

Annual Financial Report

City of East Bethel

East Bethel, Minnesota

For the Year Ended

December 31, 2016

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CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2016

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ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

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CITY OF EAST BETHEL, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2016

CITY COUNCIL

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Voss	Mayor	12/31/18
Tim Harrington	Council Member	12/31/18
Brian Mundle	Council Member	12/31/18
Ron Koller	Council Member	12/31/16
Tom Ronning	Council Member	12/31/20

CITY OFFICIALS

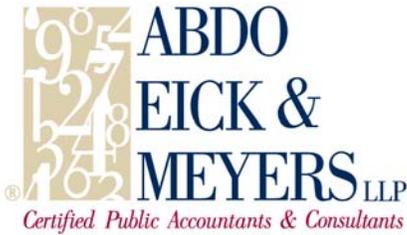
Jack Davis	City Administrator
Nate Ayshford	Public Works Manager
Mark DuCharme	Fire Chief
Nick Schmitz	Building Official
Mike Jeziorski	Finance Director
Colleen Winter	Community Development Director

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FINANCIAL SECTION
CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of East Bethel, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of East Bethel, Minnesota (the City), as of and for the year ended December 31, 2016 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 of 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 City'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 City'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 as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting of page 15 and the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios starting on page 68 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

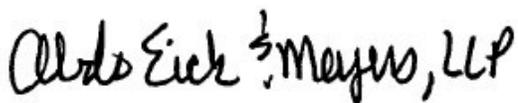
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017, on our consideration of the City'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 the 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 the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 17, 2017

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Management's Discussion and Analysis

As management of the City of East Bethel, Minnesota (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$29,869,632 (net position). Of this amount, \$1,529,504 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased \$1,451,805. Of the total, governmental activities decreased \$803,024 and the business-type activities decreased \$648,781.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$5,730,842, a decrease of \$1,240,135 from the prior fiscal year.
- At the end of the fiscal year the General fund had a fund balance of \$3,182,227. The ending fund balance is 62.2 percent of the 2017 budget.
- The City's total noncurrent liabilities decreased \$520,701 during the current fiscal year as a result of regular schedule debt principal payments.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide fund financial statements that include details about nonmajor special revenue governmental funds, which are added together and presented in single columns in the basic financial statements.

**Figure 1
Organization of East Bethel
Annual Financial Report**

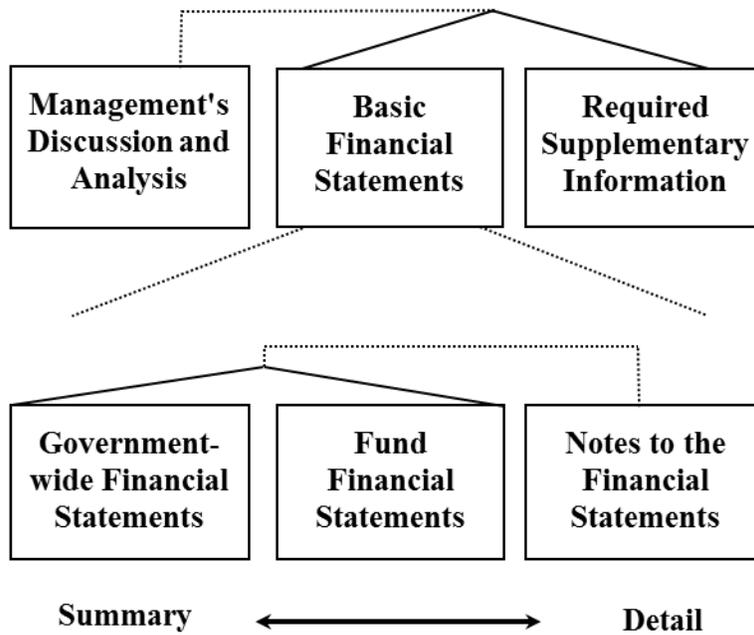


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government and the City’s component units	The activities of the City that are not proprietary or fiduciary, such as police, public works and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statements of Net Position • Statements of Revenues, Expenses and Changes in Net Position • Statements of Cash Flows
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of in flow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the City’s assets, deferred outflows or resources, liabilities and deferred inflows of resources, with the difference between the them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, miscellaneous, and interest on long-term debt. The business-type activities of the City include an arena, wastewater treatment and water utility.

The government-wide financial statements start on page 27 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 24 individual governmental funds, seven of which are Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service fund, and the Street Capital fund, all of which are considered to be major funds. Data from the other 15 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annually appropriated budget for its General fund and many of its special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements start on page 32 of this report.

Proprietary funds. The City maintains three enterprise funds and two internal service funds of the proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. Because the Internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The City uses enterprise funds to account for its water utility, sewer utility and arena operations. The City uses internal services funds for compensated absences and equipment replacement.

The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements start on page 38 of this report.

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. The notes to the financial statements start on page 43 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary comparisons. Combining and individual fund statements and schedules start on page 72 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$29,869,632 at the close of the most recent fiscal year.

The largest portion of the City's net position \$25,961,862 or 86.9 percent reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, sewer main lines and storm sewers, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Current and other assets	\$ 8,347,235	\$ 9,629,140	\$ (1,281,905)	\$ 215,453	\$ 65,454	\$ 149,999
Capital assets	27,938,892	28,633,569	(694,677)	15,237,535	15,866,279	(628,744)
Total assets	36,286,127	38,262,709	(1,976,582)	15,452,988	15,931,733	(478,745)
Deferred outflows of resources	661,778	208,063	453,715	-	-	-
Long-term liabilities outstanding	21,444,892	22,145,926	(701,034)	280,273	99,940	180,333
Other liabilities	551,521	562,726	(11,205)	32,995	43,292	(10,297)
Total liabilities	21,996,413	22,708,652	(712,239)	313,268	143,232	170,036
Deferred inflows of resources	221,580	229,184	(7,604)	-	-	-
Net assets						
Net investment in capital assets	10,724,327	10,181,992	542,335	15,237,535	15,866,279	(628,744)
Restricted	2,378,266	3,203,978	(825,712)	-	-	-
Unrestricted	1,627,319	2,146,966	(519,647)	(97,815)	(77,778)	(20,037)
Total net position	<u>\$ 14,729,912</u>	<u>\$ 15,532,936</u>	<u>\$ (803,024)</u>	<u>\$ 15,139,720</u>	<u>\$ 15,788,501</u>	<u>\$ (648,781)</u>

A portion of the of the City's net position \$2,378,266 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$1,529,504 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for its governmental activities.

Governmental Activities

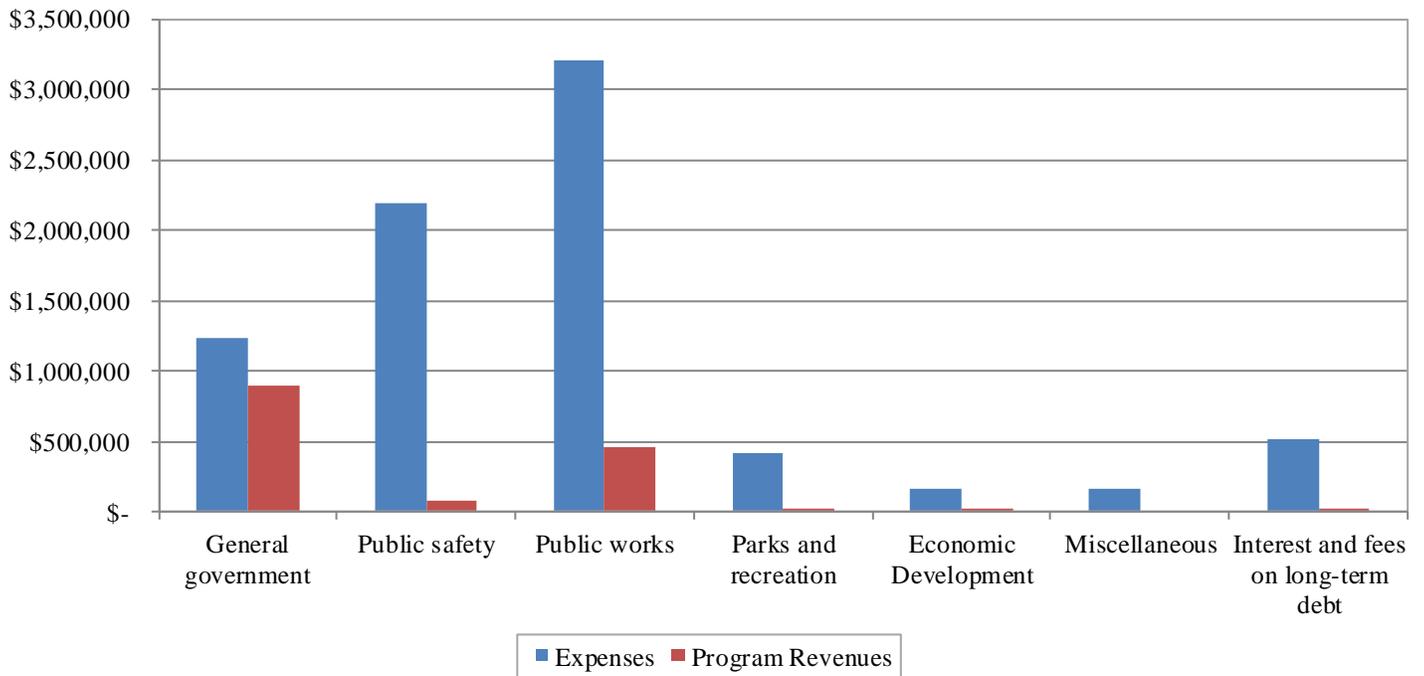
Governmental activities decreased the City's net position \$803,024 and business-type net position decreased by \$648,781 during the year. Key elements of the changes in net position are as follows:

City of East Bethel's Changes in Net Position

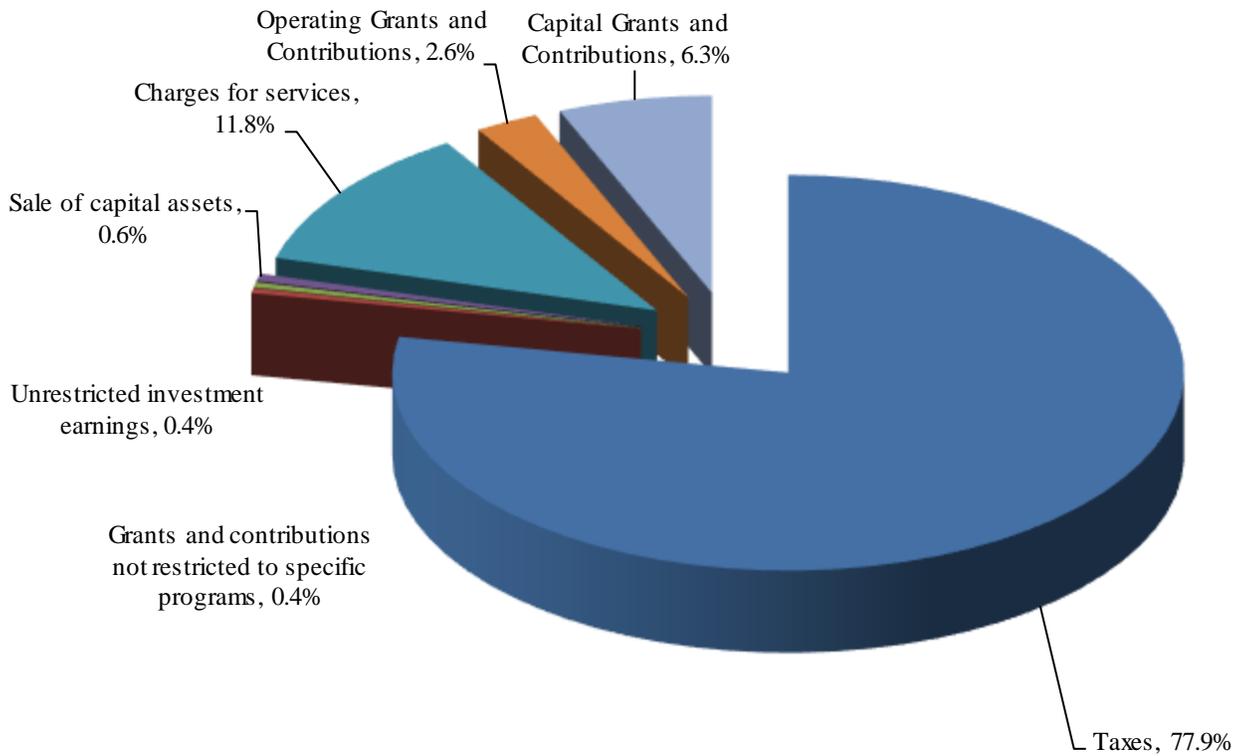
	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 838,905	\$ 625,831	\$ 213,074	\$ 391,372	\$ 403,772	\$ (12,400)
Operating grants and contributions	183,815	635,455	(451,640)	-	-	-
Capital grants and contributions	450,691	1,676,343	(1,225,652)	44,743	45,292	(549)
General revenues						
Taxes	5,537,985	5,441,716	96,269	-	-	-
Grants and contributions not restricted to specific programs	26,279	24,210	2,069	-	-	-
Unrestricted investment earnings	28,687	20,257	8,430	591	161	430
Sale of capital assets	39,373	26,592	12,781	150	1,669	(1,519)
Total revenues	7,105,735	8,450,404	(1,344,669)	436,856	450,894	(14,038)
Expenses						
General government	1,235,768	1,183,009	52,759	-	-	-
Public safety	2,194,943	2,040,870	154,073	-	-	-
Public works	3,209,488	3,093,318	116,170	-	-	-
Parks and recreation	421,797	383,017	38,780	-	-	-
Economic Development	164,925	443,350	(278,425)	-	-	-
Miscellaneous	161,989	180,256	(18,267)	-	-	-
Water utility	-	-	-	326,209	326,508	(299)
Sewer utility	-	-	-	545,229	610,060	(64,831)
Ice arena	-	-	-	214,199	228,398	(14,199)
Interest on long-term debt	519,849	1,032,584	(512,735)	-	-	-
Total expenses	7,908,759	8,356,404	(447,645)	1,085,637	1,164,966	(79,329)
Change in net position before transfers	(803,024)	94,000	(897,024)	(648,781)	(714,072)	65,291
Capital transfer	-	(12,871,707)	12,871,707	-	12,871,707	(12,871,707)
Change in net position	(803,024)	(12,777,707)	11,974,683	(648,781)	12,157,635	(12,806,416)
Net position, January 1	15,532,936	28,310,643	(12,777,707)	15,788,501	3,630,866	12,157,635
Net position, December 31	\$ 14,729,912	\$ 15,532,936	\$ (803,024)	\$ 15,139,720	\$ 15,788,501	\$ (648,781)

Below are specific graphs which provide comparisons of the governmental activities program revenues and expenditures:

Expenses and Program Revenues - Governmental Activities

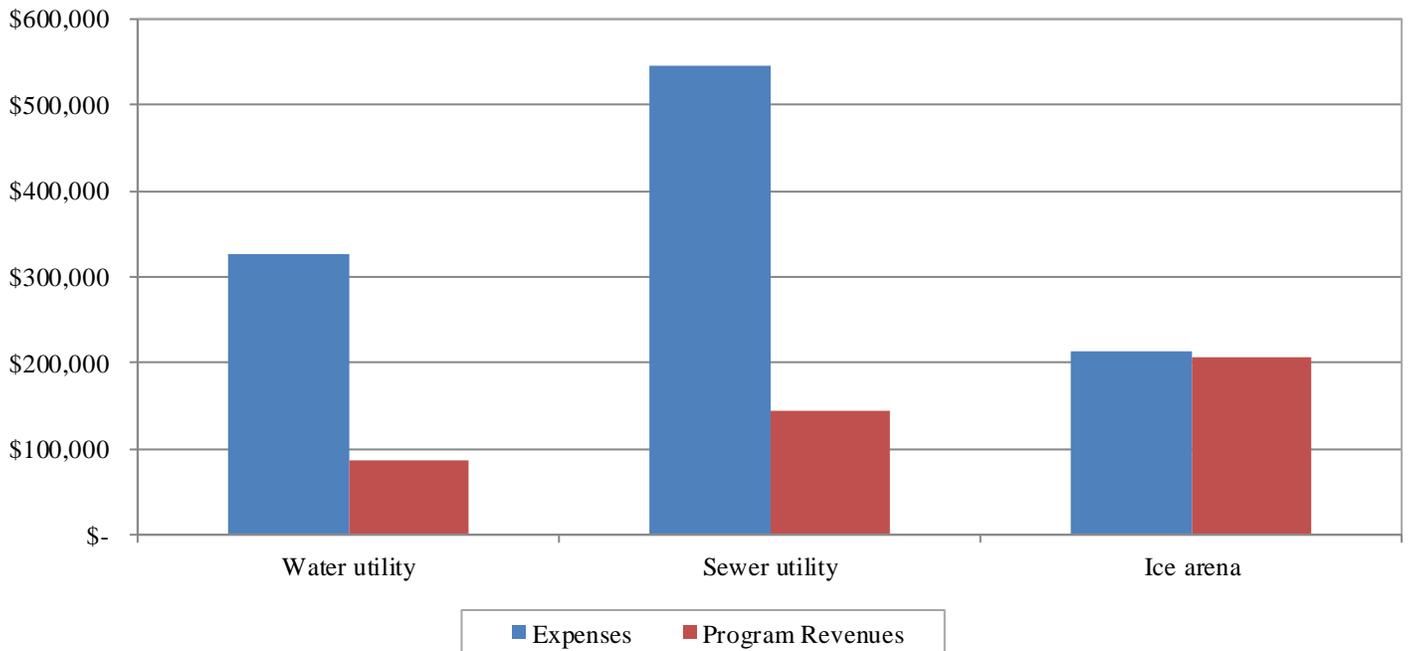


Revenues by Source - Governmental Activities



Business-type activities. Business-type activities decreased net position by \$648,781. Below are graphs showing the business-type activities revenue and expense comparisons:

Expenses and Program Revenues - Business-type Activities



All of the revenues from Business-type activities come from charges for services.

Financial Analysis of the Government'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. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$5,730,842, a decrease of \$1,240,135 in comparison with the prior year. Approximately 46.1 percent of this total amount (\$2,641,200) constitutes *unassigned fund balance*, which is available for spending at the City’s discretion. The remainder of fund balance (\$3,089,642) is not available for new spending because it is either 1) nonspendable \$5,600 2) restricted (\$2,369,527) or 3) assigned (\$714,515). For further classification refer to Note 3F on page 58 of this report.

The General fund balance increased by \$556,420 in 2016. The fund also transferred \$530,000 to fund future capital projects.

The Debt Service fund has a total fund balance of \$1,263,480 which is entirely restricted for the payment of debt service. The fund balance decreased by \$678,137 in 2016.

The Street Capital fund decreased by \$382,494. This is primarily due to 2016 street overlay and crack sealing project.

Proprietary funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to a deficit of \$97,815. The total decrease in net position for the funds was \$648,781. Other factors concerning the finances of this fund have already been addressed in the discussion of the City’s business-type activities.

General Fund Budgetary Highlights

The City's budget was not amended in 2016 and called for no change in fund balance. Some of the line items with significant variances from the final budget are highlighted below:

During the year, revenues were more than budget by \$361,992 and expenditures were less than budgetary estimates by \$194,428. The net result was a \$556,420 increase in the General fund. Some of the significant variances can be briefly summarized as follows:

- All revenues classifications were over budget, with the exception of fine and forfeitures which was under budget by \$6,854.
- All expenditure departments were under budget with the exception of public safety which was over budget by \$1,771.
- The largest variance was an excess of \$191,113 in licenses and permits revenues.

Capital Asset and Debt Administration

Capital assets. The City's, investment in capital assets for its governmental and business type activities as of December 31, 2016, amounts to \$43,176,427 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, sewer main lines, water lines and wells, storm sewers, and infrastructure.

East Bethel's Capital Assets (net of accumulated depreciation)

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 887,546	\$ 887,546	\$ -	\$ 30,000	\$ 30,000	\$ -
Construction in progress	1,278,433	1,168,651	109,782	-	-	-
Buildings and structures	2,426,117	2,575,659	(149,542)	400,877	464,110	(63,233)
Machinery and equipment	2,063,633	1,916,194	147,439	10,280	11,808	(1,528)
Park improvements	616,734	644,917	(28,183)	-	-	-
Sewer main lines and storm sewers	1,008,134	1,075,029	(66,895)	-	-	-
Infrastructure	19,658,295	20,365,573	(707,278)	14,796,378	15,360,361	(563,983)
Total capital assets	<u>\$ 27,938,892</u>	<u>\$ 28,633,569</u>	<u>\$ (694,677)</u>	<u>\$ 15,237,535</u>	<u>\$ 15,866,279</u>	<u>\$ (628,744)</u>

Additional information on the City's capital assets can be found in Note 3C starting on page 53 of this report.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$21,725,165 a decrease of \$520,701 from 2015.

All debt outstanding at year-end is general obligation debt, which are backed by the full faith and credit of the City. Some of the general obligation bonds have specific revenue sourced pledged other than property taxes, but in the event those other sources were insufficient, the City would be required to the he shortfall through property taxes.

The City’s long-term debt at December 31, 2016 is as follows:

City of East Bethel’s Outstanding Debt

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
General obligation improvement bonds	\$ 1,650,000	\$ 2,495,000	\$ (845,000)	\$ -	\$ -	\$ -
General obligation revenue bonds	18,042,672	18,529,997	(487,325)	-	-	-
Loan payable	-	-	-	280,273	99,940	180,333
Compensated absences	160,797	146,615	14,182	-	-	-
Pension liability	1,591,423	974,314	617,109	-	-	-
Totals	<u><u>\$ 21,444,892</u></u>	<u><u>\$22,145,926</u></u>	<u><u>\$ (701,034)</u></u>	<u><u>\$ 280,273</u></u>	<u><u>\$ 99,940</u></u>	<u><u>\$ 180,333</u></u>

Standard and Poors upgraded the City’s bond rating to AA for its latest bond issue.

State statutes limit the amount of general obligation debt a Minnesota city may issue to three percent of total Estimated Market Value. The current debt limitation for the City is \$27,312,075. Of the City’s outstanding debt, \$1,085,000 is counted within the statutory limitation.

Additional information on the City’s long-term debt can be found in Note 3E starting on page 55 of this report.

Economic Factors and next year’s budget

- Residential building activity is expected to continue being strong.
- The City adopted a General Fund Budget for 2017 that was 3 percent higher than 2016.
- The City adopted an Overall City Levy for 2017 that was 1.5 percent higher than 2016.

Requests for Information. This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 2241 221st Avenue N.E., East Bethel, Minnesota 55011.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 7,350,805	\$ 196,121	\$ 7,546,926
Receivables			
Accrued interest	10,191	-	10,191
Taxes	234,014	-	234,014
Special assessments	259,630	2,304	261,934
Accounts	11,375	16,953	28,328
Loans	6,948	-	6,948
Due from other governments	63,450	-	63,450
Prepaid items	5,600	75	5,675
Net pension asset	405,222	-	405,222
Capital assets			
Land and construction in progress	2,165,979	30,000	2,195,979
Depreciable assets (net of accumulated depreciation)	25,772,913	15,207,535	40,980,448
TOTAL ASSETS	36,286,127	15,452,988	51,739,115
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension resources	661,778	-	661,778
LIABILITIES			
Accounts and contracts payable	149,643	17,051	166,694
Salaries payable	46,594	-	46,594
Accrued interest payable	278,953	-	278,953
Deposits payable	73,599	-	73,599
Unearned revenue	2,732	15,944	18,676
Noncurrent liabilities			
Due within one year	982,635	-	982,635
Due in more than one year	20,462,257	280,273	20,742,530
TOTAL LIABILITIES	21,996,413	313,268	22,309,681
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	221,580	-	221,580
NET POSITION			
Net investment in capital assets	10,724,327	15,237,535	25,961,862
Restricted for			
Water infrastructure construction	144,295	-	144,295
Debt service	1,254,973	-	1,254,973
Recycling	53,788	-	53,788
Equipment	631	-	631
Housing and redevelopment	724,772	-	724,772
Economic development	160,420	-	160,420
Park development	39,387	-	39,387
Unrestricted	1,627,319	(97,815)	1,529,504
TOTAL NET POSITION	\$ 14,729,912	\$ 15,139,720	\$ 29,869,632

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Government activities				
General government	\$ 1,235,768	\$ 815,460	\$ 83,262	\$ -
Public safety	2,194,943	-	78,381	-
Public works	3,209,488	8,000	-	450,691
Culture and recreation	421,797	9,140	-	-
Housing and economic development	164,925	-	22,172	-
Miscellaneous	161,989	-	-	-
Interest on long-term debt	519,849	6,305	-	-
Total government activities	<u>7,908,759</u>	<u>838,905</u>	<u>183,815</u>	<u>450,691</u>
Business-type activities				
Water utility	326,209	75,353	-	11,524
Sewer utility	545,229	109,849	-	33,219
Ice arena	214,199	206,170	-	-
Total business-type activities	<u>1,085,637</u>	<u>391,372</u>	<u>-</u>	<u>44,743</u>
Total primary government	<u>\$ 8,994,396</u>	<u>\$ 1,230,277</u>	<u>\$ 183,815</u>	<u>\$ 495,434</u>

General revenues

Taxes

 Property taxes, levied for general purposes

 Property taxes, levied for debt service

 Tax increment

 Franchise taxes

 Gambling tax

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Total general revenues

Change in net position

Net position, January 1

Net position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (337,046)	\$ -	\$ (337,046)
(2,116,562)	-	(2,116,562)
(2,750,797)	-	(2,750,797)
(412,657)	-	(412,657)
(142,753)	-	(142,753)
(161,989)	-	(161,989)
<u>(513,544)</u>	<u>-</u>	<u>(513,544)</u>
<u>(6,435,348)</u>	<u>-</u>	<u>(6,435,348)</u>
-	(239,332)	(239,332)
-	(402,161)	(402,161)
<u>-</u>	<u>(8,029)</u>	<u>(8,029)</u>
<u>-</u>	<u>(649,522)</u>	<u>(649,522)</u>
<u>(6,435,348)</u>	<u>(649,522)</u>	<u>(7,084,870)</u>
4,234,891	-	4,234,891
1,140,528	-	1,140,528
58,157	-	58,157
61,862	-	61,862
42,547	-	42,547
26,279	-	26,279
28,687	591	29,278
39,373	150	39,523
<u>5,632,324</u>	<u>741</u>	<u>5,633,065</u>
(803,024)	(648,781)	(1,451,805)
<u>15,532,936</u>	<u>15,788,501</u>	<u>31,321,437</u>
<u>\$ 14,729,912</u>	<u>\$ 15,139,720</u>	<u>\$ 29,869,632</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

CITY OF EAST BETHEL, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	101	300's	406
	General	Debt Service	Street Capital
ASSETS			
Cash and investments	\$ 3,262,312	\$ 1,243,094	\$ 428,480
Receivables			
Taxes	184,188	44,622	-
Special assessments	-	245,462	-
Accounts	10,627	748	-
Loans	-	-	-
Accrued interest	10,191	-	-
Due from other governments	14,870	-	-
Prepaid items	5,600	-	-
TOTAL ASSETS	\$ 3,487,788	\$ 1,533,926	\$ 428,480
LIABILITIES			
Accounts and contracts payable	\$ 93,460	\$ -	\$ 26,317
Salaries payable	40,167	-	-
Deposits payable	56,974	-	-
Unearned revenue	2,732	-	-
TOTAL LIABILITIES	193,333	-	26,317
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	112,228	24,984	-
Unavailable revenue - special assessments	-	245,462	-
TOTAL DEFERRED INFLOWS OF RESOURCES	112,228	270,446	-
FUND BALANCES			
Nonspendable	5,600	-	-
Restricted	-	1,263,480	-
Assigned	-	-	402,163
Unassigned	3,176,627	-	-
TOTAL FUND BALANCES	3,182,227	1,263,480	402,163
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,487,788	\$ 1,533,926	\$ 428,480

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 878,236	\$ 5,812,122
5,204	234,014
14,168	259,630
-	11,375
6,948	6,948
-	10,191
48,580	63,450
-	5,600
<u>\$ 953,136</u>	<u>\$ 6,403,330</u>
\$ 36,293	\$ 156,070
-	40,167
16,625	73,599
-	2,732
<u>52,918</u>	<u>272,568</u>
3,078	140,290
14,168	259,630
<u>17,246</u>	<u>399,920</u>
-	5,600
1,106,047	2,369,527
312,352	714,515
(535,427)	2,641,200
<u>882,972</u>	<u>5,730,842</u>
<u>\$ 953,136</u>	<u>\$ 6,403,330</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

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

Total fund balances - governmental	\$ 5,730,842
Long-term assets from pensions reported in governmental activities are not financial and therefore are not reported as assets in governmental funds.	405,222
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	65,111,151
Less accumulated depreciation	(39,044,190)
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Noncurrent liabilities at year-end consist of	
Premium on bonds	(2,083)
Bonds payable	(19,690,589)
Pension liability	(1,591,423)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent taxes receivable	140,290
Special assessments receivable	259,630
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	661,778
Deferred inflows of pension resources	(221,580)
Governmental funds do not report a liability for accrued interest until due and payable.	(278,953)
Internal service funds are used by management to charge the cost of services to individual funds. The assets and liabilities are included in the governmental statement of net position	<u>3,249,817</u>
Net position of governmental activities	<u><u>\$14,729,912</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	101	300's	406	Other Governmental Funds	Total
	General	Debt Service	Street Capital		
REVENUES					
Taxes	\$ 4,222,048	\$ 1,140,528	\$ -	\$ 181,214	\$ 5,543,790
Licenses and permits	449,113	-	-	-	449,113
Intergovernmental	295,142	-	-	83,262	378,404
Charges for services	267,546	6,305	-	9,140	282,991
Fines and forfeitures	44,146	-	-	-	44,146
Special assessments	-	40,476	-	22,172	62,648
Interest on investments	10,052	3,216	3,684	5,728	22,680
Miscellaneous	49,845	-	-	12,810	62,655
TOTAL REVENUES	5,337,892	1,190,525	3,684	314,326	6,846,427
EXPENDITURES					
Current					
General government	1,045,709	-	-	-	1,045,709
Public safety	1,874,471	-	-	-	1,874,471
Public works	792,494	-	-	86,324	878,818
Culture and recreation	376,809	-	-	6,721	383,530
Housing and economic development	-	-	-	110,223	110,223
Miscellaneous	161,989	-	-	-	161,989
Capital outlay					
Public works	-	-	811,178	855,717	1,666,895
Culture and recreation	-	-	-	41,563	41,563
Housing and economic development	-	-	-	54,702	54,702
Debt service					
Principal	-	1,173,000	-	-	1,173,000
Interest and other	-	695,662	-	-	695,662
TOTAL EXPENDITURES	4,251,472	1,868,662	811,178	1,155,250	8,086,562
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,086,420	(678,137)	(807,494)	(840,924)	(1,240,135)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	425,000	105,000	530,000
Transfers out	(530,000)	-	-	-	(530,000)
TOTAL OTHER FINANCING SOURCES (USES)	(530,000)	-	425,000	105,000	-
NET CHANGE IN FUND BALANCES	556,420	(678,137)	(382,494)	(735,924)	(1,240,135)
FUND BALANCES, JANUARY 1	2,625,807	1,941,617	784,657	1,618,896	6,970,977
FUND BALANCES, DECEMBER 31	\$ 3,182,227	\$ 1,263,480	\$ 402,163	\$ 882,972	\$ 5,730,842

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Net changes in fund balances - total governmental funds	\$ (1,240,135)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Depreciation	(2,367,699)
Capital outlay	1,579,832
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amounts below are the effects of these differences in the treatment of long-term debt and related items.</p>	
Amortization of bond premium	159,325
Principal payments on bonds payable	1,173,000
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	16,488
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(107,465)
Pension revenue	6,211
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	(5,805)
Special assessments	(46,178)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds are reported with governmental activities.</p>	
Consolidation of internal service fund activities with governmental activities	29,402
Change in net position of governmental activities	\$ (803,024)

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 4,179,300	\$ 4,179,300	\$ 4,222,048	\$ 42,748
Licenses and permits	258,000	258,000	449,113	191,113
Intergovernmental	257,100	257,100	295,142	38,042
Charges for services	205,500	205,500	267,546	62,046
Fines and forfeitures	51,000	51,000	44,146	(6,854)
Interest on investments	2,000	2,000	10,052	8,052
Miscellaneous	23,000	23,000	49,845	26,845
TOTAL REVENUES	4,975,900	4,975,900	5,337,892	361,992
EXPENDITURES				
Current				
General government	1,107,000	1,107,000	1,045,709	61,291
Public safety	1,872,700	1,872,700	1,874,471	(1,771)
Public works	866,700	866,700	792,494	74,206
Culture and recreation	406,500	406,500	376,809	29,691
Miscellaneous	193,000	193,000	161,989	31,011
TOTAL EXPENDITURES	4,445,900	4,445,900	4,251,472	194,428
EXCESS OF REVENUES OVER EXPENDITURES	530,000	530,000	1,086,420	556,420
OTHER FINANCING USES				
Transfers out	(530,000)	(530,000)	(530,000)	-
NET CHANGE IN FUND BALANCES	-	-	556,420	556,420
FUND BALANCES, JANUARY 1	2,625,807	2,625,807	2,625,807	-
FUND BALANCES, DECEMBER 31	\$ 2,625,807	\$ 2,625,807	\$ 3,182,227	\$ 556,420

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	601 Water Utility	602 Sewer Utility	615 Ice Arena	Total	
ASSETS					
CURRENT ASSETS					
Cash and investments	\$ (25,777)	\$ 8,173	\$ 213,725	\$ 196,121	\$ 1,538,683
Receivables					
Special assessments	1,152	1,152	-	2,304	-
Accounts	6,860	10,093	-	16,953	-
Prepaid items	-	-	75	75	-
TOTAL CURRENT ASSETS	(17,765)	19,418	213,800	215,453	1,538,683
NONCURRENT ASSETS					
Capital assets					
Land	-	-	30,000	30,000	-
Buildings and structures	-	-	1,541,440	1,541,440	-
Machinery and equipment	-	-	15,278	15,278	3,316,734
Infrastructure	8,021,242	8,775,139	-	16,796,381	-
Less accumulated depreciation	(1,061,609)	(938,395)	(1,145,560)	(3,145,564)	(1,444,803)
Total capital assets (net of accumulated depreciation)	6,959,633	7,836,744	441,158	15,237,535	1,871,931
TOTAL ASSETS	6,941,868	7,856,162	654,958	15,452,988	3,410,614
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	4,501	-	12,234	16,735	-
Due to other governments	-	316	-	316	-
Compensated absences payable - current portion	-	-	-	-	79,635
Unearned revenue	-	-	15,944	15,944	-
TOTAL CURRENT LIABILITIES	4,501	316	28,178	32,995	79,635
NONCURRENT LIABILITIES					
Compensated absences payable - noncurrent portion	-	-	-	-	81,162
Loan payable - noncurrent portion	-	280,273	-	280,273	-
TOTAL NONCURRENT LIABILITIES	-	280,273	-	280,273	81,162
TOTAL LIABILITIES	4,501	280,589	28,178	313,268	160,797
NET POSITION					
Net investment in capital assets	6,959,633	7,836,744	441,158	15,237,535	1,871,931
Unrestricted	(22,266)	(261,171)	185,622	(97,815)	1,377,886
TOTAL NET POSITION	\$ 6,937,367	\$ 7,575,573	\$ 626,780	\$ 15,139,720	\$ 3,249,817

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	601 Water Utility	602 Sewer Utility	615 Ice Arena	Total	
OPERATING REVENUES					
Ice rentals and related revenue	\$ -	\$ -	\$ 190,876	\$ 190,876	\$ -
Rentals, signs, lockers and tower	-	-	9,250	9,250	-
Dry floor events	-	-	3,735	3,735	-
Concession revenue	-	-	2,309	2,309	-
Charges for services	75,353	109,849	-	185,202	274,395
TOTAL OPERATING REVENUES	75,353	109,849	206,170	391,372	274,395
OPERATING EXPENSES					
Personnel services	-	-	-	-	14,695
Repairs and maintenance	1,782	3,410	7,509	12,701	-
Utilities	21,218	3,510	44,225	68,953	-
Professional services	610	20,735	81,500	102,845	-
Supplies	9,224	2,006	7,853	19,083	-
Other services and charges	21,897	21,995	2,351	46,243	-
Depreciation	271,478	292,505	70,761	634,744	275,678
TOTAL OPERATING EXPENSES	326,209	344,161	214,199	884,569	290,373
OPERATING LOSS	(250,856)	(234,312)	(8,029)	(493,197)	(15,978)
NONOPERATING REVENUES (EXPENSES)					
Gain on sale of capital assets	-	150	-	150	39,373
Interest on investments	-	-	591	591	6,007
Financing charge	-	(201,068)	-	(201,068)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	-	(200,918)	591	(200,327)	45,380
INCOME (LOSS) BEFORE CONTRIBUTIONS	(250,856)	(435,230)	(7,438)	(693,524)	29,402
CAPITAL CONTRIBUTIONS	11,524	33,219	-	44,743	-
CHANGE IN NET POSITION	(239,332)	(402,011)	(7,438)	(648,781)	29,402
NET POSITION, JANUARY 1	7,176,699	7,977,584	634,218	15,788,501	3,220,415
NET POSITION, DECEMBER 31	\$ 6,937,367	\$ 7,575,573	\$ 626,780	\$ 15,139,720	\$ 3,249,817

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	601 Water Utility	602 Sewer Utility	615 Ice Arena	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 79,606	\$ 112,271	\$ 205,714	\$ 397,591	\$ -
Receipts from interfund services provided	-	-	-	-	273,882
Payments to suppliers	(52,671)	(63,215)	(143,276)	(259,162)	-
Payments to employees	(252)	(252)	-	(504)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	26,683	48,804	62,438	137,925	273,882
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(6,000)	(6,000)	(368,869)
Connection fees received	11,524	33,219	-	44,743	-
Proceeds from sale of capital assets	-	150	-	150	39,373
Principal paid on bonds payable	-	(20,735)	-	(20,735)	-
NET CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	11,524	12,634	(6,000)	18,158	(329,496)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	-	-	591	591	6,007
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,207	61,438	57,029	156,674	(49,607)
CASH AND CASH EQUIVALENTS, JANUARY 1	(63,984)	(53,265)	156,696	39,447	1,588,290
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ (25,777)	\$ 8,173	\$ 213,725	\$ 196,121	\$ 1,538,683

The notes to the financial statements are an integral part of this statement.

CITY OF EAST BETHEL, MINNESOTA
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	601 Water Utility	602 Sewer Utility	615 Ice Arena	Total	
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating loss	\$ (250,856)	\$ (234,312)	\$ (8,029)	\$ (493,197)	\$ (15,978)
Adjustments to reconcile operating loss to net cash provided (used) operating activities					
Depreciation expense	271,478	292,505	70,761	634,744	275,678
(Increase) decrease in assets					
Accounts receivable	(274)	1,153	-	879	-
Special assessments receivable	4,527	1,269	-	5,796	-
Increase (decrease) in liabilities					
Accounts payable	2,060	(11,559)	162	(9,337)	-
Accrued salaries/compensated absences payable	(252)	(252)	-	(504)	14,182
Unearned revenue	-	-	(456)	(456)	-
	<u>-</u>	<u>-</u>	<u>(456)</u>	<u>(456)</u>	<u>-</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ 26,683</u>	 <u>\$ 48,804</u>	 <u>\$ 62,438</u>	 <u>\$ 137,925</u>	 <u>\$ 273,882</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Financing charge	<u>\$ -</u>	<u>\$ 201,068</u>	<u>\$ -</u>	<u>\$ 201,068</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of East Bethel, Minnesota (the City) was incorporated in 1958 and has operated under the State of Minnesota Statutory Plan A form of government since 1974. The governing body consists of a five-member City Council elected by voters of the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units for which the City has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation. Included in the City's reporting entity, based upon the application of these criteria, are the following blended component units.

The City has two component units - the Housing and Redevelopment Authority (HRA) and the Economic Development Authority (EDA), both of which are considered blended component units.

Housing and Redevelopment Authority

The HRA was created by the City to carry out certain redevelopment projects. The five-member Board of Directors is appointed by the City Council and currently is comprised of the members of the City Council. The City can significantly influence the programs and activities and the City has a financial benefit and burden related to the HRA. The HRA is accounted for using the modified accrual basis of accounting, and as such is reported as a special revenue fund. Separate financial statements for the HRA are not prepared.

Economic Development Authority

The EDA was created by the City to carry out economic development with the City. The seven-member Board consists of two city council members and five appointed members. The City can significantly influence the program and activities and the City has a financial benefit and burden related to the EDA. The EDA is accounted for using the modified accrual basis of accounting, and as such is reported as a special revenue fund. Separate financial statements for the EDA are not prepared.

B. Government-wide and fund 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. *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. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a 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*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, intergovernmental revenues, charges for services and interest associated with the current fiscal period 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 as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Description of funds

The City reports the following major governmental funds

The *General fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Street Capital fund* is used to account for monies for street improvement projects.

The City reports the following major proprietary funds

The *Water Utility fund* accounts for water service activities to operate the water utility system.

The *Sewer Utility fund* accounts for sewer service activities to operate the sanitary sewer system.

The *Ice Arena fund* accounts for operations of the City's ice arena.

Additionally, the City reports the following fund type:

Internal service funds are used to account for the costs associated with employees' compensated absences and to account for the funding of major equipment necessary for City operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 water, sewer, and arena enterprise funds are charges to customers for sales and services. Operating expenses for enterprise 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. When both restricted and unrestricted resources are available for an allowable use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, commercial paper, government securities and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statement of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Investments for the City are reported at fair value. Earnings on investments are allocated to the individual funds based upon the average of month-end cash and investment balances. The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's recurring fair value measurements are listed in detail on page 52 and are valued using quoted market prices (Level 1 inputs).

The City has the following recurring fair value measurements as of December 31, 2016:

- Negotiable certificates of deposits of \$2,287,710 are valued using quoted market prices (Level 2 inputs)

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and 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 City’s investment in this trust is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

Property taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and December each year. Delinquent taxes receivable include the past six years’ uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the governmental fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2016. The City annually certifies delinquent water, sewer and storm sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivable upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Prepaid items

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.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than the amounts defined below (amounts not rounded) and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is capitalized to the value of the assets constructed. For the year ended December 31, 2016, no interest was capitalized in connection with construction in progress. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives and are capitalized according to the following thresholds:

Asset Category	Value Threshold
All assets not referenced in this schedule	\$ 5,000
Parking lots, sidewalks, fencing, park shelters, land improvements	25,000
Buildings and building improvements	50,000
Infrastructure improvements: water, sewer, storm drainage, streets	100,000

CITY OF EAST BETHEL, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Life in Years
Miscellaneous office equipment, copiers, computer hardware, light trucks, mowers, attachments, other light equipment	5
Loaders, dump trucks, graders, trailers, other heavy equipment, telephone and radio systems, pumps, generators	10
Fire rigs, playground equipment, irrigation systems	20
Buildings, park shelters, fences, paved streets, sidewalks, parking lots, signs	25
Water trunks, mains, towers; sewer trunks, mains, lift stations; storm drainage trunks, mains, ponds	30

Deferred outflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

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

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by East Bethel Fire Department Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value.

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. At year-end, each employee's accrued obligation is expensed to their home department and revenue is recognized in the compensated absences internal service fund to fund the City's obligation. The compensated absences internal service fund is typically used to liquidate governmental compensated absences payable. It is assumed that these amounts will be payable only upon employees' severance from employment. Vacation and sick leave used during employees' tenure with the City is assumed to closely match the leave earned during that year. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. A liability is recognized in the internal service fund for that portion of accumulating sick leave benefits that is vested as severance pay.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the 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. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

Deferred inflows of resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government 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 two sources: taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Fund balance classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributions; or constraints imposed by State statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council Resolution, the City Administrator is to assign fund balance that reflects the City Council's intended use of those funds and approved by motion of the City Council.

Unassigned - is the residual classification for the General fund and also reflects negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City's policy is to maintain a minimum assigned fund balance of 40 percent of the next year's property tax levy for cash-flow timing needs.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

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.

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund, Recycling fund, HRA fund and the EDA fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the fund level. There were no budget amendments made during 2016.

B. Excess of expenditures over appropriations

For the year ended December 31, 2016, expenditures exceeded appropriations in the Recycling fund by \$30,224, which was funded by actual revenues in excess of budget and fund balance.

C. Deficit fund balance

For the year ended December 31, 2016, the Municipal State Aid Street Improvement fund had a fund deficit of \$535,427. This fund deficit will be eliminated with future MSA monies.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

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, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$1,574,182 and the bank balance was \$1,604,558. Of the bank balance, \$464,037 was covered by federal depository insurance. The remaining balance was covered by collateral held by the pledging financial institution's trust department in the City's name.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Investments

As of December 31, 2016, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled investments at amortized costs						
4M Fund	N/A	less than 6 months	\$ 3,047,844	\$ -	\$ -	\$ -
4MP Fund	N/A	less than 6 months	637,040	-	-	-
Non-pooled investments at fair value						
Negotiable certificates of deposits	N/A	less than 6 months	448,879	-	448,879	-
Negotiable certificates of deposits	N/A	6 months to 1 year	898,531	-	898,531	-
Negotiable certificates of deposits	N/A	1 to 3 years	940,300	-	940,300	-
Total investments			<u>\$ 5,972,594</u>	<u>\$ -</u>	<u>\$ 2,287,710</u>	<u>\$ -</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A indicates not applicable or available

The investments of the City are subject to the following risks:

- *Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the City's investments to the list on page 46 of the notes.
- *Custodial Credit Risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, a governmental will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City's investment policy limits its exposure by obtaining collateral or bond for all uninsured amounts on deposit and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.
- *Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by disallowing purchases of investments that, at the time of investment, cannot be held to maturity. The City's investment policy states the City's investment portfolio, as much as possible, will contain both short-term and long-term investments. The City attempts to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields.
- *Concentration of Credit Risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy does not address concentration of credit risk, placing no limit on the amount that may be invested in any one issuer.

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

Carrying amount of deposits	\$ 1,574,182
Investments	5,972,594
Cash on hand	<u>150</u>
Total	<u>\$ 7,546,926</u>

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Loan receivable

The City has issued one loan to a local business to finance water and sewer access charges totaling \$6,948. The loan will be amortized for five years at 5 percent.

C. Capital assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decrease	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 887,546	\$ -	\$ -	\$ 887,546
Construction in progress	1,168,651	1,384,455	(1,274,673)	1,278,433
Total capital assets, not being depreciated	<u>2,056,197</u>	<u>1,384,455</u>	<u>(1,274,673)</u>	<u>2,165,979</u>
Capital assets, being depreciated				
Buildings and improvements	5,542,755	57,934	-	5,600,689
Park improvements	1,395,017	41,428	-	1,436,445
Machinery and equipment	3,865,385	464,883	(117,441)	4,212,827
Streets	51,680,170	1,274,673	-	52,954,843
Storm sewers	2,057,102	-	-	2,057,102
Total capital assets, being depreciated	<u>64,540,429</u>	<u>1,838,918</u>	<u>(117,441)</u>	<u>66,261,906</u>
Less accumulated depreciation for				
Buildings and improvements	(2,967,096)	(207,476)	-	(3,174,572)
Park improvements	(750,100)	(69,611)	-	(819,711)
Machinery and equipment	(1,949,191)	(317,444)	117,441	(2,149,194)
Streets	(31,314,597)	(1,981,951)	-	(33,296,548)
Storm sewers	(982,073)	(66,895)	-	(1,048,968)
Total accumulated depreciation	<u>(37,963,057)</u>	<u>(2,643,377)</u>	<u>117,441</u>	<u>(40,488,993)</u>
Total capital assets being depreciated, net	<u>26,577,372</u>	<u>(804,459)</u>	<u>(234,882)</u>	<u>25,772,913</u>
Governmental activities capital assets, net	<u>\$ 28,633,569</u>	<u>\$ 579,996</u>	<u>\$ (1,509,555)</u>	<u>\$ 27,938,892</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental activities	
General government	\$ 140,573
Public safety	116,731
Public works	2,014,454
Culture and recreation	95,941
Depreciation on capital assets held by governmental internal service activities charged to each function based on use	<u>275,678</u>
Total depreciation expense - governmental activities	<u>\$ 2,643,377</u>

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital assets, being depreciated				
Buildings and improvements	1,535,440	6,000	-	1,541,440
Machinery and equipment	15,278	-	-	15,278
Infrastructure	16,796,381	-	-	16,796,381
Total capital assets, being depreciated	<u>18,347,099</u>	<u>6,000</u>	<u>-</u>	<u>18,353,099</u>
Less accumulated depreciation for				
Buildings and improvements	(1,071,330)	(69,233)	-	(1,140,563)
Machinery and equipment	(3,470)	(1,528)	-	(4,998)
Infrastructure	(1,436,020)	(563,983)	-	(2,000,003)
Total accumulated depreciation	<u>(2,510,820)</u>	<u>(634,744)</u>	<u>-</u>	<u>(3,145,564)</u>
Total capital assets being depreciated, net	<u>15,836,279</u>	<u>(628,744)</u>	<u>-</u>	<u>15,207,535</u>
Business-type activities capital assets, net	<u>\$ 15,866,279</u>	<u>\$ (628,744)</u>	<u>\$ -</u>	<u>\$ 15,237,535</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities	
Water utility	\$ 271,478
Sewer utility	292,505
Ice Arena	<u>70,761</u>
Total depreciation expense - business-type activities	<u>\$ 634,744</u>

CITY OF EAST BETHEL, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Interfund transfers

The composition of interfund transfers for the year ended December 31, 2016 is as follows:

Fund	Transfer in		Total
	Street Capital Fund	Nonmajor Capital Project Fund	
Transfer out			
General	\$ 425,000	\$ 105,000	\$ 530,000

The City annually budgets transfers for specific purposes. Annual transfers included transfers made as part of capital improvement plans.

E. Long-term debt

G.O. improvement bonds

The following bonds were used to finance improvements and buildings. They will be repaid with ad valorem taxes and special assessments levied against the properties. The bonds are backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Improvement Bonds, Series 2010C	\$ 1,260,000	3.20-3.45 %	12/15/2010	2/1/2017	\$ 565,000
G.O. Public Safety Bonds, Series 2013A	1,250,000	3.00	11/13/2013	2/1/2026	<u>1,085,000</u>
Total G.O. Improvement Bonds					<u>\$ 1,650,000</u>

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Annual requirements to maturity for the G.O. improvement bonds are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 655,000	\$ 40,946	\$ 695,946
2018	95,000	28,425	123,425
2019	100,000	25,500	125,500
2020	100,000	22,500	122,500
2021	110,000	19,350	129,350
2022-2026	590,000	45,300	635,300
Total	<u>\$ 1,650,000</u>	<u>\$ 182,021</u>	<u>\$ 1,832,021</u>

G.O. revenue bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future tax levies and/or sewer and water access charges.

<u>Description</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year End</u>
G.O. Sewer Revenue Bonds, Series 2008A	\$ 1,715,000	3.00-4.70 %	5/1/2008	2/1/2029	\$ 845,000
G.O. Water Revenue Note Series 2010	69,190	1.00	2/17/2010	8/20/2029	50,590
G.O Refunding Bond Series 2014A	5,485,000	3.00-4.00	3/4/2014	2/1/2040	5,485,000
G.O Refunding Bond Series 2015A	11,850,000	3.50-4.00	4/23/2015	2/1/2040	<u>11,660,000</u>
Total G.O. Revenue Bonds					<u>\$ 18,040,590</u>

Annual requirements to maturity for the G.O. revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 248,000	\$ 612,541	\$ 860,541
2018	269,000	602,311	871,311
2019	514,000	587,921	1,101,921
2020	529,000	569,481	1,098,481
2021	439,000	552,291	991,291
2022-2026	2,145,000	2,552,767	4,697,767
2027-2031	3,731,590	2,095,140	5,826,730
2032-2036	5,425,000	1,328,378	6,753,378
2037-2040	4,740,000	350,138	5,090,138
Total	<u>\$ 18,040,590</u>	<u>\$ 9,250,968</u>	<u>\$ 27,291,558</u>

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Loan payable

In 2015, the City entered into an agreement with Met Council for a reserve capacity loan related to sewer infrastructure constructed. The City has annual connection requirements and revenue in order to meet the required payments to Met Council. Any shortfalls on a yearly basis, will be added to the reserve capacity loan and capped at \$2,000,000. Once the balance reaches the \$2,000,000, the City will begin paying this amount back with interest over a period of 10 to 20 years at 2.73 percent.

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. improvement bonds	\$ 2,495,000	\$ -	\$ (845,000)	\$ 1,650,000	\$ 655,000
G.O. revenue bonds	18,368,590	-	(328,000)	18,040,590	248,000
Issuance premium	161,407	-	(159,325)	2,082	-
Total bonds payable	21,024,997	-	(1,332,325)	19,692,672	903,000
Pension liability	974,314	914,172	(297,063)	1,591,423	-
Compensated absences	146,615	93,817	(79,635)	160,797	79,635
Total governmental activity long-term debt	<u>\$ 22,145,926</u>	<u>\$ 1,007,989</u>	<u>\$ (1,709,023)</u>	<u>\$ 21,444,892</u>	<u>\$ 982,635</u>
Business-type activities					
Loan payable	<u>\$ 99,940</u>	<u>\$ 201,068</u>	<u>\$ (20,735)</u>	<u>\$ 280,273</u>	<u>\$ -</u>

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Components of fund balance

At December 31, 2016, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

Purpose	General Fund	Debt Service	Street Capital Fund	Other Governmental Funds	Total
Fund Balances					
Nonspendable					
Prepaid items	\$ 5,600	\$ -	\$ -	\$ -	\$ 5,600
Restricted					
Water infrastructure construction	\$ -	\$ -	\$ -	\$ 144,295	\$ 144,295
Debt service	-	1,263,480	-	-	1,263,480
Recycling	-	-	-	53,788	53,788
Equipment	-	-	-	631	631
Housing and redevelopment authority	-	-	-	724,567	724,567
Economic development authority	-	-	-	143,379	143,379
Park development	-	-	-	39,387	39,387
Total Restricted	\$ -	\$ 1,263,480	\$ -	\$ 1,106,047	\$ 2,369,527
Assigned to					
Park capital projects	\$ -	\$ -	\$ -	\$ 139,033	\$ 139,033
Street capital projects	-	-	402,163	47,939	450,102
Other capital projects	-	-	-	125,380	125,380
Total Assigned	\$ -	\$ -	\$ 402,163	\$ 312,352	\$ 714,515

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

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

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

B. Benefits provided

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

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

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

GERF benefits

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

C. Contributions

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

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ending December 31, 2016, 2015 and 2014 were \$90,070, \$89,225, and \$78,532. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

At December 31, 2016, the City reported a liability of \$1,591,423 for its proportionate share of the GERP's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$20,831. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0196 percent which was an increase of 0.0008 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$91,235 for its proportionate share of GERP's pension expense. In addition, the City recognized an additional \$6,211 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERP.

At December 31, 2016, the City reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,327	\$ 132,963
Changes in actuarial assumptions	343,108	-
Net difference between projected and actual earnings on plan investments	181,183	-
Changes in proportion	33,206	62,220
Contributions to GERP subsequent to the measurement date	45,230	-
Total	\$ 608,054	\$ 195,183

Deferred outflows of resources totaling \$45,230 related to pensions resulting from the City's contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

2017	\$ 90,390
2018	55,534
2019	164,225
2020	57,492
2021	-

CITY OF EAST BETHEL, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

E. Actuarial assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERF.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	<u>2.00</u>	0.50
Total	<u><u>100.00 %</u></u>	

CITY OF EAST BETHEL, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE – CONTINUED

F. Discount rate

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension liability sensitivity

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

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	<u>\$ 2,260,292</u>	<u>\$ 1,591,423</u>	<u>\$ 1,040,457</u>

H. Pension plan fiduciary net position

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

Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION

A. Plan description

All members of the East Bethel Department (the Department) are covered by a defined benefit plan administered by the East Bethel Fire Relief Association (the Association). As of December 31, 2016, the plan covered 36 active firefighters and 4 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department’s membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter’s Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

B. Benefits provided

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50 to 100 percent of the pension amount.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed a minimum of 10 years of service.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$62,370 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2016, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2016 were \$14,000. The City's contributions were equal to the required contributions as set by Minnesota statute. The City made no voluntary contributions to the plan. Furthermore, the firefighter has no obligation to contribute to the plan.

D. Pension costs

At December 31, 2016, the City reported a net pension asset of \$405,222 for the plan. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by Van Iwaarden Associates applying an actuarial formula to specific census data certified by the Department as of December 31, 2016. The following table presents the changes in net pension liability (asset) during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
	<u>(a)</u>	<u>(b)</u>	<u>(a-b)</u>
Beginning balance January 1, 2016	\$ 1,506,494	\$ 1,857,180	\$ (350,686)
Changes for the year			
Service cost	68,319	-	68,319
Interest on pension liability (asset)	84,026	-	84,026
Changes of assumptions	(29,843)	-	(29,843)
Changes in benefit terms	9,614	-	9,614
Contributions (employer)	-	14,000	(14,000)
Contributions (State)	-	62,370	(62,370)
Net investment income	-	119,082	(119,082)
Benefit payouts	(227,000)	(227,000)	-
Administrative costs	-	(8,800)	8,800
Total net changes	<u>(94,884)</u>	<u>(40,348)</u>	<u>(54,536)</u>
Ending balance December 31, 2016	<u>\$ 1,411,610</u>	<u>\$ 1,816,832</u>	<u>\$ (405,222)</u>

For the year ended December 31, 2016, the City recognized pension expense of \$159,585.

CITY OF EAST BETHEL, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED

At December 31, 2016, the City reported its deferred outflows of resources and deferred inflows of resources, to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ -	\$ 26,397
Net difference between projected and actual earnings on plan investments	53,724	-
Total	\$ 53,724	\$ 26,397

Amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2017	\$ 15,728
2018	15,728
2019	15,728
2020	(7,244)
2021	(3,446)
Thereafter	(9,167)

E. Actuarial assumptions

The total pension liability at December 31, 2016 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at 50 percent of age 50, with 20-29 year of service, 100 percent at 30 years of service	
Retirement eligibility at 100 percent over the age of 65.	
Salary increases	2.75% per year
Cost of living increases	4.00% per year
Investment rate of return	6.75%
20 year municipal bond yield	3.50%

There were no changes in actuarial assumptions in 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

CITY OF EAST BETHEL, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 5: DEFINED BENEFIT PENSION PLANS - FIRE RELIEF ASSOCIATION - CONTINUED

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities	60.88 %	5.65 %
Fixed income	26.86	2.27
Cash	12.26	0.84
Total	100.00 %	

F. Discount rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension liability sensitivity

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

	1 Percent Decrease (5.75%)	Current (6.75%)	1 Percent Increase (7.75%)
Defined benefit plan	\$ (373,393)	\$ (405,222)	\$ (435,396)

H. Pension plan fiduciary net position

The Association issues a publicly available financial report. The report may be obtained by writing to the East Bethel Fire Relief Association, 2241 221st Ave NE, East Bethel, MN 55011.

CITY OF EAST BETHEL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 6: OTHER INFORMATION

A. 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. Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City has no deductible. The City has selected the regular premium option for its coverage. Under this option, the City's premium is calculated based on City payroll, by class. The premium is adjusted by an experience modification factor, which reflects the City's previous loss experience. This option is a "fully insured" option; premium payments are the City's only liability. Property, casualty, and automobile insurance coverage are also provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portions. These deductibles are considered immaterial to the financial statements. The City continues to carry commercial insurance for all other risks of loss, including employee health and disability insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

B. Federal and state funds

The City receives financial assistance from county and state governmental agencies primarily in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at December 31, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

CITY OF EAST BETHEL, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED DECEMBER 31, 2016

Schedule of employer's share of PERA net pension liability - General Employees Retirement Fund

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.019600 %	\$ 1,591,423	-	\$ 1,591,423	\$ 1,200,933	132.5 %	68.9 %
06/30/15	0.018800	974,314	-	974,314	1,189,667	81.9	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of employer's PERA contributions – General Employees Retirement Fund

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/16	\$ 90,070	\$ 90,070	-	\$ 1,200,933	7.5 %
12/31/15	89,225	89,225	-	1,189,667	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of employer's Fire Relief Association contributions

Year Ending	Required Supplementary Information		
	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/16	\$ 76,370	\$ 76,370	-
12/31/15	73,194	73,194	-
12/31/14	69,354	69,354	-

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

CITY OF EAST BETHEL, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2016

Schedule of changes in the Fire Relief Association's net pension liability (asset) and related ratios

	2016	2015
Total pension liability		
Service cost	\$ 68,319	\$ 62,875
Interest on pension liability (asset)	84,026	81,913
Changes of benefit terms	9,614	-
Changes of assumptions	(29,843)	-
Benefit payments	(227,000)	-
Net change in total pension liability	(94,884)	144,788
Total pension liability - January 1	1,506,494	1,361,706
Total pension liability - December 31	\$ 1,411,610	\$ 1,506,494
Plan fiduciary net position		
Employer contributions	\$ 14,000	\$ 14,000
Nonemployer contributions	62,370	59,194
Projected investment return	119,082	(9,494)
Benefit payments	(227,000)	-
Administrative expenses	(8,800)	(4,575)
Net change in plan fiduciary net position	(40,348)	59,125
Plan fiduciary net position - January 1	1,857,180	1,798,055
Plan fiduciary net position - December 31 (b)	\$ 1,816,832	\$ 1,857,180
Fire Relief's net pension liability (asset) - December 31 (a-b)	\$ (405,222)	\$ (350,686)
Plan fiduciary net position as a percentage of the total pension liability (b/a)	128.71%	123.28%
Covered-employee payroll	N/A	N/A
Fire Relief's net pension liability (asset) as a percentage of covered-employee payroll	N/A	N/A

Notes to Schedule:

Benefit changes. In 2016, the benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes of assumptions. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

CITY OF EAST BETHEL, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	Special Revenue	Capital Projects	Total
ASSETS			
Cash and investments	\$ 879,628	\$ (1,392)	\$ 878,236
Receivables			
Taxes	5,204	-	5,204
Special assessments	14,168	-	14,168
Loans	6,948	-	6,948
Due from other governments	48,580	-	48,580
	<u>\$ 954,528</u>	<u>\$ (1,392)</u>	<u>\$ 953,136</u>
LIABILITIES			
Accounts and contracts payable	\$ 19,165	\$ 17,128	\$ 36,293
Deposits payable	-	16,625	16,625
	<u>19,165</u>	<u>33,753</u>	<u>52,918</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	3,078	-	3,078
Unavailable revenue - special assessments	14,168	-	14,168
	<u>17,246</u>	<u>-</u>	<u>17,246</u>
FUND BALANCES			
Restricted	918,117	187,930	1,106,047
Assigned	-	312,352	312,352
Unassigned	-	(535,427)	(535,427)
	<u>918,117</u>	<u>(35,145)</u>	<u>882,972</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
	<u>\$ 954,528</u>	<u>\$ (1,392)</u>	<u>\$ 953,136</u>

CITY OF EAST BETHEL, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue	Capital Projects	Total
REVENUES			
Taxes	\$ 123,057	\$ 58,157	\$ 181,214
Intergovernmental	83,262	-	83,262
Special assessments	22,172	-	22,172
Charges for services	-	9,140	9,140
Interest on investments	3,268	2,460	5,728
Miscellaneous	4,810	8,000	12,810
	<u>236,569</u>	<u>77,757</u>	<u>314,326</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Public works	86,324	-	86,324
Culture and recreation	6,721	-	6,721
Housing and economic development	110,223	-	110,223
Capital outlay			
Public works	-	855,717	855,717
Culture and recreation	-	41,563	41,563
Economic development	-	54,702	54,702
	<u>203,268</u>	<u>951,982</u>	<u>1,155,250</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	33,301	(874,225)	(840,924)
OTHER FINANCING SOURCES			
Transfers in	-	105,000	105,000
	<u>-</u>	<u>105,000</u>	<u>105,000</u>
NET CHANGES IN FUND BALANCES	33,301	(769,225)	(735,924)
FUND BALANCE, JANUARY 1	884,816	734,080	1,618,896
	<u>884,816</u>	<u>734,080</u>	<u>1,618,896</u>
FUND BALANCE, DECEMBER 31	<u>\$ 918,117</u>	<u>\$ (35,145)</u>	<u>\$ 882,972</u>

CITY OF EAST BETHEL, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	226	227 Miscellaneous Grants/ Donations	230 HRA	232 EDA	Total
	Recycling				
ASSETS					
Cash and investments	\$ 18,520	\$ 1,206	\$ 724,560	\$ 135,342	\$ 879,628
Receivables					
Taxes	-	-	212	4,992	5,204
Special assessments	-	-	-	14,168	14,168
Loans	-	-	-	6,948	6,948
Due from other governments	48,580	-	-	-	48,580
TOTAL ASSETS	\$ 67,100	\$ 1,206	\$ 724,772	\$ 161,450	\$ 954,528
LIABILITIES					
Accounts payable	\$ 13,312	\$ 575	\$ -	\$ 5,278	\$ 19,165
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	-	205	2,873	3,078
Unavailable revenue - special assessments	-	-	-	14,168	14,168
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	205	17,041	17,246
FUND BALANCE					
Restricted	53,788	631	724,567	139,131	918,117
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 67,100	\$ 1,206	\$ 724,772	\$ 161,450	\$ 954,528

CITY OF EAST BETHEL, MINNESOTA
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	226	227	230	232	
	Recycling	Miscellaneous Grants/ Donations	HRA	EDA	Total
REVENUES					
Taxes	\$ -	\$ -	\$ 88	\$ 122,969	\$ 123,057
Intergovernmental	83,262	-	-	-	83,262
Special assessments	-	-	-	22,172	22,172
Interest on investments	74	7	2,544	643	3,268
Miscellaneous	1,210	3,600	-	-	4,810
TOTAL REVENUES	84,546	3,607	2,632	145,784	236,569
EXPENDITURES					
Current					
Public works	86,324	-	-	-	86,324
Culture and recreation	-	6,721	-	-	6,721
Housing and economic development	-	-	25,280	84,943	110,223
TOTAL EXPENDITURES	86,324	6,721	25,280	84,943	203,268
NET CHANGE IN FUND BALANCES	(1,778)	(3,114)	(22,648)	60,841	33,301
FUND BALANCES, JANUARY 1	55,566	3,745	747,215	78,290	884,816
FUND BALANCES, DECEMBER 31	\$ 53,788	\$ 631	\$ 724,567	\$ 139,131	\$ 918,117

CITY OF EAST BETHEL, MINNESOTA
SPECIAL REVENUE FUND - RECYCLING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative totals for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 53,600	\$ 53,600	\$ 83,262	\$ 29,662	\$ 102,720
Interest on investments	-	-	74	74	39
Miscellaneous	2,500	2,500	1,210	(1,290)	1,211
TOTAL REVENUES	56,100	56,100	84,546	28,446	103,970
EXPENDITURES					
Current					
Public works	56,100	56,100	86,324	(30,224)	105,724
NET CHANGE IN FUND BALANCES	-	-	(1,778)	(1,778)	(1,754)
FUND BALANCES, JANUARY 1	55,566	55,566	55,566	-	57,320
FUND BALANCES, DECEMBER 31	<u>\$ 55,566</u>	<u>\$ 55,566</u>	<u>\$ 53,788</u>	<u>\$ (1,778)</u>	<u>\$ 55,566</u>

CITY OF EAST BETHEL, MINNESOTA
SPECIAL REVENUE FUND - HRA FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative totals for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
REVENUES					
Property taxes	\$ -	\$ -	\$ 88	\$ 88	\$ 185
Interest on investments	-	-	2,544	2,544	1,045
TOTAL REVENUES	-	-	2,632	2,632	1,230
EXPENDITURES					
Current					
Housing and economic development	26,600	26,600	25,280	1,320	25,275
NET CHANGE IN FUND BALANCES	(26,600)	(26,600)	(22,648)	3,952	(24,045)
FUND BALANCES, JANUARY 1	747,215	747,215	747,215	-	771,260
FUND BALANCES, DECEMBER 31	<u>\$ 720,615</u>	<u>\$ 720,615</u>	<u>\$ 724,567</u>	<u>\$ 3,952</u>	<u>\$ 747,215</u>

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CITY OF EAST BETHEL, MINNESOTA
SPECIAL REVENUE FUND - EDA FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative totals for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
REVENUES					
Property taxes	\$ 123,022	\$ 123,022	\$ 122,969	\$ (53)	\$ 123,275
Special assessments	-	-	22,172	22,172	-
Interest on investments	-	-	643	643	1,265
 TOTAL REVENUES	 123,022	 123,022	 145,784	 22,762	 124,540
EXPENDITURES					
Current					
Housing and economic development	123,022	123,022	84,943	38,079	124,455
NET CHANGE IN FUND BALANCES	-	-	60,841	60,841	85
FUND BALANCES, JANUARY 1	78,290	78,290	78,290	-	78,205
FUND BALANCES, DECEMBER 31	<u>\$ 78,290</u>	<u>\$ 78,290</u>	<u>\$ 139,131</u>	<u>\$ 60,841</u>	<u>\$ 78,290</u>

CITY OF EAST BETHEL, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	404	411	433	407
	Park Acquisition	Minard Street	Water Infrastructure	Park Capital
ASSETS				
Cash and investments	\$ 39,387	\$ 47,939	\$ 161,294	\$ 139,033
LIABILITIES				
Accounts and contracts payable	\$ -	\$ -	\$ 374	\$ -
Deposits payable	-	-	16,625	-
TOTAL LIABILITIES	-	-	16,999	-
FUND BALANCES				
Restricted	39,387	-	144,295	-
Assigned	-	47,939	-	139,033
Unassigned	-	-	-	-
TOTAL FUND BALANCES	39,387	47,939	144,295	139,033
TOTAL LIABILITIES AND FUND BALANCES	\$ 39,387	\$ 47,939	\$ 161,294	\$ 139,033

401	402	435	
Building	Municipal State Aid Street Improvement	TIF No. 1-1	Total
<u>\$ 125,380</u>	<u>\$ (518,673)</u>	<u>\$ 4,248</u>	<u>\$ (1,392)</u>
-	-	-	-
-	16,754	-	17,128
-	-	-	16,625
-	16,754	-	33,753
-	-	4,248	187,930
125,380	-	-	312,352
<u>-</u>	<u>(535,427)</u>	<u>-</u>	<u>(535,427)</u>
<u>125,380</u>	<u>(535,427)</u>	<u>4,248</u>	<u>(35,145)</u>
<u>\$ 125,380</u>	<u>\$ (518,673)</u>	<u>\$ 4,248</u>	<u>\$ (1,392)</u>

CITY OF EAST BETHEL, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	404	411	433	407
	Park Acquisition	Minard Street	Water Infrastructure	Park Capital
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Charges for services	9,140	-	-	-
Interest on investments	126	152	830	595
Miscellaneous	-	8,000	-	-
TOTAL REVENUES	<u>9,266</u>	<u>8,152</u>	<u>830</u>	<u>595</u>
EXPENDITURES				
Capital outlay				
Public works	-	-	126,681	-
Culture and recreation	-	-	-	41,563
Housing and economic development	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>126,681</u>	<u>41,563</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,266	8,152	(125,851)	(40,968)
OTHER FINANCING SOURCES				
Transfers in	-	-	-	55,000
NET CHANGE IN FUND BALANCES	9,266	8,152	(125,851)	14,032
FUND BALANCES, JANUARY 1	<u>30,121</u>	<u>39,787</u>	<u>270,146</u>	<u>125,001</u>
FUND BALANCES, DECEMBER 31	<u>\$ 39,387</u>	<u>\$ 47,939</u>	<u>\$ 144,295</u>	<u>\$ 139,033</u>

401	402	435	
Building	Municipal State Aid Street Improvement	TIF No. 1-1	Total
\$ -	\$ -	\$ 58,157	\$ 58,157
-	-	-	9,140
653	76	28	2,460
-	-	-	8,000
<u>653</u>	<u>76</u>	<u>58,185</u>	<u>77,757</u>
153,949	575,087	-	855,717
-	-	-	41,563
-	-	54,702	54,702
<u>153,949</u>	<u>575,087</u>	<u>54,702</u>	<u>951,982</u>
(153,296)	(575,011)	3,483	(874,225)
<u>50,000</u>	<u>-</u>	<u>-</u>	<u>105,000</u>
(103,296)	(575,011)	3,483	(769,225)
<u>228,676</u>	<u>39,584</u>	<u>765</u>	<u>734,080</u>
<u>\$ 125,380</u>	<u>\$ (535,427)</u>	<u>\$ 4,248</u>	<u>\$ (35,145)</u>

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CITY OF EAST BETHEL, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative totals for the year ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
REVENUE					
Taxes					
Property	\$ 4,109,300	\$ 4,109,300	\$ 4,117,639	\$ 8,339	\$ 4,072,004
Franchise	50,000	50,000	61,862	11,862	58,877
Gambling	20,000	20,000	42,547	22,547	25,199
Total	<u>4,179,300</u>	<u>4,179,300</u>	<u>4,222,048</u>	<u>42,748</u>	<u>4,156,080</u>
Licenses and permits					
Business	37,000	37,000	35,243	(1,757)	40,967
Nonbusiness	221,000	221,000	413,870	192,870	257,999
Total	<u>258,000</u>	<u>258,000</u>	<u>449,113</u>	<u>191,113</u>	<u>298,966</u>
Intergovernmental					
State					
Local government aid	17,000	17,000	16,828	(172)	13,940
MSA	187,600	187,600	196,693	9,093	201,066
Agricultural market value credit	-	-	7,328	7,328	8,147
PERA	2,000	2,000	2,123	123	2,123
Fire aid	50,500	50,500	72,170	21,670	66,249
Total	<u>257,100</u>	<u>257,100</u>	<u>295,142</u>	<u>38,042</u>	<u>291,525</u>
Charges for services	<u>205,500</u>	<u>205,500</u>	<u>267,546</u>	<u>62,046</u>	<u>185,579</u>
Fines and forfeitures	<u>51,000</u>	<u>51,000</u>	<u>44,146</u>	<u>(6,854)</u>	<u>45,049</u>
Interest on investments	<u>2,000</u>	<u>2,000</u>	<u>10,052</u>	<u>8,052</u>	<u>10,377</u>
Miscellaneous					
Refunds and reimbursements	<u>23,000</u>	<u>23,000</u>	<u>49,845</u>	<u>26,845</u>	<u>54,414</u>
TOTAL REVENUES	<u>4,975,900</u>	<u>4,975,900</u>	<u>5,337,892</u>	<u>361,992</u>	<u>5,041,990</u>
EXPENDITURES					
General government					
Mayor and Council					
Personnel services	31,400	31,400	31,385	15	31,434
Other services and charges	42,300	42,300	39,505	2,795	38,845
Total Mayor and Council	<u>73,700</u>	<u>73,700</u>	<u>70,890</u>	<u>2,810</u>	<u>70,279</u>
Elections					
Supplies	500	500	322	178	-
Other services and charges	13,300	13,300	12,764	536	2,560
Total elections	<u>13,800</u>	<u>13,800</u>	<u>13,086</u>	<u>714</u>	<u>2,560</u>

CITY OF EAST BETHEL, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative totals for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
General government - continued					
Planning and zoning					
Personnel services	\$ 161,700	\$ 161,700	\$ 157,905	\$ 3,795	\$ 145,975
Supplies	100	100	889	(789)	193
Other services and charges	13,300	13,300	9,379	3,921	4,891
Total planning and zoning	175,100	175,100	168,173	6,927	151,059
Administration/support					
Personnel services	525,300	525,300	523,279	2,021	501,277
Supplies	300	300	74	226	53
Other services and charges	37,800	37,800	36,622	1,178	39,513
Total administration/support	563,400	563,400	559,975	3,425	540,843
General government buildings					
Supplies	3,500	3,500	3,600	(100)	2,112
Other services and charges	38,000	38,000	29,253	8,747	35,415
Total general government buildings	41,500	41,500	32,853	8,647	37,527
Miscellaneous					
Contractual services	239,500	239,500	200,732	38,768	244,921
Total general government	1,107,000	1,107,000	1,045,709	61,291	1,047,189
Public safety					
Fire protection					
Personnel services	330,100	330,100	336,195	(6,095)	334,495
Supplies	51,600	51,600	54,634	(3,034)	44,329
Other services and charges	204,600	204,600	193,991	10,609	211,952
Total fire protection	586,300	586,300	584,820	1,480	590,776
Police protection					
Other services and charges	1,034,000	1,034,000	1,029,891	4,109	1,018,494
Building inspection					
Personnel services	236,300	236,300	242,614	(6,314)	218,075
Supplies	6,600	6,600	5,124	1,476	4,966
Other services and charges	9,500	9,500	12,022	(2,522)	11,488
Total building inspection	252,400	252,400	259,760	(7,360)	234,529
Total public safety	1,872,700	1,872,700	1,874,471	(1,771)	1,843,799

CITY OF EAST BETHEL, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative totals for the year ended December 31, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXPENDITURES - CONTINUED					
Public works					
Street maintenance					
Personnel services	\$ 469,300	\$ 469,300	\$ 465,975	\$ 3,325	\$ 420,510
Supplies	166,700	166,700	110,532	56,168	113,452
Other services and charges	230,700	230,700	215,987	14,713	226,459
Total public works	866,700	866,700	792,494	74,206	760,421
Culture and recreation					
Personnel services	318,500	318,500	295,473	23,027	289,392
Supplies	43,100	43,100	35,681	7,419	48,214
Other services and charges	44,900	44,900	45,655	(755)	40,311
Total culture and recreation	406,500	406,500	376,809	29,691	377,917
Miscellaneous					
Supplies	9,000	9,000	9,254	(254)	6,693
Other services and charges	184,000	184,000	152,735	31,265	173,563
Total miscellaneous	193,000	193,000	161,989	31,011	180,256
TOTAL EXPENDITURES	4,445,900	4,445,900	4,251,472	194,428	4,209,582
EXCESS REVENUES OVER EXPENDITURES	530,000	530,000	1,086,420	556,420	832,408
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	23,297
Transfers out	(530,000)	(530,000)	(530,000)	-	(525,000)
TOTAL OTHER FINANCING SOURCES (USES)	(530,000)	(530,000)	(530,000)	-	(501,703)
NET CHANGE IN FUND BALANCES	-	-	556,420	556,420	330,705
FUND BALANCES, JANUARY 1	2,625,807	2,625,807	2,625,807	-	2,295,102
FUND BALANCES, DECEMBER 31	\$ 2,625,807	\$ 2,625,807	\$ 3,182,227	\$ 556,420	\$ 2,625,807

CITY OF EAST BETHEL, MINNESOTA
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	301	303	308	309
	2005/2013A Safety Bond	2005B Street Improvement Debt	2008A Sewer Revenue Bond	2010 Water Revenue Note
ASSETS				
Cash and investments	\$ 104,509	\$ -	\$ 20,029	\$ 39,257
Receivables				
Taxes	6,304	-	6,865	-
Special assessments	-	-	120,000	-
Accounts	-	-	-	748
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 110,813</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 146,894</u></u>	<u><u>\$ 40,005</u></u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 4,129	\$ -	\$ 3,765	\$ -
Unavailable revenue - special assessments	-	-	120,000	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL DEFERRED INFLOWS OF RESOURCES	4,129	-	123,765	-
FUND BALANCES				
Restricted	<u>106,684</u>	<u>-</u>	<u>23,129</u>	<u>40,005</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 110,813</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 146,894</u></u>	<u><u>\$ 40,005</u></u>

310 2015A Revenue Bond	311 2014A GO Refunding Bond	312 2010C Improvement Bond	Total
\$ 206,385	\$ 297,435	\$ 575,479	\$ 1,243,094
18,867	12,586	-	44,622
125,462	-	-	245,462
-	-	-	748
<u>\$ 350,714</u>	<u>\$ 310,021</u>	<u>\$ 575,479</u>	<u>\$ 1,533,926</u>
\$ 10,187	\$ 6,903	\$ -	\$ 24,984
125,462	-	-	245,462
135,649	6,903	-	270,446
<u>215,065</u>	<u>303,118</u>	<u>575,479</u>	<u>1,263,480</u>
<u>\$ 350,714</u>	<u>\$ 310,021</u>	<u>\$ 575,479</u>	<u>\$ 1,533,926</u>

CITY OF EAST BETHEL, MINNESOTA
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	301 2005/2013A Safety Bond	303 2005B Street Improvement Debt	308 2008A Sewer Revenue Bond	309 2010 Water Revenue Note
REVENUES				
Property taxes	\$ 128,904	\$ -	\$ 179,578	\$ -
Charges for services	-	-	-	6,305
Special assessments	-	-	16,500	-
Interest on investments	156	-	12	133
TOTAL REVENUES	<u>129,060</u>	<u>-</u>	<u>196,090</u>	<u>6,438</u>
EXPENDITURES				
Debt service				
Principal	90,000	60,000	135,000	3,000
Interest and other charges	34,775	1,140	37,173	536
TOTAL EXPENDITURES	<u>124,775</u>	<u>61,140</u>	<u>172,173</u>	<u>3,536</u>
NET CHANGE IN FUND BALANCES	4,285	(61,140)	23,917	2,902
FUND BALANCES, JANUARY 1	<u>102,399</u>	<u>61,140</u>	<u>(788)</u>	<u>37,103</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 106,684</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,129</u></u>	<u><u>\$ 40,005</u></u>

310 2015A Revenue Bond	311 2014A GO Refunding Bond	312 2010C Improvement Bond	Total
\$ 502,819	\$ 329,227	\$ -	\$ 1,140,528
-	-	-	6,305
23,976	-	-	40,476
189	555	2,171	3,216
<u>526,984</u>	<u>329,782</u>	<u>2,171</u>	<u>1,190,525</u>
190,000	-	695,000	1,173,000
399,150	188,125	34,763	695,662
<u>589,150</u>	<u>188,125</u>	<u>729,763</u>	<u>1,868,662</u>
(62,166)	141,657	(727,592)	(678,137)
<u>277,231</u>	<u>161,461</u>	<u>1,303,071</u>	<u>1,941,617</u>
<u>\$ 215,065</u>	<u>\$ 303,118</u>	<u>\$ 575,479</u>	<u>\$ 1,263,480</u>

CITY OF EAST BETHEL, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2016

	702 Compensated Absences	701 Equipment Replacement	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 161,652	\$ 1,377,031	\$ 1,538,683
NONCURRENT ASSETS			
Capital assets			
Machinery and equipment	-	3,316,734	3,316,734
Less accumulated depreciation	-	(1,444,803)	(1,444,803)
Net capital assets	-	1,871,931	1,871,931
TOTAL ASSETS	161,652	3,248,962	3,410,614
LIABILITIES			
CURRENT LIABILITIES			
Compensated absences payable - current portion	79,635	-	79,635
NONCURRENT LIABILITIES			
Compensated absences payable - noncurrent portion	81,162	-	81,162
TOTAL LIABILITIES	160,797	-	160,797
NET POSITION			
Investment in capital assets	-	1,871,931	1,871,931
Unrestricted	855	1,377,031	1,377,886
TOTAL NET POSITION	\$ 855	\$ 3,248,962	\$ 3,249,817

CITY OF EAST BETHEL, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>702</u>	<u>701</u>	
	Compensated Absences	Equipment Replacement	Total
OPERATING REVENUES			
Charges for services			
Services to departments	<u>\$ 14,695</u>	<u>\$ 259,700</u>	<u>\$ 274,395</u>
OPERATING EXPENSES			
Personnel services	14,695	-	14,695
Depreciation	<u>-</u>	<u>275,678</u>	<u>275,678</u>
TOTAL OPERATING EXPENSES	<u>14,695</u>	<u>275,678</u>	<u>290,373</u>
OPERATING LOSS	<u>-</u>	<u>(15,978)</u>	<u>(15,978)</u>
NONOPERATING REVENUES			
Gain sale of capital assets	-	39,373	39,373
Interest on investments	<u>513</u>	<u>5,494</u>	<u>6,007</u>
TOTAL NONOPERATING REVENUES	<u>513</u>	<u>44,867</u>	<u>45,380</u>
CHANGE IN NET POSITION	513	28,889	29,402
NET POSITION, JANUARY 1	<u>342</u>	<u>3,220,073</u>	<u>3,220,415</u>
NET POSITION, DECEMBER 31	<u>\$ 855</u>	<u>\$ 3,248,962</u>	<u>\$ 3,249,817</u>

CITY OF EAST BETHEL, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	702 Compensated Absences	701 Equipment Replacement	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 14,182	\$ 259,700	\$ 273,882
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	(368,869)	(368,869)
Proceeds from sale of capital assets	-	39,373	39,373
 NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 -	 (329,496)	 (329,496)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	513	5,494	6,007
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,695	(64,302)	(49,607)
CASH AND CASH EQUIVALENTS, JANUARY 1	146,957	1,441,333	1,588,290
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 161,652	\$ 1,377,031	\$ 1,538,683
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating loss	\$ -	\$ (15,978)	\$ (15,978)
Adjustments to reconcile operating loss to net cash provided (used) operating activities			
Depreciation expense	-	275,678	275,678
Increase (decrease) in liabilities			
Compensated absences	14,182	-	14,182
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 \$ 14,182	 \$ 259,700	 \$ 273,882

CITY OF EAST BETHEL, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	Total		Percent Increase (Decrease)
	2016	2015	
REVENUES			
Taxes	\$ 5,543,790	\$ 5,462,470	1.49 %
Licenses and permits	449,113	298,966	50.22
Intergovernmental	378,404	2,046,905	(81.51)
Charges for services	282,991	195,252	44.94
Fines and forfeitures	44,146	45,049	(2.00)
Special assessments	62,648	71,415	(12.28)
Interest on investments	22,680	17,879	26.85
Miscellaneous	62,655	67,844	(7.65)
	<u>62,655</u>	<u>67,844</u>	
TOTAL REVENUES	<u>\$ 6,846,427</u>	<u>\$ 8,205,780</u>	(16.57) %
Per Capita	\$ 582	\$ 708	(17.80) %
EXPENDITURES			
Current			
General government	\$ 1,045,709	\$ 1,051,087	(0.51) %
Public safety	1,874,471	1,843,799	1.66
Public works	878,818	866,145	1.46
Culture and recreation	383,530	383,016	0.13
Housing and economic development	110,223	389,615	(71.71)
Miscellaneous	161,989	180,256	(10.13)
Capital outlay			
Public works	1,666,895	1,615,788	3.16
Parks and recreation	41,563	13,038	218.78
Housing and economic development	54,702	53,735	1.80
Debt service			
Principal	1,173,000	288,000	307.29
Interest and other charges	695,662	1,017,434	(31.63)
Bond issuance costs	-	179,067	(100.00)
	<u>-</u>	<u>179,067</u>	
TOTAL EXPENDITURES	<u>\$ 8,086,562</u>	<u>\$ 7,880,980</u>	2.61 %
Per Capita	\$ 688	\$ 680	1.18 %
Total Long-term Indebtedness	\$ 19,692,672	\$ 21,024,997	(6.34) %
Per Capita	1,674	1,814	(7.72)
General Fund Balance - December 31	\$ 3,182,227	\$ 2,625,807	21.19 %
Per Capita	271	227	19.38

The purpose of this report is to provide a summary of financial information concerning the City of East Bethel to interested citizens. The complete financial statements may be examined at City Hall, 2241 221st Avenue NE, East Bethel, MN 55011. Questions about this report should be directed to Mike Jeziorski, Finance Director at (763) 367-7852.

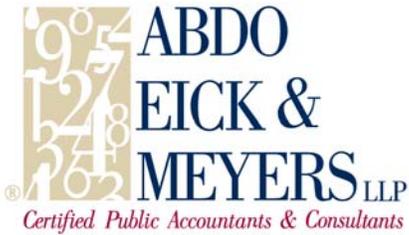
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OTHER REQUIRED REPORTS

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of East Bethel, Minnesota

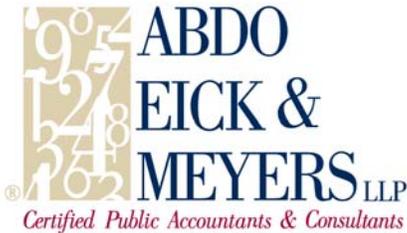
We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of East Bethel, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 17, 2017.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 17, 2017



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*

Honorable Mayor and City Council
City of East Bethel, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of East Bethel, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

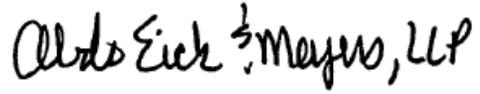
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
March 17, 2017