

CITY OF GILBERT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2015

CITY OF GILBERT, MINNESOTA

TABLE OF CONTENTS
December 31, 2015

	<u>Page</u>
ORGANIZATION	1
FINANCIAL SECTION	
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	13
Statement of Activities.....	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Proprietary Funds	
Statement of Net Position.....	20
Statement of Revenues, Expenses, and Changes in Net Position.....	21
Statement of Cash Flows.....	22
Notes to Financial Statements.....	24
Required Supplementary Information	
General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual.....	58
Community Development Revolving Loan Special Revenue Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual.....	59
Schedule of Funding Progress for Postemployment Benefits Plan.....	60
Schedules of City's Proportionate Share of Net Pension Liability and City's Contribution for Defined Benefit Pension Plans.....	61
Schedule of City's Contribution.....	63
Schedule of Changes in Net Pension Liability/Asset.....	64
Notes to Required Supplementary Information.....	65
Other Information	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	67
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	68
Community Development Revolving Loan Special Revenue Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	72

CITY OF GILBERT, MINNESOTA

TABLE OF CONTENTS (CONTINUED)
December 31, 2015

	<u>Page</u>
Other Information (continued)	
Permanent Improvement and Replacement Capital Projects Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	73
Library Special Revenue Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	74
Statement of Revenues, Expenditures, and Changes in Fund Balance	75
Campground Special Revenue Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	76
Statement of Revenues, Expenditures, and Changes in Fund Balance	77
Debt Service Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	78
Energy Bonds Capital Projects Fund Statement of Revenues, Expenditures and Changes in Fund Balance	79
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	80
SCHEDULE OF FINDINGS AND RESPONSES	82
MANAGEMENT LETTER	84

CITY OF GILBERT, MINNESOTA

**ORGANIZATION
December 31, 2015**

CITY COUNCIL

Mayor

Rob Kutsi

Council Members

John Skalko
Corey Bol
Robert Pontinen
Jeremy Liimatta

ADMINISTRATION

City Clerk-Treasurer

Debra Sakrison

APPOINTED

City Attorney

Michael K. Kearney

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Gilbert, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gilbert, Minnesota, as of and for the year ended December 31, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Notes 1, 16, and 17, to the financial statements, for the year ended December 31, 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Emphasis of Matter Paragraph

Management has declined to allocate the net pension liability and related accounts to all departments and funds of the City. Our opinion on the basic financial statements is not affected.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for postemployment benefits plan, and schedules of City's proportionate share of net pension liability, City's contributions, and changes in net pension liability/asset for defined benefit pension plans 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 5, 2016, on our consideration of the City of Gilbert, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Gilbert, Minnesota's internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
August 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015. 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

- Net position of prior year's governmental activities decreased by \$997,797 due to a restatement. This decrease was due to the City implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This change in accounting principle is discussed in Note 11.
- Governmental activities' total net position is \$4,742,519, of which \$5,107,358 is the net investment in capital assets, and \$312,644 is restricted.
- Business-type activities have total net position of \$4,176,273; of which \$3,075,638 is the net investment in capital assets, and \$127,421 is restricted.
- The City of Gilbert's net position increased by \$634,849 for the year ended December 31, 2015. Of the increase, the governmental activities' net position increased by \$84,430, while the business-type activities' net position increased by \$550,419.
- The net cost of governmental activities was \$1,751,780 for the current fiscal year. The net cost was funded by general revenues totaling \$2,088,723.
- Governmental funds' fund balances decreased by \$266,421 with the permanent improvement and replacement capital projects fund reporting the largest decrease totaling \$120,266.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

These government-wide statements report the City's net position and how it has changed. You can think of the City's net position — the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources—as one way to measure the City's financial health. Increases or decreases in

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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.

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

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

Fund Financial Statements

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

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

Notes to the Financial Statements

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

Other Information

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

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that the City of Gilbert's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,918,772, which is an increase from the prior year after accounting for the GASB No. 68 restatement.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,560,476	\$ 1,633,104	\$ 1,473,932	\$ 1,075,342	\$ 3,034,408	\$ 2,708,446
Capital assets	<u>5,696,055</u>	<u>5,294,410</u>	<u>4,937,227</u>	<u>4,961,068</u>	<u>10,663,282</u>	<u>10,255,478</u>
Total assets	<u>7,256,531</u>	<u>6,927,514</u>	<u>6,411,159</u>	<u>6,036,410</u>	<u>13,697,690</u>	<u>12,963,924</u>
Deferred outflows related to pensions	<u>260,457</u>	-	-	-	<u>260,457</u>	-
Long-term liabilities outstanding	2,298,549	1,133,021	2,093,193	2,249,009	4,391,742	3,382,030
Other liabilities	<u>338,982</u>	<u>138,607</u>	<u>141,693</u>	<u>161,547</u>	<u>480,675</u>	<u>300,154</u>
Total liabilities	<u>2,637,531</u>	<u>1,271,628</u>	<u>2,234,886</u>	<u>2,410,556</u>	<u>4,872,417</u>	<u>3,682,184</u>
Deferred inflows related to pensions	<u>136,938</u>	-	-	-	<u>136,938</u>	-
Net Position						
Net investment in capital assets	5,107,358	4,702,410	3,075,638	2,967,485	8,182,996	7,669,895
Restricted	312,644	485,186	127,421	149,456	440,065	634,642
Unrestricted	<u>(677,483)</u>	<u>468,290</u>	<u>973,214</u>	<u>508,913</u>	<u>295,731</u>	<u>977,203</u>
Total net position	<u>\$ 4,742,519</u>	<u>\$ 5,655,886</u>	<u>\$ 4,176,273</u>	<u>\$ 3,625,854</u>	<u>\$ 8,918,792</u>	<u>\$ 9,281,740</u>

Net position of the City's governmental activities increased by 1.8 percent (\$4,742,519 compared to \$4,658,089). Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from a \$529,507 deficit at December 31, 2014 to a \$677,483 deficit at the end of this year.

Net position of the City's business-type activities increased by 15.2 percent (\$4,176,273 compared to \$3,625,854) in 2015.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 557,634	\$ 765,793	\$ 2,426,999	\$ 2,128,525	\$ 2,984,633	\$ 2,894,318
Operating grants and contributions	107,652	73,823	63,158	-	170,810	73,823
Capital grants and contributions	366,420	358,844	10,185	447,299	376,605	806,143
General revenues:						
Property taxes	1,326,319	1,272,350	18,650	18,650	1,344,969	1,291,000
Grants and contributions not restricted to specific programs	751,687	710,884	-	-	751,687	710,884
Unrestricted investment earnings	6,543	7,583	2,516	2,556	9,059	10,139
Gain on sale of capital assets	<u>4,174</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>4,174</u>	<u>10,000</u>
Total revenues	<u>3,120,429</u>	<u>3,199,277</u>	<u>2,521,508</u>	<u>2,597,030</u>	<u>5,641,937</u>	<u>5,796,307</u>

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Program expenses:						
General government	\$ 609,145	\$ 619,567	\$ -	\$ -	\$ 609,145	\$ 619,567
Public safety	986,185	913,070	-	-	986,185	913,070
Public works	777,386	1,058,047	-	-	777,386	1,058,047
Sanitation	6,491	194,741	185,670	-	192,161	194,741
Culture and recreation	310,172	296,953	-	-	310,172	296,953
Economic development	81,182	1,870	-	-	81,182	1,870
Interest on long-term debt	12,925	12,189	-	-	12,925	12,189
Water	-	-	483,082	588,621	483,082	588,621
Electric	-	-	952,759	1,060,564	952,759	1,060,564
Sewer usage	-	-	620,091	554,594	602,091	554,594
Total program expenses	<u>2,783,486</u>	<u>3,096,437</u>	<u>2,223,602</u>	<u>2,203,779</u>	<u>5,007,088</u>	<u>5,300,216</u>
Increase (decrease) in net position before transfers	336,843	102,840	297,906	393,251	634,849	496,091
Transfers	<u>(252,513)</u>	<u>400,000</u>	<u>252,513</u>	<u>(400,000)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	84,430	502,840	550,419	(6,749)	634,849	496,091
Net position, January 1	5,655,886	5,153,046	3,625,854	3,632,603	9,281,740	8,785,649
Prior period adjustment	<u>(997,797)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(997,797)</u>	<u>-</u>
Net position, December 31	<u>\$ 4,742,519</u>	<u>\$ 5,655,886</u>	<u>\$ 4,176,273</u>	<u>\$ 3,625,854</u>	<u>\$ 8,819,792</u>	<u>\$ 9,281,740</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 \$1,132,353, 36% of revenues; while property taxes levied for specific purposes were \$179,359, 6% of revenue. Intergovernmental revenue amounts to \$751,687 or 24% of total revenue while fees, fines, charges, and other revenues are 18% of total revenues. Capital grants and contributions amounted to 12% of total revenues.

Public safety expenses are the most significant (35%), followed by public works (28%), general government (22%), culture and recreation (11%) and interest and economic development (3%).

Governmental revenues decreased \$78,848 in 2015 primarily due to a decrease in changes for services. Our taxpayers paid \$1,326,319 in property taxes during the current year, which is an increase of \$53,969 from 2014.

Governmental expenses decreased by \$312,951 in the current year. The largest decrease was recorded in the public works program (\$1,058,047 in 2014 to \$777,386 in 2015). Public works expenses were lower due to increased maintenance costs in 2014. The net cost of all governmental activities this year was \$1,751,780 compared to \$1,897,977 last year. Most of the decreased cost is attributed to public works.

Business-Type Activities

Revenues of the City's business-type activities were \$2,521,508 (see Table 2). There was an increase in net position of \$550,419 during the year ended December 31, 2015. The factors driving these results include:

- Operations produced income of \$305,675 for the year ended December 31, 2015.
- Nonoperating revenues and expenses included property taxes of \$18,650, capital contributions of \$262,698, and \$37,684 of interest expense.
- Nonoperating revenues and expenses also included an extraordinary maintenance cost and insurance reimbursement for the cost of \$63,158.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

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, 2015, the City's governmental funds reported total ending fund balances of \$1,124,463, a decrease of \$266,421 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, comprised 6.7%, or \$74,989 of the total ending fund balance; \$225,732 (20%) of the fund balance was committed; and \$863,726 (77%) was assigned.

At the end of the year, the general fund reported a fund balance of \$961,933, increasing \$898 from the prior year. General fund revenues decreased by \$9,732 while general fund expenditures increased by \$39,723.

The community development revolving loan special revenue fund had a \$62,000 decrease in fund balance during the year ended December 31, 2015. New loans exceeded payments collected by this amount.

The permanent improvement and replacement capital projects fund had a decrease in revenues and decrease in expenditures while the fund balance decreased by \$182,841 before transfers in. Revenues in 2015 were smaller because of decreased construction projects funded by intergovernmental revenues and no taxes levied and the expenditures were lower due to the completion of the construction projects. Some of these costs were offset by transfers from the general fund of \$62,575.

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 2015, the water enterprise fund reported an operating income of \$48,896. Revenues increased from \$388,959 in 2014 to \$462,260 in 2015, while, total operating expenses decreased from \$581,647 in 2014 to \$413,364 in 2015. The decrease to operating expenses was primarily due to decreases in contractual services, repairs and maintenance, and other supplies and expenses. These decrease changes all contributed to the operating income.

The electric enterprise fund accounts for electric operations of the City. In 2014 service revenues were \$1,114,848 and in 2015 service revenues were \$1,084,765. The electric enterprise fund reported an operating income of \$132,006 in 2015 compared to an operating income of \$54,284 in 2014. Operating expenses decreased slightly from \$1,060,564 in 2014 to \$952,759 in 2015.

The sewer usage enterprise fund accounts for sewer operations of the City. The increase in service revenues from \$624,718 in 2014 to \$682,767 in 2015 is due to an increase in usage. Operating expenses in 2015 increased from \$520,324 in 2014 to \$569,531 in 2015. The increase in revenues and increase in expenses resulted in operating income of \$113,236 compared to an operating income of \$104,394 in 2014.

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

The sanitation enterprise fund accounts for the collection and disposal related to the City's garbage services. Prior to 2015 this was accounted for in a department of the general fund. In 2015, this fund recorded operating revenues of \$197,207 and operating expenses \$185,670. This led to an operating income of \$11,537. The most significant operating expense is the \$174,099 in contractual services.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2015, the City Council did not revise the City's general fund budget. The actual charges to appropriations (expenditures) were \$109,416 less than the final budgeted amount. The most significant positive variances occurred in the City's public works and miscellaneous programs and the most negative variances occurred in the City's public safety and capital outlay programs. Resources available for appropriation were lower than the budgeted amounts by \$84,681. The City received \$157,127 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 2015, the City had \$10,633,282 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 \$377,804 over last year.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	281,080	1,016,272	218,906	300,000	499,986	1,316,272
Infrastructure	3,506,041	2,567,336	-	-	3,506,041	2,567,336
Distribution system	-	-	2,413,692	2,255,733	2,413,692	2,255,733
Production system	-	-	747,068	781,340	747,068	781,340
Sewage treatment plant	-	-	1,329,049	1,434,986	1,329,049	1,434,986
General assets	-	-	199,926	160,423	199,926	160,423
Buildings, improvements and structures	1,103,433	977,023	-	-	1,103,433	977,023
Equipment and vehicles	398,029	315,571	-	-	398,029	315,571
Furniture and fixtures	39,372	50,108	-	-	39,372	50,108
Totals	\$ 5,696,055	\$ 5,294,410	\$ 4,937,227	\$ 4,961,068	\$10,633,282	\$10,255,478

This year's major additions included:

- Water trough renovation
- New water and sewer lines and extensions
- Street and sidewalk renovations

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

- City Hall reroofing project
- New police car
- New fire truck
- Used garbage packer
- Fire department equipment

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

Debt

At year-end, the City had \$2,715,697 in long-term debt outstanding versus \$2,885,000 last year—as shown in Table 4. In 2015, the City issued a \$108,000 certificate of indebtedness to fund the purchase of a new fire brush truck.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General obligation bonds (backed by the City)	\$ 606,000	\$ 717,000	\$ 440,000	\$ 480,000	\$ 1,046,000	\$ 1,197,000
General obligation revenue bonds and notes	-	-	1,577,000	1,688,000	1,577,000	1,688,000
Certificate of indebtedness fire truck	92,697	-	-	-	92,697	-
Total	<u>\$ 698,697</u>	<u>\$ 717,000</u>	<u>\$ 2,017,000</u>	<u>\$ 2,168,000</u>	<u>\$ 2,715,697</u>	<u>\$ 2,885,000</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 \$308,697 at year end is significantly below this \$1,613,007 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 2016 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2016 budget included:

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

CITY OF GILBERT, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Overall 2016 budget goals include the following:

- Maintaining the level of services provided to the Gilbert residents
- Continued transparency of financial, accounting systems and management
- Collaboration with area law enforcement agencies to share IT services and networks
- Work to attract development to increase the tax base

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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,143,884	\$ 868,547	\$ 2,012,431
Taxes receivable	67,008	-	67,008
Special assessments receivable	7,106	270,385	277,491
Accounts receivable	7,467	335,000	342,467
Due from other governments	215,442	-	215,442
Loans receivable	91,390	-	91,390
Net pension asset	28,179	-	28,179
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	281,080	218,906	499,986
Capital assets net of accumulated depreciation			
Infrastructure	3,506,041	-	3,506,041
Distribution system	-	2,413,692	2,413,692
Production system	-	747,068	747,068
Sewage treatment plant	-	1,329,049	1,329,049
General assets	-	199,926	199,926
Buildings, improvements and structures	1,103,433	-	1,103,433
Equipment and vehicles	398,029	-	398,029
Furniture and fixtures	39,372	-	39,372
TOTAL ASSETS	7,256,531	6,411,159	13,667,690
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	260,457	-	260,457
LIABILITIES			
Accounts payable	81,145	94,586	175,731
Salaries payable	40,426	9,219	49,645
Due to other governments	-	7,699	7,699
Contracts payable	124,872	-	124,872
Customer deposits	-	15,600	15,600
Unearned revenues	89,597	-	89,597
Accrued interest payable	2,942	14,589	17,531
Noncurrent liabilities			
Due within one year			
Bonds payable, notes payable and certificates of indebtedness	126,830	152,000	278,830
Due in more than one year			
Bonds payable, notes payable and certificates of indebtedness	571,867	1,865,000	2,436,867
Severance benefits	12,776	5,039	17,815
Other postemployment benefits payable	403,236	71,154	474,390
Net pension liability	1,183,840	-	1,183,840
TOTAL LIABILITIES	2,637,531	2,234,886	4,872,417
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	136,938	-	136,938
NET POSITION			
Net investment in capital assets	5,107,358	3,075,638	8,182,996
Restricted for:			
Debt service	3,306	127,421	130,727
Community development	159,923	-	159,923
Culture and recreation	149,415	-	149,415
Unrestricted	(677,483)	973,214	295,731
TOTAL NET POSITION	\$ 4,742,519	\$ 4,176,273	\$ 8,918,792

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
General government	\$ 609,145	\$ 84,802	\$ 31,150	\$ -
Public safety	986,185	364,623	67,583	11,782
Public works	777,386	1,980	-	354,638
Sanitation	6,491	-	-	-
Culture and recreation	310,172	106,229	6,335	-
Economic development	81,182	-	-	-
Interest on long-term debt	12,925	-	2,584	-
Total Governmental Activities	<u>2,783,486</u>	<u>557,634</u>	<u>107,652</u>	<u>366,420</u>
Business-type Activities				
Water	483,082	462,260	63,158	4,872
Electric	952,759	1,084,765	-	-
Sewer usage	602,091	682,767	-	5,131
Sanitation	185,670	197,207	-	182
Total Business-type Activities	<u>2,223,602</u>	<u>2,426,999</u>	<u>63,158</u>	<u>10,185</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,007,088</u>	<u>\$ 2,984,633</u>	<u>\$ 170,810</u>	<u>\$ 376,605</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

Prior period adjustment

NET POSITION - DECEMBER 31

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

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

Governmental Activities	Business-type Activities	Total
\$ (493,193)	\$ -	\$ (493,193)
(542,197)	-	(542,197)
(420,768)	-	(420,768)
(6,491)	-	(6,491)
(197,608)	-	(197,608)
(81,182)	-	(81,182)
(10,341)	-	(10,341)
<u>(1,751,780)</u>	<u>-</u>	<u>(1,751,780)</u>
-	47,208	47,208
-	132,006	132,006
-	85,807	85,807
-	11,719	11,719
<u>-</u>	<u>276,740</u>	<u>276,740</u>
<u>(1,751,780)</u>	<u>276,740</u>	<u>(1,475,040)</u>
1,132,353	-	1,132,353
179,359	18,650	198,009
14,607	-	14,607
751,687	-	751,687
6,543	2,516	9,059
4,174	-	4,174
<u>(252,513)</u>	<u>252,513</u>	<u>-</u>
<u>1,836,210</u>	<u>273,679</u>	<u>2,109,889</u>
84,430	550,419	634,849
5,655,886	3,625,854	9,281,740
<u>(997,797)</u>	<u>-</u>	<u>(997,797)</u>
<u>\$ 4,742,519</u>	<u>\$ 4,176,273</u>	<u>\$ 8,918,792</u>

CITY OF GILBERT, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	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	\$ 841,622	\$ 149,715	\$ -	\$ 152,547	\$ 1,143,884
Taxes receivable	63,871	-	-	3,137	67,008
Special assessments receivable	2,088	-	-	5,018	7,106
Accounts receivable	7,467	-	-	-	7,467
Due from other funds	123,205	-	-	-	123,205
Due from other governments	95,645	-	119,797	-	215,442
Loans receivables	-	91,390	-	-	91,390
TOTAL ASSETS	\$ 1,133,898	\$ 241,105	\$ 119,797	\$ 160,702	\$ 1,655,502
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 70,018	\$ -	\$ 9,911	\$ 1,216	\$ 81,145
Salaries payable	36,603	-	-	3,823	40,426
Due to other funds	-	-	123,205	-	123,205
Contracts payable	-	-	124,872	-	124,872
Unearned revenue	8,415	81,182	-	-	89,597
TOTAL LIABILITIES	115,036	81,182	257,988	5,039	459,245
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	54,841	-	-	-	54,841
Unavailable revenue-special assessments	2,088	-	-	4,657	6,745
Unavailable revenue-loans receivable	-	10,208	-	-	10,208
TOTAL DEFERRED INFLOWS OF RESOURCES	56,929	10,208	-	4,657	71,794
FUND BALANCES					
Restricted	-	73,398	-	1,591	74,989
Committed	-	76,317	-	149,415	225,732
Assigned	863,726	-	-	-	863,726
Unassigned reported in					
General fund	98,207	-	-	-	98,207
Capital projects funds	-	-	(138,191)	-	(138,191)
TOTAL FUND BALANCES	961,933	149,715	(138,191)	151,006	1,124,463
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,133,898	\$ 241,105	\$ 119,797	\$ 160,702	\$ 1,655,502

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, 2015**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 1,124,463
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,696,055
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.	71,794
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(2,942)
Net pension asset used in governmental activities is not a current financial resource and therefore is not reported in the governmental funds.	28,179
Long-term liabilities, including bonds payable, notes payable, other postemployment benefits, compensated absences and net pension liability are not due and payable in the current period and therefore not reported in the governmental funds.	(2,298,549)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore not reported in the governmental funds.	
Deferred outflows of resources related to pensions	260,457
Deferred inflows of resources related to pensions	(136,938)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,742,519</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, 2015

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,153,023	\$ -	\$ -	\$ 174,835	\$ 1,327,858
Special assessments	7,733	-	-	6,866	14,599
Licenses and permits	12,430	-	-	-	12,430
Intergovernmental	877,295	-	351,795	2,584	1,231,674
Charges for services	361,911	-	-	97,088	458,999
Fines	24,120	-	-	4,784	28,904
Gifts and contributions	-	-	-	6,336	6,336
Interest	6,404	-	-	139	6,543
Miscellaneous	40,355	3,000	-	4,287	47,642
TOTAL REVENUES	2,483,271	3,000	351,795	296,919	3,134,985
EXPENDITURES					
Current					
General government	346,163	-	-	-	346,163
Public safety	877,387	-	-	-	877,387
Public works	637,593	-	-	-	637,593
Sanitation	3,647	-	-	-	3,647
Culture and recreation	67,095	-	-	197,556	264,651
Economic development	-	65,000	-	-	65,000
Miscellaneous	300,107	-	-	-	300,107
Debt Service					
Principal	15,303	-	-	111,000	126,303
Interest and fiscal charges	2,040	-	-	11,035	13,075
Capital Outlay					
General government	12,992	-	-	137,819	150,811
Public safety	161,824	-	-	-	161,824
Public works	-	-	375,389	-	375,389
Sanitation	33,608	-	83,378	-	116,986
Water works	-	-	75,869	-	75,869
TOTAL EXPENDITURES	2,457,759	65,000	534,636	457,410	3,514,805
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	25,512	(62,000)	(182,841)	(160,491)	(379,820)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	62,575	75,438	138,013
Transfers out	(138,013)	-	-	-	(138,013)
Debt issuance	108,000	-	-	-	108,000
Sale of capital assets	5,399	-	-	-	5,399
TOTAL OTHER FINANCING SOURCES (USES)	(24,614)	-	62,575	75,438	113,399
NET CHANGE IN FUND BALANCES	898	(62,000)	(120,266)	(85,053)	(266,421)
FUND BALANCES - JANUARY 1	961,035	211,715	(17,925)	236,059	1,390,884
FUND BALANCES - DECEMBER 31	\$ 961,933	\$ 149,715	\$ (138,191)	\$ 151,006	\$ 1,124,463

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, 2015**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ (266,421)
<p>Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	628,519	
Less current year depreciation	<u>(225,649)</u>	
Net capital assets		402,870
<p>Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold or disposed.</p>		
		(1,225)
<p>Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.</p>		
Change in unavailable revenue - delinquent property taxes	(1,539)	
Change in unavailable revenue - special assessments	(14,190)	
Change in unavailable revenue - loans receivable	<u>(19,182)</u>	
		(34,911)
<p>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.</p>		
Debt issued	(108,000)	
Principal payments	<u>126,303</u>	
		18,303
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.</p>		
Change in accrued interest payable on long-term debt	150	
Change in long-term severance benefits	(797)	
Change in long-term other postemployment benefits	806	
Change in net pension liabilities and assets, and related deferred outflows and inflows	<u>(34,345)</u>	
		<u>(34,186)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 84,430

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015

	Business-type Activities - Enterprise Funds				Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ -	\$ 743,370	\$ 115,094	\$ 10,083	\$ 868,547
Special assessments receivable	59,877	-	210,508	-	270,385
Accounts receivable	64,801	166,781	87,674	15,744	335,000
Due from other funds	-	48,217	-	-	48,217
Advances to other funds	-	150,000	-	-	150,000
TOTAL CURRENT ASSETS	<u>124,678</u>	<u>1,108,368</u>	<u>413,276</u>	<u>25,827</u>	<u>1,672,149</u>
NONCURRENT ASSETS					
Capital assets					
Land and improvements	10,500	-	18,086	-	28,586
Construction in progress	170,071	-	48,835	-	218,906
Distribution system	2,969,587	1,147,363	1,318,311	-	5,435,261
Production system	1,966,008	-	-	-	1,966,008
Sewage treatment plant	-	-	4,229,607	-	4,229,607
General assets	149,977	321,922	69,783	33,608	575,290
Less accumulated depreciation	(3,070,009)	(1,134,803)	(3,308,258)	(3,361)	(7,516,431)
TOTAL NONCURRENT ASSETS	<u>2,196,134</u>	<u>334,482</u>	<u>2,376,364</u>	<u>30,247</u>	<u>4,937,227</u>
TOTAL ASSETS	<u>2,320,812</u>	<u>1,442,850</u>	<u>2,789,640</u>	<u>56,074</u>	<u>6,609,376</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	6,197	63,870	15,825	8,694	94,586
Salaries payable	3,710	1,806	3,703	-	9,219
Accrued interest payable	2,373	-	12,216	-	14,589
Due to other funds	48,217	-	-	-	48,217
Advance from other funds	75,000	-	75,000	-	150,000
Due to other governments	-	5,646	-	2,053	7,699
Customer deposits	-	15,600	-	-	15,600
Notes payable - current	8,000	-	64,000	-	72,000
Bonds payable - current	24,388	-	55,612	-	80,000
TOTAL CURRENT LIABILITIES	<u>167,885</u>	<u>86,922</u>	<u>226,356</u>	<u>10,747</u>	<u>491,910</u>
NONCURRENT LIABILITIES					
Severance benefits	719	3,600	720	-	5,039
Other postemployment benefits payable	2,878	20,965	47,311	-	71,154
Notes payable	66,000	-	964,000	-	1,030,000
Bonds payable	270,376	-	564,624	-	835,000
TOTAL NONCURRENT LIABILITIES	<u>339,973</u>	<u>24,565</u>	<u>1,576,655</u>	<u>-</u>	<u>1,941,193</u>
TOTAL LIABILITIES	<u>507,858</u>	<u>111,487</u>	<u>1,803,011</u>	<u>10,747</u>	<u>2,433,103</u>
NET POSITION					
Net investment in capital assets	1,922,141	334,482	788,768	30,247	3,075,638
Restricted for debt service	-	-	127,421	-	127,421
Unrestricted (deficit)	(109,187)	996,881	70,440	15,080	973,214
TOTAL NET POSITION	<u>\$ 1,812,954</u>	<u>\$ 1,331,363</u>	<u>\$ 986,629</u>	<u>\$ 45,327</u>	<u>\$ 4,176,273</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, 2015

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
REVENUES					
Charges for services	\$ 462,260	\$ 1,067,566	\$ 682,767	\$ 197,207	\$ 2,409,800
Miscellaneous	-	17,199	-	-	17,199
TOTAL OPERATING REVENUES	<u>462,260</u>	<u>1,084,765</u>	<u>682,767</u>	<u>197,207</u>	<u>2,426,999</u>
OPERATING EXPENSES					
Source of supply	-	737,048	-	-	737,048
Personal services	78,504	54,145	78,504	-	211,153
Employee benefits	70,441	31,136	49,809	-	151,386
Contractual services	14,127	71,611	86,386	174,099	346,223
Utilities	33,694	3,075	84,172	-	120,941
Repairs and maintenance	41,111	654	45,658	2,549	89,972
Other supplies and expenses	35,783	18,146	45,973	5,661	105,563
Depreciation	135,566	25,802	166,837	3,361	331,566
Miscellaneous	4,138	11,142	12,192	-	27,472
TOTAL OPERATING EXPENSES	<u>413,364</u>	<u>952,759</u>	<u>569,531</u>	<u>185,670</u>	<u>2,121,324</u>
OPERATING INCOME	<u>48,896</u>	<u>132,006</u>	<u>113,236</u>	<u>11,537</u>	<u>305,675</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	2,516	-	-	2,516
Insurance reimbursement	63,158	-	-	-	63,158
Property taxes	-	-	18,650	-	18,650
Fiscal agent fees	(303)	-	(1,133)	-	(1,436)
Interest expense	(6,257)	-	(31,427)	-	(37,684)
Extraordinary maintenance	(63,158)	-	-	-	(63,158)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(6,560)</u>	<u>2,516</u>	<u>(13,910)</u>	<u>-</u>	<u>(17,954)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>42,336</u>	<u>134,522</u>	<u>99,326</u>	<u>11,537</u>	<u>287,721</u>
Capital contributions	174,943	-	53,965	33,790	262,698
CHANGE IN NET POSITION	<u>217,279</u>	<u>134,522</u>	<u>153,291</u>	<u>45,327</u>	<u>550,419</u>
TOTAL NET POSITION - JANUARY 1	<u>1,595,675</u>	<u>1,196,841</u>	<u>833,338</u>	<u>-</u>	<u>3,625,854</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 1,812,954</u>	<u>\$ 1,331,363</u>	<u>\$ 986,629</u>	<u>\$ 45,327</u>	<u>\$ 4,176,273</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, 2015

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 445,780	\$ 1,115,451	\$ 674,653	\$ 181,463	\$ 2,417,347
Cash paid to suppliers	(199,267)	(899,616)	(333,236)	(171,562)	(1,603,681)
Cash paid to employees	(78,478)	(54,123)	(78,127)	-	(210,728)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>168,035</u>	<u>161,712</u>	<u>263,290</u>	<u>9,901</u>	<u>602,938</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(25,000)	50,000	(25,000)	-	-
Prior year water fund cash deficit implicitly financed	(121,085)	121,085	-	-	-
Water fund cash deficit implicitly financed	48,217	(48,217)	-	-	-
Prior year sewer fund cash deficit implicitly financed	-	9,340	(9,340)	-	-
Insurance reimbursement	63,158	-	-	-	63,158
Extraordinary maintenance costs	(63,158)	-	-	-	(63,158)
Property taxes received	-	-	18,650	-	18,650
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(97,868)</u>	<u>132,208</u>	<u>(15,690)</u>	<u>-</u>	<u>18,650</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(42,565)	-	(12,647)	-	(55,212)
Fiscal agent fees	(303)	-	(1,133)	-	(1,436)
Principal paid on long-term debt	(32,388)	-	(118,612)	-	(151,000)
Interest paid on long-term debt	(6,406)	-	(32,272)	-	(38,678)
Capital contributions from special assessments	11,495	-	32,158	182	43,835
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(70,167)</u>	<u>-</u>	<u>(132,506)</u>	<u>182</u>	<u>(202,491)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	-	2,516	-	-	2,516
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>-</u>	<u>296,436</u>	<u>115,094</u>	<u>10,083</u>	<u>421,613</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>-</u>	<u>446,934</u>	<u>-</u>	<u>-</u>	<u>446,934</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ -</u>	<u>\$ 743,370</u>	<u>\$ 115,094</u>	<u>\$ 10,083</u>	<u>\$ 868,547</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, 2015

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Sanitation Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 48,896	\$ 132,006	\$ 113,236	\$ 11,537	\$ 305,675
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	135,566	25,802	166,837	3,361	331,566
Changes in assets and liabilities					
(Increase) decrease in:					
Accounts receivable	(16,480)	29,711	(8,114)	(15,744)	(10,627)
Increase (decrease) in:					
Accounts payable	27	(27,675)	(2,343)	8,694	(21,297)
Salaries payable	383	23	377	-	783
Due to other governments	-	(1,374)	-	2,053	679
Customer deposits	-	975	-	-	975
Severance benefits	(283)	-	(283)	-	(566)
Other postemployment benefits	(74)	2,244	(6,420)	-	(4,250)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 168,035	\$ 161,712	\$ 263,290	\$ 9,901	\$ 602,938
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Total capital asset additions	\$ 212,636	\$ -	\$ 61,481	\$ 33,608	\$ 307,725
City capital asset contributions	(170,071)	-	(48,834)	(33,608)	(252,513)
Cash paid for purchase or construction of capital assets	\$ 42,565	\$ -	\$ 12,647	\$ -	\$ 55,212

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, 2015

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, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

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

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

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

Nonmajor Governmental Funds:

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

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

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

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets 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.

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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, 2015

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. Change in Accounting Principle

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principle. As mentioned in Notes 16 and 17, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which records the City's proportionate share of collective net pension liability and/or asset for PERA, deferred outflows of resources and deferred inflows of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position decreased \$997,797 due to this change in accounting principle.

E. Cash and Cash Equivalents

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

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

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 6) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds," or "advances to/from other funds."

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

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

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

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

- 8) Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has one item in this category, related to pensions. See Notes 16 and 17 for details.
- 9) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11) Defined Benefit Pension Plans

Public Employees Retirement Association Pension

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

- 12) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only two items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from 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. The second type of deferred inflows of resources is related to pensions. See Notes 16 and 17 for details.

- 13) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

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

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

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

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

Unassigned—all other spendable amounts.

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

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

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Revenues and Expenditures

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

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

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

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

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, 2015:

Government Fund	
Permanent Improvement and Replacement Capital Projects Fund	\$138,191

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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		1,626,775
Certificates of Deposit		313,000
Investments		<u>72,006</u>
Total	\$	<u>2,012,431</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 \$1,939,775; the bank balance was \$1,949,781. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging institution's agent in the City's name.

Investments

Custodial Credit Risk – Investments

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

Credit Risk and Concentration of Credit Risk

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

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

As of December 31, 2015, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money Market (4M) Fund	\$ 59,629	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>12,377</u>	Not Rated
	<u>\$ 72,006</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 2015, 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, 2015 was \$91,390 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, 2015

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, 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	<u>1,016,272</u>	<u>216,406</u>	<u>-</u>	<u>(951,598)</u>	<u>281,080</u>
Total capital assets, not being depreciated	<u>1,384,372</u>	<u>216,406</u>	<u>-</u>	<u>(951,598)</u>	<u>649,180</u>
Capital assets, being depreciated:					
Infrastructure	3,007,641	99,478	-	935,936	4,043,055
Buildings, improvements and structures	2,504,250	137,819	-	15,662	2,657,731
Equipment and vehicles	1,785,966	174,816	(32,195)	-	1,928,587
Furniture and fixtures	<u>356,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,994</u>
Total capital assets, being depreciated	<u>7,654,851</u>	<u>412,113</u>	<u>(32,195)</u>	<u>951,598</u>	<u>8,986,367</u>
Less accumulated depreciation for:					
Infrastructure	(440,305)	(96,709)	-	-	(537,014)
Buildings, improvements and structures	(1,527,227)	(27,071)	-	-	(1,554,298)
Equipment and vehicles	(1,470,395)	(91,133)	30,970	-	(1,530,558)
Furniture and fixtures	<u>(306,886)</u>	<u>(10,736)</u>	<u>-</u>	<u>-</u>	<u>(317,622)</u>
Total accumulated depreciation	<u>(3,744,813)</u>	<u>(225,649)</u>	<u>30,970</u>	<u>-</u>	<u>(3,939,492)</u>
Total capital assets, being depreciated, net	<u>3,910,038</u>	<u>186,464</u>	<u>(1,225)</u>	<u>951,598</u>	<u>5,046,875</u>
Governmental activities capital assets, net	<u>\$ 5,294,410</u>	<u>\$ 402,870</u>	<u>\$ (1,225)</u>	<u>\$ -</u>	<u>\$ 5,696,055</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 28,586	\$ -	\$ -	\$ -	\$ 28,586
Construction in progress	<u>300,000</u>	<u>218,906</u>	<u>-</u>	<u>(300,000)</u>	<u>218,906</u>
Total capital assets, not being depreciated	<u>328,586</u>	<u>218,906</u>	<u>-</u>	<u>(300,000)</u>	<u>247,492</u>
Capital assets, being depreciated:					
Distribution system	5,135,261	-	-	300,000	5,435,261
Production system	1,938,008	28,000	-	-	1,966,008
Sewage treatment plant	4,229,607	-	-	-	4,229,607
General assets	<u>514,471</u>	<u>60,819</u>	<u>-</u>	<u>-</u>	<u>575,290</u>
Total capital assets, being depreciated	<u>11,817,347</u>	<u>88,819</u>	<u>-</u>	<u>300,000</u>	<u>12,206,166</u>
Less accumulated depreciation for:					
Distribution system	(2,879,528)	(142,041)	-	-	(3,021,569)
Production system	(1,156,668)	(62,272)	-	-	(1,218,940)
Sewage treatment plant	(2,794,621)	(105,937)	-	-	(2,900,558)
General assets	<u>(354,048)</u>	<u>(21,316)</u>	<u>-</u>	<u>-</u>	<u>(375,364)</u>
Total accumulated depreciation	<u>(7,184,865)</u>	<u>(331,566)</u>	<u>-</u>	<u>-</u>	<u>(7,516,431)</u>
Total capital assets, being depreciated, net	<u>4,632,482</u>	<u>(242,747)</u>	<u>-</u>	<u>300,000</u>	<u>4,689,735</u>
Business-type activities capital assets, net	<u>\$ 4,961,068</u>	<u>\$ (23,841)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,937,227</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 35,206
Public safety	62,933
Public works	79,144
Sanitation	2,844
Recreation	<u>45,522</u>
Total depreciation expense- governmental activities	<u>\$ 225,649</u>
 Business-type activities	
Water	\$ 135,566
Electric	25,802
Sewer usage	166,837
Sanitation	<u>3,361</u>
Total depreciation expense - business-type activities	<u>\$ 331,566</u>

NOTE 6 - LONG-TERM DEBT

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

Components of long-term debt are as follows:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Governmental activities					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 76,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	390,000
GO Bonds, Equipment Certificates, Series 2012A	03/01/2012	0.40-1.80%	\$ 75,000	05/01/2017	30,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>110,000</u>
Total GO Bonds payable					<u>606,000</u>
Certificate of Indebtedness – Fire Truck	03/23/2015	2.75%	\$ 108,000	03/16,2020	<u>92,697</u>
Governmental activities long-term debt					<u>698,697</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Business-type activities					
GO bonds and notes					
GO Improvement Bonds, Series 2008A	05/01/2008	3.10-4.40%	\$ 665,000	02/01/2024	\$ 440,000
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	305,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	170,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	74,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$ 1,337,076	08/20/2030	<u>1,028,000</u>
Business-type activities long-term debt					<u>2,017,000</u>
Total long-term debt					<u>\$ 2,715,697</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 \$70,295. At December 31, 2015, 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 \$407,770.

\$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 \$15,315. At December 31, 2015, 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 \$30,285.

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 \$17,794. At December 31, 2015, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$121,925.

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 \$18,073. At December 31, 2015, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$82,091.

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 \$10,362. At December 31, 2015, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$83,907.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

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 \$133,030. At December 31, 2015, principal and interest on the 2008 bonds to maturity in 2024 to be paid from pledged future revenues totaled \$529,865 and on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$1,112,120.

Of the \$1,025,000 GO Bonds, Series 2012A, \$236,500 of the bonds were used to finance improvements to the City's water utility system while \$128,500 of the bonds were used for improvements to the City's sewer utility system. Principal and interest paid for the current year on both issues totaled \$25,970. At December 31, 2015, 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 \$225,616 for the water bonds and \$122,589 for the sewer bonds.

Of the \$350,000 Taxable General Obligation Improvement Plan and Utility Revenue Bonds, Series 2012B, \$120,000 was used to finance the energy conservation improvements to the City's water plant and \$90,000 was used to finance the energy conservation improvements to the City's sewer plant. Principal and interest paid for the current year totaled \$24,425. At December 31, 2015, principal and interest to maturity in 2023 which will be paid from net revenues of the water and wastewater systems totaled \$108,230 for the water bonds and \$81,170 for the sewer bonds.

Long-term debt activity for the year ended December 31, 2015 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	\$ 92,000	\$ -	\$ (16,000)	\$ 76,000	\$ 11,000
GO Refunding Bonds, Series 2012A	455,000	-	(65,000)	390,000	65,000
GO Bonds, Equipment Certificates, Series 2012A	45,000	-	(15,000)	30,000	15,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	125,000	-	(15,000)	110,000	15,000
Certificate of Indebtedness Fire Truck 2015	-	108,000	(15,303)	92,697	20,830
Total governmental activities – long-term debt	<u>\$ 717,000</u>	<u>\$ 108,000</u>	<u>\$ (126,303)</u>	<u>\$ 698,697</u>	<u>\$ 126,830</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities					
Bonds payable					
GO Improvement Bonds, Series 2008A	\$ 480,000	\$ -	\$ (40,000)	\$ 440,000	\$ 40,000
GO Utility Revenue Bonds, Series 2012A	325,000	-	(20,000)	305,000	20,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	190,000	-	(20,000)	170,000	20,000
Revenue Notes payable					
GO Revenue Note of 2003	82,000	-	(8,000)	74,000	8,000
GO Revenue Note of 2010	<u>1,091,000</u>	<u>-</u>	<u>(63,000)</u>	<u>1,028,000</u>	<u>64,000</u>
Total business-type activities long-term debt	<u>\$ 2,168,000</u>	<u>\$ -</u>	<u>\$ (151,000)</u>	<u>\$ 2,017,000</u>	<u>\$ 152,000</u>

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

<u>Year Ending 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>
2016	\$ 126,830	\$ 11,820	\$ 152,000	\$ 40,056	\$ 278,830	\$ 51,876
2017	127,417	9,973	164,000	36,973	291,417	46,946
2018	112,013	7,917	164,000	33,585	276,013	41,502
2019	117,626	5,778	165,000	30,076	282,626	35,854
2020	100,811	3,561	175,000	26,188	275,811	29,749
2021-2025	114,000	2,659	777,000	67,259	891,000	69,918
2026-2030	<u>-</u>	<u>-</u>	<u>420,000</u>	<u>12,360</u>	<u>420,000</u>	<u>12,360</u>
Total	<u>\$ 698,697</u>	<u>\$ 41,708</u>	<u>\$ 2,017,000</u>	<u>\$ 246,497</u>	<u>\$ 2,715,697</u>	<u>\$ 288,205</u>

No interest was capitalized during 2015; interest incurred and charged to expense totaled \$54,159.

NOTE 7 - LEASE OBLIGATIONS

Copy Machine Agreements

The City leases copy machines under non-cancelable operating leases. Total costs for such leases were \$3,926 for the year ended December 31, 2015. The future minimum lease payments are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2016	\$ 3,926
2017	1,501
2018	1,280
2019	<u>1,174</u>
Total	<u>\$ 7,881</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

The City has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For 2015, 11 retirees received postemployment benefits. The City provided required contributions of \$166,258 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$24,782. 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)	\$ 22,632	\$ 11,755	\$ 34,387
Amortization of unfunded actuarial accrued liability	82,756	37,448	120,204
Interest on normal cost and amortization	<u>4,552</u>	<u>2,059</u>	<u>6,611</u>
Annual required contribution	109,940	51,262	161,202
Adjustment to annual required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Annual OPEB cost (expense)	109,940	51,262	161,202
Contributions toward the OPEB cost	<u>(110,746)</u>	<u>(55,512)</u>	<u>(166,258)</u>
Increase (decrease) in net OPEB obligation	(806)	(4,250)	(5,056)
Net OPEB obligation, beginning of year	<u>404,042</u>	<u>75,404</u>	<u>479,446</u>
Net OPEB obligation, end of year	<u>\$ 403,236</u>	<u>\$ 71,154</u>	<u>\$ 474,390</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

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>
12/31/15	\$ 161,202	103.1%	\$ 474,390
12/31/14	\$ 168,850	83.5%	\$ 479,446
12/31/13	\$ 168,850	64.8%	\$ 451,521

Funding Status and Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) 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>
1/1/2015	\$ -	\$ 2,602,159	\$ 2,602,159	0.0%	\$ 1,230,910	211.4%

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

Actuarial Methods and Assumptions

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

The City's OPEB alternative method calculation valuation as of January 1, 2015, used the entry age cost method to estimate both the unfunded actuarial liability as of December 31, 2015 and to estimate the City's 2015 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, 2015**

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, 2015, is as follows:

Due to/from other funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Permanent Improvement and Replacement Capital Projects	\$ 123,205
Electric Enterprise	Water Enterprise	<u>48,217</u>
Total All Funds		<u>\$ 171,422</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	\$ 75,000
Electric Enterprise	Sewer Usage Enterprise	<u>75,000</u>
Total All Funds		<u>\$ 150,000</u>

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

Interfund transfers for the year ended December 31, 2015, consisted of the following:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
Permanent Improvement and Replacement Capital Projects	General	\$ 62,575
Nonmajor Debt Service	General	34,235
Energy Bonds Capital Projects	General	<u>41,203</u>
Total All Funds		<u>\$ 138,013</u>

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

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 10 - FUND EQUITY

Fund Balances

As of December 31, 2015, fund balances are comprised of the following:

	General Fund	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Nonmajor Governmental Funds	Total
Restricted:					
Rehabilitation loans	\$ -	\$ 73,398	\$ -	\$ -	\$ 73,398
Debt service	-	-	-	1,591	1,591
Total Restricted	<u>-</u>	<u>73,398</u>	<u>-</u>	<u>1,591</u>	<u>74,989</u>
Committed:					
Storefront loans	-	76,317	-	-	76,317
Library	-	-	-	71,322	71,322
Campground	-	-	-	78,093	78,093
Total Committed	<u>-</u>	<u>76,317</u>	<u>-</u>	<u>149,415</u>	<u>225,732</u>
Assigned:					
Cash flow	850,950	-	-	-	850,950
Compensated absences	12,776	-	-	-	12,776
Total Assigned	<u>863,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>863,726</u>
Unassigned	<u>98,207</u>	<u>-</u>	<u>(138,191)</u>	<u>-</u>	<u>(39,984)</u>
Total fund balances	<u>\$ 961,933</u>	<u>\$ 149,715</u>	<u>\$ (138,191)</u>	<u>\$ 151,006</u>	<u>\$ 1,124,463</u>

NOTE 11 - RESTATEMENT OF NET POSITION

Due to the implementation of GASB 68, net position has been restated as follows:

	<u>Governmental Activities</u>
Net Position January 1, 2015, prior to restatement	\$ 5,655,886
Restatement for GASB 68 pension liabilities	<u>(997,797)</u>
Net Position January 1, 2015 as restated	<u>\$ 4,658,089</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015, 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, 2015. The projects were evidenced by contractual commitments with contractors and engineers.

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Lower Louisiana Project	\$ 280,438	\$ 75,740
Highway 135 McKinley Water Extension	<u>75,869</u>	<u>269,668</u>
Total	<u>\$ 356,307</u>	<u>\$ 345,408</u>

Electric Utility Commitments

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

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

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

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 \$11,233. The future minimum payment terms are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2016	\$ 11,233

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 2015, the City of Biwabik paid the City of Gilbert \$316,473 for police services.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 2015 was \$24,024. 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 2015 was \$3,725. Complete financial information can be obtained from the Biosolids Disposal Site Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

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

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 14 - JOINT VENTURES (CONTINUED)

The City of Gilbert's contribution to the Authority's budget during 2015 was \$4,033. 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 2015 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 \$6,971 to the ATV/OHM/Snowmobile Trail Board during 2015. 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, 2015 was as follows:

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 15 - SEVERANCE BENEFITS (CONTINUED)

	<u>Balance</u> <u>12/31/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/15</u>
Governmental activities	\$ 11,979	\$ 797	\$ -	\$ 12,776
Business-type activities	<u>5,605</u>	<u>-</u>	<u>(566)</u>	<u>5,039</u>
Total	<u>\$ 17,584</u>	<u>\$ 797</u>	<u>\$ (566)</u>	<u>\$ 17,815</u>

NOTE 16- DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Gilbert, Minnesota are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

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

Benefits Provided

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)

1. GERF Benefits

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

2. PEPFF Benefits

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

B. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Gilbert, Minnesota was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City of Gilbert, Minnesota contributions to the GERF for the year ended December 31, 2015, were \$54,510. The City of Gilbert, Minnesota contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City of Gilbert, Minnesota was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City of Gilbert, Minnesota's contributions to the PEPFF for the year ended December 31, 2015, were \$75,797. The City of Gilbert, Minnesota's contributions were equal to the required contributions as set by state statute.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City of Gilbert, Minnesota reported a liability of \$627,085 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Gilbert, Minnesota's proportion of the net pension liability was based on the City of Gilbert, Minnesota's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Gilbert, Minnesota's proportion share was 0.0121% which was a decrease of 0.0004% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City of Gilbert, Minnesota recognized pension expense of \$78,892 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City of Gilbert, Minnesota reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 31,616
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	59,363	-
Changes in proportion	-	14,092
Contributions paid to PERA subsequent to the measurement date	27,624	-
Total	\$ 86,987	\$ 45,708

\$27,624 reported as deferred outflows of resources related to pensions resulting from City of Gilbert, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2016	\$ (395)
2017	\$ (395)
2018	\$ (395)
2019	\$ 14,840
2020	\$ -
Thereafter	\$ -

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)

2. PEPFF Pension Costs

At December 31, 2015, the City of Gilbert, Minnesota reported a liability of \$556,755 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Gilbert, Minnesota's proportion of the net pension liability was based on the City of Gilbert, Minnesota's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City of Gilbert, Minnesota's proportion was 0.049% which was a decrease of 0.002% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City of Gilbert, Minnesota recognized pension expense of \$99,542 for its proportionate share of the PEPFF's pension expense. The City of Gilbert, Minnesota also recognized \$4,410 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City of Gilbert, Minnesota reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 90,287
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	97,005	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	38,756	-
Total	\$ 153,762	\$ 90,287

\$38,756 reported as deferred outflows of resources related to pensions resulting from City of Gilbert, Minnesota contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)

Year Ended December 31:	Pension Expense Amount
2016	\$ 155
2017	\$ 155
2018	\$ 157
2019	\$ 24,252
2020	\$ -
Thereafter	\$ -

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERF and PEPFF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 16- DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City of Gilbert, Minnesota's proportionate share of the GERS net pension liability:	\$986,000	\$627,085	\$330,676
City of Gilbert, Minnesota's proportionate share of the PEPFF net pension liability:	\$1,085,121	\$556,755	\$120,232

G. Pension Plan Fiduciary Net Position

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

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 17 - DEFINED BENEFIT PENSION PLAN - FIRE DEPARTMENT

Plan Description

The City of Gilbert, Minnesota Volunteer Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2014, the plan covered 18 active firefighters and 3 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353G.

Benefits Provided

The SVF provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

Contributions

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes. The State of Minnesota contributed \$12,315 in fire state aid to the plan on behalf of the City of Gilbert, Minnesota Volunteer Fire Department for the year ended December 31, 2014, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City statutorily required contributions to the SVF plan for the year ended December 31, 2015, were \$6,993. The City contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2015, the City reported a net pension asset of \$28,179 for the SVF plan. The net pension asset was measured as of December 31, 2014. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department as of December 31, 2014. The following table presents the changes in net pension asset during the year.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/13	\$208,733	\$ 233,694	\$ (24,961)
Changes for the Year			
Service Cost	10,290	-	10,290
Interest on Pension Liability	12,331	-	12,331
Actuarial Experience (Gains)/Losses	1,017	-	1,017
Projected Investment Earnings	-	14,022	(14,022)
Contributions (Employer)	-	-	-
Contributions (State)	-	12,315	(12,315)
Asset (Gain)/Loss	-	1,179	(1,179)
Benefit Payouts	(27,000)	(27,000)	-
PERA Administrative Fee	-	(660)	660
Net Changes	(3,362)	(144)	(3,218)
Balance End of Year 12/31/14	\$205,371	\$ 233,550	\$ (28,179)

For the year ended December 31, 2015, the City recognized pension expense of \$9,226.

At December 31, 2015, the City reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 943
Difference between actuarial assumptions and actual experience	814	-
Contributions paid to PERA subsequent to the measurement date	18,894	-
Total	\$ 19,708	\$ 943

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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

\$18,894 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2016	\$ (33)
2017	\$ (33)
2018	\$ (33)
2019	\$ (30)
2020	\$ -
Thereafter	\$ -

Actuarial Assumptions

The total pension liability at December 31, 2014, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

There were no changes in actuarial assumptions in 2014.

Discount Rate

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

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension (Asset)	\$(20,860)	\$(28,179)	\$(35,215)

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

Plan Investments

Investment Policy:

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

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

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

Asset Allocation:

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

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

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

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during Fiscal Year 2015 for the Statewide Volunteer Firefighter Retirement Plan.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

Pension Plan Fiduciary Net Position

Detailed information about the SVF plan's fiduciary net position as of June 30, 2015, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; 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.

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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,310,150	\$ 1,310,150	\$ 1,153,023	\$ (157,127)
Special assessments	-	-	7,733	7,733
Licenses and permits	7,400	7,400	12,430	5,030
Intergovernmental	820,917	820,917	877,295	56,378
Charges for services	340,130	340,130	361,911	21,781
Fines	17,000	17,000	24,120	7,120
Interest	3,600	3,600	6,404	2,804
Miscellaneous	68,755	68,755	40,355	(28,400)
TOTAL REVENUES	2,567,952	2,567,952	2,483,271	(84,681)
EXPENDITURES				
Current				
General government	392,450	392,450	346,163	46,287
Public safety	837,530	837,530	877,387	(39,857)
Public works	685,350	685,350	637,593	47,757
Sanitation	4,000	4,000	3,647	353
Culture and recreation	69,050	69,050	67,095	1,955
Miscellaneous	466,795	466,795	300,107	166,688
Debt Service				
Principal	-	-	15,303	(15,303)
Interest and other charges	-	-	2,040	(2,040)
Capital Outlay				
General government	17,000	17,000	12,992	4,008
Public safety	80,000	80,000	161,824	(81,824)
Public works	15,000	15,000	-	15,000
Sanitation	-	-	33,608	(33,608)
TOTAL EXPENDITURES	2,567,175	2,567,175	2,457,759	109,416
EXCESS OF REVENUES OVER EXPENDITURES	777	777	25,512	24,735
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(138,013)	(138,013)
Debt issuance	-	-	108,000	108,000
Sale of capital assets	-	-	5,399	5,399
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(24,614)	(24,614)
NET CHANGE IN FUND BALANCES	777	777	898	121
FUND BALANCE - JANUARY 1	961,035	961,035	961,035	-
FUND BALANCE - DECEMBER 31	\$ 961,812	\$ 961,812	\$ 961,933	\$ 121

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, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
EXPENDITURES				
Current				
Economic development	55,000	55,000	65,000	(10,000)
NET CHANGE IN FUND BALANCES	(52,000)	(52,000)	(62,000)	(10,000)
FUND BALANCE - JANUARY 1	211,715	211,715	211,715	-
FUND BALANCE - DECEMBER 31	<u>\$ 159,715</u>	<u>\$ 159,715</u>	<u>\$ 149,715</u>	<u>\$ (10,000)</u>

CITY OF GILBERT, MINNESOTA
SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS PLAN
Year Ended December 31, 2015

<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						
1/1/2011	\$ -	\$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%
1/1/2015	\$ -	\$1,791,500	\$1,791,500	0.0%	\$1,014,419	176.6%
Business-type Activities						
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%
1/1/2015	\$ -	\$ 810,659	\$ 810,659	0.0%	\$ 216,491	374.5%

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND CITY'S CONTRIBUTION FOR DEFINED BENEFIT PENSION PLANS
Year Ended December 31, 2015

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

<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0121%	\$627,085	\$710,177	88.30%	78.19%

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

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CITY'S CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2015	\$54,510	\$54,510	\$ -	\$726,802	7.50%

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

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

CITY OF GILBERT, MINNESOTA

SCHEDULES OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND CITY'S CONTRIBUTION FOR DEFINED BENEFIT PENSION PLANS
Year Ended December 31, 2015

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

<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0490%	\$556,755	\$462,408	120.40%	86.61%

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

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

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CITY'S CONTRIBUTIONS
POLICE AND FIRE FUND PENSION PLAN

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2015	\$75,797	\$75,797	\$ -	\$467,883	16.20%

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

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

CITY OF GILBERT, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
Year Ended December 31, 2015

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CITY CONTRIBUTIONS
GILBERT VOLUNTEER FIRE DEPARTMENT

	2014	2015
Actuarially determined contribution	\$ -	\$ 6,993
Actual contributions paid	-	6,993
Contribution deficiency/(excess)	\$ -	\$ -

Notes:

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

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

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

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2015**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
GILBERT VOLUNTEER FIRE DEPARTMENT**

Total Pension Liability	
Service cost	\$ 10,290
Interest on the pension liability	12,331
Actuarial experience (gains)/losses	1,017
Benefit payments	<u>(27,000)</u>
Net Change in Total Pension Liability	(3,362)
Total Pension Liability - Beginning (12/31/13)	<u>208,733</u>
Total Pension Liability - Ending (a) (12/31/14)	<u><u>\$ 205,371</u></u>
Plan Fiduciary Net Position	
Contributions:	
Fire state aid	\$ 9,111
Fire supplemental aid	2,204
Supplemental Benefit Reimbursement	1,000
Net Investment Income	15,201
PERA administrative fee	(660)
Benefit payments	<u>(27,000)</u>
Net Change in Plan Fiduciary Net Position	(144)
Plan Fiduciary Net Position - Beginning (12/31/13)	<u>233,694</u>
Plan Fiduciary Net Position - Ending (b) (12/31/14)	<u><u>\$ 233,550</u></u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (28,179)</u></u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	113.7%

Notes:

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

CITY OF GILBERT, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2015

NOTE 1 - BUDGETING

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

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

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2015 :

Community Development Revolving Loan Special Revenue Fund	<u>Excess</u> \$ 10,000
--------------------------------------------------------------	----------------------------

This excess was funded by available fund balance.

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, 2015

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Energy Bonds Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 73,936	\$ 78,611	\$ -	\$ -	\$ 152,547
Taxes receivable	1,907	-	1,230	-	3,137
Special assessments receivable	-	-	5,018	-	5,018
TOTAL ASSETS	\$ 75,843	\$ 78,611	\$ 6,248	\$ -	\$ 160,702
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 698	\$ 518	\$ -	\$ -	\$ 1,216
Salaries payable	3,823	-	-	-	3,823
TOTAL LIABILITIES	4,521	518	-	-	5,039
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-special assessments	-	-	4,657	-	4,657
FUND BALANCES					
Restricted	-	-	1,591	-	1,591
Committed	71,322	78,093	-	-	149,415
TOTAL FUND BALANCES	71,322	78,093	1,591	-	151,006
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 75,843	\$ 78,611	\$ 6,248	\$ -	\$ 160,702

CITY OF GILBERT, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2015

	Library Special Revenue Fund	Campground Special Revenue Fund	Debt Service Fund	Energy Bonds Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ 105,410	\$ -	\$ 69,425	\$ -	\$ 174,835
Special assessments	-	-	6,866	-	6,866
Intergovernmental	-	-	2,584	-	2,584
Charges for services	-	97,088	-	-	97,088
Fines	4,784	-	-	-	4,784
Gifts and contributions	6,336	-	-	-	6,336
Interest	-	139	-	-	139
Miscellaneous	2,523	1,764	-	-	4,287
TOTAL REVENUES	119,053	98,991	78,875	-	296,919
EXPENDITURES					
Current					
Culture and recreation	128,555	69,001	-	-	197,556
Debt Service					
Principal	-	-	111,000	-	111,000
Interest and other charges	-	-	11,035	-	11,035
Capital Outlay					
General government	-	-	-	137,819	137,819
TOTAL EXPENDITURES	128,555	69,001	122,035	137,819	457,410
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,502)	29,990	(43,160)	(137,819)	(160,491)
OTHER FINANCING SOURCES					
Transfers in	-	-	34,235	41,203	75,438
NET CHANGE IN FUND BALANCES	(9,502)	29,990	(8,925)	(96,616)	(85,053)
FUND BALANCES - JANUARY 1	80,824	48,103	10,516	96,616	236,059
FUND BALANCES - DECEMBER 31	\$ 71,322	\$ 78,093	\$ 1,591	\$ -	\$ 151,006

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended December 31, 2015

REVENUES

Taxes

General property	\$ 547,646
Taconite production	12,499
Taconite mining effects	51,953
Taconite homestead credit	120,879
Taconite municipal aid	194,585
Franchise	14,607
Other	210,854
Total Taxes	<u>1,153,023</u>

Special Assessments

Principal	<u>7,733</u>
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Licenses and Permits

12,430

Intergovernmental

State

Local government aid	707,969
Small cities aid	28,382
Police training	2,332
PERA aid	3,636
Police aid	51,841
Iron Range Resources	30,650
Department of Transportation	11,700
Other	14,140
DNR grant for OHV trails	11,782

County

OHV trail grant	12,629
Safe and sober	2,234

Total Intergovernmental

877,295

Charges for Services

General government

Rent	71
Miscellaneous	25,347

Public safety

Fire protection contacts	1,150
City of Biwabik's share of police	316,473
Other	40

Public works

Other	1,570
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Cemetery

17,260

Total Charges for Services

361,911

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2015

REVENUES (CONTINUED)

Fines

Court fines	\$ 13,845
Police forfeitures	6,770
Administrative fines	3,505
Total Fines	<u>24,120</u>

Interest

Interest income	4,630
Gain on fair value of investments	1,774
Total Interest	<u>6,404</u>

Miscellaneous

Insurance recoveries	1,718
Insurance dividends	22,586
Donations	500
Reimbursements and refunds	4,734
D.A.R.E.	880
Other	9,937
Total Miscellaneous	<u>40,355</u>

TOTAL REVENUES

2,483,271

EXPENDITURES

Current

General Government

Mayor and council	25,850
City clerk-treasurer	154,521
Elections	459
Independent audit	16,900
Legal	9,089
Planning and zoning	3,434
Community center	21,564
Information technology	70,825
Other	43,521
Total General Government	<u>346,163</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 (CONTINUED)
 Year Ended December 31, 2015

EXPENDITURES

Current (continued)

Public Safety	
Police	\$ 818,645
Fire	47,943
Animal control	6,674
First responders	4,125
Total Public Safety	<u>877,387</u>
Public Works	
Maintenance	564,983
Engineering	35,175
Street lighting	37,435
Total Public Works	<u>637,593</u>
Sanitation	
Recycling	<u>3,647</u>
Culture and Recreation	
Recreation - other	4,552
Recreation center	51,539
Contribution to range recreation civic center	4,033
OHV parks and trails	6,971
Total Culture and Recreation	<u>67,095</u>
Miscellaneous	
Insurance	164,557
Employer-paid insurance	110,746
Utilities	6,791
Cemetery	6,783
Other	11,230
Total Miscellaneous	<u>300,107</u>
Debt Service	
Principal	<u>15,303</u>
Interest and other charges	<u>2,040</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2015

EXPENDITURES (CONTINUED)

Capital Outlay

General Government

City hall \$ 12,992

Public Safety

Police 42,783

Fire 119,041

Total Public Safety 161,824

Sanitation

Vehicles 33,608

TOTAL EXPENDITURES 2,457,759

EXCESS OF REVENUES OVER
EXPENDITURES 25,512

OTHER FINANCING SOURCES (USES)

Transfers out (138,013)

Debt issuance 108,000

Sale of capital assets 5,399

TOTAL OTHER FINANCING SOURCES (USES) (24,614)

NET CHANGE IN FUND BALANCE 898

FUND BALANCE - JANUARY 1 961,035

FUND BALANCE - DECEMBER 31 \$ 961,933

CITY OF GILBERT, MINNESOTA

**COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015**

REVENUES

Miscellaneous

Principal on loan payments \$ 3,000

EXPENDITURES

Current

Economic Development

Storefront loans 65,000

NET CHANGE IN FUND BALANCE (62,000)

FUND BALANCE - JANUARY 1 211,715

FUND BALANCE - DECEMBER 31 \$ 149,715

CITY OF GILBERT, MINNESOTA

PERMANENT IMPROVEMENT AND REPLACEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015

REVENUES

Intergovernmental

State

Iron Range Resources

\$ 351,795

EXPENDITURES

Capital Outlay

Public Works

Circle Drive project

25,054

Michigan and Minnesota Avenue projects

37,868

New Jersey and Ohio Avenue projects

36,404

Lower Louisiana Avenue project

276,063

Total Public Works

375,389

Sanitation

East Industrial Park project

83,378

Water Works

McKinley water extension

75,869

TOTAL EXPENDITURES

534,636

**DEFICIENCY OF REVENUES OVER
EXPENDITURES**

(182,841)

OTHER FINANCING SOURCES

Transfers in

62,575

NET CHANGE IN FUND BALANCE

(120,266)

FUND BALANCE - JANUARY 1

(17,925)

FUND BALANCE - DECEMBER 31

\$ (138,191)

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 103,500	\$ 103,500	\$ 105,410	\$ 1,910
Fines	3,300	3,300	4,784	1,484
Gifts and contributions	6,600	6,600	6,336	(264)
Miscellaneous	-	-	2,523	2,523
TOTAL REVENUES	113,400	113,400	119,053	5,653
EXPENDITURES				
Current				
Culture and recreation	132,098	132,098	128,555	3,543
Capital Outlay				
Culture and recreation	1,000	1,000	-	1,000
TOTAL EXPENDITURES	133,098	133,098	128,555	4,543
NET CHANGE IN FUND BALANCE	(19,698)	(19,698)	(9,502)	10,196
FUND BALANCE - JANUARY 1	80,824	80,824	80,824	-
FUND BALANCE - DECEMBER 31	\$ 61,126	\$ 61,126	\$ 71,322	\$ 10,196

CITY OF GILBERT, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015

REVENUES

Taxes

General property	\$ 67,248
Taconite homestead credit	14,100
Other	<u>24,062</u>
Total Taxes	105,410

Fines

Library fines	4,784
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Gifts and Contributions

6,336

Miscellaneous

Other	<u>2,523</u>
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TOTAL REVENUES

119,053

EXPENDITURES

Current

Culture and Recreation

Personal services	108,000
Supplies	16,550
Other services and charges	3,905
Other	<u>100</u>

TOTAL EXPENDITURES

128,555

NET CHANGE IN FUND BALANCE

(9,502)

FUND BALANCE - JANUARY 1

80,824

FUND BALANCE - DECEMBER 31

\$ 71,322

CITY OF GILBERT, MINNESOTA

CAMPGROUND SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 69,000	\$ 69,000	\$ 97,088	\$ 28,088
Interest	-	-	139	139
Miscellaneous	-	-	1,764	1,764
TOTAL REVENUES	<u>69,000</u>	<u>69,000</u>	<u>98,991</u>	<u>29,991</u>
EXPENDITURES				
Current				
Culture and recreation	65,000	65,000	69,001	(4,001)
Capital Outlay				
Culture and recreation	4,000	4,000	-	4,000
TOTAL EXPENDITURES	<u>69,000</u>	<u>69,000</u>	<u>69,001</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCE	-	-	29,990	29,990
FUND BALANCE - JANUARY 1	<u>48,103</u>	<u>48,103</u>	<u>48,103</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 48,103</u>	<u>\$ 48,103</u>	<u>\$ 78,093</u>	<u>\$ 29,990</u>

CITY OF GILBERT, MINNESOTA
CAMPGROUND SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015

REVENUES

Charges for Services

Culture and recreation	
Campground fees	\$ 85,380
Other	11,708
	<hr/>
Total Charges for Services	97,088

Interest	139
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Miscellaneous

Other	1,764
	<hr/>

TOTAL REVENUES	98,991
	<hr/>

EXPENDITURES

Current

Culture and Recreation

Supplies	5,147
Other services and charges	59,655
Other	4,199
	<hr/>

TOTAL EXPENDITURES	69,001
	<hr/>

NET CHANGE IN FUND BALANCE	29,990
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FUND BALANCE - JANUARY 1	48,103
	<hr/>

FUND BALANCE - DECEMBER 31	\$ 78,093
	<hr/>

CITY OF GILBERT, MINNESOTA

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015

REVENUES

Taxes

General property	\$	44,251
Taconite homestead credit		9,249
Other		<u>15,925</u>

Total Taxes 69,425

Special Assessments

Principal		6,866
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Intergovernmental

Federal grants		
Interest reimbursement		<u>2,584</u>

TOTAL REVENUES 78,875

EXPENDITURES

Debt Service

Principal		111,000
Interest and fiscal charges		<u>11,035</u>

TOTAL EXPENDITURES 122,035

DEFICIENCY OF REVENUES OVER EXPENDITURES (43,160)

OTHER FINANCING SOURCES

Transfers in		<u>34,235</u>
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NET CHANGE IN FUND BALANCE (8,925)

FUND BALANCE - JANUARY 1 10,516

FUND BALANCE - DECEMBER 31 \$ 1,591

CITY OF GILBERT, MINNESOTA
ENERGY BONDS CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015

REVENUES		\$ -
EXPENDITURES		
Capital Outlay		
General Government		
City hall reroofing project		137,819
		<u>137,819</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES		(137,819)
OTHER FINANCING SOURCES		
Transfers in		41,203
		<u>41,203</u>
NET CHANGE IN FUND BALANCE		(96,616)
FUND BALANCE - JANUARY 1		96,616
		<u>96,616</u>
FUND BALANCE - DECEMBER 31		<u>\$ -</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, 2015, 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 5, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the City does not have a tax increment financing district.

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

Other Matters

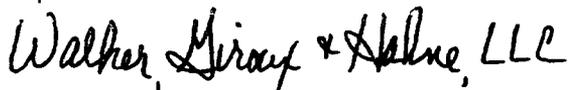
We noted certain matters that we reported to management of City of Gilbert, Minnesota in a separate letter dated August 5, 2016, included under this cover.

City of Gilbert, Minnesota's Response to Findings

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

Purpose of this Report

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



Virginia, Minnesota
August 5, 2016

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES Year Ended December 31, 2015

2015-001. SEGREGATION OF DUTIES

Condition

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

Criteria

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

Effect

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

Cause

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

Recommendations

The City Council should be aware of this condition, 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 is considering re-establishing the number of personnel in the business office.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City Clerk-Treasurer has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF GILBERT, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2015

2015-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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

MANAGEMENT LETTER

To the City Council
City of Gilbert, Minnesota

In planning and performing our audit of the financial statements of City of Gilbert, Minnesota, as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Gilbert, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated August 5, 2016, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated August 5, 2016, 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 Permanent Improvement and Replacement Capital Projects Fund has a deficit fund balance of \$138,191 at December 31, 2015. The City must review this deficit fund balance and determine ways to eliminate it, including future transfers from other funds or tax levies.
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 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.

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

Walker, Giroux & Helne, LLC

Virginia, Minnesota
August 5, 2016