measurement period.

For the year ended December 31, 2018, the City of Gilbert, Minnesota recognized pension expense of \$32,494 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$4,273 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)**

At December 31, 2018, the City of Gilbert, Minnesota reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 16,093	\$ 18,768
Changes in actuarial assumptions	61,473	66,797
Net collective difference between projected and actual investment earnings	-	53,320
Changes in proportion	-	73,929
Contributions paid to PERA subsequent to the measurement date	26,795	-
<b>Totals</b>	<b>\$ 104,361</b>	<b>\$ 212,814</b>

\$26,795 reported as deferred outflows of resources related to pensions resulting from City of Gilbert, Minnesota's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31:</b>	<b>Pension Expense Amount</b>
2019	\$ (5,110)
2020	\$ (56,178)
2021	\$ (62,267)
2022	\$ (11,693)

**2. Police and Fire Fund Pension Costs**

At December 31, 2018, the City reported a liability of \$496,708 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0466 percent which was a decrease of 0.0004 percent from its proportionate share measured as of June 30, 2017. The City also recognized \$4,194 for the year ended December 31, 2018, 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.

There were no provision changes during the measurement period.

For the year ended December 31, 2018, the City of Gilbert, Minnesota recognized pension expense of \$44,992 for its proportionate share of the Police and Fire Fund's pension expense.



**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)**

At December 31, 2018, the City reported its proportionate share of the Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 20,120	\$ 92,016
Changes in actuarial assumptions	649,336	737,353
Net collective difference between projected and actual investment earnings	-	98,566
Changes in proportion	-	58,009
Contributions paid to PERA subsequent to the measurement date	42,522	-
<b>Totals</b>	<b>\$ 711,978</b>	<b>\$ 985,944</b>

\$42,522 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31:</b>	<b>Pension Expense Amount</b>
2019	\$ 1,976
2020	\$ (22,273)
2021	\$ (79,109)
2022	\$ (214,546)
2023	\$ (2,536)

**Total Pension Expense**

The total pension expense for all plans recognizes by the City for the year ended December 31, 2018, was \$80,366.

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and 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 after retirement for retirees are assumed to be 1.25 percent per year for all future years for the General Employees Plan and 1.0 percent for the Police and Fire Plan.

**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

**General Employees Fund**

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

**Police and Fire Fund**

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2018 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.

**CITY OF GILBERT, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2018**

**NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**G. Pension Liability Sensitivity**

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

<b>Sensitivity Analysis</b>				
<b><i>Net Pension Liability at Different Discount Rates</i></b>				
	<b>General Employees Fund</b>		<b>Police and Fire Fund</b>	
1% Lower	6.50%	\$ 910,570	6.50%	\$ 1,064,973
Current Discount Rate	7.50%	\$ 560,308	7.50%	\$ 496,708
1% Higher	8.50%	\$ 271,174	8.50%	\$ 26,776

**H. Pension Plan Fiduciary Net Position**

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

**NOTE 17- 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, 2018, 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 \$18,850 in fire state aid to the fund for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. The City made required contributions of \$5,196 and made no voluntary contributions to the Volunteer Firefighter Plan for the year ended December 31, 2018.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 17 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)**

**Pension Costs**

At December 31, 2018, the City reported a net pension liability of \$13,201 for the Volunteer Firefighter Fund. The net pension liability was measured as of December 31, 2018. 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.

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a-b)</b>
Beginning Balance 12/31/17	\$ 278,630	\$ 265,330	\$ 13,300
Changes for the Year			
Service Cost	12,854	-	12,854
TPL Interest	16,883	-	16,883
Actuarial Experience (Gains)/Losses	(21,476)	-	(21,476)
Projected Investment Earnings	-	15,919	(15,919)
Changes in Benefit Level	-	-	-
Contributions (ER/State)	-	18,850	(18,850)
Difference between Projected and Actual Investment Earnings	-	(25,794)	25,794
Benefit Payouts	(20,200)	(20,200)	-
PERA Administrative Fee	-	(615)	615
Net Changes	(11,939)	(11,840)	(99)
Balance End of Year 12/31/18	\$ 266,691	\$ 253,490	\$ 13,201

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2018, the City recognized pension expense of \$15,296.

At December 31, 2018, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Actuarial Experience Gains/Losses	\$ 12,907	\$ -
Difference Between Projected and Actual Investment Earnings	1,239	17,662
Total	\$ 14,146	\$ 17,662

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 17 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)**

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
2019	\$ 163
2020	\$ (2,618)
2021	\$ (1,922)
2022	\$ 861
Thereafter	\$ -

**Actuarial Assumptions**

The total pension liability at December 31, 2018, 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

No changes in actuarial assumptions were made in 2018.

**Discount Rate**

The discount rate used to measure the total pension liability was six 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 one percent lower or one 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	\$ 21,653	\$ 13,201	\$ 4,986

**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.

**CITY OF GILBERT, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018**

**NOTE 17 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT (CONTINUED)**

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.

**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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated 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 2018 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, 2018, 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](http://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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,364,840	\$ 1,364,840	\$ 1,207,128	\$ (157,712)
Licenses and permits	11,650	11,650	11,345	(305)
Intergovernmental	814,191	814,191	836,571	22,380
Charges for services	348,754	348,754	384,407	35,653
Fines	13,350	13,350	12,715	(635)
Interest	-	-	6,693	6,693
Miscellaneous	96,461	96,461	105,416	8,955
<b>TOTAL REVENUES</b>	<b>2,649,246</b>	<b>2,649,246</b>	<b>2,564,275</b>	<b>(84,971)</b>
<b>EXPENDITURES</b>				
Current				
General government	361,174	361,174	317,222	43,952
Public safety	995,230	995,230	1,039,877	(44,647)
Public works	671,744	671,744	661,175	10,569
Sanitation	3,100	3,100	2,499	601
Culture and recreation	64,266	64,266	57,963	6,303
Miscellaneous	298,303	298,303	270,613	27,690
Debt Service				
Principal	22,013	22,013	22,037	(24)
Interest and other charges	1,111	1,111	1,087	24
Capital Outlay				
General government	18,000	18,000	5,715	12,285
Public safety	26,500	26,500	19,548	6,952
Public works	30,000	30,000	-	30,000
Miscellaneous	10,000	10,000	-	10,000
<b>TOTAL EXPENDITURES</b>	<b>2,501,441</b>	<b>2,501,441</b>	<b>2,397,736</b>	<b>103,705</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>147,805</b>	<b>147,805</b>	<b>166,539</b>	<b>18,734</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(150,000)	(150,000)	(165,077)	(15,077)
Sale of capital assets	6,000	6,000	2,582	(3,418)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(144,000)</b>	<b>(144,000)</b>	<b>(162,495)</b>	<b>(18,495)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,805</b>	<b>3,805</b>	<b>4,044</b>	<b>239</b>
<b>FUND BALANCE - JANUARY 1</b>	<b>875,527</b>	<b>875,527</b>	<b>875,527</b>	<b>-</b>
<b>FUND BALANCE - DECEMBER 31</b>	<b>\$ 879,332</b>	<b>\$ 879,332</b>	<b>\$ 879,571</b>	<b>\$ 239</b>

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ -	\$ 2,250	\$ 2,250
<b>EXPENDITURES</b>				
Current				
Economic development	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	-	-	2,250	2,250
<b>FUND BALANCE - JANUARY 1</b>	137,673	137,673	137,673	-
<b>FUND BALANCE - DECEMBER 31</b>	\$ 137,673	\$ 137,673	\$ 139,923	\$ 2,250

See notes to required supplementary information.

**CITY OF GILBERT, MINNESOTA**

**SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY  
AND RELATED RATIOS  
Year Ended December 31, 2018**

	<u>December 31, 2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 13,405
Interest	444
Benefit payments paid directly	(153,838)
<b>Net change in OPEB liability</b>	<b>(139,989)</b>
<b>Total OPEB Liability - beginning (as restated)</b>	<b>1,009,044</b>
<b>Total OPEB Liability - ending</b>	<b>\$ 869,055</b>
 <b>Payroll for measurement period</b>	 <b>\$ 1,252,279</b>
 <b>Net OPEB Liability as a % of employee payroll</b>	 <b>69.40%</b>

**Note:** Schedule is intended to show ten year trend. Additional years will be reported as they become available.

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, 2018**

**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 Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/18	0.0101%	\$ 560,308	\$ 18,324	\$ 578,632	\$ 679,342	85.18%	79.50%
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 December 31, 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 Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/18	\$ 53,224	\$ 53,224	\$ -	\$ 709,653	7.50%
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, 2018**

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

<u>Fiscal Year Ending</u>	<u>Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
6/30/18	0.0466%	\$ 496,708	\$ 491,303	101.10%	88.80%
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 December 31, 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**

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
12/31/18	\$ 82,445	\$ 82,445	\$ -	\$ 508,920	16.20%
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, 2018

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
GILBERT VOLUNTEER FIRE DEPARTMENT

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>				
Service cost	\$ 12,854	\$ 14,494	\$ 11,331	\$ 11,001
Interest on the pension liability	16,883	13,107	12,331	11,878
Actuarial experience (gains)/losses	(21,476)	1,923	(1,200)	438
Changes in benefit level	-	57,857	-	-
Benefit payments	<u>(20,200)</u>	<u>(25,400)</u>	<u>-</u>	<u>(32,200)</u>
<b>Net Change in Total Pension Liability</b>	(11,939)	61,981	22,462	(8,883)
<b>Total Pension Liability - Beginning</b>	<u>278,630</u>	<u>216,649</u>	<u>194,187</u>	<u>203,070</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 266,691</u>	<u>\$ 278,630</u>	<u>\$ 216,649</u>	<u>\$ 194,187</u>
<b>Plan Fiduciary Net Position</b>				
Contributions:				
Fire state aid	\$ 9,414	\$ 9,378	\$ 9,544	\$ 9,562
Fire supplemental aid	2,240	2,269	2,315	2,340
Supplemental benefit reimbursement	2,000	-	1,000	1,000
Voluntary municipal contribution	-	-	-	-
Required municipal contribution	5,196	-	-	6,993
Net Investment Income	(9,875)	30,774	15,570	534
PERA administrative fee	(600)	(630)	(630)	(600)
SBI Investment Fee	(15)	(15)	(17)	(7)
Benefit Payments	<u>(20,200)</u>	<u>(25,400)</u>	<u>-</u>	<u>(32,200)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	(11,840)	16,376	27,782	(12,378)
<b>Plan Fiduciary Net Position - Beginning</b>	<u>265,330</u>	<u>248,954</u>	<u>221,172</u>	<u>233,550</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 253,490</u>	<u>\$ 265,330</u>	<u>\$ 248,954</u>	<u>\$ 221,172</u>
<b>Net Pension Liability/(Asset) - Ending (a) - (b)</b>	<u>\$ 13,201</u>	<u>\$ 13,300</u>	<u>\$ (32,305)</u>	<u>\$ (26,985)</u>
<b>Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability</b>	95.1%	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, 2018**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 5,196	\$ -	\$ -	\$ 6,993
Actual contributions paid	5,196	-	-	6,993
Contribution deficiency/(excess)	<u>\$ -</u>	<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, 2018**

**NOTE 1 - BUDGETING**

The City Clerk 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 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS**

This is the City's first OPEB valuation under the new GASB 75 accounting rules. These new financial reporting requirements substantially adjust the measurement and reporting of OPEB liabilities. The new results are not directly comparable to the City's prior GASB 45 Net OPEB Obligation.

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

***2018 Changes***

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

***2017 Changes***

Changes in Plan Provisions:

- The State's special funding contribution increased from \$6 million to \$16 million.

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.

CITY OF GILBERT, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2018

**NOTE 3 - PUBLIC EMPLOYEES GENERAL EMPLOYEES 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 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; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

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

**2018 Changes**

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2016 to MP-2017.

**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.



CITY OF GILBERT, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2018

**NOTE 4 - PUBLIC EMPLOYEES POLICE AND FIRE RETIREMENT FUND CHANGES IN PLAN PROVISIONS AND ACTUARIAL ASSUMPTIONS (CONTINUED)**

- 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.
- The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

**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.

**CITY OF GILBERT, MINNESOTA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2018**

**NOTE 4 - PUBLIC EMPLOYEES POLICE AND FIRE 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 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, 2018**

	<u>Library Special Revenue Fund</u>	<u>Campground Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 88,158	\$ 85,316	\$ 340	\$ 173,814
Taxes receivable	-	-	1,029	1,029
Special assessments receivable	-	-	3,964	3,964
<b>TOTAL ASSETS</b>	<u>\$ 88,158</u>	<u>\$ 85,316</u>	<u>\$ 5,333</u>	<u>\$ 178,807</u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 637	\$ 25,229	\$ -	\$ 25,866
Salaries payable	2,298	-	-	2,298
Due to other governments	-	842	-	842
<b>TOTAL LIABILITIES</b>	<u>2,935</u>	<u>26,071</u>	<u>-</u>	<u>29,006</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-special assessments	-	-	3,761	3,761
<b>FUND BALANCES</b>				
Restricted	-	-	1,572	1,572
Committed	85,223	59,245	-	144,468
<b>TOTAL FUND BALANCES</b>	<u>85,223</u>	<u>59,245</u>	<u>1,572</u>	<u>146,040</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 88,158</u>	<u>\$ 85,316</u>	<u>\$ 5,333</u>	<u>\$ 178,807</u>

**CITY OF GILBERT, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended December 31, 2018**

	<b>Library Special Revenue Fund</b>	<b>Campground Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 103,500	\$ -	\$ 79,468	\$ 182,968
Special assessments	-	-	328	328
Intergovernmental	-	-	1,929	1,929
Charges for services	2,700	118,575	-	121,275
Fines	907	-	-	907
Gifts and contributions	10,571	-	-	10,571
Interest	-	423	-	423
Miscellaneous	1,716	5,780	-	7,496
<b>TOTAL REVENUES</b>	<b>119,394</b>	<b>124,778</b>	<b>81,725</b>	<b>325,897</b>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	107,542	92,949	-	200,491
Debt Service				
Principal	-	-	90,000	90,000
Interest and other charges	-	-	8,032	8,032
Capital Outlay				
Culture and recreation	-	79,390	-	79,390
<b>TOTAL EXPENDITURES</b>	<b>107,542</b>	<b>172,339</b>	<b>98,032</b>	<b>377,913</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>11,852</b>	<b>(47,561)</b>	<b>(16,307)</b>	<b>(52,016)</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	15,077	15,077
<b>NET CHANGE IN FUND BALANCES</b>	<b>11,852</b>	<b>(47,561)</b>	<b>(1,230)</b>	<b>(36,939)</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>73,371</b>	<b>106,806</b>	<b>2,802</b>	<b>182,979</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 85,223</b>	<b>\$ 59,245</b>	<b>\$ 1,572</b>	<b>\$ 146,040</b>

CITY OF GILBERT, MINNESOTA

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2018

REVENUES

**Taxes**

General property	\$ 470,640
Fiscal disparities	330,845
Taconite production	19,548
Taconite mining effects	49,187
Taconite homestead credit	124,514
Taconite municipal aid	177,419
Franchise	13,757
Other	21,218
<b>Total Taxes</b>	<u>1,207,128</u>

**Licenses and Permits**

11,345

**Intergovernmental**

State

Local government aid	713,855
Small cities aid	17,749
Police training	7,656
PERA aid	3,636
Police aid	60,901
Department of Transportation	1,858
Other	10,519
DNR grant for fire department	1,360
DNR grant for OHV trails	7,998

County

OHV trail grant	10,594
BWCA task force grant	445

**Total Intergovernmental**

836,571

**Charges for Services**

General government

Rent	17,150
Miscellaneous	2,686

Public safety

City of Biwabik's share of police	338,103
Other	5,858

Public works

Other	305
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Cemetery

20,305

**Total Charges for Services**

384,407

CITY OF GILBERT, MINNESOTA

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 (CONTINUED)  
 Year Ended December 31, 2018

REVENUES (CONTINUED)

<b>Fines</b>	
Court fines	\$ 9,585
Trespass fines	625
Administrative fines	<u>2,505</u>
<b>Total Fines</b>	<u>12,715</u>
<b>Interest</b>	
Interest income	<u>6,693</u>
<b>Miscellaneous</b>	
Insurance recoveries	76,043
Insurance dividends	3,449
Donations	8,200
Reimbursements and refunds	7,088
Other	<u>10,636</u>
<b>Total Miscellaneous</b>	<u>105,416</u>
<b>TOTAL REVENUES</b>	<u>2,564,275</u>

EXPENDITURES

Current

<b>General Government</b>	
Mayor and council	22,531
City clerk-treasurer	197,477
Elections	2,985
Independent audit	19,150
Legal	31,989
Planning and zoning	491
Community center	17,416
Other	<u>25,183</u>
<b>Total General Government</b>	<u>317,222</u>



CITY OF GILBERT, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
(CONTINUED)

Year Ended December 31, 2018

EXPENDITURES

Current (continued)

**Public Safety**

Police	\$ 958,351
Fire	72,173
Animal control	5,053
First responders	4,300
<b>Total Public Safety</b>	<u>1,039,877</u>

**Public Works**

Maintenance	628,739
Engineering	570
Street lighting	31,866
<b>Total Public Works</b>	<u>661,175</u>

**Sanitation**

Recycling	<u>2,499</u>
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**Culture and Recreation**

Recreation center	38,847
Mesabi trail maintenance	480
Contribution to range recreation civic center	4,032
OHV parks and trails	14,604
<b>Total Culture and Recreation</b>	<u>57,963</u>

**Miscellaneous**

Insurance	79,540
Employer-paid insurance	175,883
Utilities	8,562
Cemetery	5,077
Other	1,551
<b>Total Miscellaneous</b>	<u>270,613</u>

**Debt Service**

<b>Principal</b>	<u>22,037</u>
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<b>Interest and other charges</b>	<u>1,087</u>
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CITY OF GILBERT, MINNESOTA

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
(CONTINUED)  
Year Ended December 31, 2018

EXPENDITURES (CONTINUED)

Capital Outlay

General Government

Elections \$ 5,715

Public Safety

Police 7,473

Fire 12,075

Total Public Safety 19,548

TOTAL EXPENDITURES 2,397,736

EXCESS OF REVENUES OVER  
EXPENDITURES 166,539

OTHER FINANCING SOURCES (USES)

Transfers out (165,077)

Sale of capital assets 2,582

TOTAL OTHER FINANCING SOURCES (USES) (162,495)

NET CHANGE IN FUND BALANCE 4,044

FUND BALANCE - JANUARY 1 875,527

FUND BALANCE - DECEMBER 31 \$ 879,571

CITY OF GILBERT, MINNESOTA

COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2018

REVENUES

Miscellaneous

Principal on loan payments \$ 2,250

EXPENDITURES

-

NET CHANGE IN FUND BALANCE

2,250

FUND BALANCE - JANUARY 1

137,673

FUND BALANCE - DECEMBER 31

\$ 139,923

CITY OF GILBERT, MINNESOTA

PERMANENT IMPROVEMENT AND REPLACEMENT CAPITAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2018

REVENUES

Special Assessments

Principal \$ 2,248

EXPENDITURES

Capital Outlay

Water Works

McKinley water extension 1,500

EXCESS OF REVENUES OVER  
EXPENDITURES

748

OTHER FINANCING SOURCES

Transfers in 150,000

NET CHANGE IN FUND BALANCE

150,748

FUND BALANCE - JANUARY 1

-

FUND BALANCE - DECEMBER 31

\$ 150,748

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 103,500	\$ 103,500	\$ 103,500	\$ -
Charges for services	-	-	2,700	2,700
Fines	1,125	1,125	907	(218)
Gifts and contributions	-	-	10,571	10,571
Miscellaneous	-	-	1,716	1,716
<b>TOTAL REVENUES</b>	<b>104,625</b>	<b>104,625</b>	<b>119,394</b>	<b>14,769</b>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	108,430	108,430	107,542	888
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,805)</b>	<b>(3,805)</b>	<b>11,852</b>	<b>15,657</b>
<b>FUND BALANCE - JANUARY 1</b>	<b>73,371</b>	<b>73,371</b>	<b>73,371</b>	<b>-</b>
<b>FUND BALANCE - DECEMBER 31</b>	<b>\$ 69,566</b>	<b>\$ 69,566</b>	<b>\$ 85,223</b>	<b>\$ 15,657</b>

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2018

REVENUES

<b>Taxes</b>	
General property	\$ 103,500
<b>Charges for Services</b>	
Culture and recreation	
Library	2,700
<b>Fines</b>	
Library fines	907
<b>Gifts and Contributions</b>	10,571
<b>Miscellaneous</b>	
Other	<u>1,716</u>
<b>TOTAL REVENUES</b>	<u>119,394</u>

EXPENDITURES

Current

<b>Culture and Recreation</b>	
Personnel services	86,212
Supplies	13,778
Other services and charges	7,402
Other	<u>150</u>
<b>TOTAL EXPENDITURES</b>	<u>107,542</u>
<b>NET CHANGE IN FUND BALANCE</b>	11,852
<b>FUND BALANCE - JANUARY 1</b>	<u>73,371</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 85,223</u>

CITY OF GILBERT, MINNESOTA

CAMPGROUND SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2018

REVENUES

**Charges for Services**

Culture and recreation

Rent

\$ 20,900

Campground fees

88,877

Other

8,798

**Total Charges for Services**

118,575

**Interest**

423

**Miscellaneous**

Other

5,780

**TOTAL REVENUES**

124,778

EXPENDITURES

**Current**

**Culture and Recreation**

Supplies

3,219

Other services and charges

83,608

Other

3,702

Maintenance and repairs

2,420

**Total Culture and Recreation**

92,949

**Capital Outlay**

**Culture and Recreation**

Site improvements

79,390

**TOTAL EXPENDITURES**

172,339

**NET CHANGE IN FUND BALANCE**

(47,561)

**FUND BALANCE - JANUARY 1**

106,806

**FUND BALANCE - DECEMBER 31**

\$ 59,245

CITY OF GILBERT, MINNESOTA

DEBT SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2018

REVENUES

<b>Taxes</b>	
General property	\$ 35,955
Fiscal disparities	31,299
Taconite homestead credit	11,787
Other	<u>427</u>
<b>Total Taxes</b>	79,468
<b>Special Assessments</b>	
Principal	328
<b>Intergovernmental</b>	
Federal grants	
Interest reimbursement	<u>1,929</u>
<b>TOTAL REVENUES</b>	<u>81,725</u>

EXPENDITURES

<b>Debt Service</b>	
Principal	90,000
Interest and fiscal charges	<u>8,032</u>
<b>TOTAL EXPENDITURES</b>	<u>98,032</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(16,307)
<b>OTHER FINANCING SOURCES</b>	
Transfers in	<u>15,077</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,230)
<b>FUND BALANCE - JANUARY 1</b>	<u>2,802</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 1,572</u>



**CITY OF GILBERT, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 2018**

<u>Federal Grantor/ Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>		
Passed through State of Minnesota: Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>\$ 1,542,833</u>

**CITY OF GILBERT, MINNESOTA**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2018**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of Gilbert, Minnesota, under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Gilbert, Minnesota, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Gilbert, Minnesota.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Gilbert, Minnesota has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE C - CAPITALIZATION GRANT**

Federal expenditures related to the Capitalization Grants for Clean Water State Revolving Funds were reimbursed by a loan and grant proceeds. The outstanding loan balance of \$1,430,389 at December 31, 2018 is comprised of \$946,809 funds received and \$483,580 due from other governmental units. The remaining \$112,444 was a Clean Water State Revolving Fund Principal Forgiveness Grant that was received during 2018.

There were no pass-through entities.

**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, 2018, 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 27, 2019.

**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, described in the accompanying schedule of findings and questioned costs as findings 2018-001, 2018-002, and 2018-003 that we consider to be material weaknesses.

**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*, except as described in the schedule of findings and questioned costs as item 2018-004. 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 27, 2019, 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 questioned costs. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Walker, Giroux & Abene, LLC*

Virginia, Minnesota  
June 27, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council  
City of Gilbert, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited City of Gilbert, Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on City of Gilbert, Minnesota's major federal program for the year ended December 31, 2018. City of Gilbert, Minnesota's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for City of Gilbert, Minnesota's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Gilbert, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Gilbert, Minnesota's compliance.

***Opinion on Each Major Federal Program***

In our opinion, City of Gilbert, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-006. This instance of noncompliance is related to the following program and compliance requirement:

Finding #	CFDA #	Program Name	Compliance Requirement
2018-006	66.458	Capitalization Grants for Clean Water State Revolving Funds	Cash Management

Since this instance of noncompliance was corrected prior to the issuance of this report and the financial statements and schedule of federal awards are reported free from material misstatement or questioned costs, our opinion on the major federal program is not modified with respect to this matter.

The City of Gilbert, Minnesota's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Gilbert, Minnesota's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

Management of City of Gilbert, Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Gilbert, Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Gilbert, Minnesota's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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 over compliance, described in

the accompanying schedule of findings and questioned costs as items 2018-005 and 2018-006, that we consider to be material weaknesses.

City of Gilbert, Minnesota's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Gilbert, Minnesota's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Walker, Giroux & Helme, LLC*

Virginia, Minnesota  
June 27, 2019

**CITY OF GILBERT, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2018**

**FINDING 2017-001. 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, attempt 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 2017-002. 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.

**FINDING 2017-003. PRE-SIGNED CITY CHECKS**

**Summary of Condition**

The City Mayor overrode internal control by pre-signing check stock.

**Summary of Corrective Action Previously Reported**

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

**Current Status**

Corrected.



CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2018

Section I - Summary of Auditor's Results

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

- Material weaknesses identified?  X  yes      no
- Significant deficiencies identified?      yes  X  none reported

Noncompliance material to financial statements noted?      yes  X  no

**Federal Awards**

Internal control over major federal programs:

- Material weaknesses identified?  X  yes      no
- Significant deficiencies identified?      yes  X  none reported

Type of auditor's report issued on compliance for major federal programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  X  yes      no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:  \$ 750,000

Auditee qualified as low-risk auditee?      yes  X  no

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended December 31, 2018

Section II - Financial Statement Findings

**2018-001. 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 constantly 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 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.

**2018-002. 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.

## CITY OF GILBERT, MINNESOTA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) Year Ended December 31, 2018

#### **Views of Responsible Officials and Planned Corrective Action**

Management agrees with the audit 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.

#### **2018-003. BANK STATEMENTS NOT RECONCILED**

##### **Criteria**

Bank accounts should be reconciled monthly and reconciliations should be reported to the council for review at monthly meetings.

##### **Condition**

The bank accounts were not reconciled to the general ledger monthly for the year ending December 31, 2018. Some of the monthly reconciliations, including the December 31, 2018 reconciliation, were not completed until May 2019.

##### **Effect**

Because cash was not reconciled timely to the ledger, the City of Gilbert has not provided adequate control over the City's cash.

##### **Cause**

This occurred because of the failure to reconcile the bank accounts in a timely manner.

##### **Recommendations**

The City should closely follow their Internal Control Procedures Policy which states, "Financial reports and bank reconciliation shall be prepared by the City Clerk and presented to the Council on a monthly basis." We recommend bank reconciliations be completed on a monthly basis (within two weeks after receipt of the bank statement is reasonable) and reviewed by a council member.

#### **Views of Responsible Officials and Planned Corrective Action**

Management agrees with the audit finding. Bank reconciliations will be completed on a monthly basis and reviewed by a council member. The bank reconciliation, list of outstanding checks, list of deposits in transit, and any other bank reconciling items will be printed monthly and retained.

## **MINNESOTA LEGAL COMPLIANCE**

#### **2018-004. COLLATERAL REQUIREMENTS**

##### **Criteria**

*Minnesota Statutes* require that City deposits in excess of FDIC insurance must be protected by surety bonds or collateral. The amount of collateral must be computed at its market value and be at least 10 percent more than the amount of deposits in excess of any insured portion.

##### **Condition**

At December 31, 2018, all of the City's deposits were insured or collateralized, but not at 10 percent more than the amount of deposits in excess of the insured portion.

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended December 31, 2018

**Effect**

The City is not in compliance with *Minnesota Statutes* regarding deposits.

**Cause**

This occurred because the City did not obtain collateral at 10 percent more than the amount of deposits in excess of the insured portion to protect the uninsured portion of the City's deposits at December 31, 2018.

**Recommendations**

Management must monitor the City's deposits and obtain the proper amount of collateral from all of their financial institutions.

**Views of Responsible Officials and Planned Corrective Action**

Management agrees with the audit finding. The City will monitor their bank balances and will obtain the proper amount of collateral from all of their financial institutions.

**Section III - Federal Award Findings and Questioned Costs**

**2018-005. SEGREGATION OF DUTIES**

**ENVIRONMENTAL PROTECTION AGENCY**

Capitalization Grants for Clean Water State Revolving Funds CFDA No. 66.458 – Grant Period  
– Year ended December 31, 2018 – Passed through State of Minnesota

**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 constantly 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 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.

**CITY OF GILBERT, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended December 31, 2018**

**2018-006. NONCOMPLIANCE OF CASH MANAGEMENT - REIMBURSEMENT FROM TWO SOURCES**

**ENVIRONMENTAL PROTECTION AGENCY**

Capitalization Grants for Clean Water State Revolving Funds CFDA No. 66.458 – Grant Period  
– Year ended December 31, 2018 – Passed through State of Minnesota

**Criteria**

The same invoices/expenditures should not be submitted to two different funding agencies for reimbursement (also known as "double dipping").

**Condition**

The same invoices/expenditures were submitted for reimbursement from local and county grant agencies and from Capitalization Grants for Clean Water State Revolving Funds. The funding was received in 2019 and would have affected the receivable for the year ended December 31, 2018.

**Effect**

The City received funding from two different sources for the same invoices/expenditures (double dipped). The City was not in compliance with cash management grant requirements and the receivable required adjustment to appropriately reflect the overpayment.

**Cause**

This occurred because the new City Clerk was unaware that his predecessor already submitted the invoices/expenditures for reimbursement from other agencies.

**Recommendations**

We recommend the City return funds to the applicable agency (City issued a check May 29, 2019) and the council review/update their procedures to ensure controls are in place to prevent similar reporting errors.

**Views of Responsible Officials and Planned Corrective Action**

Management agrees with the audit finding. In May of 2019, the City informed the agency of the error and issued a check on May 29, 2019 to return the funds. The council will update procedures to ensure their controls will prevent similar reporting errors.

**REPRESENTATION OF  
CITY OF GILBERT, MINNESOTA**

**CORRECTIVE ACTION PLAN  
Year Ended December 31, 2018**

**Finding Number: 2018-001**

**Finding Title: SEGREGATION OF DUTIES**

**Name of Contact Person Responsible for Corrective Action**

James Paulsen, City Clerk

**Corrective Action Planned**

Management agrees with the audit finding. The City Clerk 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: 2018-002**

**Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS**

**Name of Contact Person Responsible for Corrective Action**

James Paulsen, City Clerk

**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: 2018-003**

**Finding Title: BANK STATEMENTS NOT RECONCILED**

**Name of Contact Person Responsible for Corrective Action**

James Paulsen, City Clerk

**Corrective Action Planned**

Bank reconciliations will be completed on a monthly basis (within two weeks after receipt of the bank statement) and reviewed by a council member. Bank reconciliations will be signed by both the preparer and reviewer and the bank reconciliation, list of outstanding checks, list of deposits in transit, and any other bank reconciling items will be printed monthly and retained.

**Anticipated Completion Date**

The City will have all reconciliations through June of 2019 complete and the council will implement bank reconciliation review procedures by July 31, 2019.

**REPRESENTATION OF  
CITY OF GILBERT, MINNESOTA**

**CORRECTIVE ACTION PLAN  
Year Ended December 31, 2018**

**Finding Number: 2018-004**

**Finding Title: COLLATERAL REQUIREMENTS**

**Name of Contact Person Responsible for Corrective Action**

James Paulsen, City Clerk

**Corrective Action Planned**

Management agrees with the audit finding. The City will monitor their bank balances and will obtain the proper amount of collateral from all of their financial institutions.

**Anticipated Completion Date**

The City will have all deposits insured or collateralized to be in compliance with *Minnesota Statutes* by June 27, 2019 and will monitor compliance on an ongoing basis from that point forward.

**Finding Number: 2018-005**

**Finding Title: SEGREGATION OF DUTIES**

**Name of Contact Person Responsible for Corrective Action**

James Paulsen, City Clerk

**Corrective Action Planned**

Management agrees with the audit finding. The City Clerk 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: 2018-006**

**Finding Title: NONCOMPLIANCE OF CASH MANAGEMENT - REIMBURSEMENT FROM  
TWO SOURCES**

**Name of Contact Person Responsible for Corrective Action**

James Paulsen, City Clerk

**Corrective Action Planned**

The City already returned the funds with a check dated May 29, 2019. The council will update procedures to ensure their controls will prevent similar reporting errors.

**Anticipated Completion Date**

The City will complete their corrective action by July 31, 2019.

## 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, 2018, 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 opinions 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 27, 2019, 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 27, 2019, 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. Some original invoices were kept in project files and others were kept in vendor files which 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.
2. 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.
3. 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.

4. The City Clerk was paid compensation retroactively for performing additional job duties due to the limited staff employed by the City during 2018. Per the Minnesota Legal Compliance Guide for Miscellaneous Provisions issued by the State Auditor's Office, the City must refrain from paying retroactive bonuses or pay increases unless the bonus or pay increase was paid under a pre-existing agreement or pursuant to collective bargaining. We suggest the City review this payment and discuss this payment and any similar future retroactive payments with their attorney to ensure compliance with state regulations.
5. The February 15, 2019 special meeting was a closed meeting; however, the City did not state in the minutes the specific grounds permitting the meeting to be closed nor did they state the subject to be discussed. We suggest the City review Minnesota Statute § 13D.01 related to the Minnesota Open Meeting Laws to ensure compliance with State Statutes regarding closed meetings.
6. Two terminated employees' names were still on City bank and financial accounts. We suggest the City verify and/or change all of their accounts so only current, authorized personnel are listed on the accounts.
7. Check number 21236 to the Minnesota Fire Service Certification Board only had one signature. To maintain proper controls, every check should have two signatures. We suggest the City review and follow existing disbursement procedures.
8. Due to the turnover in the business office, accounting records were unorganized and the general ledger required numerous entries that added additional time during the audit. We suggest the City review accounting records and provide appropriate oversight of accounting functions to ensure accounting records are organized and complete throughout the year.

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, Gray & Helne, LLC*

Virginia, Minnesota  
June 27, 2019