

CITY OF GILBERT, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2013**

CITY OF GILBERT, MINNESOTA

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CITY OF GILBERT, MINNESOTA

**ORGANIZATION
December 31, 2013**

CITY COUNCIL

Mayor

Mike Skenzich

Council Members

Tom Nemanick
Karri Schutte
Rob Kutsi
John Skalko

ADMINISTRATION

City Clerk-Treasurer

Debra Sakrison

APPOINTED

City Attorney

Mitchell J. Brunfelt

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Gilbert, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gilbert, Minnesota, as of and for the year ended December 31, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress for postemployment benefits plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2014, 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, Gray & Helne, LLC

Virginia, Minnesota
August 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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, 2013. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Gilbert, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$5,153,046, of which \$4,183,967 is the net investment in capital assets, and \$539,018 is restricted.
- Business-type activities have total net position of \$3,632,603; of which \$2,724,791 is the net investment in capital assets, and \$162,903 is restricted.
- The City of Gilbert's net position increased by \$601,196 for the year ended December 31, 2013. Of the increase, the governmental activities' net position increased by \$673,278, while the business-type activities' net position decreased by \$72,082.
- The net cost of governmental activities was \$1,301,643 for the current fiscal year. The net cost was funded by general revenues and a transfer totaling \$1,974,921.
- Governmental funds' fund balances increased by \$7,631 with the general fund reporting the largest increase of \$64,320.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Gilbert, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The management's discussion and analysis (this section), budgetary comparison information and schedule of funding progress for postemployment benefit plan are required to accompany the basic financial statements, and therefore, are included as required supplementary information.

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

Government-wide Financial Statements

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

These government-wide statements report the City's net position and how it has changed. You can think of the City's net position — the difference between assets and liabilities—as one way to measure the City's financial health. Increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the City's property tax base and state aid and the condition of the City's buildings and streets also need to be considered in assessing the overall health of the City.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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

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

Fund Financial Statements

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for budgetary comparison information and schedule of funding progress for postemployment benefits plan. Combining and individual financial statements are presented immediately following the required supplementary information.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that the City of Gilbert's assets exceeded liabilities by \$8,785,649, an increase from the prior year.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,754,552	\$ 1,601,560	\$ 1,329,461	\$ 1,557,336	\$ 3,084,013	\$ 3,158,896
Capital assets	<u>4,866,967</u>	<u>4,224,325</u>	<u>4,850,365</u>	<u>4,822,491</u>	<u>9,717,332</u>	<u>9,046,816</u>
Total assets	<u>6,621,519</u>	<u>5,825,885</u>	<u>6,179,826</u>	<u>6,379,827</u>	<u>12,801,345</u>	<u>12,205,712</u>
Long-term liabilities outstanding	1,217,003	1,252,478	2,392,846	2,520,357	3,609,849	3,772,835
Other liabilities	<u>251,470</u>	<u>93,639</u>	<u>154,377</u>	<u>154,785</u>	<u>405,847</u>	<u>248,424</u>
Total liabilities	<u>1,468,473</u>	<u>2,675,142</u>	<u>2,547,223</u>	<u>2,675,142</u>	<u>4,015,696</u>	<u>4,021,259</u>
Net Position						
Net investment in capital assets	4,183,967	3,451,325	2,724,791	2,753,712	6,908,758	6,205,037
Restricted	539,018	648,582	162,903	181,000	701,921	829,582
Unrestricted	<u>430,061</u>	<u>379,861</u>	<u>744,909</u>	<u>769,973</u>	<u>1,174,970</u>	<u>1,149,834</u>
Total net position	<u>\$ 5,153,046</u>	<u>\$ 4,479,768</u>	<u>\$ 3,632,603</u>	<u>\$ 3,704,685</u>	<u>\$ 8,785,649</u>	<u>\$ 8,184,453</u>

Net position of the City's governmental activities increased by 15 percent (\$5,153,046 compared to \$4,479,768). Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from a \$379,861 surplus at December 31, 2012 to a \$430,061 surplus at the end of this year.

Net position of the City's business-type activities decreased by 2 percent (\$3,632,603 compared to \$3,704,685) in 2013.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 708,116	\$ 649,466	\$ 1,943,006	\$ 1,745,569	\$ 2,651,122	\$ 2,395,035
Operating grants and contributions	215,361	76,349	10,000	-	225,361	76,349
Capital grants and contributions	533,366	617,529	12,213	32,718	545,579	650,247
General revenues:						
Property taxes	1,241,927	1,144,448	18,650	18,750	1,260,577	1,163,198
Intergovernmental	693,401	689,086	-	-	693,401	689,086
Other general revenues	<u>14,593</u>	<u>29,707</u>	<u>-</u>	<u>-</u>	<u>14,593</u>	<u>29,707</u>
Total revenues	<u>3,406,764</u>	<u>3,206,585</u>	<u>1,983,869</u>	<u>1,797,037</u>	<u>5,390,633</u>	<u>5,003,622</u>

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Program expenses:						
General government	\$ 583,979	\$ 547,148	\$ -	\$ -	\$ 583,979	\$ 547,148
Public safety	935,879	917,570	-	-	935,879	917,570
Public works	706,012	848,244	-	-	706,012	848,244
Sanitation	190,713	85,610	-	-	190,713	85,610
Culture and recreation	307,881	314,166	-	-	307,881	314,166
Economic development	20,650	6,338	-	-	20,650	6,338
Interest	13,372	25,439	-	-	13,372	25,439
Water	-	-	403,678	387,387	403,678	387,387
Electric	-	-	1,040,686	939,238	1,040,686	939,238
Sewer usage	-	-	586,587	570,247	586,587	570,247
Total program expenses	<u>2,758,486</u>	<u>2,744,515</u>	<u>2,030,951</u>	<u>1,896,872</u>	<u>4,789,437</u>	<u>4,641,387</u>
Increase (decrease) in net position before transfers	648,278	462,070	(47,082)	(99,835)	601,196	362,235
Transfers	<u>25,000</u>	<u>70,000</u>	<u>(25,000)</u>	<u>(70,000)</u>	-	-
Increase (decrease) in net position	673,278	532,070	(72,082)	(169,835)	601,196	362,235
Net position, January 1	4,479,768	3,947,698	3,704,685	3,874,520	8,184,453	7,822,218
Net position, December 31	<u>\$ 5,153,046</u>	<u>\$ 4,479,768</u>	<u>\$ 3,632,603</u>	<u>\$ 3,704,685</u>	<u>\$ 8,785,649</u>	<u>\$ 8,184,453</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 \$926,158, 27% of revenues; while property taxes levied for specific purposes were \$300,350, 9% of revenue. Intergovernmental revenue amounts to \$693,401 or 20% of total revenue while fees, fines, charges, and other revenues are 21% of total revenues. Capital grants and contributions amounted to 16% of total revenues.

Public safety expenses are the most significant (34%), followed by public works (26%), general government (21%), culture and recreation (11%), sanitation (7%), economic development (.6%), and interest (.4%).

Governmental revenues increased \$200,179 in 2013 primarily due to an increase in operating grants and contributions (\$76,349 in 2012 to \$215,361 in 2013). Our taxpayers paid \$1,241,927 in property taxes during the current year, which is an increase of \$97,479 from 2012.

Governmental expenses increased by \$13,971 in the current year. The largest increase was recorded in the sanitation program (\$85,610 in 2012 to \$190,713 in 2013). Sanitation expenses were higher partially due to the City classifying more expenses in the public works program from the sanitation program in 2012. The net cost of all governmental activities this year was \$1,301,643 compared to \$1,401,171 last year. Most of the decrease in cost is attributed to increased operating grants and contributions, and property taxes.

Business-Type Activities

Revenues of the City's business-type activities were \$1,983,869 (see Table 2). There was a decrease in net position of \$72,082 during the year ended December 31, 2013. The factors driving these results include:

- Operations produced a loss of \$31,411 for the year ended December 31, 2013.
- Nonoperating revenues and expenses included property taxes of \$18,650, capital contributions of \$12,213, and \$46,534 of interest expense.
- The electric enterprise fund transferred \$25,000 to the general fund during 2013.

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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, 2013, the City's governmental funds reported total ending fund balances of \$1,398,186, an increase of \$7,631 in comparison with the prior year. Restricted funds, which are considered unavailable for appropriation for general operations, made up 16%, or \$228,955 of the total ending fund balance; \$262,421 (19%) of the fund balance was committed, and \$862,034 (62%) was assigned.

At the end of the year, the general fund reported a fund balance of \$912,471, increasing \$64,320 from the prior year. General fund revenues increased by \$226,629 while general fund expenditures increased by \$270,562.

The community development revolving loan special revenue fund had no significant change in fund balance during the year ended December 31, 2013. Loan payments continue to be received, and one new loan was disbursed during the year.

The permanent improvement and replacement capital projects fund had a decrease in both revenues and expenditures while the fund balance decreased by \$45,681. Revenues and expenditures in 2013 were smaller because of decreased construction projects funded by intergovernmental revenues.

In the other governmental funds, the fund balance decrease was primarily from expenditures exceeding revenues in the Library special revenue 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 utility enterprise fund accounts for water operations of the City. In 2013, the water enterprise fund reported an operating loss of \$31,770. Revenues increased from \$287,638 in 2012 to \$362,534 in 2013, however, total operating expenses also increased from \$365,243 in 2012 to \$394,304 in 2013. An increase to operating expenses, primarily contractual services, personal services and employee benefits, contributed to this year's operating loss.

The electric enterprise fund accounts for all electric operations of the City. In 2012 service revenues were \$1,038,139 and in 2013 service revenues were \$1,112,523. With operating revenues increasing by \$74,133 and operating expenses increasing by \$101,448 from 2012 to 2013, the electric enterprise fund reported an operating income of \$73,356 in 2013 compared to an operating gain of \$100,671 in 2012.

The sewer usage enterprise fund accounts for all sewer operations of the City. The increase in service revenues from \$418,022 in 2012 to \$476,430 in 2013 is due to an increase in rates. Operating expenses in 2013 increased from \$523,637 in 2012 to \$549,427 in 2013, primarily due to increased personal services and employee benefits. The increase in revenues and expenses resulted in an operating loss of \$72,997 compared to an operating loss of \$105,615 in 2012.

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2013, the City Council did not revise the City's general fund budget. The actual charges to appropriations (expenditures) were \$86,051 more than the final budgeted amount. The most significant negative variances occurred in the City's sanitation and general government programs. Resources available for appropriation were higher than the budgeted amounts. The City received higher taxes, intergovernmental revenue, and charges for services than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had \$9,717,332 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 \$670,516 over last year.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 368,100	\$ 368,100	\$ 28,586	\$ 28,586	\$ 396,686	\$ 396,686
Construction in progress	458,144	563,487	132,154	127,286	590,298	690,773
Infrastructure	2,657,509	2,038,220	-	-	2,657,509	2,038,220
Distribution system	-	-	2,363,776	2,228,195	2,363,776	2,228,195
Production system	-	-	695,016	744,806	695,016	744,806
Sewage treatment plant	-	-	1,466,364	1,568,664	1,466,364	1,568,664
General assets	-	-	164,469	124,954	164,469	124,954
Buildings, improvements and structures	1,004,494	810,795	-	-	1,004,494	810,795
Equipment and vehicles	341,496	409,453	-	-	341,496	409,453
Furniture and fixtures	37,224	34,270	-	-	37,224	34,270
Totals	<u>\$ 4,866,967</u>	<u>\$ 4,224,325</u>	<u>\$ 4,850,365</u>	<u>\$ 4,822,491</u>	<u>\$ 9,717,332</u>	<u>\$ 9,046,816</u>

This year's major additions included:

- Street infrastructure projects
- Tuck-pointing and renovation at library/community center building
- Police four-wheeler
- Sewer plant blowers
- Water plant heating source
- Water plant electric upgrade

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

CITY OF GILBERT, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013**

Debt
At year-end, the City had \$3,142,000 in long-term debt outstanding versus \$3,362,000 last year—as shown in Table 4.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds (backed by the City)	\$ 823,000	\$ 913,000	\$ 520,000	\$ 560,000	\$ 1,343,000	\$ 1,473,000
General obligation revenue bonds and notes	-	-	<u>1,799,000</u>	<u>1,889,000</u>	<u>1,799,000</u>	<u>1,889,000</u>
Total	<u>\$ 823,000</u>	<u>\$ 913,000</u>	<u>\$ 2,319,000</u>	<u>\$ 2,449,000</u>	<u>\$ 3,142,000</u>	<u>\$ 3,362,000</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 \$303,000 at year end is significantly below this \$1,493,937 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 2014 budget, adopting the tax levy, and setting fees that will be charged for the business-type activities. General themes when considering the 2014 budget included:

- Upgrade of certain streets, alleys and utility infrastructure
- Returning the City's public works crew to a full complement
- Developing and implementing a safety program for all City employees
- Repairing the City's Community Center building to provide more years of service
- Upgrading operating software to realize efficiencies and reporting accuracy
- Expansion of the City cemetery

Overall 2014 budget goals include the following:

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

CITY OF GILBERT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

In 2014, the City will increase its levy by 5%. This increase is needed to help stabilize funding in light of fluctuating LGA, and to accommodate increases in operating costs and services. The following is the operating budget disbursements for 2014:

General Government	13.09%
Public Safety	29.55%
Public Works	33.60%
Culture and Recreation	10.62%
Debt Service	3.64%
Other Services	9.50%

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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,494,973	\$ 828,766	\$ 2,323,739
Taxes receivable	65,444	-	65,444
Special assessments receivable	18,088	177,383	195,471
Accounts receivable	21,579	313,700	335,279
Due from other governments	119,770	-	119,770
Loans receivable	33,023	-	33,023
Prepaid items	1,675	-	1,675
Restricted assets			
Restricted cash and cash equivalents	-	9,612	9,612
Capital assets not being depreciated			
Land and improvements	368,100	28,586	396,686
Construction in progress	458,144	132,154	590,298
Capital assets net of accumulated depreciation			
Infrastructure	2,657,509	-	2,657,509
Distribution system	-	2,363,776	2,363,776
Production system	-	695,016	695,016
Sewage treatment plant	-	1,466,364	1,466,364
General assets	-	164,469	164,469
Buildings, improvements and structures	1,004,494	-	1,004,494
Equipment and vehicles	341,496	-	341,496
Furniture and fixtures	37,224	-	37,224
TOTAL ASSETS	6,621,519	6,179,826	12,801,345
LIABILITIES			
Accounts payable	49,309	99,424	148,733
Salaries payable	28,942	7,442	36,384
Due to other governments	3,426	7,600	11,026
Contracts payable	29,755	9,612	39,367
Customer deposits	-	13,725	13,725
Unearned revenues	136,733	-	136,733
Accrued interest payable	3,305	16,574	19,879
Noncurrent liabilities			
Due within one year			
Bonds and notes payable	106,000	151,000	257,000
Due in more than one year			
Bonds and notes payable	717,000	2,168,000	2,885,000
Severance payable	11,084	5,244	16,328
Other postemployment benefits payable	382,919	68,602	451,521
TOTAL LIABILITIES	1,468,473	2,547,223	4,015,696
NET POSITION			
Net investment in capital assets	4,183,967	2,724,791	6,908,758
Restricted for:			
Capital projects	120,748	-	120,748
Debt service	47,559	162,903	210,462
Community development	242,975	-	242,975
Culture and recreation	127,736	-	127,736
Unrestricted	430,061	744,909	1,174,970
TOTAL NET POSITION	\$ 5,153,046	\$ 3,632,603	\$ 8,785,649

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

CITY OF GILBERT, MINNESOTA

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2013**

<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	\$ 583,979	\$ 57,095	\$ 86,797	\$ -
Public safety	935,879	348,307	97,282	-
Public works	706,012	1,522	-	533,365
Sanitation	190,713	183,057	-	-
Culture and recreation	307,881	96,529	27,213	1
Economic development	20,650	21,606	-	-
Interest on long-term debt	13,372	-	4,069	-
Total Governmental Activities	<u>2,758,486</u>	<u>708,116</u>	<u>215,361</u>	<u>533,366</u>
Business-type Activities				
Water	403,678	352,534	10,000	-
Electric	1,040,686	1,114,042	-	-
Sewer usage	586,587	476,430	-	12,213
Total Business-type Activities	<u>2,030,951</u>	<u>1,943,006</u>	<u>10,000</u>	<u>12,213</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 4,789,437</u>	<u>\$ 2,651,122</u>	<u>\$ 225,361</u>	<u>\$ 545,579</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

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

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

Governmental Activities	Business-type Activities	Total
\$ (440,087)	\$ -	\$ (440,087)
(490,290)	-	(490,290)
(171,125)	-	(171,125)
(7,656)	-	(7,656)
(184,138)	-	(184,138)
956	-	956
(9,303)	-	(9,303)
<u>(1,301,643)</u>	<u>-</u>	<u>(1,301,643)</u>
-	(41,144)	(41,144)
-	73,356	73,356
-	(97,944)	(97,944)
-	<u>(65,732)</u>	<u>(65,732)</u>
<u>(1,301,643)</u>	<u>(65,732)</u>	<u>(1,367,375)</u>
926,158	-	926,158
300,350	18,650	319,000
15,419	-	15,419
693,401	-	693,401
5,493	-	5,493
9,100	-	9,100
25,000	(25,000)	-
<u>1,974,921</u>	<u>(6,350)</u>	<u>1,968,571</u>
673,278	(72,082)	601,196
<u>4,479,768</u>	<u>3,704,685</u>	<u>8,184,453</u>
<u>\$ 5,153,046</u>	<u>\$ 3,632,603</u>	<u>\$ 8,785,649</u>

CITY OF GILBERT, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013

	<u>General Fund</u>	<u>Community Development Revolving Loan Special Revenue Fund</u>	<u>Permanent Improvement and Replacement Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 844,447	\$ 208,083	\$ 152,537	\$ 289,906	\$ 1,494,973
Taxes receivable	65,444	-	-	-	65,444
Special assessments receivable	-	-	-	18,088	18,088
Accounts receivable	16,010	1,869	-	3,700	21,579
Due from other governments	119,770	-	-	-	119,770
Loans receivables	-	33,023	-	-	33,023
Prepaid items	1,675	-	-	-	1,675
TOTAL ASSETS	<u>\$ 1,047,346</u>	<u>\$ 242,975</u>	<u>\$ 152,537</u>	<u>\$ 311,694</u>	<u>\$ 1,754,552</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 43,328	\$ -	\$ -	\$ 5,981	\$ 49,309
Salaries payable	26,003	-	-	2,939	28,942
Contracts payable	-	-	29,755	-	29,755
Unearned revenue	8,290	-	128,443	-	136,733
Other payables	-	-	-	3,426	3,426
TOTAL LIABILITIES	<u>77,621</u>	<u>-</u>	<u>158,198</u>	<u>12,346</u>	<u>248,165</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	57,254	-	-	-	57,254
Unavailable revenue-special assessments	-	-	-	17,924	17,924
Unavailable revenue-loans receivable	-	33,023	-	-	33,023
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>57,254</u>	<u>33,023</u>	<u>-</u>	<u>17,924</u>	<u>108,201</u>
FUND BALANCES					
Nonspendable	1,675	-	-	-	1,675
Restricted	-	75,267	-	153,688	228,955
Committed	-	134,685	-	127,736	262,421
Assigned	862,034	-	-	-	862,034
Unassigned reported in					
General fund	48,762	-	-	-	48,762
Capital projects funds	-	-	(5,661)	-	(5,661)
TOTAL FUND BALANCES	<u>912,471</u>	<u>209,952</u>	<u>(5,661)</u>	<u>281,424</u>	<u>1,398,186</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,047,346</u>	<u>\$ 242,975</u>	<u>\$ 152,537</u>	<u>\$ 311,694</u>	<u>\$ 1,754,552</u>

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

CITY OF GILBERT, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
December 31, 2013**

Amounts reported for governmental activities in the statement of net position

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 1,398,186
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	4,866,967
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements	108,201
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(3,305)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(1,217,003)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 5,153,046</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, 2013

	<u>General Fund</u>	<u>Community Development Revolving Loan Special Revenue Fund</u>	<u>Permanent Improvement and Replacement Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 946,369	\$ -	\$ 40,000	\$ 260,350	\$ 1,246,719
Special assessments	-	-	-	10,549	10,549
Licenses and permits	9,652	-	-	-	9,652
Intergovernmental	833,409	-	533,366	4,069	1,370,844
Charges for services	502,505	-	-	84,794	587,299
Fines	34,954	-	-	2,605	37,559
Interest	5,493	-	-	-	5,493
Miscellaneous	107,681	20,557	1	14,082	142,321
TOTAL REVENUES	<u>2,440,063</u>	<u>20,557</u>	<u>573,367</u>	<u>376,449</u>	<u>3,410,436</u>
EXPENDITURES					
Current					
General government	413,484	-	-	6,035	419,519
Public safety	818,586	-	-	-	818,586
Public works	552,426	-	-	2,434	554,860
Sanitation	184,811	-	-	-	184,811
Culture and recreation	26,960	-	-	240,040	267,000
Economic development	3,850	16,800	-	-	20,650
Miscellaneous	203,158	-	-	-	203,158
Debt Service					
Principal	-	-	-	90,000	90,000
Interest and fiscal charges	-	-	-	13,673	13,673
Capital Outlay					
General government	186,458	-	-	-	186,458
Public safety	20,110	-	-	-	20,110
Public works	-	-	619,048	-	619,048
Culture and recreation	-	-	-	39,032	39,032
TOTAL EXPENDITURES	<u>2,409,843</u>	<u>16,800</u>	<u>619,048</u>	<u>391,214</u>	<u>3,436,905</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>30,220</u>	<u>3,757</u>	<u>(45,681)</u>	<u>(14,765)</u>	<u>(26,469)</u>
OTHER FINANCING SOURCES					
Transfers in	25,000	-	-	-	25,000
Sale of capital assets	9,100	-	-	-	9,100
TOTAL OTHER FINANCING SOURCES	<u>34,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,100</u>
NET CHANGE IN FUND BALANCES	64,320	3,757	(45,681)	(14,765)	7,631
FUND BALANCES - JANUARY 1	<u>848,151</u>	<u>206,195</u>	<u>40,020</u>	<u>296,189</u>	<u>1,390,555</u>
FUND BALANCES - DECEMBER 31	<u>\$ 912,471</u>	<u>\$ 209,952</u>	<u>\$ (5,661)</u>	<u>\$ 281,424</u>	<u>\$ 1,398,186</u>

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

CITY OF GILBERT, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2013**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 7,631
<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	840,219	
Less current year depreciation	<u>(197,577)</u>	
Net capital assets		642,642
<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	(4,792)	
Change in unavailable revenue - special assessments	(9,028)	
Change in unavailable revenue - loans receivable	<u>1,049</u>	
		(12,771)
<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>		
Principal payments	<u>90,000</u>	
		90,000
<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	301	
Change in long-term compensated absences	2,677	
Change in long-term other postemployment benefits	<u>(57,202)</u>	
		<u>(54,224)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 673,278

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

CITY OF GILBERT, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013

	Business-type Activities - Enterprise Funds			Totals
	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 136,511	\$ 692,255	\$ -	\$ 828,766
Special assessments receivable	-	-	177,383	177,383
Accounts receivable	41,750	213,578	58,372	313,700
Due from other funds	-	80,364	-	80,364
TOTAL CURRENT ASSETS	<u>178,261</u>	<u>986,197</u>	<u>235,755</u>	<u>1,400,213</u>
RESTRICTED ASSETS				
Restricted for bonding projects - cash and cash equivalents	9,612	-	-	9,612
NONCURRENT ASSETS				
Capital assets				
Land and improvements	10,500	-	18,086	28,586
Construction in progress	63,546	-	68,608	132,154
Distribution system	2,803,827	1,139,625	1,158,581	5,102,033
Production system	1,797,133	-	-	1,797,133
Sewage treatment plant	-	-	4,156,866	4,156,866
General assets	130,966	321,922	50,569	503,457
Less accumulated depreciation	(2,808,153)	(1,083,332)	(2,978,379)	(6,869,864)
TOTAL NONCURRENT ASSETS	<u>1,997,819</u>	<u>378,215</u>	<u>2,474,331</u>	<u>4,850,365</u>
TOTAL ASSETS	<u>2,185,692</u>	<u>1,364,412</u>	<u>2,710,086</u>	<u>6,260,190</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	7,833	81,047	10,544	99,424
Salaries payable	2,938	1,566	2,938	7,442
Accrued interest payable	2,669	-	13,905	16,574
Due to other funds	-	-	80,364	80,364
Due to other governments	11	7,589	-	7,600
Customer deposits	-	13,725	-	13,725
Notes payable - current	8,000	-	63,000	71,000
Bonds payable - current	24,388	-	55,612	80,000
TOTAL CURRENT LIABILITIES	<u>45,839</u>	<u>103,927</u>	<u>226,363</u>	<u>376,129</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS				
Bonding projects - contracts payable	9,612	-	-	9,612
NONCURRENT LIABILITIES				
Compensated absences	822	3,600	822	5,244
Other postemployment benefits payable	1,426	16,884	50,292	68,602
Notes payable	82,000	-	1,091,000	1,173,000
Bonds payable	319,152	-	675,848	995,000
TOTAL NONCURRENT LIABILITIES	<u>403,400</u>	<u>20,484</u>	<u>1,817,962</u>	<u>2,241,846</u>
TOTAL LIABILITIES	<u>458,851</u>	<u>124,411</u>	<u>2,044,325</u>	<u>2,627,587</u>
NET POSITION				
Net investment in capital assets	1,681,610	378,215	664,966	2,724,791
Restricted for debt service	-	-	162,903	162,903
Unrestricted (deficit)	45,231	861,786	(162,108)	744,909
TOTAL NET POSITION	<u>\$ 1,726,841</u>	<u>\$ 1,240,001</u>	<u>\$ 665,761</u>	<u>\$ 3,632,603</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, 2013

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water Enterprise Fund</u>	<u>Electric Enterprise Fund</u>	<u>Sewer Usage Enterprise Fund</u>	<u>Totals</u>
REVENUES				
Charges for services	\$ 352,034	\$ 1,112,523	\$ 476,430	\$ 1,940,987
Operating grant	10,000	-	-	10,000
Miscellaneous	500	1,519	-	2,019
TOTAL OPERATING REVENUES	<u>362,534</u>	<u>1,114,042</u>	<u>476,430</u>	<u>1,953,006</u>
OPERATING EXPENSES				
Source of supply	-	769,945	-	769,945
Personal services	65,874	57,787	69,818	193,479
Employee benefits	46,627	31,643	63,810	142,080
Contractual services	57,213	117,422	81,080	255,715
Utilities	46,405	7,162	61,450	115,017
Repairs and maintenance	26,762	3,050	35,642	65,454
Other supplies and expenses	34,227	13,950	25,238	73,415
Insurance claims and expenses	6,465	3,554	10,275	20,294
Depreciation	108,931	25,920	156,957	291,808
Miscellaneous	1,800	10,253	45,157	57,210
TOTAL OPERATING EXPENSES	<u>394,304</u>	<u>1,040,686</u>	<u>549,427</u>	<u>1,984,417</u>
OPERATING INCOME (LOSS)	<u>(31,770)</u>	<u>73,356</u>	<u>(72,997)</u>	<u>(31,411)</u>
NONOPERATING REVENUES (EXPENSES)				
Property taxes	-	-	18,650	18,650
Interest expense	(9,374)	-	(37,160)	(46,534)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(9,374)</u>	<u>-</u>	<u>(18,510)</u>	<u>(27,884)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(41,144)</u>	<u>73,356</u>	<u>(91,507)</u>	<u>(59,295)</u>
Capital contributions	-	-	12,213	12,213
Transfers out	-	(25,000)	-	(25,000)
CHANGE IN NET POSITION	<u>(41,144)</u>	<u>48,356</u>	<u>(79,294)</u>	<u>(72,082)</u>
TOTAL NET POSITION - JANUARY 1	<u>1,767,985</u>	<u>1,191,645</u>	<u>745,055</u>	<u>3,704,685</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 1,726,841</u>	<u>\$ 1,240,001</u>	<u>\$ 665,761</u>	<u>\$ 3,632,603</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, 2013

Business-type Activities - Enterprise Funds

	Water Enterprise Fund	Electric Enterprise Fund	Sewer Usage Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 347,699	\$ 1,095,602	\$ 472,466	\$ 1,915,767
Cash received from operating grant	10,000	-	-	10,000
Cash paid to suppliers	(227,305)	(949,643)	(312,504)	(1,489,452)
Cash paid to employees	(65,119)	(57,515)	(69,064)	(191,698)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>65,275</u>	<u>88,444</u>	<u>90,898</u>	<u>244,617</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	-	(25,000)	-	(25,000)
Prior year sewer fund cash deficit implicitly financed	-	81,210	(81,210)	-
Sewer fund cash deficit implicitly financed	-	(80,364)	80,364	-
Property taxes received	-	-	18,650	18,650
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(24,154)</u>	<u>17,804</u>	<u>(6,350)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase or construction of fixed assets	(223,688)	-	(97,893)	(321,581)
Principal paid on long-term debt	(20,960)	-	(109,040)	(130,000)
Interest paid on long-term debt	(9,609)	-	(38,343)	(47,952)
Capital contributions from special assessments	-	-	29,607	29,607
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(254,257)</u>	<u>-</u>	<u>(215,669)</u>	<u>(469,926)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(188,982)	64,290	(106,967)	(231,659)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>335,105</u>	<u>627,965</u>	<u>106,967</u>	<u>1,070,037</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 146,123</u></u>	<u><u>\$ 692,255</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 838,378</u></u>
CASH AND CASH EQUIVALENTS ARE REPORTED AS FOLLOWS:				
Cash and cash equivalents	\$ 136,511	\$ 692,255	\$ -	\$ 828,766
Restricted cash and cash equivalents	9,612	-	-	9,612
TOTAL	<u><u>\$ 146,123</u></u>	<u><u>\$ 692,255</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 838,378</u></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, 2013**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water Enterprise Fund</u>	<u>Electric Enterprise Fund</u>	<u>Sewer Usage Enterprise Fund</u>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (31,770)	\$ 73,356	\$ (72,997)	\$ (31,411)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	108,931	25,920	156,957	291,808
Changes in assets and liabilities (Increase) decrease in:				
Accounts receivable	(4,835)	(17,740)	(3,964)	(26,539)
Prepaid items	2,892	570	1,899	5,361
Increase (decrease) in:				
Accounts payable	(4,717)	4,397	2,706	2,386
Salaries payable	618	272	618	1,508
Due to other governments	11	(296)	-	(285)
Customer deposits	-	(700)	-	(700)
Compensated absences	137	-	136	273
Other postemployment benefits	(5,992)	2,665	5,543	2,216
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 65,275</u></u>	<u><u>\$ 88,444</u></u>	<u><u>\$ 90,898</u></u>	<u><u>\$ 244,617</u></u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Total capital asset additions	\$ 222,269	\$ -	\$ 97,413	\$ 319,682
Contracts payable current year	(9,612)	-	-	(9,612)
Contracts payable prior year	11,031	-	480	11,511
Cash paid	<u><u>\$ 223,688</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 97,893</u></u>	<u><u>\$ 321,581</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Governmental Funds:

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

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

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

Nonmajor Governmental Funds:

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

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

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

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following proprietary funds:

Major Proprietary Funds:

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

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

The Sewer Usage Enterprise Fund is used to account for revenues generated from the charges for wastewater treatment services provided to the residential and commercial users of the City.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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, 2013

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. Changes in Accounting Principles

For the year ending December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No. 4, *Elements of Financial Statements*, as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

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, 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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 8) Government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and resources that have been received, but not yet earned.

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

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

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

- 10) Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, which are reported in the general fund, special assessments, which are reported in the Debt Service Fund, and loans receivable, which are reported in the Community Development Revolving Loan Special Revenue Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 11) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

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.

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

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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.

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, 2013:

Government Fund	
Permanent Improvement and Replacement Capital Projects Fund	<u>\$ (5,661)</u>

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, 2013

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	1,956,872
Certificates of Deposit	313,000
Investments	<u>62,829</u>
Total	<u>\$ 2,333,351</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 \$2,269,872; the bank balance was \$2,413,571. 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.

Cash and cash equivalents are classified in the accompanying statement of net position as follows:

Cash and cash equivalents	\$ 2,323,739
Restricted cash and cash equivalents	<u>9,612</u>
Total	<u>\$ 2,333,351</u>

Investments

Custodial Credit Risk – Investments

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 3- CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk and Concentration of Credit Risk

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

As of December 31, 2013, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money Market (4M) Fund	\$ 59,606	Not Rated
Morgan Stanley Smith Barney Money Market Fund	<u>3,223</u>	Not Rated
	<u>\$ 62,829</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 2013, 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, 2013 was \$33,023 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, 2013**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 368,100	\$ -	\$ -	\$ -	\$ 368,100
Construction in progress	<u>563,487</u>	<u>458,144</u>	<u>-</u>	<u>(563,487)</u>	<u>458,144</u>
Total capital assets, not being depreciated	<u>931,587</u>	<u>458,144</u>	<u>-</u>	<u>(563,487)</u>	<u>826,244</u>
Capital assets, being depreciated:					
Infrastructure	2,300,250	136,476	-	563,487	3,000,213
Buildings, improvements and structures	2,287,792	216,458	-	-	2,504,250
Equipment and vehicles	1,738,556	20,110	-	-	1,758,666
Furniture and fixtures	<u>326,182</u>	<u>9,031</u>	<u>-</u>	<u>-</u>	<u>335,213</u>
Total capital assets, being depreciated	<u>6,652,780</u>	<u>382,075</u>	<u>-</u>	<u>563,487</u>	<u>7,598,342</u>
Less accumulated depreciation for:					
Infrastructure	(262,030)	(80,674)	-	-	(342,704)
Buildings, improvements and structures	(1,476,997)	(22,759)	-	-	(1,499,756)
Equipment and vehicles	(1,329,103)	(88,067)	-	-	(1,417,170)
Furniture and fixtures	<u>(291,912)</u>	<u>(6,077)</u>	<u>-</u>	<u>-</u>	<u>(297,989)</u>
Total accumulated depreciation	<u>(3,360,042)</u>	<u>(197,577)</u>	<u>-</u>	<u>-</u>	<u>(3,557,619)</u>
Total capital assets, being depreciated, net	<u>3,292,738</u>	<u>184,498</u>	<u>-</u>	<u>563,487</u>	<u>4,040,723</u>
Governmental activities capital assets, net	<u>\$ 4,224,325</u>	<u>\$ 642,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,866,967</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 28,586	\$ -	\$ -	\$ -	\$ 28,586
Construction in progress	<u>127,286</u>	<u>129,864</u>	<u>-</u>	<u>(124,996)</u>	<u>132,154</u>
Total capital assets, not being depreciated	<u>155,872</u>	<u>129,864</u>	<u>-</u>	<u>(124,996)</u>	<u>160,740</u>
Capital assets, being depreciated:					
Distribution system	4,838,422	185,516	-	78,095	5,102,033
Production system	1,797,133	-	-	-	1,797,133
Sewage treatment plant	4,156,866	-	-	-	4,156,866
General assets	<u>452,254</u>	<u>4,302</u>	<u>-</u>	<u>46,901</u>	<u>503,457</u>
Total capital assets, being depreciated	<u>11,244,675</u>	<u>189,818</u>	<u>-</u>	<u>124,996</u>	<u>11,559,489</u>
Less accumulated depreciation for:					
Distribution system	(2,610,227)	(128,030)	-	-	(2,738,257)
Production system	(1,052,327)	(49,790)	-	-	(1,102,117)
Sewage treatment plant	(2,588,202)	(102,300)	-	-	(2,690,502)
General assets	<u>(327,300)</u>	<u>(11,688)</u>	<u>-</u>	<u>-</u>	<u>(338,988)</u>
Total accumulated depreciation	<u>(6,578,056)</u>	<u>(291,808)</u>	<u>-</u>	<u>-</u>	<u>(6,869,864)</u>
Total capital assets, being depreciated, net	<u>4,666,619</u>	<u>(101,990)</u>	<u>-</u>	<u>124,996</u>	<u>4,689,625</u>
Business-type activities capital assets, net	<u>\$ 4,822,491</u>	<u>\$ 27,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,850,365</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities

General government	\$ 13,422
Public safety	51,267
Public works	86,105
Sanitation	5,902
Recreation	<u>40,881</u>
Total depreciation expense - governmental activities	\$ <u>197,577</u>

Business-type activities

Water	\$ 108,931
Electric	25,920
Sewer usage	<u>156,957</u>
Total depreciation expense - business-type activities	\$ <u>291,808</u>

NOTE 6 - LONG-TERM DEBT

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

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
GO bonds payable					
GO Abatement Refunding Bonds, Series 2012C	07/16/2012	1.50-2.75%	\$ 113,000	02/01/2021	\$ 103,000
GO Refunding Bonds Series 2012A	03/01/2012	0.40-1.80%	\$ 585,000	05/01/2021	520,000
GO Bonds, Equipment Certificates, Series 2012A	03/01/2012	0.40-1.80%	\$ 75,000	05/01/2017	60,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 140,000	02/01/2023	<u>140,000</u>
Governmental activities long-term debt					<u>823,000</u>

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5 - LONG-TERM DEBT (CONTINUED)

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Business-type activities					
GO bonds and notes					
GO Improvement Bonds, Series 2008A	05/01/2008	3.10-4.40%	\$ 665,000	02/01/2024	\$ 520,000
GO Utility Revenue Bonds, Series 2012A	03/01/2012	0.40-2.50%	\$ 365,000	05/01/2027	345,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	07/01/2012	1.25-3.00%	\$ 210,000	02/01/2023	210,000
GO Revenue Note of 2003	04/30/2003	2.88%	\$ 157,764	08/20/2023	90,000
GO Revenue Note of 2010	07/14/2010	1.00%	\$ 1,337,076	08/20/2030	<u>1,154,000</u>
Business-type activities long-term debt					<u>2,319,000</u>
Total long-term debt					<u>\$ 3,142,000</u>

Governmental funds

In 2012, the City issued \$1,025,000 in GO Bonds, Series 2012A. \$585,000 of the bonds issued were to refund the \$770,000 GO refunding improvement bonds issued in 2005 of which those proceeds were used to effect a crossover refunding of \$725,000 of the outstanding GO Improvement Bonds of 1999 issued to finance the costs of street, curb, gutter, storm sewer as well as related water and sewer improvements within the City. Principal and interest paid for the current year was \$70,945. At December 31, 2013, 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 \$548,718.

\$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 \$15,465. At December 31, 2013, 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 \$60,997.

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. There were interest only payments of \$3,126 made during the year. At December 31, 2013, principal and interest to maturity in 2023 which will be funded through ad valorem taxes totaled \$157,700.

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 \$12,537. At December 31, 2013, principal and interest to maturity in 2021 to be paid from ad valorem taxes totaled \$113,439.

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 \$10,822. At December 31, 2013, principal and interest to maturity in 2023 to be paid from pledged future revenues totaled \$104,861.

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 \$136,080. At December 31, 2013, principal and interest on the 2008 bonds to maturity in 2024 to be paid from pledged future revenues totaled \$649,505 and on the 2010 revenue note to maturity in 2030 to be paid from pledged future revenues totaled \$1,260,570.

Of the \$1,025,000 GO Bonds, Series 2012A, \$236,500 of the bonds were used to finance improvements to the City's water utility system while \$128,500 of the bonds were used for improvements to the City's sewer utility system. Principal and interest paid for the current year on both issues totaled \$26,170. At December 31, 2013, 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 \$259,345 for the water bonds and \$140,910 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. There were interest only payments of \$4,880 made during the year. At December 31, 2013, principal and interest to maturity in 2023 which will be paid from net revenues of the water and wastewater systems totaled \$136,285 for the water bonds and \$102,215 for the sewer bonds.

Long-term debt activity for the year ended December 31, 2013 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	\$ 113,000	\$ -	\$ (10,000)	\$ 103,000	\$ 11,000
GO Refunding Bonds, Series 2012A	585,000	-	(65,000)	520,000	65,000
GO Bonds, Equipment Certificates, Series 2012A	75,000	-	(15,000)	60,000	15,000
Taxable GO CIP Energy Conservation Bonds, Series 2012B	<u>140,000</u>	<u>-</u>	<u>-</u>	<u>140,000</u>	<u>15,000</u>
Total governmental activities - long-term debt	<u>\$ 913,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 823,000</u>	<u>\$ 106,000</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

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	\$ 560,000	\$ -	\$ (40,000)	\$ 520,000	\$ 40,000
GO Utility Revenue Bonds, Series 2012A	365,000	-	(20,000)	345,000	20,000
Taxable GO Utility Revenue Energy Conservation Bonds, Series 2012B	210,000	-	-	210,000	20,000
Revenue Notes payable					
GO Revenue Note of 2003	98,000	-	(8,000)	90,000	8,000
GO Revenue Note of 2010	<u>1,216,000</u>	<u>-</u>	<u>(62,000)</u>	<u>1,154,000</u>	<u>63,000</u>
Total business-type activities long-term debt	<u>\$ 2,449,000</u>	<u>\$ -</u>	<u>\$ (130,000)</u>	<u>\$ 2,319,000</u>	<u>\$ 151,000</u>

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

Year Ending <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 106,000	\$ 11,306	\$ 151,000	\$ 45,407	\$ 257,000	\$ 56,713
2015	111,000	10,477	151,000	42,787	262,000	53,264
2016	106,000	9,526	152,000	40,056	258,000	49,582
2017	106,000	8,266	164,000	36,973	270,000	45,239
2018	90,000	6,806	164,000	33,585	254,000	40,391
2019-2023	304,000	11,473	873,000	108,773	1,177,000	120,246
2024-2028	-	-	518,000	24,920	518,000	24,920
2029-2033	<u>-</u>	<u>-</u>	<u>146,000</u>	<u>2,190</u>	<u>146,000</u>	<u>2,190</u>
Total	<u>\$ 823,000</u>	<u>\$ 57,854</u>	<u>\$ 2,319,000</u>	<u>\$ 334,691</u>	<u>\$ 3,142,000</u>	<u>\$ 392,545</u>

No interest was capitalized during 2013; interest incurred and charged to expense totaled \$60,025.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. There are 5 active and 10 retired members in the plan as of December 31, 2013. 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.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 2013, 10 retirees received postemployment benefits. The City provided required contributions of \$109,432 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$12,024. Required contributions are based on projected pay-as-you-go financing.

Annual OPEB Cost and Net OPEB Obligation

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

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Normal cost (service cost for one year)	\$ 42,833	\$ 10,785	\$ 53,618
Amortization of unfunded actuarial accrued liability	74,412	34,812	109,224
Interest on normal cost and amortization	<u>4,093</u>	<u>1,915</u>	<u>6,008</u>
Annual required contribution	121,338	47,512	168,850
Adjustment to annual required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Annual OPEB cost (expense)	121,338	47,512	168,850
Contributions toward the OPEB cost	<u>(64,136)</u>	<u>(45,296)</u>	<u>(109,432)</u>
Increase in net OPEB obligation	57,202	2,216	59,418
Net OPEB obligation, beginning of year	<u>325,717</u>	<u>66,386</u>	<u>392,103</u>
Net OPEB obligation, end of year	<u>\$ 382,919</u>	<u>\$ 68,602</u>	<u>\$ 451,521</u>

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>
12/31/13	\$ 168,850	64.8%	\$ 451,521
12/31/12	\$ 194,784	56.2%	\$ 392,103
12/31/11	\$ 194,784	51.9%	\$ 306,835
12/31/10	\$ 173,742	41.1%	\$ 213,047
12/31/09	\$ 173,742	36.2%	\$ 110,787

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

The City's OPEB alternative method calculation valuation as of January 1, 2013, used the entry age cost method to estimate both the unfunded actuarial liability as of December 31, 2013 and to estimate the City's 2013 annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 2 percent rate of return on invested assets, which is the City's long-term expectation of investment returns under its investment policy. The actuarial assumptions include an initial annual healthcare cost trend rate of 7.5% 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. The remaining amortization period at December 31, 2013 is 30 years.

CITY OF GILBERT, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2013, is as follows:

Due to/from other funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise	Sewer Usage Enterprise	\$ 80,364

This balance resulted from the elimination of a cash deficit.

Interfund transfers for the year ended December 31, 2013, consisted of the following:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
General	Electric Enterprise	\$ 25,000

The transfer was made to help fund the City's general government activities.

NOTE 9 - FUND EQUITY

Fund Balances

As of December 31, 2013, fund balances are comprised of the following:

	<u>General Fund</u>	<u>Community Development Revolving Loan Special Revenue Fund</u>	<u>Permanent Improvement and Replacement Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Prepaid items	\$ 1,675	\$ -	\$ -	\$ -	\$ 1,675
Restricted:					
Rehabilitation loans	-	75,267	-	-	75,267
Debt service	-	-	-	32,940	32,940
Capital Projects	-	-	-	120,748	120,748
Total Restricted	<u>-</u>	<u>75,267</u>	<u>-</u>	<u>153,688</u>	<u>228,955</u>
Committed:					
Storefront loans	-	134,685	-	-	134,685
Library	-	-	-	94,032	94,032
Recreation	-	-	-	33,704	33,704
Total Committed	<u>-</u>	<u>134,685</u>	<u>-</u>	<u>127,736</u>	<u>262,421</u>

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 9 - FUND EQUITY (CONTINUED)

	<u>General Fund</u>	Community Development Revolving Loan Special Revenue Fund	Permanent Improvement and Replacement Capital Projects Fund	Nonmajor Governmental Funds	<u>Total</u>
Assigned:					
Cash flow	\$ 850,950	\$ -	\$ -	\$ -	\$ 850,950
Compensated absences	<u>11,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,084</u>
Total Assigned	<u>862,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>862,034</u>
Unassigned	<u>48,762</u>	<u>-</u>	<u>(5,661)</u>	<u>-</u>	<u>43,101</u>
Total fund balances	<u>\$ 912,471</u>	<u>\$ 209,952</u>	<u>\$ (5,661)</u>	<u>\$ 281,424</u>	<u>\$ 1,398,186</u>

NOTE 10 - RESTATEMENT OF NET POSITION

Due to the changes in accounting principles described in Note 1, beginning net position has been decreased for bond issue costs, amortized over the life of the related debt under the prior standards, but expensed in the period incurred under the new standards.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Position December 31, 2012, as previously reported	\$ 4,530,626	\$ 3,740,629	\$ 8,271,255
Restatement	<u>(50,858)</u>	<u>(35,944)</u>	<u>(86,802)</u>
Net Position December 31, 2012, as restated	<u>\$ 4,479,768</u>	<u>\$ 3,704,685</u>	<u>\$ 8,184,453</u>

NOTE 11 - RISK MANAGEMENT

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

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2013, 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, 2013. The projects were evidenced by contractual commitments with contractors and engineers.

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Circle Drive Project	\$ 413,309	\$ 85,518
Minnesota and Michigan Avenue Projects	22,085	276,789
New Jersey and Ohio Avenue Projects	<u>22,750</u>	<u>325,824</u>
Total	<u>\$ 458,144</u>	<u>\$ 688,131</u>

Electric Utility Commitments

The City of Gilbert, Minnesota has entered into several agreements with Minnesota Power relating to the City's electrical distribution system. The Electric Service Agreement provides that Minnesota Power will supply electric power and associated energy sufficient for the City to meet its electric system requirements for resale to its retail customers in its service area. This agreement is in effect until December 31, 2016 and will continue thereafter with either Minnesota Power or the City having the right to terminate the agreement upon three years written notice to the other party. The contract also provides for rate adjustments throughout the term of the contract.

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

Other Commitment

The City had entered into a contract with an area business for solid waste removal services within the City of Gilbert, Minnesota. The contractor collects and disposes of all refuse and any other waste materials as set forth by the City. This contract was in effect until December 31, 2013. The contractor charged the City an agreed upon rate times the number of residential customers. The contract provided for the rate to increase three percent each year of the contract. A new contract is currently being negotiated.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 13 - JOINT VENTURES

Police Services

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

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

In consideration of services, the City of Biwabik has agreed to pay an annual fee to the City of Gilbert. This fee is established by the Cities of Gilbert and Biwabik on an annual basis by September 7 of each year. The City of Gilbert requests payment from the City of Biwabik on a quarterly basis. During 2013, the City of Biwabik paid the City of Gilbert \$291,362 for police services.

Tri-Cities Biosolids Disposal Authority

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

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Gilbert's contribution to the Authority's budget during 2013 was \$28,544. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Biosolids Disposal Site Authority

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

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 13 - JOINT VENTURES (CONTINUED)

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 2013 was \$3,725. Complete financial information can be obtained from the Biosolids Disposal Site Authority, 413 Pierce Street, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

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

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

The City of Gilbert's contribution to the Authority's budget during 2013 was \$4,032. Complete financial information can be obtained from the Quad Cities Recreation Center, P.O. Box 707, Eveleth, Minnesota 55734.

Joint Recreation Board

The City entered into a joint powers agreement with the City of Eveleth, Independent School District No. 2154 Eveleth-Gilbert, and Town of Fayal, Minnesota to organize, manage, conduct, and operate recreational programs and facilities for their residents, constituents, and patrons. The Joint Recreation Board is governed by a nine-member board composed of two members from the City of Gilbert, three from the City of Eveleth, two from Independent School District No. 2154 Eveleth-Gilbert, and two from the Town of Fayal.

If the agreement is terminated, all real and personal property will be sold and any surplus money and property remaining after payment of all liabilities shall be returned to the parties in proportion to each party's total contribution over the three years prior to termination.

The City of Gilbert contributed \$14,843 during 2013 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.

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 13 - JOINT VENTURES (CONTINUED)

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 made no contributions to the ATV/OHM/Snowmobile Trail Board during 2013. Complete financial information can be obtained from the ATV/OHM/Snowmobile Trail Board, City of Gilbert, P.O. Box 548, Gilbert, Minnesota 55741.

NOTE 14 - SEVERANCE BENEFITS

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. Severance activity for the year ended December 31, 2013 was as follows:

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13
Governmental activities	\$ 13,761	\$ 923	\$ (3,600)	\$ 11,084
Business-type activities	4,971	273	-	5,244
Total	\$ 18,732	\$ 1,196	\$ (3,600)	\$ 16,328

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

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

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

CITY OF GILBERT, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

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

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GEF Basic

CITY OF GILBERT, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013**

NOTE 15 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. In 2013, the City of Gilbert, Minnesota, was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$42,672, \$35,167, and \$41,463, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$63,940, \$55,672, and \$57,966, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
REVENUES				
Taxes	\$ 809,997	\$ 809,997	\$ 946,369	\$ 136,372
Licenses and permits	7,460	7,460	9,652	2,192
Intergovernmental	742,772	742,772	833,409	90,637
Charges for services	448,451	448,451	502,505	54,054
Fines	14,500	14,500	34,954	20,454
Interest	10,000	10,000	5,493	(4,507)
Miscellaneous	83,702	83,702	107,681	23,979
TOTAL REVENUES	2,116,882	2,116,882	2,440,063	323,181
EXPENDITURES				
Current				
General government	364,187	364,187	413,484	(49,297)
Public safety	780,933	780,933	818,586	(37,653)
Public works	660,890	660,890	552,426	108,464
Sanitation	133,350	133,350	184,811	(51,461)
Culture and recreation	16,532	16,532	26,960	(10,428)
Economic development	5,000	5,000	3,850	1,150
Miscellaneous	277,400	277,400	203,158	74,242
Capital Outlay				
General government	17,000	17,000	186,458	(169,458)
Public safety	23,500	23,500	20,110	3,390
Public works	45,000	45,000	-	45,000
TOTAL EXPENDITURES	2,323,792	2,323,792	2,409,843	(86,051)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(206,910)	(206,910)	30,220	237,130
OTHER FINANCING SOURCES				
Transfers in	-	-	25,000	25,000
Sale of capital assets	-	-	9,100	9,100
TOTAL OTHER FINANCING SOURCES	-	-	34,100	34,100
NET CHANGE IN FUND BALANCES	(206,910)	(206,910)	64,320	271,230
FUND BALANCE - JANUARY 1	848,151	848,151	848,151	-
FUND BALANCE - DECEMBER 31	\$ 641,241	\$ 641,241	\$ 912,471	\$ 271,230

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget - Positive (Negative)</u>
REVENUES				
Miscellaneous	\$ 21,500	\$ 21,500	\$ 20,557	\$ (943)
EXPENDITURES				
Current				
Economic development	<u>30,000</u>	<u>30,000</u>	<u>16,800</u>	<u>13,200</u>
NET CHANGE IN FUND BALANCES	(8,500)	(8,500)	3,757	12,257
FUND BALANCE - JANUARY 1	<u>206,195</u>	<u>206,195</u>	<u>206,195</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u><u>\$ 197,695</u></u>	<u><u>\$ 197,695</u></u>	<u><u>\$ 209,952</u></u>	<u><u>\$ 12,257</u></u>

See notes to required supplementary information.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR
POSTEMPLOYMENT BENEFITS PLAN
Year Ended December 31, 2013**

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

CITY OF GILBERT, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2013**

NOTE 1 - BUDGETING

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Budget

For the year ended December 31, 2013, expenditures exceeded appropriations in the following fund:

	<u>Excess</u>
General Fund	\$ 86,051

The over-expenditure was funded by additional revenues and transfers in.

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 Recreation Special Revenue Fund is used to account for and report financial resources used for the City's recreation programs.

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, 2013

	<u>Library Special Revenue Fund</u>	<u>Recreation Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Energy Bonds Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 98,470	\$ 37,912	\$ 32,776	\$ 120,748	\$ 289,906
Special assessments receivable	-	-	18,088	-	18,088
Accounts receivable	-	3,700	-	-	3,700
TOTAL ASSETS	<u>\$ 98,470</u>	<u>\$ 41,612</u>	<u>\$ 50,864</u>	<u>\$ 120,748</u>	<u>\$ 311,694</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2,429	\$ 3,552	\$ -	\$ -	\$ 5,981
Salaries payable	2,009	930	-	-	2,939
Other payables	-	3,426	-	-	3,426
TOTAL LIABILITIES	<u>4,438</u>	<u>7,908</u>	<u>-</u>	<u>-</u>	<u>12,346</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-special assessments	-	-	17,924	-	17,924
FUND BALANCES					
Restricted	-	-	32,940	120,748	153,688
Committed	94,032	33,704	-	-	127,736
TOTAL FUND BALANCES	<u>94,032</u>	<u>33,704</u>	<u>32,940</u>	<u>120,748</u>	<u>281,424</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 98,470</u>	<u>\$ 41,612</u>	<u>\$ 50,864</u>	<u>\$ 120,748</u>	<u>\$ 311,694</u>

CITY OF GILBERT, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2013

	Library Special Revenue Fund	Recreation Special Revenue Fund	Debt Service Fund	Energy Bonds Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ 103,500	\$ 60,500	\$ 96,350	\$ -	\$ 260,350
Special assessments	-	-	10,549	-	10,549
Intergovernmental	-	-	4,069	-	4,069
Charges for services	-	84,794	-	-	84,794
Fines	2,605	-	-	-	2,605
Miscellaneous	9,572	4,510	-	-	14,082
TOTAL REVENUES	<u>115,677</u>	<u>149,804</u>	<u>110,968</u>	<u>-</u>	<u>376,449</u>
EXPENDITURES					
Current					
General government	-	-	-	6,035	6,035
Public works	-	-	-	2,434	2,434
Culture and recreation	123,940	116,100	-	-	240,040
Debt Service					
Principal	-	-	90,000	-	90,000
Interest and other charges	-	-	13,673	-	13,673
Capital Outlay					
Culture and recreation	39,032	-	-	-	39,032
TOTAL EXPENDITURES	<u>162,972</u>	<u>116,100</u>	<u>103,673</u>	<u>8,469</u>	<u>391,214</u>
NET CHANGE IN FUND BALANCES	<u>(47,295)</u>	<u>33,704</u>	<u>7,295</u>	<u>(8,469)</u>	<u>(14,765)</u>
FUND BALANCES - JANUARY 1	<u>141,327</u>	<u>-</u>	<u>25,645</u>	<u>129,217</u>	<u>296,189</u>
FUND BALANCES - DECEMBER 31	<u>\$ 94,032</u>	<u>\$ 33,704</u>	<u>\$ 32,940</u>	<u>\$ 120,748</u>	<u>\$ 281,424</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 Year Ended December 31, 2013

REVENUES

Taxes

General property	\$ 230,156
Taconite production	38,255
Taconite mining effects	50,912
Taconite homestead credit	144,925
Taconite municipal aid	193,888
Franchise	15,419
Other	272,814
Total Taxes	<u>946,369</u>

Licenses and Permits

9,652

Intergovernmental

State

Local government aid	689,566
Market value credit	199
Police training	2,392
PERA aid	3,636
Police aid	44,637
Fire aid	1,000
Iron Range Resources	18,213
DNR grant for OHV trails	59,492

County

Safe and sober	14,274
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Total Intergovernmental

833,409

Charges for Services

General government

Rent	10,925
Miscellaneous	627

Public safety

City of Biwabik's share of police	292,995
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Sanitation

Garbage removal	182,911
Sale of cardboard	147

Cemetery

14,900

Total Charges for Services

502,505

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2013

REVENUES (CONTINUED)

Fines

Court fines	\$ 28,825
Police forfeitures	3,386
Administrative fines	2,743
Total Fines	<u>34,954</u>

Interest

Interest income	<u>5,493</u>
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Miscellaneous

Insurance recoveries	9,012
Insurance dividends	8,756
Donations	3,500
Sale of supplies	510
Reimbursements and refunds	69,510
D.A.R.E.	11,155
Other	5,238
Total Miscellaneous	<u>107,681</u>

TOTAL REVENUES

2,440,063

EXPENDITURES

Current

General Government

Mayor and council	26,035
City clerk-treasurer	238,361
Elections	440
Assessor	19,637
Independent audit	13,500
Legal	25,230
Planning and zoning	2,968
Community center	30,784
Other	56,529
Total General Government	<u>413,484</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2013

EXPENDITURES

Current (continued)

Public Safety

Police	\$ 731,360
Fire	73,612
Animal control	9,082
First responders	4,532
Total Public Safety	<u>818,586</u>

Public Works

Maintenance	514,475
Engineering	12,731
Street lighting	25,220
Total Public Works	<u>552,426</u>

Sanitation

Refuse collection and disposal	181,603
Recycling	3,208
Total Sanitation	<u>184,811</u>

Culture and Recreation

Mesabi trail maintenance	720
OHV parks and trails	26,240
Total Culture and Recreation	<u>26,960</u>

Economic Development

Administration	<u>3,850</u>
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Miscellaneous

Insurance	119,010
Employer-paid insurance	64,136
Utilities	6,572
Cemetery	5,646
Other	7,794
Total Miscellaneous	<u>203,158</u>

CITY OF GILBERT, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2013

EXPENDITURES (CONTINUED)

Capital Outlay

General Government

Community center

\$ 186,458

Public Safety

Police

20,110

TOTAL EXPENDITURES

2,409,843

EXCESS OF REVENUES OVER
EXPENDITURES

30,220

OTHER FINANCING SOURCES

Transfers in

25,000

Sale of capital assets

9,100

TOTAL OTHER FINANCING SOURCES

34,100

NET CHANGE IN FUND BALANCE

64,320

FUND BALANCE - JANUARY 1

848,151

FUND BALANCE - DECEMBER 31

\$ 912,471

CITY OF GILBERT, MINNESOTA

**COMMUNITY DEVELOPMENT REVOLVING LOAN SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013**

REVENUES

Miscellaneous

Principal on loan payments	\$	13,951
Interest on loan payments		12
Program income		<u>6,594</u>

TOTAL REVENUES 20,557

EXPENDITURES

Current

Economic Development

Administration		1,800
Storefront loans		<u>15,000</u>

TOTAL EXPENDITURES 16,800

NET CHANGE IN FUND BALANCE 3,757

FUND BALANCE - JANUARY 1 206,195

FUND BALANCE - DECEMBER 31 \$ 209,952

CITY OF GILBERT, MINNESOTA

PERMANENT IMPROVEMENT AND REPLACEMENT CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013

REVENUES

Taxes

General property \$ 40,000

Intergovernmental

State

Taconite producer grant 331,281

Iron Range Resources 202,085

Total Intergovernmental 533,366

Miscellaneous

Other 1

TOTAL REVENUES 573,367

EXPENDITURES

Capital Outlay

Public Works

Water and sewer projects 24,272

Circle Drive project 413,309

Michigan and Minnesota Avenue projects 22,085

Alaska Avenue/DeCare project 136,475

New Jersey and Ohio Avenue projects 22,750

Alley projects 157

TOTAL EXPENDITURES 619,048

NET CHANGE IN FUND BALANCE (45,681)

FUND BALANCE - JANUARY 1 40,020

FUND BALANCE - DECEMBER 31 \$ (5,661)

CITY OF GILBERT, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ -	\$ 103,500	\$ 103,500	\$ -
Fines	2,600	2,600	2,605	5
Miscellaneous	6,730	6,730	9,572	2,842
TOTAL REVENUES	9,330	112,830	115,677	2,847
EXPENDITURES				
Current				
Culture and recreation	122,700	122,700	123,940	(1,240)
Capital Outlay				
Culture and recreation	1,000	1,000	39,032	(38,032)
TOTAL EXPENDITURES	123,700	123,700	162,972	(39,272)
NET CHANGE IN FUND BALANCE	(114,370)	(10,870)	(47,295)	(36,425)
FUND BALANCE - JANUARY 1	141,327	141,327	141,327	-
FUND BALANCE - DECEMBER 31	\$ 26,957	\$ 130,457	\$ 94,032	\$ (36,425)

CITY OF GILBERT, MINNESOTA
LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013

REVENUES

Taxes		
General property	\$	103,500
Fines		
Library fines		2,605
Miscellaneous		
Other		<u>9,572</u>
TOTAL REVENUES		<u>115,677</u>

EXPENDITURES

Current

Culture and Recreation		
Personal services		93,621
Supplies		19,471
Other services and charges		9,540
Other		<u>1,308</u>

Total Current 123,940

Capital Outlay

Culture and Recreation		
Building		<u>39,032</u>

TOTAL EXPENDITURES 162,972

NET CHANGE IN FUND BALANCE (47,295)

FUND BALANCE - JANUARY 1 141,327

FUND BALANCE - DECEMBER 31 \$ 94,032

CITY OF GILBERT, MINNESOTA

RECREATION SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ -	\$ 60,500	\$ 60,500	\$ -
Charges for services	72,000	72,000	84,794	12,794
Miscellaneous	150	150	4,510	4,360
TOTAL REVENUES	<u>72,150</u>	<u>132,650</u>	<u>149,804</u>	<u>17,154</u>
EXPENDITURES				
Current				
Culture and recreation	127,325	127,325	116,100	11,225
Capital Outlay				
Culture and recreation	1,000	1,000	-	1,000
TOTAL EXPENDITURES	<u>128,325</u>	<u>128,325</u>	<u>116,100</u>	<u>12,225</u>
NET CHANGE IN FUND BALANCE	<u>(56,175)</u>	<u>4,325</u>	<u>33,704</u>	<u>29,379</u>
FUND BALANCE - JANUARY 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u><u>\$ (56,175)</u></u>	<u><u>\$ 4,325</u></u>	<u><u>\$ 33,704</u></u>	<u><u>\$ 29,379</u></u>

CITY OF GILBERT, MINNESOTA
RECREATION SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013

REVENUES

Taxes		
General property	\$	60,500
 Charges for Services		
Culture and recreation		
Campground fees		84,794
 Miscellaneous		
Other		<u>4,510</u>
 TOTAL REVENUES		<u>149,804</u>

EXPENDITURES

Current

Culture and Recreation

Campground		
Supplies		5,502
Other services and charges		52,074
Other		<u>6,881</u>
Total campground		<u>64,457</u>

Other		
Personal services		9,762
Supplies		1,597
Other services and charges		<u>40,284</u>
Total other		<u>51,643</u>

TOTAL EXPENDITURES		<u>116,100</u>
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NET CHANGE IN FUND BALANCE		33,704
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FUND BALANCE - JANUARY 1		<u>-</u>
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FUND BALANCE - DECEMBER 31	\$	<u>33,704</u>
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CITY OF GILBERT, MINNESOTA

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013

REVENUES

Taxes

General property \$ 96,350

Special Assessments

Principal 10,402

Interest and penalties 147

Total Special Assessments 10,549

Intergovernmental

Federal grants

Interest reimbursement 4,069

TOTAL REVENUES 110,968

EXPENDITURES

Debt Service

Principal 90,000

Interest and fiscal charges 13,673

TOTAL EXPENDITURES 103,673

NET CHANGE IN FUND BALANCE 7,295

FUND BALANCE - JANUARY 1 25,645

FUND BALANCE - DECEMBER 31 \$ 32,940

CITY OF GILBERT, MINNESOTA
ENERGY BOND CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2013

REVENUES	\$ <u> -</u>
EXPENDITURES	
Current	
General Government	
Professional Services	6,035
Public Works	
Maintenance	<u>2,434</u>
TOTAL EXPENDITURES	<u>8,469</u>
NET CHANGE IN FUND BALANCE	(8,469)
FUND BALANCE - JANUARY 1	<u>129,217</u>
FUND BALANCE - DECEMBER 31	<u>\$ 120,748</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, 2013, and the related notes to the financial statements, which collectively comprise City of Gilbert, Minnesota's basic financial statements and have issued our report thereon dated August 14, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-002, 2013-003, and 2013-004 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-001 to be a significant deficiency.

Compliance

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

Minnesota Legal Compliance

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

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

Other Matters

We noted certain matters that we reported to management of City of Gilbert, Minnesota in a separate letter dated August 14, 2014, included under this cover.

City of Gilbert, Minnesota's Response to Findings

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

Purpose of this Report

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

Walker Miray & Helme, LLC

Virginia, Minnesota
August 14, 2014

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013**

2013-001. 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 related 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 was significantly affected in the payroll and vendor disbursement 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. The City Council plans to restore previous staffing levels by September 30, 2014.
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, 2013**

2013-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2013**

2013-003. BANK RECONCILIATIONS

Condition

The bank accounts were not reconciled timely to the general ledger at December 31, 2013 and for the year then ended. The City of Gilbert's December 31, 2013 monthly reconciliation was not completed until July 15, 2014.

Criteria

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

Effect

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

Cause

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

Recommendations

The City should closely follow their Internal Control Procedures Policy which states, "Financial reports and bank reconciliations shall be prepared by the City Clerk and presented to the Council on a monthly basis".

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Bank accounts will be reconciled monthly and mispostings will be corrected timely.
3. Official Responsible for Ensuring CAP
The City Clerk-Treasurer, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City of Gilbert's bank accounts will be reconciled completely by August 31, 2014, and all months thereafter.
5. Plan to Monitor Completion of CAP
The City Council is responsible for monitoring the completion of the plan.

CITY OF GILBERT, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2013**

2013-004. DISBURSEMENTS

Condition

The City miscoded or misposted numerous disbursements to improper funds and account codes including disbursements for the bond projects.

Criteria

Disbursements should be properly posted to correct funds and account codes.

Effect

When disbursements are not identified or coded correctly, numerous reclassification adjustments are required to recode the disbursement to the proper fund and account.

Cause

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

Recommendations

The City should follow their Internal Control Procedures Policy which explains the procedures that disbursements should be coded or reviewed by the City Clerk-Treasurer and also reviewed monthly by the City Council. This includes tracking disbursements related to payroll, grants, and specific projects by properly posting payments to correct account codes.

Corrective Action Plan (CAP)

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

MANAGEMENT LETTER

To the City Council
City of Gilbert, Minnesota

In planning and performing our audit of the financial statements of City of Gilbert, Minnesota, as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated August 14, 2014, included under this cover, contains our report on significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated August 14, 2014, 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 and suggestions are summarized as follows:

Internal Control and Operating Efficiency

1. Even with increased usage rates, the Water Enterprise Fund and Sewer Usage Enterprise Fund continued reporting operating losses of \$31,770 and \$72,997, respectively. Revenues were insufficient to cover interest and depreciation. Management needs to decide on a course of action to make these enterprise funds self-sufficient.
2. Numerous utility revenue and sales tax entries were posted to the general ledger incorrectly. This resulted in extra time needed to reconcile these accounts. We recommend the City reconcile these accounts on an ongoing basis.

3. On July 1, 2012, the City issued \$140,000 of taxable energy conservation bonds. As of December 31, 2013, there was still \$120,748 of unspent bond proceeds. We suggest the City review energy projects and spend proceeds timely.
4. All interest receipted on investments is recognized in the general fund. The City should consider allocating interest to other funds on a percentage or average basis.
5. The City lacks adequate control over certain major projects. We recommend complete files should be set up that include, among other things, bids or quotes, funding for projects including grants, project costs, and change orders.
6. 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.

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

Walker, Gray & Abene, LLC

Virginia, Minnesota
August 14, 2014