

CITY OF GILBERT, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2019

CITY OF GILBERT, MINNESOTA

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December 31, 2019

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CITY OF GILBERT, MINNESOTA

**ORGANIZATION
December 31, 2019**

CITY COUNCIL

Mayor

Karl Oberstar Jr.

Council Members

Joseph Pulles
Rebecca Robich
Jeremy Skenzich
Rocco Leoni

ADMINISTRATION

Executive Administrative Clerk

James Paulsen

APPOINTED

City Attorney

Bryan Lindsay

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Gilbert, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilbert, Minnesota, as of and for the year ended December 31, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of 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 August 14, 2020 on our consideration of the City of Gilbert, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Gilbert, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gilbert, Minnesota's internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
August 14, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019

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, 2019. 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 \$4,823,092, of which \$5,244,266 is the net investment in capital assets and \$332,240 is restricted.
- Business-type activities have total net position of \$11,405,377; of which \$9,337,410 is the net investment in capital assets and \$66,104 is restricted.
- The City of Gilbert's net position increased by \$3,340,253 for the year ended December 31, 2019. Of the increase, the governmental activities' net position increased by \$425,847, while the business-type activities' net position increased by \$2,914,406.
- The net cost of governmental activities was \$1,816,334 for the current fiscal year. The net cost was funded by general revenues totaling \$2,242,181.
- Governmental funds' fund balances increased by \$73,762 with the General Fund reporting a \$166,179 increase while the permanent improvement and replacement capital projects fund reported a decrease totaling \$136,221.

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, 2019

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, 2019**

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 \$16,228,469, which is an increase from the prior year.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
	Current and other assets	\$ 1,697,578	\$ 1,651,298	\$ 3,032,234	\$ 4,233,031	\$ 4,729,812
Capital Assets	5,409,051	5,263,976	14,527,637	9,634,834	19,936,688	14,898,810
Total assets	<u>7,106,629</u>	<u>6,915,274</u>	<u>17,559,871</u>	<u>13,867,865</u>	<u>24,666,500</u>	<u>20,783,139</u>
Deferred outflows	669,656	812,744	62,517	17,741	732,173	830,485
Long-term liabilities outstanding	1,823,791	1,910,583	5,669,464	4,690,487	7,493,255	6,601,070
Other liabilities	206,557	239,949	516,613	667,969	723,170	907,918
Total liabilities	<u>2,030,348</u>	<u>2,150,532</u>	<u>6,186,077</u>	<u>5,358,456</u>	<u>8,216,425</u>	<u>7,508,988</u>
Deferred inflows	922,845	1,180,241	30,934	36,179	953,779	1,216,420
Net Position						
Net investment in capital assets	5,244,266	4,996,562	9,337,410	5,546,693	14,581,676	10,543,255
Restricted	332,240	290,195	66,104	80,359	398,344	370,554
Unrestricted	(753,414)	(889,512)	2,001,863	2,863,919	1,248,449	1,974,407
Total net position	<u>\$ 4,823,092</u>	<u>\$ 4,397,245</u>	<u>\$ 11,405,377</u>	<u>\$ 8,490,971</u>	<u>\$ 16,228,469</u>	<u>\$ 12,888,216</u>

Net position of the City's governmental activities increased by 9.7 percent (\$4,823,092 compared to \$4,397,245). 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 \$889,512 deficit at December 31, 2018 to a \$753,414 deficit at the end of this year.

Net position of the City's business-type activities increased by 34.3 percent (\$11,405,377 compared to \$8,490,971) in 2019.

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

**Table 2
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Fees, fines, charges, and other	\$ 590,096	\$ 592,422	\$ 2,760,476	\$ 2,643,567	\$ 3,350,572	\$ 3,235,989
Operating grants and contributions	152,061	92,195	937	3,787	152,998	95,982
Capital grants and contributions	106,564	8,443	2,587,351	3,064,489	2,693,915	3,072,932
General Revenues:						
Property taxes	1,392,633	1,393,024	15,610	18,650	1,408,243	1,411,674
Grants and contributions not restricted to specific programs	756,972	737,098	-	-	756,972	737,098
Unrestricted investment earnings	10,213	7,116	-	5,832	10,213	12,948
Gain on sale of capital assets	82,363	2,582	1,900	-	84,263	2,582
Total revenues	<u>3,090,902</u>	<u>2,832,880</u>	<u>5,366,274</u>	<u>5,736,325</u>	<u>8,457,176</u>	<u>8,569,205</u>
Program expenses:						
General government	584,843	538,356	-	-	584,843	538,356
Public safety	1,030,503	1,026,791	-	-	1,030,503	1,026,791
Public works	754,683	726,794	-	-	754,683	726,794
Sanitation	3,704	4,736	240,347	216,182	244,051	220,918
Culture and recreation	284,844	298,543	-	-	284,844	298,543
Interest on long-term debt	6,478	8,709	-	-	6,478	8,709
Water	-	-	473,527	502,112	473,527	502,112
Electric	-	-	1,042,173	997,428	1,042,173	997,428
Sewer usage	-	-	695,821	710,559	695,821	710,559
Total program expenses	<u>2,665,055</u>	<u>2,603,929</u>	<u>2,451,868</u>	<u>2,426,281</u>	<u>5,116,923</u>	<u>5,030,210</u>
Increase in net position	425,847	228,951	2,914,406	3,310,044	3,340,253	3,538,995
Net position, January 1	4,397,245	4,461,250	8,490,971	5,438,470	12,888,216	9,899,720
Prior period adjustment	-	(292,956)	-	(257,543)	-	(550,499)
Net position, December 31	<u>\$ 4,823,092</u>	<u>\$ 4,397,245</u>	<u>\$ 11,405,377</u>	<u>\$ 8,490,971</u>	<u>\$ 16,228,469</u>	<u>\$ 12,888,216</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 \$1,181,328, 38% of revenues; while property taxes levied for specific purposes and franchise taxes were \$211,305, 7% of revenue. Grants and contributions not restricted to specific programs amounts to \$756,972 or 24% of total revenue while fees, fines, charges, and other revenues are 19% of total revenues. Operating grants and contributions amounted to 5% and capital grants and contributions restricted to specific programs amounted to 3% of total revenues.

Public safety expenses are the most significant (39%), followed by public works (28%), general government (22%), culture and recreation (11%), and interest and sanitation (less than 1%).

Governmental revenues increased \$258,022 in 2019, primarily due to increased operating and capital grant revenue reported in 2019 compared to 2018. Taxpayers paid \$1,392,633 in property taxes during the current year, which is a decrease of \$391 from 2018.

Governmental expenses increased by \$61,126 in the current year. The largest increase was recorded in the general government program (\$538,356 in 2018 to \$584,843 in 2019). The net cost of all governmental activities this year was \$1,816,334 compared to \$1,910,869 last year. Reported program expenses were similar to the prior year.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2019

Business-Type Activities

Revenues of the City's business-type activities were \$5,366,274 (see Table 2). There was an increase in net position of \$2,914,406 during the year ended December 31, 2019. The factors driving these results include:

- Capital grants and contributions totaled \$2,587,351.
- Operations produced income of \$365,872 for the year ended December 31, 2019.
- Nonoperating revenues and expenses included property taxes of \$15,610, bond issue and fiscal agent fees of \$7,012, \$49,315 of interest expense, and \$1,900 gain on sale of capital assets.

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, 2019, the City's governmental funds reported total ending fund balances of \$1,390,044, an increase of \$73,762 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised 6%, or \$77,437 of the total ending fund balance; \$266,857 (19%) of the fund balance was committed; \$884,140 (64%) was assigned; and \$161,610 (11%) was unassigned.

At the end of the year, the general fund reported a fund balance of \$1,045,750, increasing \$166,179 from the prior year. General fund revenues decreased by \$45,172 while general fund expenditures decreased by \$27,464.

The community development revolving loan special revenue fund had no activity during the year ended December 31, 2019.

The permanent improvement and replacement capital projects fund had an increase in revenues of \$100,356 and expenditures of \$287,325. Revenues and expenditures were higher in 2019 due to sanitation projects in the City that were funded by a grant. A transfer from the general fund of \$50,000 was used to finance these projects.

In the other governmental funds, the fund balance increased \$43,804. The library and debt service funds reported similar revenue and expenditures from the prior year. The campground special revenue fund received grant funding for projects started in 2018 and completed in 2019 which is the primary reason for the increase in the other governmental funds' fund balance increase.

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 2019, the water enterprise fund reported an operating loss of \$19,760. Revenues decreased from \$453,711 in 2018 to \$448,944 in 2019, while, total operating expenses decreased from \$496,728 in 2018 to \$468,704 in 2019. The decrease in operating income was primarily due to decreased usage which generated less revenue. The decrease in expenses was primarily due to decreased contractual services, utilities, and repairs and maintenance compared to the prior year.

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

The electric enterprise fund accounts for electric operations of the City. In 2018 service revenues were \$1,162,430 and in 2019 service revenues were \$1,154,290. The electric enterprise fund reported operating income of \$112,117 in 2019 compared to operating income of \$165,002 in 2018. Operating expenses increased from \$997,428 in 2018 to \$1,042,173 in 2019.

The sewer usage enterprise fund accounts for sewer operations of the City. There was an increase in service revenues from \$834,412 in 2018 to \$940,888 in 2019 due to increased sewer rates. Operating expenses increased from \$619,290 in 2018 to \$644,317 in 2019. The increase in revenues was greater than the increase in expenses, resulting in operating income of \$296,571 compared to operating income of \$215,122 in 2018.

The sanitation enterprise fund accounts for the collection and disposal related to the City's garbage services. In 2019, this fund recorded operating revenues of \$217,291 and operating expenses of \$240,347. This led to an operating loss of \$23,056 in 2019 compared to an operating loss of \$19,381 in 2018. The most significant operating expense is the \$176,975 in contractual services.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2019, the City Council did not revise the City's general fund budget. The actual charges to appropriations (expenditures) were \$197,326 less than the final budgeted amount. The most significant positive variances occurred in the City's capital outlay, general government, and miscellaneous programs. Resources available for appropriation were lower than the budgeted amounts by \$84,771. The City received less tax, licenses and permits, fines, and miscellaneous revenues than expected, with the most significant variances being tax revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the City had \$19,936,688 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 \$5,037,878 over last year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	316,288	79,390	10,426,607	5,207,315	10,742,895	5,286,705
Infrastructure	3,474,463	3,517,200	-	-	3,474,463	3,517,200
Distribution system	-	-	2,494,096	2,670,367	2,494,096	2,670,367
Production system	-	-	532,135	561,293	532,135	561,293
Sewage treatment plant	-	-	913,351	1,015,129	913,351	1,015,129
General assets	-	-	132,862	152,144	132,862	152,144
Buildings, improvements and structures	968,701	1,002,290	-	-	968,701	1,002,290
Equipment and vehicles	259,097	267,378	-	-	259,097	267,378
Furniture and fixtures	22,402	29,618	-	-	22,402	29,618
Totals	\$ 5,409,051	\$ 5,263,976	\$ 14,527,637	\$ 9,634,834	\$ 19,936,688	\$ 14,898,810

CITY OF GILBERT, MINNESOTA

**MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2019**

This year’s major additions included:

- Wastewater treatment plant and equalization basin upgrades
- Lime lagoon safety project
- Sparta water main project
- Campground sites and electrical upgrades
- TH37 MNDOT corridor project
- Lower Michigan sanitary sewer project
- Police vehicles

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 \$5,494,812 in long-term debt outstanding versus \$4,636,803 last year—as shown in Table 4.

In 2019, the City issued \$2,591,755 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	
	2019	2018	2019	2018	2019	2018
General obligation bonds (backed by the City)	\$ 209,000	\$ 304,000	\$ 568,000	\$ 660,000	\$ 777,000	\$ 964,000
General obligation revenue bonds and notes	-	-	4,712,027	3,644,389	4,712,027	3,644,389
Certificate of indebtedness fire truck	5,785	28,414	-	-	5,785	28,414
Total	\$ 214,785	\$ 332,414	\$ 5,280,027	\$ 4,304,389	\$ 5,494,812	\$ 4,636,803

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 \$79,786 at year end is significantly below this \$2,348,550 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 2020 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2020 budget included:

- Pursue economic development activities to increase the tax base for the City of Gilbert.
- Continue to move forward with capital improvement projects such as: water treatment plant safety upgrade, water tower reconditioning, and city infrastructure.
- 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, 2019

Overall 2020 budget goals include the following:

- Maintain the level of services provided to Gilbert residents while attempting to find efficiencies that will lower the burden on Gilbert taxpayers.
- Continue the transparency of financials, accounting systems, and management.
- Work to attract development to increase the tax base.
- Provide city services with updated equipment in order to safely perform tasks and duties.

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 Executive Administrative Clerk, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

BASIC FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,324,436	\$ 2,143,460	\$ 3,467,896
Taxes receivable	77,479	-	77,479
Special assessments receivable	18,686	163,070	181,756
Accounts receivable	3,341	388,524	391,865
Due from other governments	160,700	337,180	497,880
Loans receivable	101,182	-	101,182
Net pension asset	11,754	-	11,754
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	316,288	10,426,607	10,742,895
Capital assets net of accumulated depreciation			
Infrastructure	3,474,463	-	3,474,463
Distribution system	-	2,494,096	2,494,096
Production system	-	532,135	532,135
Sewage treatment plant	-	913,351	913,351
General assets	-	132,862	132,862
Buildings, improvements and structures	968,701	-	968,701
Equipment and vehicles	259,097	-	259,097
Furniture and fixtures	22,402	-	22,402
TOTAL ASSETS	7,106,629	17,559,871	24,666,500
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	575,991	10,768	586,759
Related to OPEB	93,665	51,749	145,414
TOTAL DEFERRED OUTFLOWS OF RESOURCES	669,656	62,517	732,173
LIABILITIES			
Accounts payable	47,510	468,968	516,478
Salaries payable	47,434	13,251	60,685
Due to other governments	823	8,508	9,331
Customer deposits	-	6,250	6,250
Unearned revenues	109,502	-	109,502
Accrued interest payable	1,288	19,636	20,924
Noncurrent liabilities			
Due within one year			
Bonds payable, notes payable and certificates of indebtedness	100,785	408,000	508,785
Due in more than one year			
Bonds payable, notes payable and certificates of indebtedness	114,000	4,872,027	4,986,027
Severance benefits	31,789	2,876	34,665
Other postemployment benefits payable	581,182	287,873	869,055
Net pension liability	996,035	98,688	1,094,723
TOTAL LIABILITIES	2,030,348	6,186,077	8,216,425
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	915,447	24,483	939,930
Related to OPEB	7,398	6,451	13,849
TOTAL DEFERRED OUTFLOWS OF RESOURCES	922,845	30,934	953,779
NET POSITION			
Net investment in capital assets	5,244,266	9,337,410	14,581,676
Restricted for:			
Debt service	6,512	66,104	72,616
Community development	139,923	-	139,923
Culture and recreation	185,805	-	185,805
Unrestricted	(753,414)	2,001,863	1,248,449
TOTAL NET POSITION	\$ 4,823,092	\$ 11,405,377	\$ 16,228,469

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

<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>
Governmental Activities				
General government	\$ 584,843	\$ 76,951	\$ 4,282	\$ -
Public safety	1,030,503	381,131	76,996	6,564
Public works	754,683	757	-	-
Sanitation	3,704	-	-	100,000
Culture and recreation	284,844	131,257	69,129	-
Interest on long-term debt	6,478	-	1,654	-
Total Governmental Activities	<u>2,665,055</u>	<u>590,096</u>	<u>152,061</u>	<u>106,564</u>
Business-type Activities				
Water	473,527	448,859	85	1,663
Electric	1,042,173	1,153,524	766	-
Sewer usage	695,821	940,802	86	2,585,688
Sanitation	240,347	217,291	-	-
Total Business-type Activities	<u>2,451,868</u>	<u>2,760,476</u>	<u>937</u>	<u>2,587,351</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,116,923</u>	<u>\$ 3,350,572</u>	<u>\$ 152,998</u>	<u>\$ 2,693,915</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

NET POSITION - DECEMBER 31

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

Governmental Activities	Business-type Activities	Total
\$ (503,610)	\$ -	\$ (503,610)
(565,812)	-	(565,812)
(753,926)	-	(753,926)
96,296	-	96,296
(84,458)	-	(84,458)
(4,824)	-	(4,824)
<u>(1,816,334)</u>	<u>-</u>	<u>(1,816,334)</u>
-	(22,920)	(22,920)
-	112,117	112,117
-	2,830,755	2,830,755
-	(23,056)	(23,056)
-	<u>2,896,896</u>	<u>2,896,896</u>
<u>(1,816,334)</u>	<u>2,896,896</u>	<u>1,080,562</u>
1,181,328	-	1,181,328
195,963	15,610	211,573
15,342	-	15,342
756,972	-	756,972
10,213	-	10,213
82,363	1,900	84,263
<u>2,242,181</u>	<u>17,510</u>	<u>2,259,691</u>
425,847	2,914,406	3,340,253
<u>4,397,245</u>	<u>8,490,971</u>	<u>12,888,216</u>
<u>\$ 4,823,092</u>	<u>\$ 11,405,377</u>	<u>\$ 16,228,469</u>

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

CITY OF GILBERT, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019**

	<u>General Fund</u>	<u>Community Development Revolving Loan Special Revenue Fund</u>	<u>Permanent Improvement and Replacement Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,045,098	\$ 139,923	\$ 14,527	\$ 124,888	\$ 1,324,436
Taxes receivable	76,867	-	-	612	77,479
Special assessments receivable	-	-	14,925	3,761	18,686
Accounts receivable	3,341	-	-	-	3,341
Due from other governments	91,571	-	-	69,129	160,700
Loans receivable	-	101,182	-	-	101,182
TOTAL ASSETS	<u>\$ 1,216,877</u>	<u>\$ 241,105</u>	<u>\$ 29,452</u>	<u>\$ 198,390</u>	<u>\$ 1,685,824</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 46,415	\$ -	\$ -	\$ 1,095	\$ 47,510
Salaries payable	44,567	-	-	2,867	47,434
Due to other governments	-	-	-	823	823
Unearned revenue	8,320	101,182	-	-	109,502
TOTAL LIABILITIES	<u>99,302</u>	<u>101,182</u>	<u>-</u>	<u>4,785</u>	<u>205,269</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	71,825	-	-	-	71,825
Unavailable revenue-special assessments	-	-	14,925	3,761	18,686
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>71,825</u>	<u>-</u>	<u>14,925</u>	<u>3,761</u>	<u>90,511</u>
FUND BALANCES					
Restricted	-	73,398	-	4,039	77,437
Committed	-	66,525	14,527	185,805	266,857
Assigned	884,140	-	-	-	884,140
Unassigned reported in					
General fund	161,610	-	-	-	161,610
TOTAL FUND BALANCES	<u>1,045,750</u>	<u>139,923</u>	<u>14,527</u>	<u>189,844</u>	<u>1,390,044</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,216,877</u>	<u>\$ 241,105</u>	<u>\$ 29,452</u>	<u>\$ 198,390</u>	<u>\$ 1,685,824</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, 2019

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 1,390,044
Net pension asset used in governmental activities is not a current financial resource and therefore is not reported in the governmental funds.	11,754
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,409,051
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.	90,511
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(1,288)
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.	(1,823,791)
Deferred outflows and inflows of resources related to pensions and related to OPEB are applicable to future periods and therefore not reported in the governmental funds.	
Deferred outflows of resources related to pensions	575,991
Deferred inflows of resources related to pensions	(915,447)
Deferred outflows of resources related to OPEB	93,665
Deferred inflows of resources related to OPEB	(7,398)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,823,092</u>

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2019

	<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>
REVENUES					
Taxes	\$ 1,204,216	\$ -	\$ -	\$ 190,771	\$ 1,394,987
Special assessments	-	-	2,604	-	2,604
Licenses and permits	10,740	-	-	-	10,740
Intergovernmental	826,836	-	100,000	70,783	997,619
Charges for services	391,986	-	-	117,681	509,667
Fines	8,452	-	-	1,007	9,459
Interest	9,856	-	-	357	10,213
Miscellaneous	67,017	-	-	12,569	79,586
TOTAL REVENUES	<u>2,519,103</u>	<u>-</u>	<u>102,604</u>	<u>393,168</u>	<u>3,014,875</u>
EXPENDITURES					
Current					
General government	348,276	-	-	-	348,276
Public safety	1,011,645	-	-	-	1,011,645
Public works	657,307	-	-	-	657,307
Sanitation	1,467	-	-	-	1,467
Culture and recreation	60,086	-	-	192,430	252,516
Miscellaneous	209,782	-	-	-	209,782
Debt Service					
Principal	22,629	-	-	95,000	117,629
Interest and fiscal charges	495	-	-	6,473	6,968
Capital Outlay					
Public safety	48,620	-	-	-	48,620
Public works	9,965	-	15,600	-	25,565
Sanitation	-	-	273,225	-	273,225
Culture and recreation	-	-	-	70,476	70,476
TOTAL EXPENDITURES	<u>2,370,272</u>	<u>-</u>	<u>288,825</u>	<u>364,379</u>	<u>3,023,476</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>148,831</u>	<u>-</u>	<u>(186,221)</u>	<u>28,789</u>	<u>(8,601)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	50,000	15,015	65,015
Transfers out	(65,015)	-	-	-	(65,015)
Sale of capital assets	82,363	-	-	-	82,363
TOTAL OTHER FINANCING SOURCES (USES)	<u>17,348</u>	<u>-</u>	<u>50,000</u>	<u>15,015</u>	<u>82,363</u>
NET CHANGE IN FUND BALANCES	166,179	-	(136,221)	43,804	73,762
FUND BALANCES - JANUARY 1	<u>879,571</u>	<u>139,923</u>	<u>150,748</u>	<u>146,040</u>	<u>1,316,282</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,045,750</u>	<u>\$ 139,923</u>	<u>\$ 14,527</u>	<u>\$ 189,844</u>	<u>\$ 1,390,044</u>

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, 2019**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 73,762
<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	405,151	
Less current year depreciation	<u>(260,076)</u>	145,075
<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	(2,352)	
Change in unavailable revenue - special assessments	<u>(3,983)</u>	(6,335)
<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		117,629
<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	491	
Change in long-term severance benefits	(9,766)	
Change in long-term other postemployment benefits payable and related deferred outflows and inflows of resources	86,267	
Change in net pension liabilities and assets, and related deferred outflows and inflows of resources	<u>18,724</u>	<u>95,716</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 425,847</u>

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2019

	Business-type Activities - Enterprise Funds				Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 253,350	\$ 1,515,918	\$ 369,196	\$ 4,996	\$ 2,143,460
Special assessments receivable	35,269	-	127,801	-	163,070
Accounts receivable	62,294	167,990	140,793	17,447	388,524
Due from other governments	-	-	337,180	-	337,180
TOTAL CURRENT ASSETS	<u>350,913</u>	<u>1,683,908</u>	<u>974,970</u>	<u>22,443</u>	<u>3,032,234</u>
NONCURRENT ASSETS					
Capital assets					
Land and improvements	10,500	-	18,086	-	28,586
Construction in progress	75,672	-	10,350,935	-	10,426,607
Distribution system	3,497,101	1,205,106	1,490,547	-	6,192,754
Production system	1,998,784	-	-	-	1,998,784
Sewage treatment plant	-	-	4,229,607	-	4,229,607
General assets	159,969	291,475	76,141	33,608	561,193
Less accumulated depreciation	(3,672,970)	(1,212,585)	(4,007,535)	(16,804)	(8,909,894)
TOTAL NONCURRENT ASSETS	<u>2,069,056</u>	<u>283,996</u>	<u>12,157,781</u>	<u>16,804</u>	<u>14,527,637</u>
TOTAL ASSETS	<u>2,419,969</u>	<u>1,967,904</u>	<u>13,132,751</u>	<u>39,247</u>	<u>17,559,871</u>
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	4,038	2,692	4,038	-	10,768
Related to OPEB	1,076	16,862	33,811	-	51,749
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,114</u>	<u>19,554</u>	<u>37,849</u>	<u>-</u>	<u>62,517</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	17,146	80,700	361,211	9,911	468,968
Salaries payable	5,438	2,511	5,302	-	13,251
Accrued interest payable	1,541	-	18,095	-	19,636
Due to other governments	-	6,230	-	2,278	8,508
Customer deposits	-	6,250	-	-	6,250
Notes payable - current	9,000	-	349,000	-	358,000
Bonds payable - current	30,488	-	19,512	-	50,000
TOTAL CURRENT LIABILITIES	<u>63,613</u>	<u>95,691</u>	<u>753,120</u>	<u>12,189</u>	<u>924,613</u>
NONCURRENT LIABILITIES					
Severance benefits	1,438	-	1,438	-	2,876
Other postemployment benefits payable	74,059	91,110	122,704	-	287,873
Notes payable	30,000	-	4,592,027	-	4,622,027
Bonds payable	157,004	-	92,996	-	250,000
Net pension liability	37,008	24,672	37,008	-	98,688
TOTAL NONCURRENT LIABILITIES	<u>299,509</u>	<u>115,782</u>	<u>4,846,173</u>	<u>-</u>	<u>5,261,464</u>
TOTAL LIABILITIES	<u>363,122</u>	<u>211,473</u>	<u>5,599,293</u>	<u>12,189</u>	<u>6,186,077</u>
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	9,181	6,121	9,181	-	24,483
Related to OPEB	2,573	1,305	2,573	-	6,451
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>11,754</u>	<u>7,426</u>	<u>11,754</u>	<u>-</u>	<u>30,934</u>
NET POSITION					
Net investment in capital assets	1,893,995	283,996	7,142,615	16,804	9,337,410
Restricted for debt service	-	-	66,104	-	66,104
Unrestricted	156,212	1,484,563	350,834	10,254	2,001,863
TOTAL NET POSITION	<u>\$ 2,050,207</u>	<u>\$ 1,768,559</u>	<u>\$ 7,559,553</u>	<u>\$ 27,058</u>	<u>\$ 11,405,377</u>

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 Year Ended December 31, 2019

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
REVENUES					
Charges for services	\$ 448,859	\$ 1,153,524	\$ 940,802	\$ 198,398	\$ 2,741,583
Miscellaneous	85	766	86	18,893	19,830
TOTAL OPERATING REVENUES	<u>448,944</u>	<u>1,154,290</u>	<u>940,888</u>	<u>217,291</u>	<u>2,761,413</u>
OPERATING EXPENSES					
Source of supply	-	859,325	-	-	859,325
Personal services	113,580	52,193	105,652	15,197	286,622
Employee benefits	60,936	8,904	60,348	-	130,188
Contractual services	24,743	54,933	87,130	176,975	343,781
Utilities	45,954	4,518	145,752	-	196,224
Repairs and maintenance	15,738	11,153	13,048	1,947	41,886
Other supplies and expenses	41,895	16,935	39,772	42,641	141,243
Insurance claims and expenses	4,118	631	4,555	-	9,304
Depreciation	153,971	28,503	173,430	3,361	359,265
Miscellaneous	7,769	5,078	14,630	226	27,703
TOTAL OPERATING EXPENSES	<u>468,704</u>	<u>1,042,173</u>	<u>644,317</u>	<u>240,347</u>	<u>2,395,541</u>
OPERATING INCOME (LOSS)	<u>(19,760)</u>	<u>112,117</u>	<u>296,571</u>	<u>(23,056)</u>	<u>365,872</u>
NONOPERATING REVENUES (EXPENSES)					
Property taxes	-	-	15,610	-	15,610
Bond issue and fiscal agent fees	(298)	-	(6,714)	-	(7,012)
Interest expense	(4,525)	-	(44,790)	-	(49,315)
Gain on sale of capital assets	-	1,900	-	-	1,900
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(4,823)</u>	<u>1,900</u>	<u>(35,894)</u>	<u>-</u>	<u>(38,817)</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND CAPITAL CONTRIBUTIONS	<u>(24,583)</u>	<u>114,017</u>	<u>260,677</u>	<u>(23,056)</u>	<u>327,055</u>
Capital grants	-	-	2,578,243	-	2,578,243
Capital contributions	1,663	-	7,445	-	9,108
CHANGE IN NET POSITION	<u>(22,920)</u>	<u>114,017</u>	<u>2,846,365</u>	<u>(23,056)</u>	<u>2,914,406</u>
TOTAL NET POSITION - JANUARY 1	<u>2,073,127</u>	<u>1,654,542</u>	<u>4,713,188</u>	<u>50,114</u>	<u>8,490,971</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 2,050,207</u>	<u>\$ 1,768,559</u>	<u>\$ 7,559,553</u>	<u>\$ 27,058</u>	<u>\$ 11,405,377</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, 2019**

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 447,182	\$ 1,148,815	\$ 909,078	\$ 216,318	\$ 2,721,393
Cash paid to suppliers	(207,239)	(972,825)	(388,451)	(232,370)	(1,800,885)
Cash paid to employees	(112,415)	(51,730)	(104,623)	(15,197)	(283,965)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>127,528</u>	<u>124,260</u>	<u>416,004</u>	<u>(31,249)</u>	<u>636,543</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Property taxes received	-	-	15,610	-	15,610
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(67,790)	-	(5,322,524)	-	(5,390,314)
Proceeds from general obligation revenue notes	-	-	2,929,033	-	2,929,033
Fiscal agent fees	(298)	-	(6,714)	-	(7,012)
Principal paid on long-term debt	(36,628)	-	(1,579,489)	-	(1,616,117)
Interest paid on long-term debt	(4,786)	-	(49,787)	-	(54,573)
Capital grants	-	-	3,543,445	-	3,543,445
Capital contributions from special assessments	8,000	-	30,249	-	38,249
Proceeds from sale of capital assets	-	1,900	-	-	1,900
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(101,502)</u>	<u>1,900</u>	<u>(455,787)</u>	<u>-</u>	<u>(555,389)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,026	126,160	(24,173)	(31,249)	96,764
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>227,324</u>	<u>1,389,758</u>	<u>393,369</u>	<u>36,245</u>	<u>2,046,696</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 253,350</u>	<u>\$ 1,515,918</u>	<u>\$ 369,196</u>	<u>\$ 4,996</u>	<u>\$ 2,143,460</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, 2019**

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (19,760)	\$ 112,117	\$ 296,571	\$ (23,056)	\$ 365,872
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	153,971	28,503	173,430	3,361	359,265
Net pension liability, deferred outflows, and deferred inflows related to pensions	(484)	(322)	(482)	-	(1,288)
Changes in assets and liabilities (Increase) decrease in:					
Accounts receivable	(1,762)	485	(31,810)	(973)	(34,060)
Increase (decrease) in:					
Accounts payable	(7,099)	3,736	8,504	(10,912)	(5,771)
Salaries payable	1,213	463	1,077	-	2,753
Due to other governments	-	795	-	331	1,126
Customer deposits	-	(5,960)	-	-	(5,960)
Severance benefits	(48)	-	(48)	-	(96)
Other postemployment benefits and related deferred inflows and outflows	1,497	(15,557)	(31,238)	-	(45,298)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 127,528	\$ 124,260	\$ 416,004	\$ (31,249)	\$ 636,543
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Total capital asset additions	\$ 77,095	\$ -	\$ 5,174,973	\$ -	\$ 5,252,068
Contracts payable current year	(9,305)	-	(337,180)	-	(346,485)
Contracts payable prior year	-	-	484,731	-	484,731
Cash paid for purchase or construction of capital assets	\$ 67,790	\$ -	\$ 5,322,524	\$ -	\$ 5,390,314
Capital grants	\$ -	\$ -	\$ 2,578,243	\$ -	\$ 2,578,243
Due from other governments current year	-	-	(190,878)	-	(190,878)
Due from other governments prior year	-	-	1,156,080	-	1,156,080
Cash received from capital grants	\$ -	\$ -	\$ 3,543,445	\$ -	\$ 3,543,445
Capital contributions	\$ 1,663	\$ -	\$ 7,445	\$ -	\$ 9,108
Special assessments receivable current year	(35,269)	-	(127,801)	-	(163,070)
Special assessments receivable prior year	41,606	-	150,605	-	192,211
Cash received for capital contributions from special assessments	\$ 8,000	\$ -	\$ 30,249	\$ -	\$ 38,249
Debt proceeds from general obligation revenue notes	\$ -	\$ -	\$ 2,591,755	\$ -	\$ 2,591,755
Due from other governments current year	-	-	(146,302)	-	(146,302)
Due from other governments prior year	-	-	483,580	-	483,580
Cash received from debt proceeds from general obligation revenue notes	\$ -	\$ -	\$ 2,929,033	\$ -	\$ 2,929,033

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, 2019

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, 2019

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, 2019

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, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

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

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

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

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

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

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their 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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- 8) Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has two items in this category, related to pensions and related to OPEB. See Notes 7, 15, and 16 for details.
- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

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

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

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

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 12) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only three 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. The third type of deferred inflows of resources is related to OPEB. See Notes 7, 15, and 16 for details.
- 13) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

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

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

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

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

Unassigned—all other spendable amounts.

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.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 those 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.

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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		3,062,493
Certificates of Deposit		110,000
Investments		<u>294,753</u>
Total	\$	<u>3,467,896</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 \$3,172,493; the bank balance was \$3,264,893. At year end, \$360,000 of the City's deposits were covered by federal depository insurance. The remaining \$2,904,893 of deposits were collateralized with securities held by the pledging institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

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

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.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

As of December 31, 2019, the City had the following investments:

	Fair Value	Rating
Minnesota Municipal Money Market (4M) Fund	\$ 62,247	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>232,506</u>	Not Rated
	<u>\$ 294,753</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 2019, 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 \$294,753 at December 31, 2019 are not subject to measurement.

NOTE 3 - LOANS RECEIVABLE

The City is involved in several economic/community development projects. Several businesses received loans from the City in prior years. No new loans were issued during the current year. The unpaid principal balance on these loans as of December 31, 2019 was \$101,182 and is recorded as loans receivable in the Community Development Revolving Loan Special Revenue Fund.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 368,100	\$ -	\$ -	\$ -	\$ 368,100
Construction in progress	79,390	316,288	-	(79,390)	316,288
Total capital assets, not being depreciated	<u>447,490</u>	<u>316,288</u>	<u>-</u>	<u>(79,390)</u>	<u>684,388</u>
Capital assets, being depreciated:					
Infrastructure	4,523,132	41,665	-	79,390	4,644,187
Buildings, improvements and structures	2,657,731	-	-	-	2,657,731
Equipment and vehicles	1,954,443	47,198	(41,490)	-	1,960,151
Furniture and fixtures	374,783	-	-	-	374,783
Total capital assets, being depreciated	<u>9,510,089</u>	<u>88,863</u>	<u>(41,490)</u>	<u>79,390</u>	<u>9,636,852</u>
Less accumulated depreciation for:					
Infrastructure	(1,005,932)	(163,792)	-	-	(1,169,724)
Buildings, improvements and structures	(1,655,441)	(33,589)	-	-	(1,689,030)
Equipment and vehicles	(1,687,065)	(55,479)	41,490	-	(1,701,054)
Furniture and fixtures	(345,165)	(7,216)	-	-	(352,381)
Total accumulated depreciation	<u>(4,693,603)</u>	<u>(260,076)</u>	<u>41,490</u>	<u>-</u>	<u>(4,912,189)</u>
Total capital assets, being depreciated, net	<u>4,816,486</u>	<u>(171,213)</u>	<u>-</u>	<u>79,390</u>	<u>4,724,663</u>
Governmental activities capital assets, net	<u>\$ 5,263,976</u>	<u>\$ 145,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,409,051</u>
Business-type activities					
Capital assets, not being depreciated					
Land and improvements	\$ 28,586	\$ -	\$ -	\$ -	\$ 28,586
Construction in progress	5,207,315	5,250,644	-	(31,352)	10,426,607
Total capital assets, not being depreciated	<u>5,235,901</u>	<u>5,250,644</u>	<u>-</u>	<u>(31,352)</u>	<u>10,455,193</u>
Capital assets, being depreciated:					
Distribution system	6,192,754	-	-	-	6,192,754
Production system	1,966,008	1,424	-	31,352	1,998,784
Sewage treatment plant	4,229,607	-	-	-	4,229,607
General assets	591,641	-	(30,448)	-	561,193
Total capital assets, being depreciated	<u>12,980,010</u>	<u>1,424</u>	<u>(30,448)</u>	<u>31,352</u>	<u>12,982,338</u>
Less accumulated depreciation for:					
Distribution system	(3,522,387)	(176,271)	-	-	(3,698,658)
Production system	(1,404,715)	(61,934)	-	-	(1,466,649)
Sewage treatment plant	(3,214,478)	(101,778)	-	-	(3,316,256)
General assets	(439,497)	(19,282)	30,448	-	(428,331)
Total accumulated depreciation	<u>(8,581,077)</u>	<u>(359,265)</u>	<u>30,448</u>	<u>-</u>	<u>(8,909,894)</u>
Total capital assets, being depreciated, net	<u>4,398,933</u>	<u>(357,841)</u>	<u>-</u>	<u>31,352</u>	<u>4,072,444</u>
Business-type activities capital assets, net	<u>\$ 9,634,834</u>	<u>\$ 4,892,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,527,637</u>

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 53,032
Public safety	42,092
Public works	121,901
Sanitation	2,237
Recreation	<u>40,814</u>
Total depreciation expense - governmental activities	<u>\$ 260,076</u>
Business-type activities	
Water	\$ 153,971
Electric	28,503
Sewer usage	173,430
Sanitation	<u>3,361</u>
Total depreciation expense - business-type activities	<u>\$ 359,265</u>

NOTE 5 - LONG-TERM DEBT

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

Components of long-term debt are as follows:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Governmental activities					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 24,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	135,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>50,000</u>
Total GO Bonds payable					209,000
Certificate of Indebtedness – Fire Truck	03/23/2015	2.75%	\$ 108,000	03/16/2020	<u>5,785</u>
Governmental activities long-term debt					<u>214,785</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

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>
Business-type activities					
GO bonds and notes					
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	\$ 210,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	90,000
GO Improvement Refunding Note 2018A	02/12/2018	2.98%	\$ 315,000	02/01/2024	268,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	39,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$ 1,337,076	08/20/2030	768,000
GO Revenue Note of 2019	08/29/2018	1.00%	\$ 4,022,144	08/20/2038	<u>3,905,027</u>
Business-type activities long-term debt					<u>5,280,027</u>
Total long-term debt					<u>\$ 5,494,812</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 \$67,745. At December 31, 2019, 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 \$137,315.

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 \$16,669. At December 31, 2019, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$53,300.

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 \$15,866. At December 31, 2019, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$24,578.

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 \$10,382. At December 31, 2019, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$41,851.

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 \$74,340. At December 31, 2019, principal and interest on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$814,870.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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 \$30,025. At December 31, 2019, 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 \$149,910 for the water bonds and \$81,465 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 \$22,925. At December 31, 2019, principal and interest to maturity in 2023 which will be paid from net revenues of the water and sewer systems totaled \$54,347 for the water bonds and \$40,753 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. Principal and interest paid during the year was \$1,347,318. At December 31, 2019, this Temporary GO revenue note was paid off.

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. Principal and interest paid during the year was \$55,687. At December 31, 2019, principal and interest to maturity in 2024 to be paid from pledged future revenues totaled \$288,204.

In 2018, the City also issued \$1,430,389 GO Revenue Notes, Series 2019. In 2019, the City issued an additional \$2,591,755 of GO Revenue Notes. Proceeds were used to finance construction at the sewer treatment plant. Principal and interest paid for the current year totaled \$132,669. At December 31, 2019, principal and interest to maturity in 2038 to be paid from pledged future sewer revenues totaled \$4,367,979.

Long-term debt activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
General obligation bonds					
GO Abatement Refunding Bonds, Series 2012C	\$ 39,000	\$ -	\$ (15,000)	\$ 24,000	\$ 15,000
GO Refunding Bonds, Series 2012A	200,000	-	(65,000)	135,000	70,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	65,000	-	(15,000)	50,000	10,000
Certificates of Indebtedness					
Fire Truck 2015	28,414	-	(22,629)	5,785	5,785
Total governmental activities – long-term debt	<u>\$ 332,414</u>	<u>\$ -</u>	<u>\$ (117,629)</u>	<u>\$ 214,785</u>	<u>\$ 100,785</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities					
Bonds payable					
GO Utility Revenue Bonds, Series 2012A	\$ 235,000	\$ -	\$ (25,000)	\$ 210,000	\$ 25,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	110,000	-	(20,000)	90,000	25,000
GO Improvement Refunding Note 2018A	315,000	-	(47,000)	268,000	52,000
Revenue Notes payable					
GO Revenue Note of 2003	48,000	-	(9,000)	39,000	9,000
GO Revenue Note of 2010	834,000	-	(66,000)	768,000	66,000
GO Revenue Note of 2017	1,332,000	-	(1,332,000)	-	-
GO Revenue Note of 2019	1,430,389	2,591,755	(117,117)	3,905,027	231,000
Total business-type activities long-term debt	<u>\$ 4,304,389</u>	<u>\$ 2,591,755</u>	<u>\$ (1,616,117)</u>	<u>\$ 5,280,027</u>	<u>\$ 408,000</u>

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

Year Ending December 31	Governmental Activities		Business-Type Activities		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 100,785	\$ 3,560	\$ 408,000	\$ 59,548	\$ 508,785	\$ 63,108
2021	84,000	1,759	411,000	64,991	495,000	66,750
2022	15,000	675	414,000	58,896	429,000	59,571
2023	15,000	225	415,000	52,700	430,000	52,925
2024	-	-	388,000	46,813	388,000	46,813
2025-2029	-	-	1,677,000	174,182	1,677,000	174,182
2030-2034	-	-	1,370,000	94,210	1,370,000	94,210
2035-2039	-	-	197,027	8,012	197,027	8,012
Total	<u>\$ 214,785</u>	<u>\$ 6,219</u>	<u>\$ 5,280,027</u>	<u>\$ 559,352</u>	<u>\$ 5,494,812</u>	<u>\$ 565,571</u>

No interest was capitalized during 2019; interest incurred and charged to expense totaled \$57,793.

NOTE 6 - LEASE OBLIGATIONS

Copy Machine Agreements

The City leases copy machines under non-cancelable operating leases. Total costs for such leases were \$2,508 for the year ended December 31, 2019. The future minimum lease payments are as follows:

Year Ended <u>December 31</u>	<u>Amount</u>
2020	\$ 2,508

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019, 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><u>42</u></u>

Contributions

The City and retirees make contributions toward health insurance premiums based on their employment contracts. During the year ended December 31, 2019, 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.

Total OPEB Liability

The City's total OPEB liability of \$869,055 was measured as of December 31, 2019, 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, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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, 2019.

Changes in the Total OPEB Liability

	Total OPEB Liability		
	Governmental Funds	Business-type Funds	Total
Balance at 12/31/2018	\$ 581,182	\$ 287,873	\$ 869,055
Changes for the year:			
Service cost	7,161	6,244	13,405
Interest	237	207	444
Benefit payments paid directly	(93,665)	(51,749)	(145,414)
Net changes	(86,267)	(45,298)	(131,565)
Deferred			
Outflows of resources	93,665	51,749	145,414
Inflows of resources	(7,398)	(6,451)	(13,849)
Net deferred outflows (inflows) of resources	86,267	45,298	131,565
Balance at 12/31/2019	\$ 581,182	\$ 287,873	\$ 869,055

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.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

	<u>1% Decrease (2.31%)</u>	<u>Current Discount Rate (3.31%)</u>	<u>1% Increase (4.31%)</u>
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.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
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, 2019, the City recognized negative OPEB expense of \$134,565. At December 31, 2019, the City reported total deferred inflows of resources related to service costs and interest in the amount of \$13,849, and total deferred outflows of resources related to contributions between the measurement date and reporting date in the amount of \$145,414.

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

Interfund transfers for the year ended December 31, 2019, consisted of the following:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
Permanent Improvement and Replacement Capital Projects	General	\$ 50,000
Nonmajor Debt Service	General	15,015
Total All Funds		<u>\$ 65,015</u>

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

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

NOTE 9 - FUND EQUITY

Fund Balances

As of December 31, 2019, 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	-	-	-	4,039	4,039
Total Restricted	<u>-</u>	<u>73,398</u>	<u>-</u>	<u>4,039</u>	<u>77,437</u>
Committed:					
Capital outlay	-	-	14,527	-	14,527
Storefront loans	-	66,525	-	-	66,525
Library	-	-	-	104,791	104,791
Campground	-	-	-	81,014	81,014
Total Committed	<u>-</u>	<u>66,525</u>	<u>14,527</u>	<u>185,805</u>	<u>266,857</u>
Assigned:					
Cash flow	852,351	-	-	-	852,351
Compensated absences	31,789	-	-	-	31,789
Total Assigned	<u>884,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>884,140</u>
Unassigned	<u>161,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>161,610</u>
Total fund balances	<u>\$1,045,750</u>	<u>\$ 139,923</u>	<u>\$ 14,527</u>	<u>\$ 189,844</u>	<u>\$1,390,044</u>

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 - TAX ABATEMENTS

The City is authorized by *Minnesota Statutes*, Section 469.1812 through 469.1815, to enter into property tax abatements for the purpose of attracting or retaining businesses. Tax abatements may not exceed ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 11 - TAX ABATEMENTS (CONTINUED)

\$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, 2019, the City abated \$16,138 in property taxes for this bonded debt.

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2019, 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, 2019. The projects were evidenced by contractual commitments with contractors and engineers.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Wastewater Treatment Plant & Equalization Basin	\$10,350,935	\$ 1,126,088
Water - Lime Lagoon Safety Project	33,197	132,213
Sparta Water Main Project	42,475	9,025
Lower Michigan Sanitary Sewer Project	273,224	67,526
TH37 Utilities - MNDOT Corridor Project	15,600	36,400
Parking Lot and Master Plan Project	<u>27,464</u>	<u>4,578</u>
Total All Projects	<u>\$10,742,895</u>	<u>\$ 1,375,830</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 2020 and 2021.

NOTE 13 - JOINT VENTURES

Police Services

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

The agreement sets forth the terms and conditions under which the City of Gilbert will provide police services to the City of Biwabik. The City of Gilbert has full authority and responsibility to provide services in accordance with all enabling legislation under the laws of the State of Minnesota and the ordinances of the City of Biwabik.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 13 - JOINT VENTURES (CONTINUED)

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 2019, 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 2019 was \$21,511. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Biosolids Disposal Site Authority

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

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

Each member city contributes to the budget of the Authority based on the per capita reported in the 2010 Census. The City of Gilbert's contribution to the Authority's budget for 2019 was \$3,672. 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

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

NOTE 13 - JOINT VENTURES (CONTINUED)

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 2019 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 2019 to the Joint Recreation Board. Complete financial information can be obtained from the Joint Recreation Board, P.O. Box 536, Eveleth, Minnesota 55734.

ATV/OHM/Snowmobile Trail Board

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

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

The City of Gilbert contributed \$5,069 to the ATV/OHM/Snowmobile Trail Board during 2019. Complete financial information can be obtained from the ATV/OHM/Snowmobile Trail Board, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

NOTE 14 - SEVERANCE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 14 - SEVERANCE BENEFITS (CONTINUED)

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, 2019 was as follows:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019
Governmental activities	\$ 22,023	\$ 9,766	\$ -	\$ 31,789
Business-type activities	2,972	-	(96)	2,876
Total	\$ 24,995	\$ 9,766	\$ (96)	\$ 34,665

NOTE 15 - 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.

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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 2019 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, 2019, were \$58,418. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.8 percent of pay to 11.3 percent and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$85,313. 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, 2019

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2019, the City of Gilbert, Minnesota reported a liability of \$580,521 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 2019. 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 \$17,999. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0105 percent which was an increase of 0.0004 percent from its proportionate share measured as of June 30, 2018.

City's proportionate share of the net pension liability	\$	580,251
State of Minnesota's proportionate share of the net pension liability associated with the City		<u>17,999</u>
Total		<u><u>\$ 598,250</u></u>

There were no provision changes during the measurement period.

For the year ended December 31, 2019, the City of Gilbert, Minnesota recognized pension expense of \$51,282 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,348 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.

At December 31, 2019, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 16,422	\$ -
Changes in actuarial assumptions	-	46,173
Net collective difference between projected and actual investment earnings	-	56,936
Changes in proportion	16,643	40,908
Contributions paid to PERA subsequent to the measurement date	30,283	-
Totals	\$ 63,348	\$ 144,017

The \$30,283 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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Year Ended December 31:	Pension Expense Amount
2020	\$ (50,093)
2021	\$ (56,182)
2022	\$ (5,611)
2023	\$ 934

2. Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$514,202 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0483 percent which was an increase of 0.0017 percent from its proportionate share measured as of June 30, 2018. The City also recognized \$6,520 for the year ended December 31, 2019, 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 until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

There were no provision changes during the measurement period.

For the year ended December 31, 2019, the City of Gilbert, Minnesota recognized pension expense of \$85,722 for its proportionate share of the Police and Fire Fund's pension expense.

At December 31, 2019, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 21,345	\$ 61,344
Changes in actuarial assumptions	432,891	561,855
Net collective difference between projected and actual investment earnings	-	101,159
Changes in proportion	15,100	43,732
Contributions paid to PERA subsequent to the measurement date	43,439	-
Totals	\$ 512,775	\$ 768,090

The \$43,439 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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2020	\$ (17,991)
2021	\$ (74,827)
2022	\$ (210,264)
2023	\$ 1,744
2024	\$ 2,584

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2019, was \$142,872.

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

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.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 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.

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:

Sensitivity Analysis				
<i>Net Pension Liability at Different Discount Rates</i>				
	General Employees Fund		Police and Fire Fund	
1% Lower	6.50%	\$ 954,346	6.50%	\$ 1,123,951
Current Discount Rate	7.50%	\$ 580,521	7.50%	\$ 514,202
1% Higher	8.50%	\$ 271,855	8.50%	\$ 10

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

NOTE 16 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT

Plan Description

The City of Gilbert, Minnesota Volunteer Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2019, the plan covered 16 active firefighters and 4 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 \$12,679 in fire state aid to the fund for the year ended December 31, 2019. Required employer contributions are calculated annually based on statutory provisions. The City made required contributions of \$5,098 and made a voluntary contribution of \$2,500 for a total contribution of \$7,598 to the Volunteer Firefighter Plan for the year ended December 31, 2019.

Pension Costs

At December 31, 2019, the City reported a net pension asset of \$11,754 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2019. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/18	\$ 266,691	\$ 253,490	\$ 13,201
Changes for the Year			
Service Cost	10,787	-	10,787
TPL Interest	16,042	-	16,042
Actuarial Experience (Gains)/Losses	12,338	-	12,338
Projected Investment Earnings	-	15,209	(15,209)
Changes in Benefit Level	-	-	-
Contributions (ER/State)	-	20,276	(20,276)
Difference between Projected and Actual Investment Earnings	-	29,222	(29,222)
Benefit Payouts	(20,200)	(20,200)	-
PERA Administrative Fee	-	(585)	585
Net Changes	18,967	43,922	(24,955)
Balance End of Year 12/31/19	\$ 285,658	\$ 297,412	\$ (11,754)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2019, the City recognized pension expense of \$8,829.

At December 31, 2019, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial Experience Gains/Losses	\$ -	\$ 14,697
Difference Between Projected and Actual Investment Earnings	10,636	13,126
Total	\$ 10,636	\$ 27,823

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
2020	\$ (5,996)
2021	\$ (5,299)
2022	\$ (2,512)
2023	\$ (3,380)
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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

Actuarial Assumptions

The total pension liability at December 31, 2019, 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 2019.

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 Asset	\$ 4,067	\$ 11,754	\$ 19,142

Plan Investments

Investment Policy:

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

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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

Asset Allocation:

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
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 2019 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, 2019, 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.

NOTE 17 – SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the City of Gilbert's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the City of Gilbert's financial condition or results of operations is uncertain.

On July 1, 2020 the City issued \$1,440,000 in General Obligation Temporary Water and Sewer Revenue Bonds, Series 2020A to finance various improvements to the water and sewer systems in anticipation of a long-term loan from the State of Minnesota's Public Facilities Authority. Payments on the bond interest are to be made semiannually starting July 1, 2021 until maturity on July 1, 2022. There is an optional redemption date prior to maturity on July 1, 2021, at a price of par plus accrued interest. The interest rate on the bonds is 4 percent.

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, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,333,110	\$ 1,333,110	\$ 1,204,216	\$ (128,894)
Licenses and permits	11,650	11,650	10,740	(910)
Intergovernmental	814,670	814,670	826,836	12,166
Charges for services	348,809	348,809	391,986	43,177
Fines	13,350	13,350	8,452	(4,898)
Interest	-	-	9,856	9,856
Miscellaneous	82,285	82,285	67,017	(15,268)
TOTAL REVENUES	2,603,874	2,603,874	2,519,103	(84,771)
EXPENDITURES				
Current				
General government	382,165	382,165	348,276	33,889
Public safety	1,013,510	1,013,510	1,011,645	1,865
Public works	681,721	681,721	657,307	24,414
Sanitation	2,600	2,600	1,467	1,133
Culture and recreation	74,056	74,056	60,086	13,970
Miscellaneous	304,416	304,416	209,782	94,634
Debt Service				
Principal	22,630	22,630	22,629	1
Interest and other charges	500	500	495	5
Capital Outlay				
General government	12,000	12,000	-	12,000
Public safety	44,000	44,000	48,620	(4,620)
Public works	30,000	30,000	9,965	20,035
TOTAL EXPENDITURES	2,567,598	2,567,598	2,370,272	197,326
EXCESS OF REVENUES OVER EXPENDITURES	36,276	36,276	148,831	112,555
OTHER FINANCING SOURCES (USES)				
Transfers out	(50,000)	(50,000)	(65,015)	(15,015)
Sale of capital assets	6,000	6,000	82,363	76,363
TOTAL OTHER FINANCING SOURCES (USES)	(44,000)	(44,000)	17,348	61,348
NET CHANGE IN FUND BALANCES	(7,724)	(7,724)	166,179	173,903
FUND BALANCE - JANUARY 1	879,571	879,571	879,571	-
FUND BALANCE - DECEMBER 31	\$ 871,847	\$ 871,847	\$ 1,045,750	\$ 173,903

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, 2019**

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

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, 2019**

	December 31, 2018	December 31, 2019
Total OPEB Liability		
Service cost	\$ 13,405	\$ 13,405
Interest	444	444
Benefit payments paid directly	(153,838)	(148,414)
Net change in OPEB liability	(139,989)	(134,565)
Net change in OPEB liability deferred	-	134,565
Total OPEB Liability - beginning	1,009,044	869,055
Total OPEB Liability - ending	\$ 869,055	\$ 869,055
Payroll for measurement period	\$ 1,252,279	\$ 1,299,583
Net OPEB Liability as a % of employee payroll	69.40%	66.87%

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, 2019**

**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
6/30/19	0.0105%	\$ 580,521	\$ 17,999	\$ 598,520	\$ 732,403	81.72%	80.20%
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)
12/31/19	\$ 58,418	\$ 58,418	\$ -	\$ 778,907	7.50%
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, 2019**

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

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/19	0.0483%	\$ 514,202	\$ 512,475	100.34%	89.30%
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**

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)
12/31/19	\$ 85,313	\$ 85,313	\$ -	\$ 509,334	16.75%
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, 2019**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability					
Service cost	\$ 10,787	\$ 12,854	\$ 14,494	\$ 11,331	\$ 11,001
Interest on the pension liability	16,042	16,883	13,107	12,331	11,878
Actuarial experience (gains)/losses	12,338	(21,476)	1,923	(1,200)	438
Changes in benefit level	-	-	57,857	-	-
Benefit payments	<u>(20,200)</u>	<u>(20,200)</u>	<u>(25,400)</u>	<u>-</u>	<u>(32,200)</u>
Net Change in Total Pension Liability	18,967	(11,939)	61,981	22,462	(8,883)
Total Pension Liability - Beginning	<u>266,691</u>	<u>278,630</u>	<u>216,649</u>	<u>194,187</u>	<u>203,070</u>
Total Pension Liability - Ending (a)	<u>\$ 285,658</u>	<u>\$ 266,691</u>	<u>\$ 278,630</u>	<u>\$ 216,649</u>	<u>\$ 194,187</u>
Plan Fiduciary Net Position					
Contributions:					
Fire state aid	\$ 9,483	\$ 9,414	\$ 9,378	\$ 9,544	\$ 9,562
Fire supplemental aid	2,195	2,240	2,269	2,315	2,340
Supplemental benefit reimbursement	1,000	2,000	-	1,000	1,000
Voluntary municipal contribution	2,500	-	-	-	-
Required municipal contribution	5,098	5,196	-	-	6,993
Net Investment Income	44,431	(9,875)	30,774	15,570	534
PERA administrative fee	(570)	(600)	(630)	(630)	(600)
SBI Investment Fee	(15)	(15)	(15)	(17)	(7)
Benefit Payments	<u>(20,200)</u>	<u>(20,200)</u>	<u>(25,400)</u>	<u>-</u>	<u>(32,200)</u>
Net Change in Plan Fiduciary Net Position	43,922	(11,840)	16,376	27,782	(12,378)
Plan Fiduciary Net Position - Beginning	<u>253,490</u>	<u>265,330</u>	<u>248,954</u>	<u>221,172</u>	<u>233,550</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 297,412</u>	<u>\$ 253,490</u>	<u>\$ 265,330</u>	<u>\$ 248,954</u>	<u>\$ 221,172</u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (11,754)</u>	<u>\$ 13,201</u>	<u>\$ 13,300</u>	<u>\$ (32,305)</u>	<u>\$ (26,985)</u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	104.1%	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, 2019**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 5,098	\$ 5,196	\$ -	\$ -	\$ 6,993	\$ -
Actual contributions paid	<u>5,098</u>	<u>5,196</u>	<u>-</u>	<u>-</u>	<u>6,993</u>	<u>6,780</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,780</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, 2019**

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

2019 Changes

There have been no changes since the prior valuation.

2018 Changes

December 31, 2018 was 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 ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS

2019 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2019**

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2019**

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

- Other assumptions were changed pursuant to the experience study 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.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

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 increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

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

2019 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2019**

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

- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00 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 65.00 percent to 60.00 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 postretirement 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.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2019**

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

- The assumed investment return was changed from 7.90 percent to 7.50 percent.
- The single discount rate changed from 7.90 percent to 5.60 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.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The postretirement benefit increase to be paid after the attainment of the 90.00 percent funding threshold was changed from inflation up to 2.50 percent, to a fixed rate of 2.50 percent

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, 2019**

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 108,193	\$ 13,268	\$ 3,427	\$ 124,888
Taxes receivable	-	-	612	612
Special assessments receivable	-	-	3,761	3,761
Due from other governments	-	69,129	-	69,129
TOTAL ASSETS	\$ 108,193	\$ 82,397	\$ 7,800	\$ 198,390
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 535	\$ 560	\$ -	\$ 1,095
Salaries payable	2,867	-	-	2,867
Due to other governments	-	823	-	823
TOTAL LIABILITIES	3,402	1,383	-	4,785
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-special assessments	-	-	3,761	3,761
FUND BALANCES				
Restricted	-	-	4,039	4,039
Committed	104,791	81,014	-	185,805
TOTAL FUND BALANCES	104,791	81,014	4,039	189,844
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 108,193	\$ 82,397	\$ 7,800	\$ 198,390

CITY OF GILBERT, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2019**

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 103,500	\$ -	\$ 87,271	\$ 190,771
Intergovernmental	-	69,129	1,654	70,783
Charges for services	2,700	114,981	-	117,681
Fines	1,007	-	-	1,007
Interest	-	357	-	357
Miscellaneous	8,395	4,174	-	12,569
TOTAL REVENUES	115,602	188,641	88,925	393,168
EXPENDITURES				
Current				
Culture and recreation	94,687	97,743	-	192,430
Debt Service				
Principal	-	-	95,000	95,000
Interest and other charges	-	-	6,473	6,473
Capital Outlay				
Culture and recreation	1,347	69,129	-	70,476
TOTAL EXPENDITURES	96,034	166,872	101,473	364,379
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,568	21,769	(12,548)	28,789
OTHER FINANCING SOURCES				
Transfers in	-	-	15,015	15,015
NET CHANGE IN FUND BALANCES	19,568	21,769	2,467	43,804
FUND BALANCES - JANUARY 1	85,223	59,245	1,572	146,040
FUND BALANCES - DECEMBER 31	\$ 104,791	\$ 81,014	\$ 4,039	\$ 189,844

CITY OF GILBERT, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2019**

REVENUES

Taxes

General property	\$ 494,547
Fiscal disparities	297,079
Taconite production	23,931
Taconite mining effects	49,939
Taconite homestead credit	125,034
Taconite municipal aid	183,477
Franchise	15,342
Other	<u>14,867</u>
Total Taxes	<u>1,204,216</u>

Licenses and Permits	<u>10,740</u>
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Intergovernmental

State	
Local government aid	714,334
Police training	5,965
PERA aid	3,636
Police aid	64,117
Other	11,440
DNR grant for fire department	7,900
DNR grant for OHV trails	6,564
County	
OHV trail grant	9,978
Safe and sober	<u>2,902</u>
Total Intergovernmental	<u>826,836</u>

Charges for Services

General government	
Rent	39,500
Miscellaneous	2,355
Public safety	
City of Biwabik's share of police	338,103
Other	180
Public works	
Other	48
Cemetery	<u>11,800</u>
Total Charges for Services	<u>391,986</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2019

REVENUES (CONTINUED)

Fines	
Court fines	\$ 5,232
Police forfeitures	1,200
Trespass fines	175
Administrative fines	<u>1,845</u>
Total Fines	<u>8,452</u>
Interest	
Interest income	<u>9,856</u>
Miscellaneous	
Insurance recoveries	5,056
Donations	43,282
Reimbursements and refunds	5,672
Other	<u>13,007</u>
Total Miscellaneous	<u>67,017</u>
TOTAL REVENUES	<u>2,519,103</u>

EXPENDITURES

Current

General Government	
Mayor and council	22,015
City clerk-treasurer	240,500
Elections	439
Legal and accounting fees	41,731
Planning and zoning	1,575
Community center	14,067
Other	<u>27,949</u>
Total General Government	<u>348,276</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND

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

Year Ended December 31, 2019

EXPENDITURES

Current (continued)

Public Safety

Police	\$ 924,313
Fire	78,097
Animal control	5,881
First responders	3,354
Total Public Safety	<u>1,011,645</u>

Public Works

Maintenance	628,686
Street lighting	28,621
Total Public Works	<u>657,307</u>

Sanitation

Recycling	<u>1,467</u>
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Culture and Recreation

Recreation - other	199
Recreation center	43,742
Mesabi Trail maintenance	480
Contribution to Range Recreation Civic Center	4,032
OHV parks and trails	11,633
Total Culture and Recreation	<u>60,086</u>

Miscellaneous

Insurance	102,151
Employer-paid insurance	93,195
Utilities	9,266
Cemetery	5,170
Total Miscellaneous	<u>209,782</u>

Debt Service

Principal	<u>22,629</u>
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Interest and other charges	<u>495</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, 2019

EXPENDITURES (CONTINUED)

Capital Outlay

Public Safety

Police	44,620
Fire	<u>4,000</u>
Total Public Safety	<u>48,620</u>

Public Works

Streets	<u>9,965</u>
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TOTAL EXPENDITURES	<u>2,370,272</u>
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EXCESS OF REVENUES OVER EXPENDITURES	<u>148,831</u>
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OTHER FINANCING SOURCES (USES)

Transfers out	(65,015)
Sale of capital assets	<u>82,363</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>17,348</u>

NET CHANGE IN FUND BALANCE	166,179
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FUND BALANCE - JANUARY 1	<u>879,571</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 1,045,750</u>
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CITY OF GILBERT, MINNESOTA

**COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2019**

REVENUES	\$	-
EXPENDITURES		<u>-</u>
NET CHANGE IN FUND BALANCE		-
FUND BALANCE - JANUARY 1		<u>139,923</u>
FUND BALANCE - DECEMBER 31	\$	<u><u>139,923</u></u>

CITY OF GILBERT, MINNESOTA

PERMANENT IMPROVEMENT AND REPLACEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2019

REVENUES

Special Assessments

Principal \$ 2,558
Interest and penalties 46

TOTAL SPECIAL ASSESSMENTS 2,604

Intergovernmental

Federal grants
Community Development Block Grant 100,000

TOTAL REVENUES 102,604

EXPENDITURES

Capital Outlay

Public Works

TH37 Utility Project 15,600

Sanitation

Lower Michigan Sanitary Sewer Project 273,225

TOTAL EXPENDITURES 288,825

**DEFICIENCY OF REVENUES OVER
EXPENDITURES**

(186,221)

OTHER FINANCING SOURCES

Transfers in 50,000

NET CHANGE IN FUND BALANCE (136,221)

FUND BALANCE - JANUARY 1 150,748

FUND BALANCE - DECEMBER 31 \$ 14,527

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 103,500	\$ 103,500	\$ 103,500	\$ -
Charges for services	-	-	2,700	2,700
Fines	1,125	1,125	1,007	(118)
Miscellaneous	-	-	8,395	8,395
TOTAL REVENUES	<u>104,625</u>	<u>104,625</u>	<u>115,602</u>	<u>10,977</u>
EXPENDITURES				
Current				
Culture and recreation	108,430	108,430	94,687	13,743
Capital Outlay				
Culture and recreation	-	-	1,347	(1,347)
TOTAL EXPENDITURES	<u>108,430</u>	<u>108,430</u>	<u>96,034</u>	<u>12,396</u>
NET CHANGE IN FUND BALANCE	(3,805)	(3,805)	19,568	23,373
FUND BALANCE - JANUARY 1	<u>85,223</u>	<u>85,223</u>	<u>85,223</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 81,418</u>	<u>\$ 81,418</u>	<u>\$ 104,791</u>	<u>\$ 23,373</u>

CITY OF GILBERT, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2019

REVENUES

Taxes	
General property	\$ 103,500
Charges for Services	
Culture and recreation	
Library	2,700
Fines	
Library fines	1,007
Miscellaneous	
Other	<u>8,395</u>
TOTAL REVENUES	<u>115,602</u>

EXPENDITURES

Current

Culture and Recreation

Personnel services	77,747
Supplies	10,955
Other services and charges	5,440
Other	<u>545</u>

Total Culture and Recreation 94,687

Capital Outlay

Culture and Recreation

Equipment, computers and software	<u>1,347</u>
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TOTAL EXPENDITURES 96,034

NET CHANGE IN FUND BALANCE 19,568

FUND BALANCE - JANUARY 1 85,223

FUND BALANCE - DECEMBER 31 \$ 104,791

CITY OF GILBERT, MINNESOTA
CAMPGROUND SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2019

REVENUES

Intergovernmental

State

Iron Range Resources and Rehabilitation Board	\$ 69,129
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Charges for Services

Culture and recreation

Rent	17,775
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Campground fees	88,676
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Other	8,530
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Total Charges for Services	<u>114,981</u>
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Interest	<u>357</u>
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Miscellaneous

Other	<u>4,174</u>
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TOTAL REVENUES	<u>188,641</u>
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EXPENDITURES

Current

Culture and Recreation

Personal services	1,623
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Supplies	12,155
----------	--------

Other services and charges	75,237
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Other	3,675
-------	-------

Maintenance and repairs	<u>5,053</u>
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Total Culture and Recreation	<u>97,743</u>
-------------------------------------	---------------

Capital Outlay

Culture and Recreation

Site improvements	<u>69,129</u>
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TOTAL EXPENDITURES	<u>166,872</u>
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NET CHANGE IN FUND BALANCE	21,769
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FUND BALANCE - JANUARY 1	<u>59,245</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 81,014</u>
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CITY OF GILBERT, MINNESOTA

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2019

REVENUES

Taxes

General property	\$	51,579
Fiscal disparities		24,835
Taconite homestead credit		10,476
Other		<u>381</u>
Total Taxes		87,271

Intergovernmental

Federal grants		
Interest reimbursement		<u>1,654</u>

TOTAL REVENUES

88,925

EXPENDITURES

Debt Service

Principal		95,000
Interest and fiscal charges		<u>6,473</u>

TOTAL EXPENDITURES

101,473

**DEFICIENCY OF REVENUES OVER
EXPENDITURES**

(12,548)

OTHER FINANCING SOURCES

Transfers in		<u>15,015</u>
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NET CHANGE IN FUND BALANCE

2,467

FUND BALANCE - JANUARY 1

1,572

FUND BALANCE - DECEMBER 31

\$ 4,039

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2019**

<u>Federal Grantor/ Pass Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Passed through St. Louis County, Minnesota: Community Development Block Grant	14.218	\$ 100,000
ENVIRONMENTAL PROTECTION AGENCY		
Passed through State of Minnesota: Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>2,591,755</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,691,755</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2019**

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, 2019. 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 \$3,905,027 at December 31, 2019 is comprised of \$3,875,842 funds received, \$117,117 principal payments, and \$146,302 due from other governmental units.

There were no pass-through entities.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

To the City Council
City of Gilbert, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2019, 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 August 14, 2020.

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 2019-001 and 2019-002 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

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, insofar as they relate to accounting matters. 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's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Other Matters

We noted certain matters that we reported to management of City of Gilbert, Minnesota in a separate letter dated August 14, 2020, 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, Miray & Abene, LLC

Virginia, Minnesota
August 14, 2020



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**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, 2019. 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, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-004. This instance of noncompliance is related to the following program and compliance requirement:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-004	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 2019-003 and 2019-004, 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, Miray & Helne, LLC

Virginia, Minnesota
August 14, 2020

CITY OF GILBERT, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2019

Section I – Financial Statement Prior Audit Findings

FINDING 2018-001. 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 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.

Current Status

Ongoing.

FINDING 2018-002. 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 2018-003. BANK STATEMENTS NOT RECONCILED

Summary of Condition

The bank accounts were not reconciled to the 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.

Summary of Corrective Action Previously Reported

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.

CITY OF GILBERT, MINNESOTA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2019**

FINDING 2018-003. BANK STATEMENTS NOT RECONCILED (CONTINUED)

Current Status

Corrected.

MINNESOTA LEGAL COMPLIANCE

FINDING 2018-004. COLLATERAL REQUIREMENTS

Summary of Condition

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.

Summary of Corrective Action Previously Reported

The City will monitor their bank balances and will obtain the proper amount of collateral from all of their financial institutions.

Current Status

Corrected.

Section II – Federal Award Prior Audit Findings and Questioned Costs

FINDING 2018-005. 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

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2019**

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

Summary of Condition

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

Summary of Corrective Action Previously Reported

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.

Current Status

Ongoing. The City rectified the finding from 2018 and returned the funds with a check dated May 29, 2019. However, in January of 2020, the City submitted expenditures for reimbursement from the IRRRB that were already reimbursed by debt proceeds. So, the status of this 2018-006 finding is ongoing in finding 2019-004 of the current year audit and management will need to implement increased controls over cash management.

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2019

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, 2019**

Section II - Financial Statement Findings

2019-001. 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.

2019-002. 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, 2019**

2019-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS (CONTINUED)

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.

Section III - Federal Award Findings and Questioned Costs

2019-003. SEGREGATION OF DUTIES

ENVIRONMENTAL PROTECTION AGENCY

Capitalization Grants for Clean Water State Revolving Funds CFDA No. 66.458 – Grant Period
– Year ended December 31, 2019 – 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, 2019**

2019-004. 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, 2019 – 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 the Iron Range Resources and Rehabilitation Board (IRRRB) and from Capitalization Grants for Clean Water State Revolving Funds. The funding was received in 2020 and would have affected the receivable for the year ended December 31, 2019.

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 there was a misunderstanding that the same expenditures for an IRRRB grant, could not be funded by both the IRRRB grant and Capitalization Grants for Clean Water State Revolving Funds debt proceeds.

Recommendations

We recommend the City submit new invoices/expenditure backup to the IRRRB for invoices/expenditures that were not already reimbursed by the Capital Grants for Clean Water State Revolving Funds debt proceeds. The council should review/update their procedures to ensure controls are in place to prevent requesting reimbursement for the same expenditures from two different funding sources.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The City will submit new invoices/expenditure backup to the IRRRB for expenditures that were not already reimbursed by the Capital Grants for Clean Water State Revolving Funds debt proceeds. The “double dipping” of funds would have affected a receivable from the IRRRB but the City corrected the error to properly reflect the correct receivable balance in the financial statements for the year ended December 31, 2019. The City will get the correct expenditure backup to the IRRRB in 2020. 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, 2019**

Finding Number: 2019-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

James Paulsen, Executive Administrative 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: 2019-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

James Paulsen, Executive Administrative 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: 2019-003

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

James Paulsen, Executive Administrative 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.

**REPRESENTATION OF
CITY OF GILBERT, MINNESOTA**

**CORRECTIVE ACTION PLAN
Year Ended December 31, 2019**

Finding Number: 2019-004

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

Name of Contact Person Responsible for Corrective Action

James Paulsen, Executive Administrative Clerk

Corrective Action Planned

Management agrees with the audit finding. The City will submit new invoices/expenditure backup to the IRRRB for expenditures that were not already reimbursed by the Capital Grants for Clean Water State Revolving Funds debt proceeds. The "double dipping" of funds would have affected a receivable from the IRRRB but the City corrected the error to properly reflect the correct receivable balance in the financial statements for the year ended December 31, 2019. The City will get the correct expenditure backup to the IRRRB in 2020. 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 August 31, 2020.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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MANAGEMENT LETTER

To the City Council
City of Gilbert, Minnesota

In planning and performing our audit of the financial statements of City of Gilbert, Minnesota, as of and for the year ended December 31, 2019, 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 August 14, 2020, 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 August 14, 2020, 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's loans receivable balance has had very minimal change for the past 4 years. We suggest the City review the loans that remain outstanding and determine if any loans should be considered uncollectible.
5. Reconciling receipts received from payment service network to the bank statement is difficult and time consuming. A process to reconcile reports of receipts received from payment service network to the bank statement should be implemented.

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

Walker, Miray & Helne, LLC

Virginia, Minnesota
August 14, 2020