

CITY OF GILBERT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**
Year Ended December 31, 2014

CITY OF GILBERT, MINNESOTA

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CITY OF GILBERT, MINNESOTA

**ORGANIZATION
December 31, 2014**

CITY COUNCIL

Mayor

Mike Skenzich

Council Members

Tom Nemanick
Karri Schutte
Rob Kutsi
John Skalko

ADMINISTRATION

City Clerk-Treasurer

Debra Sakrison

APPOINTED

City Attorney

Michael K. Kearney

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Gilbert, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilbert, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City'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, 2014, 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, and schedule of funding progress for postemployment benefits plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2015, on our consideration of the City of Gilbert, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gilbert, Minnesota's internal control over financial reporting and compliance.

Walker, Miroux & Helne, LLC

Virginia, Minnesota
August 13, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

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, 2014. 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 \$5,655,886, of which \$4,702,410 is the net investment in capital assets, and \$485,186 is restricted.
- Business-type activities have total net position of \$3,625,854; of which \$2,967,485 is the net investment in capital assets, and \$149,456 is restricted.
- The City of Gilbert's net position increased by \$496,091 for the year ended December 31, 2014. Of the increase, the governmental activities' net position increased by \$502,840, while the business-type activities' net position decreased by \$6,749.
- The net cost of governmental activities was \$1,897,977 for the current fiscal year. The net cost was funded by general revenues and transfers totaling \$2,400,817.
- Governmental funds' fund balances decreased by \$7,302 with the other governmental funds reporting the largest decrease totaling \$45,365.

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. The management's discussion and analysis (this section), budgetary comparison information and schedule of funding progress for postemployment benefit plan are required to accompany the basic financial statements, and therefore, are included as required supplementary information.

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 and liabilities 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 liabilities—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, 2014

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

- Governmental activities—Most of the City's basic services are reported here, including general government, public safety, public works, sanitation, culture and recreation, and economic development. Property taxes and state and federal grants and aids finance most of these activities.
- Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's water, electric, and sewer usage 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 and schedule of funding progress for postemployment benefits plan. Combining and individual financial statements are presented immediately following the required supplementary information.

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

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 exceeded liabilities by \$9,281,740, an increase from the prior year.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,633,104	\$ 1,754,552	\$ 1,075,342	\$ 1,329,461	\$ 2,708,446	\$ 3,084,013
Capital assets	5,294,410	4,866,967	4,961,068	4,850,365	10,255,478	9,717,332
Total assets	<u>6,927,514</u>	<u>6,621,519</u>	<u>6,036,410</u>	<u>6,179,826</u>	<u>12,963,924</u>	<u>12,801,345</u>
Long-term liabilities outstanding	1,133,021	1,217,003	2,249,009	2,392,846	3,382,030	3,609,849
Other liabilities	138,607	251,470	161,547	154,377	300,154	405,847
Total liabilities	<u>1,271,628</u>	<u>1,468,473</u>	<u>2,410,556</u>	<u>2,547,223</u>	<u>3,682,184</u>	<u>4,015,696</u>
Net Position						
Net investment in capital assets	4,702,410	4,183,967	2,967,485	2,724,791	7,669,895	6,908,758
Restricted	485,186	539,018	149,456	162,903	634,642	701,921
Unrestricted	468,290	430,061	508,913	744,909	977,203	1,174,970
Total net position	<u>\$ 5,655,886</u>	<u>\$ 5,153,046</u>	<u>\$ 3,625,854</u>	<u>\$ 3,632,603</u>	<u>\$ 9,281,740</u>	<u>\$ 8,785,649</u>

Net position of the City's governmental activities increased by 9.8 percent (\$5,655,886 compared to \$5,153,046). 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 \$430,061 surplus at December 31, 2013 to a \$468,290 surplus at the end of this year.

Net position of the City's business-type activities decreased by 0.2 percent (\$3,625,854 compared to \$3,632,603) in 2014.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 765,793	\$ 708,116	\$ 2,128,525	\$ 1,943,006	\$ 2,894,318	\$ 2,651,122
Operating grants and contributions	73,823	215,361	-	10,000	73,823	225,361
Capital grants and contributions	358,844	533,366	447,299	12,213	806,143	545,579
General revenues:						
Property taxes	1,272,350	1,241,927	18,650	18,650	1,291,000	1,260,577
Intergovernmental	710,884	693,401	-	-	710,884	693,401
Other general revenues	17,583	14,593	2,556	-	20,139	14,593
Total revenues	<u>3,199,277</u>	<u>3,406,764</u>	<u>2,597,030</u>	<u>1,983,869</u>	<u>5,796,307</u>	<u>5,390,633</u>

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Program expenses:						
General government	\$ 619,567	\$ 583,979	\$ -	\$ -	\$ 619,567	\$ 583,979
Public safety	913,070	935,879	-	-	913,070	935,879
Public works	1,058,047	706,012	-	-	1,058,047	706,012
Sanitation	194,741	190,713	-	-	194,741	190,713
Culture and recreation	296,953	307,881	-	-	296,953	307,881
Economic development	1,870	20,650	-	-	1,870	20,650
Interest	12,189	13,372	-	-	12,189	13,372
Water	-	-	588,621	403,678	588,621	403,678
Electric	-	-	1,060,564	1,040,686	1,060,564	1,040,686
Sewer usage	-	-	554,594	586,587	554,594	586,587
Total program expenses	<u>3,096,437</u>	<u>2,758,486</u>	<u>2,203,779</u>	<u>2,030,951</u>	<u>5,300,216</u>	<u>4,789,437</u>
Increase (decrease) in net position before transfers	102,840	648,278	393,251	(47,082)	496,091	601,196
Transfers	400,000	25,000	(400,000)	(25,000)	-	-
Increase (decrease) in net position	502,840	673,278	(6,749)	(72,082)	496,091	601,196
Net position, January 1	5,153,046	4,479,768	3,632,603	3,704,685	8,785,649	8,184,453
Net position, December 31	<u>\$ 5,655,886</u>	<u>\$ 5,153,046</u>	<u>\$ 3,625,854</u>	<u>\$ 3,632,603</u>	<u>\$ 9,281,740</u>	<u>\$ 8,785,649</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 \$1,030,403, 32% of revenues; while property taxes levied for specific purposes were \$226,710, 7% of revenue. Intergovernmental revenue amounts to \$710,884 or 22% of total revenue while fees, fines, charges, and other revenues are 24% of total revenues. Capital grants and contributions amounted to 11% of total revenues.

Public works expenses are the most significant (34%), followed by public safety (29%), general government (20%), culture and recreation (10%), sanitation (6%), interest and economic development (1%).

Governmental revenues decreased \$207,487 in 2014 primarily due to a decrease in grant funding. Our taxpayers paid \$1,272,350 in property taxes during the current year, which is an increase of \$30,423 from 2013.

Governmental expenses increased by \$337,951 in the current year. The largest increase was recorded in the public works program (\$706,012 in 2013 to \$1,058,047 in 2014). Public works expenses were higher due to increased maintenance costs in 2014. The net cost of all governmental activities this year was \$1,897,977 compared to \$1,301,643 last year. Most of the increase cost is attributed to public works.

Business-Type Activities

Revenues of the City's business-type activities were \$2,597,030 (see Table 2). There was a decrease in net position of \$6,749 during the year ended December 31, 2014. The factors driving these results include:

- Operations produced a loss of \$34,010 for the year ended December 31, 2014.
- Nonoperating revenues and expenses included property taxes of \$18,650, capital contributions of \$447,299, and \$40,153 of interest expense.
- The electric enterprise fund transferred \$100,000 to the permanent improvement and replacement capital project fund, and the water and sewer usage enterprise funds each transferred \$150,000 to that same fund during 2014.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

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, 2014, the City's governmental funds reported total ending fund balances of \$1,390,884, a decrease of \$7,302 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, made up 13%, or \$180,530 of the total ending fund balance; \$266,679 (19%) of the fund balance was committed, and \$863,494 (62%) was assigned.

At the end of the year, the general fund reported a fund balance of \$961,035, increasing \$48,564 from the prior year. General fund revenues increased by \$52,940 while general fund expenditures increased by \$8,193.

The community development revolving loan special revenue fund had no significant change in fund balance during the year ended December 31, 2014. Loan payments continue to be received.

The permanent improvement and replacement capital projects fund had a decrease in revenues and an increase in expenditures while the fund balance decreased by \$455,264 before transfers in. Revenues in 2014 were smaller because of decreased construction projects funded by intergovernmental revenues and the expenditures were higher due to the continued work on the construction projects. Most of these costs were offset by transfers from the enterprise funds of \$443,000.

In the other governmental funds, the fund balance decrease was primarily from expenditures exceeding revenues in the Library special revenue fund, debt service fund, and the energy bonds capital projects fund.

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 2014, the water enterprise fund reported an operating loss of \$192,688. Revenues increased from \$362,534 in 2013 to \$388,959 in 2014, however, total operating expenses also increased from \$394,304 in 2013 to \$581,647 in 2014. The increase to operating expenses was primarily due to increases in contractual services, personal services and employee benefits, repairs and maintenance, and depreciation. These increases all contributed to the operating loss.

The electric enterprise fund accounts for all electric operations of the City. In 2013 service revenues were \$1,114,042 and in 2014 service revenues were \$1,114,848. The electric enterprise fund remained relatively constant and reported an operating income of \$54,284 in 2014 compared to an operating income of \$73,356 in 2013. Operating expenses increased slightly from \$1,040,686 in 2013 to \$1,060,564 in 2014.

The sewer usage enterprise fund accounts for all sewer operations of the City. The increase in service revenues from \$476,430 in 2013 to \$624,718 in 2014 is due to an increase in rates. Operating expenses in 2014 decreased from \$549,427 in 2013 to \$520,324 in 2014. The increase in revenues and decrease in expenses resulted in operating income of \$104,394 compared to an operating loss of \$72,997 in 2013.

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2014, the City Council revised the City's general fund budget. The actual charges to appropriations (expenditures) were \$82,089 less than the final budgeted amount. The most significant positive variances occurred in the City's public works and capital outlay programs and the most negative variances occurred in the City's miscellaneous and general government programs. Resources available for appropriation were lower than the budgeted amounts by \$128,213. The City received \$212,736 less tax revenue than expected which was the most significant variance of the revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$10,255,478 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 \$538,146 over last year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	1,016,272	458,144	300,000	132,154	1,316,272	590,298
Infrastructure	2,567,336	2,657,509	-	-	2,567,336	2,657,509
Distribution system	-	-	2,255,733	2,363,776	2,255,733	2,363,776
Production system	-	-	781,340	695,016	781,340	695,016
Sewage treatment plant	-	-	1,434,986	1,466,364	1,434,986	1,466,364
General assets	-	-	160,423	164,469	160,423	164,469
Buildings, improvements and structures	977,023	1,004,494	-	-	977,023	1,004,494
Equipment and vehicles	315,571	341,496	-	-	315,571	341,496
Furniture and fixtures	50,108	37,224	-	-	50,108	37,224
Totals	\$ 5,294,410	\$ 4,866,967	\$ 4,961,068	\$ 4,850,365	\$10,255,478	\$ 9,717,332

This year's major additions included:

- New water and sewer lines
- Sewer plant blowers
- New police car
- Water plant construction
- Rubber roof on reservoir

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

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Debt

At year-end, the City had \$2,885,000 in long-term debt outstanding versus \$3,142,000 last year—as shown in Table 4.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General obligation bonds (backed by the City)	\$ 717,000	\$ 823,000	\$ 480,000	\$ 520,000	\$ 1,197,000	\$ 1,343,000
General obligation revenue bonds and notes	-	-	1,688,000	1,799,000	1,688,000	1,799,000
Total	<u>\$ 717,000</u>	<u>\$ 823,000</u>	<u>\$ 2,168,000</u>	<u>\$ 2,319,000</u>	<u>\$ 2,885,000</u>	<u>\$ 3,142,000</u>

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$262,000 at year end is significantly below this \$1,627,596 State-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2015 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2015 budget included:

- Upgrade of certain streets, alleys and utility infrastructure
- Returning the City's public works crew to a full complement
- Continued development and implementation of a safety program for all City employees
- Continued upgrading operating software to realize efficiencies and reporting accuracy
- Expansion of the City cemetery
- Upgrading fire equipment

Overall 2015 budget goals include the following:

- maintaining the level of services provided to the Gilbert residents
- continued transparency of financial and accounting systems and management
- continued collaboration between departments for supplies and services
- attracting residential and business development in Gilbert to create a greater tax base
- development of a utility project to enhance economic development in the northern part of the City

In 2015, the City will increase its levy by 8%. This increase is needed to help stabilize funding in light of fluctuating LGA, and to accommodate increases in insurances, operating costs and services.

CITY OF GILBERT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION

December 31, 2014

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 1,245,542	\$ 446,934	\$ 1,692,476
Taxes receivable	67,052	-	67,052
Special assessments receivable	21,253	304,035	325,288
Accounts receivable	25,330	324,373	349,703
Due from other governments	161,261	-	161,261
Loans receivable	29,390	-	29,390
Prepaid items	83,276	-	83,276
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	1,016,272	300,000	1,316,272
Capital assets net of accumulated depreciation			
Infrastructure	2,567,336	-	2,567,336
Distribution system	-	2,255,733	2,255,733
Production system	-	781,340	781,340
Sewage treatment plant	-	1,434,986	1,434,986
General assets	-	160,423	160,423
Buildings, improvements and structures	977,023	-	977,023
Equipment and vehicles	315,571	-	315,571
Furniture and fixtures	50,108	-	50,108
TOTAL ASSETS	<u>6,927,514</u>	<u>6,036,410</u>	<u>12,963,924</u>
LIABILITIES			
Accounts payable	91,433	115,883	207,316
Salaries payable	36,632	8,436	45,068
Due to other governments	-	7,020	7,020
Customer deposits	-	14,625	14,625
Unearned revenues	7,450	-	7,450
Accrued interest payable	3,092	15,583	18,675
Noncurrent liabilities			
Due within one year			
Bonds and notes payable	111,000	151,000	262,000
Due in more than one year			
Bonds and notes payable	606,000	2,017,000	2,623,000
Severance payable	11,979	5,605	17,584
Other postemployment benefits payable	404,042	75,404	479,446
TOTAL LIABILITIES	<u>1,271,628</u>	<u>2,410,556</u>	<u>3,682,184</u>
NET POSITION			
Net investment in capital assets	4,702,410	2,967,485	7,669,895
Restricted for:			
Capital projects	96,616	-	96,616
Debt service	18,538	149,456	167,994
Community development	241,105	-	241,105
Culture and recreation	128,927	-	128,927
Unrestricted	468,290	508,913	977,203
TOTAL NET POSITION	<u>\$ 5,655,886</u>	<u>\$ 3,625,854</u>	<u>\$ 9,281,740</u>

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 619,567	\$ 81,271	\$ 100	\$ -
Public safety	913,070	338,932	62,890	2,485
Public works	1,058,047	59,947	-	356,359
Sanitation	194,741	190,645	-	-
Culture and recreation	296,953	94,998	7,991	-
Economic development	1,870	-	-	-
Interest on long-term debt	12,189	-	2,842	-
Total Governmental Activities	<u>3,096,437</u>	<u>765,793</u>	<u>73,823</u>	<u>358,844</u>
Business-type Activities				
Water	588,621	388,959	-	218,496
Electric	1,060,564	1,114,848	-	-
Sewer usage	554,594	624,718	-	228,803
Total Business-type Activities	<u>2,203,779</u>	<u>2,128,525</u>	<u>-</u>	<u>447,299</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,300,216</u>	<u>\$ 2,894,318</u>	<u>\$ 73,823</u>	<u>\$ 806,143</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

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

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

Governmental Activities	Business-type Activities	Total
\$ (538,196)	\$ -	\$ (538,196)
(508,763)	-	(508,763)
(641,741)	-	(641,741)
(4,096)	-	(4,096)
(193,964)	-	(193,964)
(1,870)	-	(1,870)
(9,347)	-	(9,347)
<u>(1,897,977)</u>	<u>-</u>	<u>(1,897,977)</u>
-	18,834	18,834
-	54,284	54,284
-	298,927	298,927
-	<u>372,045</u>	<u>372,045</u>
<u>(1,897,977)</u>	<u>372,045</u>	<u>(1,525,932)</u>
1,030,403	-	1,030,403
226,710	18,650	245,360
15,237	-	15,237
710,884	-	710,884
7,583	2,556	10,139
10,000	-	10,000
400,000	(400,000)	-
<u>2,400,817</u>	<u>(378,794)</u>	<u>2,022,023</u>
502,840	(6,749)	496,091
<u>5,153,046</u>	<u>3,632,603</u>	<u>8,785,649</u>
<u>\$ 5,655,886</u>	<u>\$ 3,625,854</u>	<u>\$ 9,281,740</u>

CITY OF GILBERT, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 768,467	\$ 211,715	\$ 26,059	\$ 239,301	\$ 1,245,542
Taxes receivable	63,965	-	-	3,087	67,052
Special assessments receivable	9,943	-	-	11,310	21,253
Accounts receivable	25,330	-	-	-	25,330
Due from other governments	161,261	-	-	-	161,261
Loans receivables	-	29,390	-	-	29,390
Prepaid items	83,276	-	-	-	83,276
TOTAL ASSETS	\$ 1,112,242	\$ 241,105	\$ 26,059	\$ 253,698	\$ 1,633,104
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 44,233	\$ -	\$ 43,984	\$ 3,216	\$ 91,433
Salaries payable	33,323	-	-	3,309	36,632
Unearned revenue	7,450	-	-	-	7,450
TOTAL LIABILITIES	85,006	-	43,984	6,525	135,515
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	56,380	-	-	-	56,380
Unavailable revenue-special assessments	9,821	-	-	11,114	20,935
Unavailable revenue-loans receivable	-	29,390	-	-	29,390
TOTAL DEFERRED INFLOWS OF RESOURCES	66,201	29,390	-	11,114	106,705
FUND BALANCES					
Nonspendable	83,276	-	-	-	83,276
Restricted	-	73,398	-	107,132	180,530
Committed	-	138,317	-	128,362	266,679
Assigned	862,929	-	-	565	863,494
Unassigned reported in reported in					
General fund	14,830	-	-	-	14,830
Capital projects funds	-	-	(17,925)	-	(17,925)
TOTAL FUND BALANCES	961,035	211,715	(17,925)	236,059	1,390,884
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,112,242	\$ 241,105	\$ 26,059	\$ 253,698	\$ 1,633,104

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, 2014

Amounts reported for governmental activities in the statement of net position

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 1,390,884
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	5,294,410
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements	106,705
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(3,092)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(1,133,021)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 5,655,886</u></u>

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2014

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,046,514	\$ -	\$ 38,243	\$ 188,467	\$ 1,273,224
Special assessments	49,336	-	-	7,423	56,759
Licenses and permits	11,160	-	-	-	11,160
Intergovernmental	778,189	-	356,359	2,842	1,137,390
Charges for services	534,280	-	-	89,927	624,207
Fines	20,957	-	-	3,241	24,198
Gifts and contributions	-	-	-	7,991	7,991
Interest	7,391	-	-	192	7,583
Miscellaneous	45,176	3,632	28	4	48,840
TOTAL REVENUES	2,493,003	3,632	394,630	300,087	3,191,352
EXPENDITURES					
Current					
General government	372,548	-	-	-	372,548
Public safety	802,037	-	-	-	802,037
Public works	625,330	-	-	-	625,330
Sanitation	188,838	-	-	-	188,838
Culture and recreation	61,202	-	-	187,521	248,723
Economic development	-	1,869	-	-	1,869
Miscellaneous	294,016	-	-	-	294,016
Debt Service					
Principal	-	-	-	106,000	106,000
Interest and fiscal charges	-	-	-	12,402	12,402
Capital Outlay					
General government	21,781	-	-	15,662	37,443
Public safety	52,284	-	-	-	52,284
Public works	-	-	789,595	-	789,595
Sanitation	-	-	60,299	8,470	68,769
Culture and recreation	-	-	-	5,800	5,800
TOTAL EXPENDITURES	2,418,036	1,869	849,894	335,855	3,605,654
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	74,967	1,763	(455,264)	(35,768)	(414,302)
OTHER FINANCING SOURCES (USES)					
Transfers in	9,597	-	443,000	-	452,597
Transfers out	(43,000)	-	-	(9,597)	(52,597)
Sale of capital assets	7,000	-	-	-	7,000
TOTAL OTHER FINANCING SOURCES (USES)	(26,403)	-	443,000	(9,597)	407,000
NET CHANGE IN FUND BALANCES	48,564	1,763	(12,264)	(45,365)	(7,302)
FUND BALANCES - JANUARY 1	912,471	209,952	(5,661)	281,424	1,398,186
FUND BALANCES - DECEMBER 31	\$ 961,035	\$ 211,715	\$ (17,925)	\$ 236,059	\$ 1,390,884

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, 2014

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (7,302)

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

Expenditures for capital assets	648,421	
Less current year depreciation	<u>(220,978)</u>	
Net capital assets		427,443

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

Change in unavailable revenue - delinquent property taxes	(874)	
Change in unavailable revenue - special assessments	3,011	
Change in unavailable revenue - loans receivable	<u>(3,633)</u>	
		(1,496)

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayments of debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.

Principal payments	<u>106,000</u>	106,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	213	
Change in long-term compensated absences	(895)	
Change in long-term other postemployment benefits	<u>(21,123)</u>	
		<u>(21,805)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 502,840

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	Business-type Activities - Enterprise Funds			Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ -	\$ 446,934	\$ -	\$ 446,934
Special assessments receivable	66,500	-	237,535	304,035
Accounts receivable	48,321	196,492	79,560	324,373
Due from other funds	-	130,425	-	130,425
Advances to other funds	-	200,000	-	200,000
TOTAL CURRENT ASSETS	<u>114,821</u>	<u>973,851</u>	<u>317,095</u>	<u>1,405,767</u>
NONCURRENT ASSETS				
Capital assets				
Land and improvements	10,500	-	18,086	28,586
Construction in progress	150,000	-	150,000	300,000
Distribution system	2,819,587	1,147,363	1,168,311	5,135,261
Production system	1,938,008	-	-	1,938,008
Sewage treatment plant	-	-	4,229,607	4,229,607
General assets	135,412	321,922	57,137	514,471
Less accumulated depreciation	(2,934,443)	(1,109,001)	(3,141,421)	(7,184,865)
TOTAL NONCURRENT ASSETS	<u>2,119,064</u>	<u>360,284</u>	<u>2,481,720</u>	<u>4,961,068</u>
TOTAL ASSETS	<u>2,233,885</u>	<u>1,334,135</u>	<u>2,798,815</u>	<u>6,366,835</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	6,170	91,545	18,168	115,883
Salaries payable	3,327	1,783	3,326	8,436
Accrued interest payable	2,522	-	13,061	15,583
Due to other funds	121,085	-	9,340	130,425
Advance from other funds	100,000	-	100,000	200,000
Due to other governments	-	7,020	-	7,020
Customer deposits	-	14,625	-	14,625
Notes payable - current	8,000	-	63,000	71,000
Bonds payable - current	24,388	-	55,612	80,000
TOTAL CURRENT LIABILITIES	<u>265,492</u>	<u>114,973</u>	<u>262,507</u>	<u>642,972</u>
NONCURRENT LIABILITIES				
Compensated absences	1,002	3,600	1,003	5,605
Other postemployment benefits payable	2,952	18,721	53,731	75,404
Notes payable	74,000	-	1,028,000	1,102,000
Bonds payable	294,764	-	620,236	915,000
TOTAL NONCURRENT LIABILITIES	<u>372,718</u>	<u>22,321</u>	<u>1,702,970</u>	<u>2,098,009</u>
TOTAL LIABILITIES	<u>638,210</u>	<u>137,294</u>	<u>1,965,477</u>	<u>2,740,981</u>
NET POSITION				
Net investment in capital assets	1,823,962	360,284	783,239	2,967,485
Restricted for debt service	-	-	149,456	149,456
Unrestricted (deficit)	(228,287)	836,557	(99,357)	508,913
TOTAL NET POSITION	<u>\$ 1,595,675</u>	<u>\$ 1,196,841</u>	<u>\$ 833,338</u>	<u>\$ 3,625,854</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, 2014

	Business-type Activities - Enterprise Funds			Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	
REVENUES				
Charges for services	\$ 387,209	\$ 1,110,026	\$ 624,718	\$ 2,121,953
Miscellaneous	1,750	4,822	-	6,572
TOTAL OPERATING REVENUES	<u>388,959</u>	<u>1,114,848</u>	<u>624,718</u>	<u>2,128,525</u>
OPERATING EXPENSES				
Source of supply	-	793,318	-	793,318
Personal services	78,054	60,382	78,055	216,491
Employee benefits	65,374	31,762	58,882	156,018
Contractual services	129,299	117,544	111,578	358,421
Utilities	32,568	1,804	58,745	93,117
Repairs and maintenance	85,050	5,177	18,103	108,330
Other supplies and expenses	54,362	15,751	22,985	93,098
Insurance claims and expenses	330	44	360	734
Depreciation	126,290	25,669	163,042	315,001
Miscellaneous	10,320	9,113	8,574	28,007
TOTAL OPERATING EXPENSES	<u>581,647</u>	<u>1,060,564</u>	<u>520,324</u>	<u>2,162,535</u>
OPERATING INCOME (LOSS)	<u>(192,688)</u>	<u>54,284</u>	<u>104,394</u>	<u>(34,010)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	-	2,556	-	2,556
Property taxes	-	-	18,650	18,650
Fiscal agent fees	(354)	-	(737)	(1,091)
Interest expense	(6,620)	-	(33,533)	(40,153)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(6,974)</u>	<u>2,556</u>	<u>(15,620)</u>	<u>(20,038)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(199,662)</u>	<u>56,840</u>	<u>88,774</u>	<u>(54,048)</u>
Capital contributions	218,496	-	228,803	447,299
Transfers out	(150,000)	(100,000)	(150,000)	(400,000)
CHANGE IN NET POSITION	<u>(131,166)</u>	<u>(43,160)</u>	<u>167,577</u>	<u>(6,749)</u>
TOTAL NET POSITION - JANUARY 1	<u>1,726,841</u>	<u>1,240,001</u>	<u>665,761</u>	<u>3,632,603</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 1,595,675</u>	<u>\$ 1,196,841</u>	<u>\$ 833,338</u>	<u>\$ 3,625,854</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, 2014

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 382,388	\$ 1,132,834	\$ 603,530	\$ 2,118,752
Cash paid to suppliers	(378,977)	(964,584)	(271,603)	(1,615,164)
Cash paid to employees	(75,959)	(58,328)	(74,047)	(208,334)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(72,548)</u>	<u>109,922</u>	<u>257,880</u>	<u>295,254</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(50,000)	(300,000)	(50,000)	(400,000)
Water fund cash deficit implicitly financed	121,085	(121,085)	-	-
Prior year sewer fund cash deficit implicitly financed	-	80,364	(80,364)	-
Sewer fund cash deficit implicitly financed	-	(9,340)	9,340	-
Property taxes received	-	-	18,650	18,650
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>71,085</u>	<u>(350,061)</u>	<u>(102,374)</u>	<u>(381,350)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase or construction of capital assets	(107,147)	(7,738)	(20,431)	(135,316)
Fiscal agent fees	(354)	-	(737)	(1,091)
Principal paid on long-term debt	(32,388)	-	(118,612)	(151,000)
Interest paid on long-term debt	(6,767)	-	(34,377)	(41,144)
Capital contributions from special assessments	1,996	-	18,651	20,647
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(144,660)</u>	<u>(7,738)</u>	<u>(155,506)</u>	<u>(307,904)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	-	2,556	-	2,556
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(146,123)</u>	<u>(245,321)</u>	<u>-</u>	<u>(391,444)</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>146,123</u>	<u>692,255</u>	<u>-</u>	<u>838,378</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ -</u>	<u>\$ 446,934</u>	<u>\$ -</u>	<u>\$ 446,934</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, 2014

Business-type Activities - Enterprise Funds

	<u>Water Enterprise Fund</u>	<u>Electric Enterprise Fund</u>	<u>Sewer Usage Enterprise Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (192,688)	\$ 54,284	\$ 104,394	\$ (34,010)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	126,290	25,669	163,042	315,001
Changes in assets and liabilities (Increase) decrease in:				
Accounts receivable	(6,571)	17,086	(21,188)	(10,673)
Increase (decrease) in:				
Accounts payable	(1,663)	10,498	7,624	16,459
Salaries payable	389	217	388	994
Due to other governments	(11)	(569)	-	(580)
Customer deposits	-	900	-	900
Compensated absences	180	-	181	361
Other postemployment benefits	1,526	1,837	3,439	6,802
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (72,548)</u>	<u>\$ 109,922</u>	<u>\$ 257,880</u>	<u>\$ 295,254</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Total capital asset additions	\$ 247,535	\$ 7,738	\$ 170,431	\$ 425,704
City capital asset contributions	(150,000)	-	(150,000)	(300,000)
Contracts payable prior year	9,612	-	-	9,612
Cash paid for purchase or construction of capital assets	<u>\$ 107,147</u>	<u>\$ 7,738</u>	<u>\$ 20,431</u>	<u>\$ 135,316</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

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

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

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

Nonmajor Governmental Funds:

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

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

Capital Project 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 and liabilities 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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 net total 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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 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."

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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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) 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 inflows of resources in the general fund because they are not available to finance the current year operations of the City. Deferred inflows of resources is also recorded in other funds and represents loans receivable and special assessments receivable.

- 9) 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 and other postemployment benefits and severance payable.

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 10) 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 one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the general fund, special assessments, which are reported in the General and Debt Service Funds, and loans receivable, which are reported in the Community Development Revolving Loan Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 11) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

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

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

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

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

Unassigned—all other spendable amounts.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

F. Revenues and Expenditures

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

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, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Fund and Net Position Deficits

The following fund had a deficit fund balance or net position at December 31, 2014:

Government Fund	
Permanent Improvement and Replacement Capital Projects Fund	\$ <u>(17,925)</u>

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

NOTE 3 - CASH AND CASH EQUIVALENTS

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

"Cash and cash equivalents" recorded are comprised of:

Petty cash	\$ 650
Cash	1,311,388
Certificates of Deposit	313,000
Investments	<u>67,438</u>
Total	<u>\$ 1,692,476</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 \$1,624,388; the bank balance was \$1,680,172. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging institution's agent in the City's name.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3- CASH AND CASH EQUIVALENTS (CONTINUED)

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.

As of December 31, 2014, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money Market (4M) Fund	\$ 59,617	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>7,821</u>	Not Rated
	<u>\$ 67,438</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 2014, the City did not invest in securities.

NOTE 4 - LOANS RECEIVABLE

The City is involved in several economic/community development projects. Several businesses received loans from the City during the year and in prior years. The unpaid principal balance on these loans as of December 31, 2014 was \$29,390 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, 2014

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 368,100	\$ -	\$ -	\$ -	\$ 368,100
Construction in progress	458,144	558,128	-	-	1,016,272
Total capital assets, not being depreciated	<u>826,244</u>	<u>558,128</u>	<u>-</u>	<u>-</u>	<u>1,384,372</u>
Capital assets, being depreciated:					
Infrastructure	3,000,213	7,428	-	-	3,007,641
Buildings, improvements and structures	2,504,250	-	-	-	2,504,250
Equipment and vehicles	1,758,666	61,084	(33,784)	-	1,785,966
Furniture and fixtures	335,213	21,781	-	-	356,994
Total capital assets, being depreciated	<u>7,598,342</u>	<u>90,293</u>	<u>(33,784)</u>	<u>-</u>	<u>7,654,851</u>
Less accumulated depreciation for:					
Infrastructure	(342,704)	(97,601)	-	-	(440,305)
Buildings, improvements and structures	(1,499,756)	(27,471)	-	-	(1,527,227)
Equipment and vehicles	(1,417,170)	(87,009)	33,784	-	(1,470,395)
Furniture and fixtures	(297,989)	(8,897)	-	-	(306,886)
Total accumulated depreciation	<u>(3,557,619)</u>	<u>(220,978)</u>	<u>33,784</u>	<u>-</u>	<u>(3,744,813)</u>
Total capital assets, being depreciated, net	<u>4,040,723</u>	<u>(130,685)</u>	<u>-</u>	<u>-</u>	<u>3,910,038</u>
Governmental activities capital assets, net	<u>\$ 4,866,967</u>	<u>\$ 427,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,294,410</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 28,586	\$ -	\$ -	\$ -	\$ 28,586
Construction in progress	132,154	300,000	-	(132,154)	300,000
Total capital assets, not being depreciated	<u>160,740</u>	<u>300,000</u>	<u>-</u>	<u>(132,154)</u>	<u>328,586</u>
Capital assets, being depreciated:					
Distribution system	5,102,033	33,228	-	-	5,135,261
Production system	1,797,133	77,329	-	63,546	1,938,008
Sewage treatment plant	4,156,866	4,133	-	68,608	4,229,607
General assets	503,457	11,014	-	-	514,471
Total capital assets, being depreciated	<u>11,559,489</u>	<u>125,704</u>	<u>-</u>	<u>132,154</u>	<u>11,817,347</u>
Less accumulated depreciation for:					
Distribution system	(2,738,257)	(141,271)	-	-	(2,879,528)
Production system	(1,102,117)	(54,551)	-	-	(1,156,668)
Sewage treatment plant	(2,690,502)	(104,119)	-	-	(2,794,621)
General assets	(338,988)	(15,060)	-	-	(354,048)
Total accumulated depreciation	<u>(6,869,864)</u>	<u>(315,001)</u>	<u>-</u>	<u>-</u>	<u>(7,184,865)</u>
Total capital assets, being depreciated, net	<u>4,689,625</u>	<u>(189,297)</u>	<u>-</u>	<u>132,154</u>	<u>4,632,482</u>
Business-type activities capital assets, net	<u>\$ 4,850,365</u>	<u>\$ 110,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,961,068</u>

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 31,783
Public safety	53,222
Public works	81,841
Sanitation	5,902
Recreation	<u>48,230</u>
Total depreciation expense- governmental activities	<u>\$ 220,978</u>
 Business-type activities	
Water	\$ 126,290
Electric	25,669
Sewer usage	<u>163,042</u>
Total depreciation expense - business-type activities	<u>\$ 315,001</u>

NOTE 6 - LONG-TERM DEBT

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

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 92,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	455,000
GO Bonds, Equipment Certificates, Series 2012A	03/01/2012	0.40-1.80%	\$ 75,000	05/01/2017	45,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>125,000</u>
Governmental activities long-term debt					<u>717,000</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

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 Improvement Bonds, Series 2008A	05/01/2008	3.10-4.40%	\$ 665,000	02/01/2024	\$ 480,000
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	325,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	190,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	82,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$ 1,337,076	08/20/2030	<u>1,091,000</u>
Business-type activities long-term debt					<u>2,168,000</u>
Total long-term debt					<u>\$ 2,885,000</u>

Governmental funds

In 2012, the City issued \$1,025,000 in GO Bonds, Series 2012A. \$585,000 of the bonds issued were to refund the \$770,000 GO refunding improvement bonds issued in 2005 of which those proceeds were used to effect a crossover refunding of \$725,000 of the outstanding GO Improvement Bonds of 1999 issued to finance the costs of street, curb, gutter, storm sewer as well as related water and sewer improvements within the City. Principal and interest paid for the current year was \$70,653. At December 31, 2014, 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 \$478,065.

\$75,000 of the \$1,025,000 GO Bonds, Series 2012A issued in 2012 were used to purchase a police squad car and two public utility vehicles. Principal and interest paid for the current year totaled \$15,398. At December 31, 2014, principal and interest to maturity in 2017 on the refunding bonds to be paid from ad valorem taxes on all taxable property within the City totaled \$45,600.

In 2012, the City issued \$350,000 Taxable General Obligation Improvement Plan and Utility Revenue Bonds, Series 2012B. \$140,000 of these bonds were used to finance the energy conservation improvements to the City Hall and Library facilities. Principal and interest paid for the current year totaled \$17,981. At December 31, 2014, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$139,719.

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 \$13,275. At December 31, 2014, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$100,164.

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 \$10,592. At December 31, 2014, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$94,269.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The City has pledged future sewer usage fund revenues, net of any normal and reasonable expenses of operations, to repay \$665,000 in GO improvement bonds issued in 2008 and a \$1,337,076 GO revenue note issued in 2010. Proceeds from the 2008 bonds were used to construct a sewer line extension and proceeds from the 2010 revenue note were used to finance a wastewater treatment project. Principal and interest paid for the current year on both issues was \$135,060. At December 31, 2014, principal and interest on the 2008 bonds to maturity in 2024 to be paid from pledged future revenues totaled \$588,985 and on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$1,186,030.

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 \$26,080. At December 31, 2014, 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 \$242,445 for the water bonds and \$131,730 for the sewer bonds.

Of the \$350,000 Taxable General Obligation Improvement Plan and Utility Revenue Bonds, Series 2012B, \$120,000 was used to finance the energy conservation improvements to the City's water plant and \$90,000 was used to finance the energy conservation improvements to the City's sewer plant. Principal and interest paid for the current year totaled \$24,675. At December 31, 2014, principal and interest to maturity in 2023 which will be paid from net revenues of the water and wastewater systems totaled \$122,186 for the water bonds and \$91,639 for the sewer bonds.

Long-term debt activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
GO Abatement Refunding Bonds, Series 2012C	\$ 103,000	\$ -	\$ (11,000)	\$ 92,000	\$ 16,000
GO Refunding Bonds, Series 2012A	520,000	-	(65,000)	455,000	65,000
GO Bonds, Equipment Certificates, Series 2012A	60,000	-	(15,000)	45,000	15,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	<u>140,000</u>	<u>-</u>	<u>(15,000)</u>	<u>125,000</u>	<u>15,000</u>
Total governmental activities - long-term debt	<u>\$ 823,000</u>	<u>\$ -</u>	<u>\$ (106,000)</u>	<u>\$ 717,000</u>	<u>\$ 111,000</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-type activities					
Bonds payable					
GO Improvement Bonds, Series 2008A	\$ 520,000	\$ -	\$ (40,000)	\$ 480,000	\$ 40,000
GO Utility Revenue Bonds, Series 2012A	345,000	-	(20,000)	325,000	20,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	210,000	-	(20,000)	190,000	20,000
Revenue Notes payable					
GO Revenue Note of 2003	90,000	-	(8,000)	82,000	8,000
GO Revenue Note of 2010	<u>1,154,000</u>	<u>-</u>	<u>(63,000)</u>	<u>1,091,000</u>	<u>63,000</u>
Total business-type activities long-term debt	<u>\$ 2,319,000</u>	<u>\$ -</u>	<u>\$ 151,000</u>	<u>\$ 2,168,000</u>	<u>\$ 151,000</u>

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

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 111,000	\$ 10,477	\$ 151,000	\$ 42,787	\$ 262,000	\$ 53,264
2016	106,000	9,526	152,000	40,056	258,000	49,582
2017	106,000	8,266	164,000	36,973	270,000	45,239
2018	90,000	6,806	164,000	33,585	254,000	40,391
2019	95,000	5,280	165,000	30,076	260,000	35,356
2020-2024	209,000	6,193	857,000	87,335	1,066,000	93,528
2025-2029	-	-	442,000	17,742	442,000	17,742
2030-2034	-	-	<u>73,000</u>	<u>730</u>	<u>73,000</u>	<u>730</u>
Total	<u>\$ 717,000</u>	<u>\$ 46,548</u>	<u>\$ 2,168,000</u>	<u>\$ 289,284</u>	<u>\$ 2,885,000</u>	<u>\$ 335,832</u>

No interest was capitalized during 2014; interest incurred and charged to expense totaled \$55,509.

NOTE 7 - LEASE OBLIGATIONS

Copy Machine Agreements

The City leases copy machines under non-cancelable operating leases. Total costs for such leases were \$4,310 for the year ended December 31, 2014. The future minimum lease payments are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2015	\$ 3,926
2016	3,926
2017	1,501
2018	1,280
2019	<u>1,174</u>
Total	<u>\$ 11,807</u>

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. There are 4 active and 11 retired members in the plan as of December 31, 2014. Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees.

Funding Policy

The City has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For 2014, 11 retirees received postemployment benefits. The City provided required contributions of \$140,925 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$53,770. Required contributions are based on projected pay-as-you-go financing.

Annual OPEB Cost and Net OPEB Obligation

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

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Normal cost (service cost for one year)	\$ 42,833	\$ 10,785	\$ 53,618
Amortization of unfunded actuarial accrued liability	64,412	44,812	109,224
Interest on normal cost and amortization	<u>4,093</u>	<u>1,915</u>	<u>6,008</u>
Annual required contribution	111,338	57,512	168,850
Adjustment to annual required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Annual OPEB cost (expense)	111,338	57,512	168,850
Contributions toward the OPEB cost	<u>(90,215)</u>	<u>(50,710)</u>	<u>(140,925)</u>
Increase in net OPEB obligation	21,123	6,802	27,925
Net OPEB obligation, beginning of year	<u>382,919</u>	<u>68,602</u>	<u>451,521</u>
Net OPEB obligation, end of year	\$ <u>404,042</u>	\$ <u>75,404</u>	\$ <u>479,446</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/14	\$ 168,850	83.5%	\$ 479,446
12/31/13	\$ 168,850	64.8%	\$ 451,521
12/31/12	\$ 194,784	56.2%	\$ 392,103
12/31/11	\$ 194,784	51.9%	\$ 306,835
12/31/10	\$ 173,742	41.1%	\$ 213,047

Funding Status and Funding Progress

The funding status of the plan as of January 1, 2013, the date of the latest actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
1/1/2013	\$ -	\$ 2,364,468	\$ 2,364,468	0.0%	\$ 1,111,395	212.7%

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

Actuarial Methods and Assumptions

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

The City's OPEB alternative method calculation valuation as of January 1, 2013, used the entry age cost method to estimate both the unfunded actuarial liability as of December 31, 2014 and to estimate the City's 2014 annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 2 percent rate of return on invested

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

assets, which is the City's long-term expectation of investment returns under its investment policy. The actuarial assumptions include an initial annual healthcare cost trend rate of 7.5% the first year, and then reduced by .5% per year to an ultimate rate of 4.5% after 6 years. The unfunded actuarial accrued liability is being amortized using the level percentage of payroll method over 30 years on an open basis.

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2014, is as follows:

Due to/from other funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise	Water Enterprise	\$ 121,085
Electric enterprise	Sewer Enterprise	9,340
Total All Funds		<u>\$ 130,425</u>

These balances resulted from the elimination of cash deficits.

Advances to/from other funds --

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise	Water Enterprise	\$ 100,000
	Sewer Usage Enterprise	100,000
		<u>\$ 200,000</u>

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

Interfund transfers for the year ended December 31, 2014, consisted of the following:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
General	Nonmajor - Campground Special Revenue	\$ 9,597
Permanent Improvement and Replacement Capital Projects	General	43,000
	Water Enterprise	150,000
	Electric Enterprise	100,000
	Sewer Usage Enterprise	150,000
Total All Funds		<u>\$ 452,597</u>

The transfers were made to fund project costs and for an equity transfer out of the special revenue fund.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 10 - FUND EQUITY

Fund Balances

As of December 31, 2014, 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
Nonspendable:					
Prepaid items	\$ 83,276	\$ -	\$ -	\$ -	\$ 83,276
Restricted:					
Rehabilitation loans	-	73,398	-	-	73,398
Debt service	-	-	-	10,516	10,516
Capital Projects	-	-	-	96,616	96,616
Total Restricted	-	73,398	-	107,132	180,530
Committed:					
Storefront loans	-	138,317	-	-	138,317
Library	-	-	-	80,259	80,259
Campground	-	-	-	48,103	48,103
Total Committed	-	138,317	-	128,362	266,679
Assigned:					
Cash flow	850,950	-	-	565	851,515
Compensated absences	11,979	-	-	-	11,979
Total Assigned	862,929	-	-	565	863,494
Unassigned	14,830	-	(17,925)	-	(3,095)
Total fund balances	\$ 961,035	\$ 211,715	\$ (17,925)	\$ 236,059	\$ 1,390,884

NOTE 11 - SUBSEQUENT EVENT

Certificate of Indebtedness

On March 23, 2015 the City of Gilbert, Minnesota issued a \$108,000 certificate of indebtedness that bears a 2.75% interest rate and will be paid back quarterly until maturity on March 16, 2020. The City issued the certificate to fund the purchase of a new fire brush truck.

Sanitation Enterprise Fund

Starting January 1, 2015, sanitation department operations are reported in an enterprise fund which includes capital assets, depreciation, and any long-term debt activity. Prior to this, sanitation department operations were reported as a department of the General Fund.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - 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 collectibility of any related receivable at December 31, 2014, 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, 2014. The projects were evidenced by contractual commitments with contractors and engineers.

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Circle Drive Project	\$ 558,320	\$ 25,054
Minnesota and Michigan Avenue Projects	315,875	13,409
New Jersey and Ohio Avenue Projects	361,740	16,278
East Industrial Park Project	60,299	40,981
Lower Louisiana Project	4,375	13,125
City Hall Roofs and Doors Project	15,662	137,624
Total	<u>\$1,316,271</u>	<u>\$ 246,471</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, 2016 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. The contract also provides for rate adjustments throughout the term of the contract.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 13 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 had entered into 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 was in effect until December 31, 2014. The contractor charged the City an agreed upon rate times the number of residential customers. The contract provided for the rate to increase three percent each year of the contract. A new contract is currently being negotiated.

Accounting Software Agreement

The City has entered into an agreement for the purchase and use of new accounting software. Total fees paid for the software and services during the year totaled \$11,234. The future minimum payment terms are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2015	\$ 11,233
2016	<u>11,233</u>
Total	<u>\$ 22,466</u>

NOTE 14 - JOINT VENTURES

Police Services

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

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

In consideration of services, the City of Biwabik has agreed to pay an annual fee to the City of Gilbert. This fee is established by the Cities of Gilbert and Biwabik on an annual basis by September 7 of each year. The City of Gilbert requests payment from the City of Biwabik on a quarterly basis. During 2014, the City of Biwabik paid the City of Gilbert \$303,489 for police services.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 14 - JOINT VENTURES (CONTINUED)

Tri-Cities Biosolids Disposal Authority

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Gilbert's contribution to the Authority's budget during 2014 was \$22,680. 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 2000 Census. The City of Gilbert's contribution to the Authority's budget during 2014 was \$3,861. Complete financial information can be obtained from the Biosolids Disposal Site Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

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

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 14 - JOINT VENTURES (CONTINUED)

The City of Gilbert's contribution to the Authority's budget during 2014 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 2014 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 \$2,485 to the ATV/OHM/Snowmobile Trail Board during 2014. Complete financial information can be obtained from the ATV/OHM/Snowmobile Trail Board, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

NOTE 15 - SEVERANCE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. Severance activity for the year ended December 31, 2014 was as follows:

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

NOTE 15 - SEVERANCE BENEFITS (CONTINUED)

	<u>Balance</u> <u>12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/14</u>
Governmental activities	\$ 11,084	\$ 895	\$ -	\$ 11,979
Business-type activities	<u>5,244</u>	<u>361</u>	<u>-</u>	<u>5,605</u>
Total	<u>\$ 16,328</u>	<u>\$ 1,256</u>	<u>\$ -</u>	<u>\$ 17,584</u>

NOTE 16 - DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Gilbert, Minnesota, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 16 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City of Gilbert, Minnesota, was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 15.3% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$50,854, \$42,672, and \$35,167, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$65,354, \$63,940, and \$55,672, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the Police and Fire Fund (10.8% for members and 16.2% for employers).

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,199,250	\$ 1,259,250	\$ 1,046,514	\$ (212,736)
Special assessments	-	-	49,336	49,336
Licenses and permits	8,450	8,450	11,160	2,710
Intergovernmental	793,811	793,811	778,189	(15,622)
Charges for services	527,205	527,205	534,280	7,075
Fines	15,000	15,000	20,957	5,957
Interest	4,500	4,500	7,391	2,891
Miscellaneous	13,000	13,000	45,176	32,176
TOTAL REVENUES	2,561,216	2,621,216	2,493,003	(128,213)
EXPENDITURES				
Current				
General government	343,795	343,795	372,548	(28,753)
Public safety	795,320	795,320	802,037	(6,717)
Public works	668,890	668,890	625,330	43,560
Sanitation	180,700	180,700	188,838	(8,138)
Culture and recreation	29,035	97,870	61,202	36,668
Miscellaneous	263,050	263,050	294,016	(30,966)
Capital Outlay				
General government	24,500	24,500	21,781	2,719
Public safety	36,000	36,000	52,284	(16,284)
Public works	20,000	20,000	-	20,000
Sanitation	30,000	30,000	-	30,000
Miscellaneous	40,000	40,000	-	40,000
TOTAL EXPENDITURES	2,431,290	2,500,125	2,418,036	82,089
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	129,926	121,091	74,967	(46,124)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	9,597	9,597
Transfers out	-	-	(43,000)	(43,000)
Sale of capital assets	-	-	7,000	7,000
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(26,403)	(26,403)
NET CHANGE IN FUND BALANCES	129,926	121,091	48,564	(72,527)
FUND BALANCE - JANUARY 1	912,471	912,471	912,471	-
FUND BALANCE - DECEMBER 31	\$ 1,042,397	\$ 1,033,562	\$ 961,035	\$ (72,527)

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Miscellaneous	\$ 12,500	\$ 12,500	\$ 3,632	\$ (8,868)
EXPENDITURES				
Current				
Economic development	<u>16,000</u>	<u>16,000</u>	<u>1,869</u>	<u>14,131</u>
NET CHANGE IN FUND BALANCES	(3,500)	(3,500)	1,763	5,263
FUND BALANCE - JANUARY 1	<u>209,952</u>	<u>209,952</u>	<u>209,952</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 206,452</u>	<u>\$ 206,452</u>	<u>\$ 211,715</u>	<u>\$ 5,263</u>

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA
SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS PLAN
Year Ended December 31, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
Governmental Activities						
1/1/2009	\$ -	\$1,396,779	\$1,396,779	0.0%	\$ 906,677	154.1%
1/1/2011	\$ -	\$1,729,382	\$1,729,382	0.0%	\$ 874,821	197.7%
1/1/2013	\$ -	\$1,610,872	\$1,610,872	0.0%	\$ 949,024	169.7%
Business-type Activities						
1/1/2009	\$ -	\$ 784,358	\$ 784,358	0.0%	\$ 170,763	459.3%
1/1/2011	\$ -	\$ 923,065	\$ 923,065	0.0%	\$ 143,146	644.8%
1/1/2013	\$ -	\$ 753,596	\$ 753,596	0.0%	\$ 162,371	464.1%

CITY OF GILBERT, MINNESOTA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2014

NOTE 1 - BUDGETING

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

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

Budgeted amounts are as originally adopted or as amended by the City Council. The Statements 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.

OTHER INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

Debt Service Fund

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

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

Capital Projects Fund

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

The Energy Bonds Capital Projects Fund is used to account for energy project disbursements from financial resources obtained from the 2012 GO CIP Energy Conservation Bonds' proceeds.

CITY OF GILBERT, MINNESOTA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014**

	<u>Library Special Revenue Fund</u>	<u>Campground Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Energy Bonds Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 83,709	\$ 49,760	\$ 9,216	\$ 96,616	\$ 239,301
Taxes receivable	1,983	-	1,104	-	3,087
Special assessments receivable	-	-	11,310	-	11,310
TOTAL ASSETS	<u>\$ 85,692</u>	<u>\$ 49,760</u>	<u>\$ 21,630</u>	<u>\$ 96,616</u>	<u>\$ 253,698</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2,426	\$ 790	\$ -	\$ -	\$ 3,216
Salaries payable	2,442	867	-	-	3,309
TOTAL LIABILITIES	<u>4,868</u>	<u>1,657</u>	<u>-</u>	<u>-</u>	<u>6,525</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-special assessments	-	-	11,114	-	11,114
FUND BALANCES					
Restricted	-	-	10,516	96,616	107,132
Committed	80,259	48,103	-	-	128,362
Assigned	565	-	-	-	565
TOTAL FUND BALANCES	<u>80,824</u>	<u>48,103</u>	<u>10,516</u>	<u>96,616</u>	<u>236,059</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 85,692</u>	<u>\$ 49,760</u>	<u>\$ 21,630</u>	<u>\$ 96,616</u>	<u>\$ 253,698</u>

CITY OF GILBERT, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended December 31, 2014

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Energy Bonds Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ 102,754	\$ -	\$ 85,713	\$ -	\$ 188,467
Special assessments	-	-	7,423	-	7,423
Intergovernmental	-	-	2,842	-	2,842
Charges for services	-	89,927	-	-	89,927
Fines	3,241	-	-	-	3,241
Gifts and contributions	7,991	-	-	-	7,991
Interest	-	192	-	-	192
Miscellaneous	-	4	-	-	4
TOTAL REVENUES	113,986	90,123	95,978	-	300,087
EXPENDITURES					
Current					
Culture and recreation	127,194	60,327	-	-	187,521
Debt Service					
Principal	-	-	106,000	-	106,000
Interest and other charges	-	-	12,402	-	12,402
Capital Outlay					
General government	-	-	-	15,662	15,662
Sanitation	-	-	-	8,470	8,470
Culture and recreation	-	5,800	-	-	5,800
TOTAL EXPENDITURES	127,194	66,127	118,402	24,132	335,855
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,208)	23,996	(22,424)	(24,132)	(35,768)
OTHER FINANCING USES					
Transfers out	-	(9,597)	-	-	(9,597)
NET CHANGE IN FUND BALANCES	(13,208)	14,399	(22,424)	(24,132)	(45,365)
FUND BALANCES - JANUARY 1	94,032	33,704	32,940	120,748	281,424
FUND BALANCES - DECEMBER 31	\$ 80,824	\$ 48,103	\$ 10,516	\$ 96,616	\$ 236,059

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended December 31, 2014

REVENUES

Taxes

General property	\$ 435,106
Taconite production	34,816
Taconite mining effects	51,043
Taconite homestead credit	104,692
Taconite municipal aid	200,333
Franchise	15,237
Other	205,287
Total Taxes	<u>1,046,514</u>

Special Assessments

Principal	49,164
Interest and penalties	172
Total Special Assessments	<u>49,336</u>

Licenses and Permits

11,160

Intergovernmental

State	
Local government aid	706,175
Police training	1,931
PERA aid	3,636
Police aid	45,315
Fire aid	900
DNR grant for OHV trails	3,558
County	
OHV trail grant	13,105
Safe and sober	3,569
Total Intergovernmental	<u>778,189</u>

Charges for Services

General government	
Rent	1,826
Miscellaneous	18,380
Public safety	
City of Biwabik's share of police	303,489
Other	3,266
Public works	
Other	149
Sanitation	
Garbage removal	190,625
Sale of cardboard	20
Cemetery	16,525
Total Charges for Services	<u>534,280</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2014

REVENUES (CONTINUED)

Fines	
Court fines	\$ 18,574
Administrative fines	<u>2,383</u>
Total Fines	<u>20,957</u>
Interest	
Interest income	5,471
Gain on fair value of investments	<u>1,920</u>
Total Interest	<u>7,391</u>
Miscellaneous	
Insurance recoveries	9,575
Insurance dividends	15,001
Reimbursements	580
Donations	100
Other	<u>19,920</u>
Total Miscellaneous	<u>45,176</u>
TOTAL REVENUES	<u>2,493,003</u>

EXPENDITURES

Current

General Government	
Mayor and council	26,144
City clerk-treasurer	180,326
Elections	3,818
Assessor	9,707
Independent audit	17,000
Legal	15,967
Planning and zoning	3,093
Community center	22,060
Information technology	64,623
Other	<u>29,810</u>
Total General Government	<u>372,548</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2014

EXPENDITURES

Current (continued)

Public Safety	
Police	\$ 724,518
Fire	71,288
Animal control	5,502
First responders	729
Total Public Safety	<u>802,037</u>
Public Works	
Maintenance	605,124
Engineering	920
Street lighting	19,286
Total Public Works	<u>625,330</u>
Sanitation	
Refuse collection and disposal	185,953
Recycling	2,885
Total Sanitation	<u>188,838</u>
Culture and Recreation	
Recreation - other	5,540
Recreation center	49,374
Mesabi trail maintenance	480
Contribution to range recreation civic center	4,033
OHV parks and trails	1,775
Total Culture and Recreation	<u>61,202</u>
Miscellaneous	
Insurance	159,322
Employer-paid insurance	90,215
Utilities	7,401
Cemetery	7,605
Other	29,473
Total Miscellaneous	<u>294,016</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2014

EXPENDITURES (CONTINUED)

Capital Outlay

General Government	
Community center	\$ 10,672
City clerk	3,516
City hall	<u>7,593</u>
Total General Government	<u>21,781</u>

Public Safety	
Police	<u>52,284</u>

TOTAL EXPENDITURES 2,418,036

EXCESS OF REVENUES OVER EXPENDITURES 74,967

OTHER FINANCING SOURCES (USES)

Transfers in	9,597
Transfers out	(43,000)
Sale of capital assets	<u>7,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(26,403)</u>

NET CHANGE IN FUND BALANCE 48,564

FUND BALANCE - JANUARY 1 912,471

FUND BALANCE - DECEMBER 31 \$ 961,035

CITY OF GILBERT, MINNESOTA

COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2014

REVENUES

Miscellaneous		
Principal on loan payments	\$	3,632

EXPENDITURES

Current

Economic Development		
Administration		<u>1,869</u>

NET CHANGE IN FUND BALANCE		1,763
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FUND BALANCE - JANUARY 1		<u>209,952</u>
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FUND BALANCE - DECEMBER 31	\$	<u>211,715</u>
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CITY OF GILBERT, MINNESOTA

**PERMANENT IMPROVEMENT AND REPLACEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2014**

REVENUES

Taxes	
General property	\$ 22,268
Taconite homestead credit	5,669
Other	<u>10,306</u>
Total Taxes	<u>38,243</u>

Intergovernmental

State	
Taconite producer grant	128,444
Iron Range Resources	<u>227,915</u>
Total Intergovernmental	<u>356,359</u>

Miscellaneous

Other	<u>28</u>
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TOTAL REVENUES	<u>394,630</u>
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EXPENDITURES

Capital Outlay

Public Works

Circle Drive project	144,981
Michigan and Minnesota Avenue projects	293,791
Alaska Avenue/DeCare project	7,458
New Jersey and Ohio Avenue projects	338,990
Lower Louisiana Avenue project	<u>4,375</u>
Total Public Works	789,595

Sanitation

East Industrial Park project	<u>60,299</u>
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TOTAL EXPENDITURES	<u>849,894</u>
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DEFICIENCY OF REVENUES OVER EXPENDITURES	(455,264)
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OTHER FINANCING SOURCES

Transfers in	<u>443,000</u>
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NET CHANGE IN FUND BALANCE	(12,264)
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FUND BALANCE - JANUARY 1	<u>(5,661)</u>
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FUND BALANCE - DECEMBER 31	<u>\$ (17,925)</u>
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CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 103,500	\$ 103,500	\$ 102,754	\$ (746)
Fines	3,700	3,700	3,241	(459)
Gifts and contributions	6,400	6,400	7,991	1,591
TOTAL REVENUES	<u>113,600</u>	<u>113,600</u>	<u>113,986</u>	<u>386</u>
EXPENDITURES				
Current				
Culture and recreation	137,938	137,938	127,194	10,744
Capital Outlay				
Culture and recreation	3,000	3,000	-	3,000
TOTAL EXPENDITURES	<u>140,938</u>	<u>140,938</u>	<u>127,194</u>	<u>13,744</u>
NET CHANGE IN FUND BALANCE	(27,338)	(27,338)	(13,208)	14,130
FUND BALANCE - JANUARY 1	<u>94,032</u>	<u>94,032</u>	<u>94,032</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 66,694</u>	<u>\$ 66,694</u>	<u>\$ 80,824</u>	<u>\$ 14,130</u>

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2014

REVENUES

Taxes	
General property	\$ 61,064
Taconite homestead credit	14,675
Other	<u>27,015</u>
Total Taxes	102,754
Fines	
Library fines	3,241
Gifts and Contributions	<u>7,991</u>
TOTAL REVENUES	<u>113,986</u>

EXPENDITURES

Current

Culture and Recreation	
Personal services	100,397
Supplies	20,976
Other services and charges	5,612
Other	<u>209</u>
TOTAL EXPENDITURES	<u>127,194</u>
NET CHANGE IN FUND BALANCE	(13,208)
FUND BALANCE - JANUARY 1	<u>94,032</u>
FUND BALANCE - DECEMBER 31	<u>\$ 80,824</u>

CITY OF GILBERT, MINNESOTA

CAMPGROUND SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 60,000	\$ -	\$ -	\$ -
Charges for services	76,500	76,500	89,927	13,427
Interest	-	-	192	192
Miscellaneous	-	-	4	4
TOTAL REVENUES	<u>136,500</u>	<u>76,500</u>	<u>90,123</u>	<u>13,623</u>
EXPENDITURES				
Current				
Culture and recreation	136,535	67,700	60,327	7,373
Capital Outlay				
Culture and recreation	<u>3,000</u>	<u>3,000</u>	<u>5,800</u>	<u>(2,800)</u>
TOTAL EXPENDITURES	<u>139,535</u>	<u>70,700</u>	<u>66,127</u>	<u>4,573</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,035)	5,800	23,996	18,196
OTHER FINANCING USES				
Transfers out	-	-	(9,597)	(9,597)
NET CHANGE IN FUND BALANCE	(3,035)	5,800	14,399	8,599
FUND BALANCE - JANUARY 1	<u>33,704</u>	<u>33,704</u>	<u>33,704</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 30,669</u>	<u>\$ 39,504</u>	<u>\$ 48,103</u>	<u>\$ 8,599</u>

CITY OF GILBERT, MINNESOTA

CAMPGROUND SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2014

REVENUES

Charges for Services

Culture and recreation	
Campground fees	\$ 82,796
Other	<u>7,131</u>
Total Charges for Services	89,927

Interest 192

Miscellaneous

Other 4

TOTAL REVENUES 90,123

EXPENDITURES

Current

Culture and Recreation

Supplies	6,221
Other services and charges	50,838
Other	<u>3,268</u>
Total Culture and Recreation	60,327

Capital Outlay

Culture and Recreation

Equipment 5,800

TOTAL EXPENDITURES 66,127

**EXCESS OF REVENUES
OVER EXPENDITURES** 23,996

OTHER FINANCING USES

Transfers out (9,597)

NET CHANGE IN FUND BALANCE 14,399

FUND BALANCE - JANUARY 1 33,704

FUND BALANCE - DECEMBER 31 \$ 48,103

CITY OF GILBERT, MINNESOTA

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2014

REVENUES

Taxes	
General property	\$ 43,814
Taconite homestead credit	14,626
Other	<u>27,273</u>
Total Taxes	85,713
Special Assessments	
Principal	7,423
Intergovernmental	
Federal grants	
Interest reimbursement	<u>2,842</u>
TOTAL REVENUES	<u>95,978</u>

EXPENDITURES

Debt Service	
Principal	106,000
Interest and fiscal charges	<u>12,402</u>
TOTAL EXPENDITURES	<u>118,402</u>
NET CHANGE IN FUND BALANCE	(22,424)
FUND BALANCE - JANUARY 1	<u>32,940</u>
FUND BALANCE - DECEMBER 31	<u>\$ 10,516</u>

CITY OF GILBERT, MINNESOTA
ENERGY BOND CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2014

REVENUES	\$ <u> -</u>
EXPENDITURES	
Capital Outlay	
General Government	
City hall reroofing project	15,662
Sanitation	
Digester project	<u>8,470</u>
TOTAL EXPENDITURES	<u>24,132</u>
NET CHANGE IN FUND BALANCE	(24,132)
FUND BALANCE - JANUARY 1	<u>120,748</u>
FUND BALANCE - DECEMBER 31	<u>\$ 96,616</u>

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

To the City Council
City of Gilbert, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilbert, Minnesota as of and for the year ended December 31, 2014, 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 13, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-002, 2014-003, 2014-004, and 2014-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2014-001 to be a significant deficiency.

Compliance

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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

Other Matters

We noted certain matters that we reported to management of City of Gilbert, Minnesota in a separate letter dated August 13, 2015, included under this cover.

City of Gilbert, Minnesota's Response to Findings

City of Gilbert, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Gilbert, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Miray & Helne, LLC

Virginia, Minnesota
August 13, 2015

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES Year Ended December 31, 2014

2014-001. SEGREGATION OF DUTIES

Condition

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

Criteria

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

Effect

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

Cause

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

Recommendations

The City Council should be aware of this condition, 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.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City Council will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints. The City Council considered re-establishing the number of personnel in the business office.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City Clerk-Treasurer has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis. The City Council restored previous staffing levels in April, 2015.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014

2014-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED) Year Ended December 31, 2014

2014-003. BANK RECONCILIATIONS

Condition

The bank accounts were not reconciled monthly and timely to the general ledger for the year ending December 31, 2014. The City's December 31, 2014 monthly reconciliation was not completed until July 15, 2015.

Criteria

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

Effect

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

Cause

This occurred because of the failure to reconcile the bank accounts in a timely manner and because the new accounting software conversion was one month prior to year end.

Recommendations

The City should closely follow their Internal Control Procedures Policy which states, "Financial reports and bank reconciliations shall be prepared by the City Clerk-Treasurer and presented to the Council on a monthly basis" and if new accounting software is to be implemented, consider waiting until the beginning of a fiscal year to convert to the new system.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Bank accounts will be reconciled monthly and mispostings will be corrected timely.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City's bank accounts will be reconciled completely by August 31, 2015, and on a monthly basis thereafter.
5. Plan to Monitor Completion of CAP
The City Council is responsible for monitoring the completion of the plan.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014**

2014-004. CASH RECEIPTS

Condition

The City miscoded or misposted numerous revenues/receipts to improper funds and account codes.

Criteria

State, utility, interest and other revenues/receipts should be reviewed and reconciled throughout the year to identify any incorrectly posted revenue/receipt accounts.

Effect

When revenue/receipts are not coded correctly, numerous reclassification adjustments are required to recode the revenue/receipt to the proper fund and account. Further, the financial position of the funds and accounts could be reported incorrectly to decision makers throughout the year because any mispostings are not corrected timely.

Cause

This occurred because of the failure to perform accounting and internal control procedures.

Recommendations

The City should follow their Internal Control Procedures Policy which explains that all revenues/receipts should be coded or reviewed by the City Clerk-Treasurer and also reviewed monthly by the City Council.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will follow cash receipt control procedures and will review coding for proper posting to the correct account.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City has already begun to follow cash receipt control procedures and will continue to do so on an ongoing basis. This will be completed as part of the bank reconciliation CAP by August 31, 2015.
5. Plan to Monitor Completion of CAP
The City Council is in charge of monitoring the CAP.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014**

2014-005. DISBURSEMENTS

Condition

The City miscoded or misposted numerous disbursements to improper funds and account codes.

Criteria

Disbursements, including payroll, employee benefits, debt payments and others, should be reviewed and reconciled throughout the year to identify any incorrectly posted disbursements.

Effect

When disbursements are not identified or coded correctly, numerous reclassification adjustments are required to recode the disbursement to the proper fund and account. Further, the financial position of the funds and accounts could be reported incorrectly to decision makers throughout the year because any mispostings are not corrected timely.

Cause

This occurred because of the inability or failure to perform accounting and internal control procedures.

Recommendations

The City should follow their Internal Control Procedures Policy which explains the procedures that all disbursements should be coded or reviewed by the City Clerk-Treasurer and also reviewed monthly by the City Council.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will follow disbursement control procedures and review coding for proper posting to the correct account.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City has already begun to follow disbursement control procedures and will continue to do so on an ongoing basis. This will be completed as part of the bank reconciliation CAP by August 31, 2015.
5. Plan to Monitor Completion of CAP
The City Council is in charge of monitoring the CAP.

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, 2014, 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 our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated August 13, 2015, included under this cover, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated August 13, 2015, 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:

Internal Control and Operating Efficiency

1. The Water Enterprise Fund has reported operating losses of \$192,688, \$31,770, and \$77,605 in 2014, 2013 and 2012, respectively. In 2014, revenues were insufficient to cover interest, depreciation, and other operating expenses. Management needs to decide on a course of action to make this enterprise fund self-sufficient.
2. Numerous utility revenue and sales tax entries were posted to the general ledger incorrectly. This resulted in extra audit and City time needed to reconcile these accounts. We recommend the City reconcile these accounts timely and on an ongoing basis.

3. The City does not have a council approved policy for electronic transfers. The Council should approve a policy for electronic transfers to strengthen controls in this area.
4. The City was unable to provide a signed contract for one of their contracted personnel. We suggest the City obtain a signed contract for all personnel and contractors and make sure they are on file.
5. The City has not updated their Internal Control Procedures Policy in numerous years. Since it was last updated, there have been changes that are not reflected in the procedures policies. We suggest the Internal Control Procedures Policy be updated to reflect current procedures.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement No. 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement No. 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the City's statement of net position. The employer's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement No. 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement No. 68.

The net pension liability that, if material, will be reported in the City of Gilbert, Minnesota's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.

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.

Walther, Giroux & Helme, LLC

Virginia, Minnesota
August 13, 2015