

Annual Financial Report

City of East Bethel

East Bethel, Minnesota

For the Year Ended
December 31, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of East Bethel, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2018

	<u>Page No.</u>
Introductory Section	
City Council and Officials	9
Financial Section	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	29
Statement of Activities	30
Fund Financial Statements	
Governmental Funds	
Balance Sheet	34
Reconciliation of the Balance Sheet to the Statement of Net Position	35
Statement of Revenues, Expenditures and Changes in Fund Balances	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	37
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	38
Proprietary Funds	
Statement of Net Position	39
Statement of Revenues, Expenses and Changes in Net Position	41
Statement of Cash Flows	42
Notes to the Financial Statements	45
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	70
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	70
Notes to the Required Supplementary Information - General Employees Retirement Fund	71
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	72
Schedule of Employer's Fire Relief Association Contributions	73
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	77
Nonmajor Special Revenue Funds	
Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	79
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	
Recycling Fund	81
HRA Fund	82
EDA Fund	83
Nonmajor Capital Projects Funds	
Combining Balance Sheet	84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	86
General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	89
Debt Service Funds	
Combining Balance Sheet	92
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	93

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of East Bethel, Minnesota
Annual Financial Report
Table of Contents (Continued)
For the Year Ended December 31, 2018

	<u>Page No.</u>
Combining and Individual Fund Financial Statements and Schedules (Continued)	
Internal Service Funds	
Combining Statement of Net Position	94
Combining Statement of Revenues, Expenses and Changes in Net Position	95
Combining Statement of Cash Flows	96
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	97
Other Required Reports	
Independent Auditor's Report on Minnesota Legal Compliance	101
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	102
Schedule of Findings and Responses	105

THIS PAGE IS LEFT
BLANK INTENTIONALLY

INTRODUCTORY SECTION
CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of East Bethel, Minnesota
City Council and Officials
For the Year Ended December 31, 2018

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
Randy Plaisance	Council Member	12/31/20
Tom Ronning	Council Member	12/31/20

CITY OFFICIALS

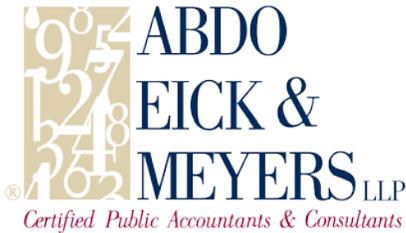
Jack Davis	City Administrator
Nate Ayshford	Public Works Manager
Mark DuCharme	Fire Chief
Nick Schmitz	Building Official
Mike Jeziorski	Finance Director
Colleen Winter	Community Development Director

THIS PAGE IS LEFT
BLANK INTENTIONALLY

FINANCIAL SECTION
CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY



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, 2018 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, 2018, 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.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios starting on page 70 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

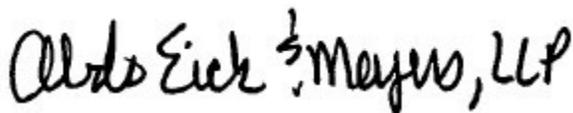
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and 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 20, 2019, 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 20, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY

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, 2018.

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 \$29,550,135 (net position). Of this amount, \$2,417,917 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased \$507,950. Of the total, governmental activities increased \$37,083 and the business-type activities decreased \$545,033.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$5,268,133, an increase of \$75,791 from the prior fiscal year.
- At the end of the fiscal year the General fund had a fund balance of \$3,112,119. The ending fund balance is 56.6 percent of the 2019 budget.
- The City's total noncurrent liabilities decreased \$157,896 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

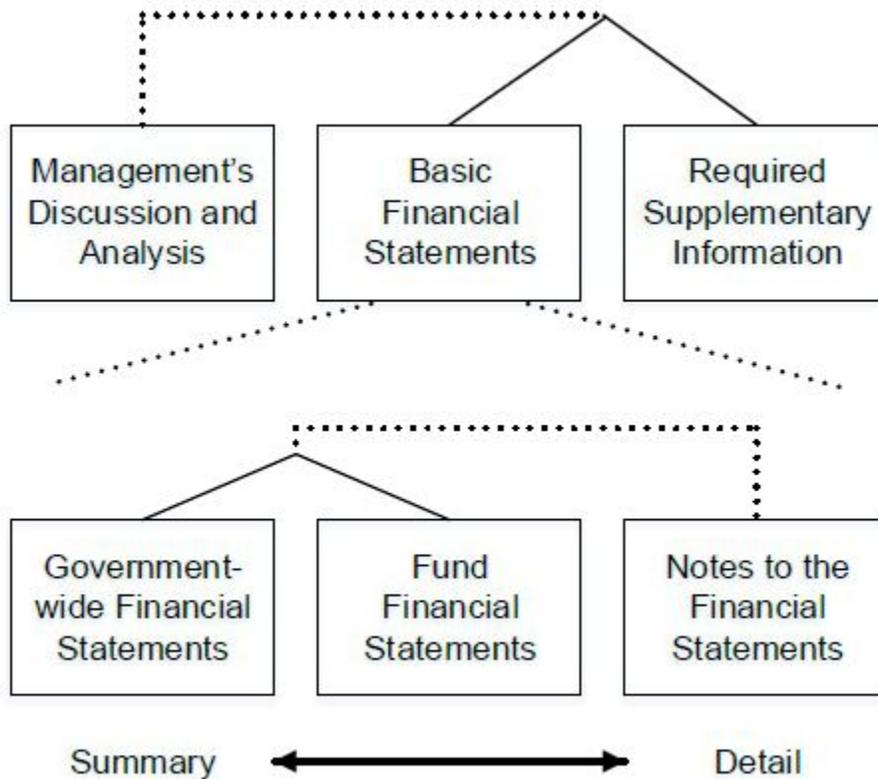


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the 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 and deferred outflows or resources and liabilities and deferred inflows of resources, with the difference 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 29 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 numerous individual governmental funds, four 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 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 34 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 39 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 45 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pensions to its employees. The required supplementary information starts on page 70.

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 76 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 \$29,550,135 at the close of the most recent fiscal year.

The largest portion of the City's net position \$25,673,775 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.

City of East Bethel's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Current and Other Assets	\$ 8,170,840	\$ 8,375,867	\$ (205,027)	\$ 550,314	\$ 286,699	\$ 263,615
Capital Assets	27,883,363	28,550,248	(666,885)	14,141,000	14,736,970	(595,970)
Total Assets	36,054,203	36,926,115	(871,912)	14,691,314	15,023,669	(332,355)
Deferred Outflows of Resources	310,276	387,477	(77,201)	-	-	-
Long-term Liabilities Outstanding	19,595,581	20,093,823	(498,242)	703,384	501,280	202,104
Other Liabilities	826,932	614,172	212,760	32,073	21,499	10,574
Total Liabilities	20,422,513	20,707,995	(285,482)	735,457	522,779	212,678
Deferred Inflows of Resources	347,688	1,048,402	(700,714)	-	-	-
Net Assets						
Net investment in capital assets	12,236,159	12,543,044	(306,885)	13,437,616	14,235,690	(798,074)
Restricted	1,458,443	1,234,448	223,995	-	-	-
Unrestricted	1,899,676	1,779,703	119,973	518,241	265,200	253,041
Total Net Position	\$ 15,594,278	\$ 15,557,195	\$ 37,083	\$ 13,955,857	\$ 14,500,890	\$ (545,033)

A portion of the City's net position \$1,458,443 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$2,417,917 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. The increase in governmental net position due to the purchase of capital items from the grants received from the State of Minnesota street construction aid.

Governmental Activities and Business-type Activities

Governmental activities increased the City's net position \$37,083 and business-type net position decreased by \$545,033 during the year. Key elements of the changes in net position are as follows:

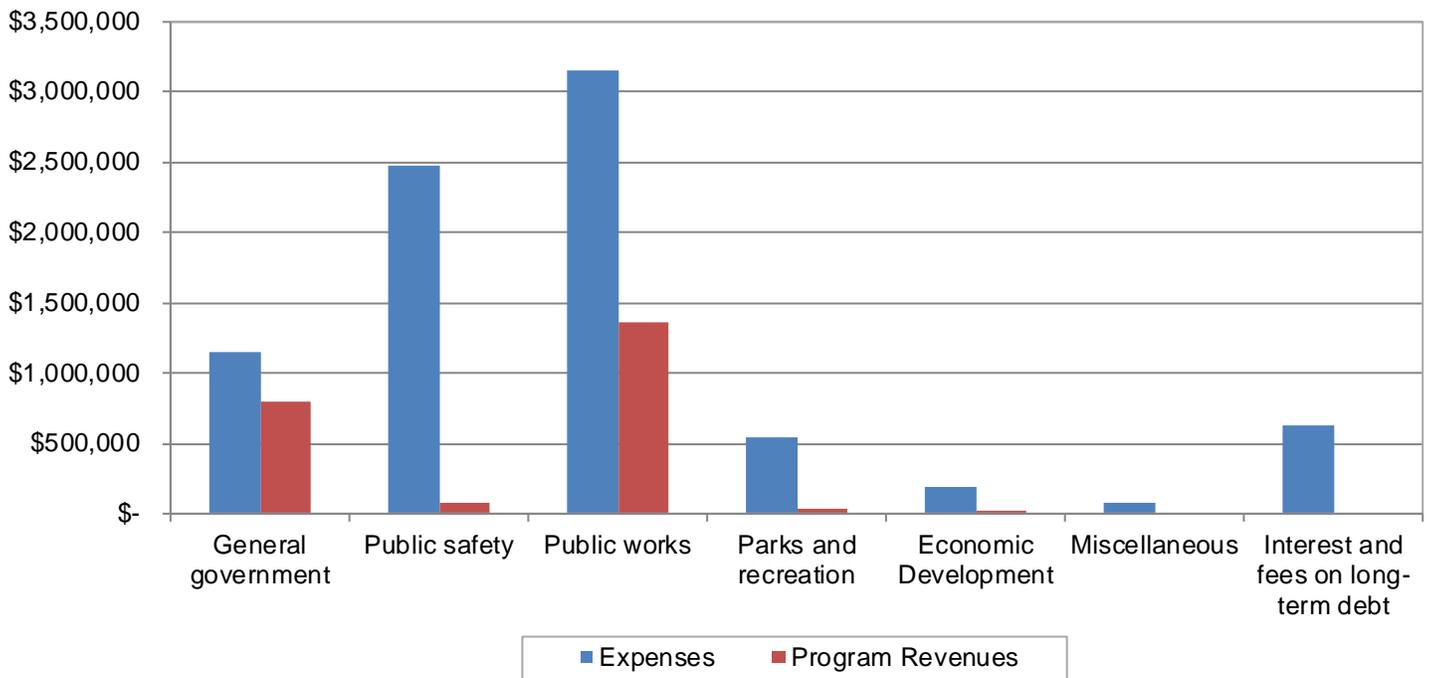
City of East Bethel's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 768,572	\$ 800,955	\$ (32,383)	\$ 422,582	\$ 426,178	\$ (3,596)
Operating grants and contributions	157,998	210,707	(52,709)	-	69,713	(69,713)
Capital grants and contributions	1,344,860	2,017,553	(672,693)	184,124	27,173	156,951
General revenues						
Taxes	5,811,181	5,607,630	203,551	-	-	-
Grants and contributions not restricted to specific programs	27,400	42,176	(14,776)	-	-	-
Unrestricted investment earnings	84,529	42,518	42,011	5,078	1,256	3,822
Sale of capital assets	54,971	19,693	35,278	-	9,656	(9,656)
Total Revenues	8,249,511	8,741,232	(491,721)	611,784	533,976	77,808
Expenses						
General government	1,145,366	1,256,200	(110,834)	-	-	-
Public safety	2,471,865	2,129,957	341,908	-	-	-
Public works	3,154,854	3,131,990	22,864	-	-	-
Parks and recreation	540,159	521,460	18,699	-	-	-
Economic Development	189,235	154,606	34,629	-	-	-
Miscellaneous	81,218	76,655	4,563	-	-	-
Water utility	-	-	-	333,517	335,855	(2,338)
Sewer utility	-	-	-	566,308	595,918	(29,610)
Ice arena	-	-	-	256,992	241,033	15,959
Interest on long-term debt	629,731	643,081	(13,350)	-	-	-
Total Expenses	8,212,428	7,913,949	298,479	1,156,817	1,172,806	(15,989)
Change in Net Position	37,083	827,283	(790,200)	(545,033)	(638,830)	93,797
Net Position, January 1	15,557,195	14,729,912	827,283	14,500,890	15,139,720	(638,830)
Net Position, December 31	\$ 15,594,278	\$ 15,557,195	\$ 37,083	\$ 13,955,857	\$ 14,500,890	\$ (545,033)

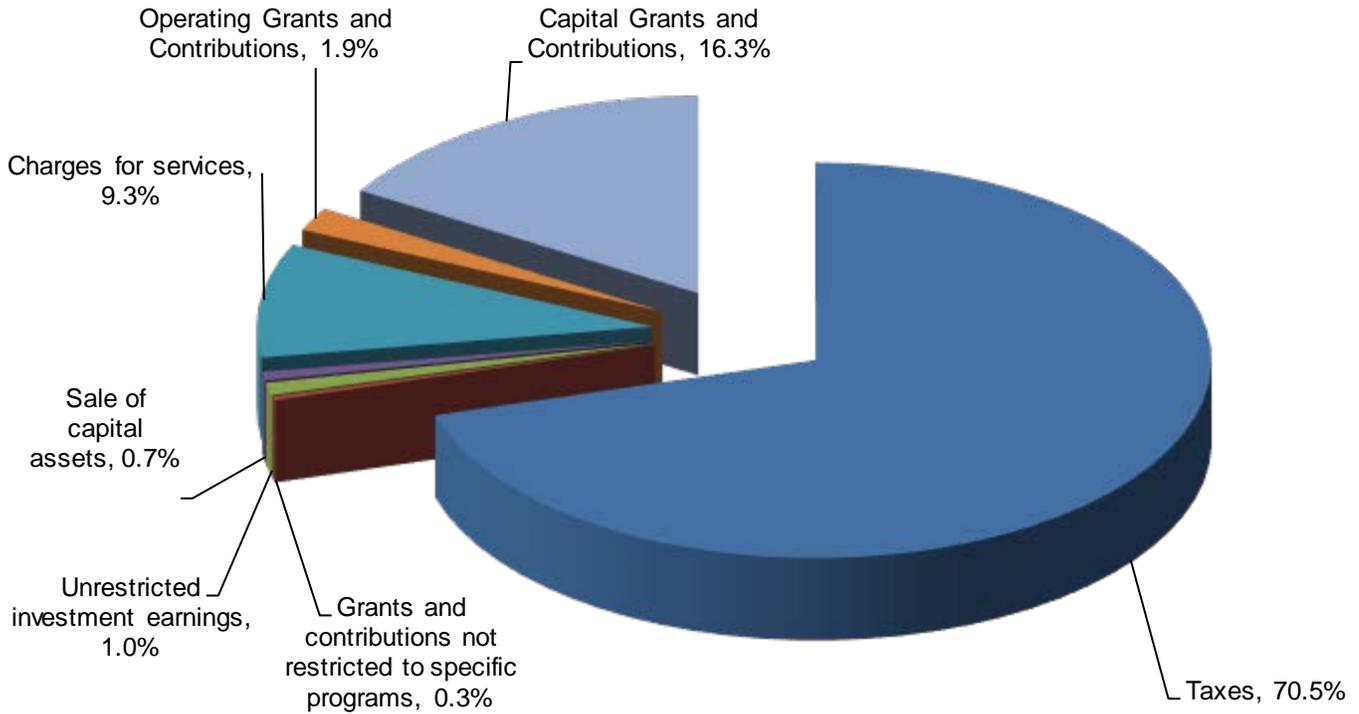
Capital grants and contributions decreased \$672,693 from 2017 due to receiving significantly more MSA construction funds in 2017.

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

Expenses and Program Revenues - Governmental Activities

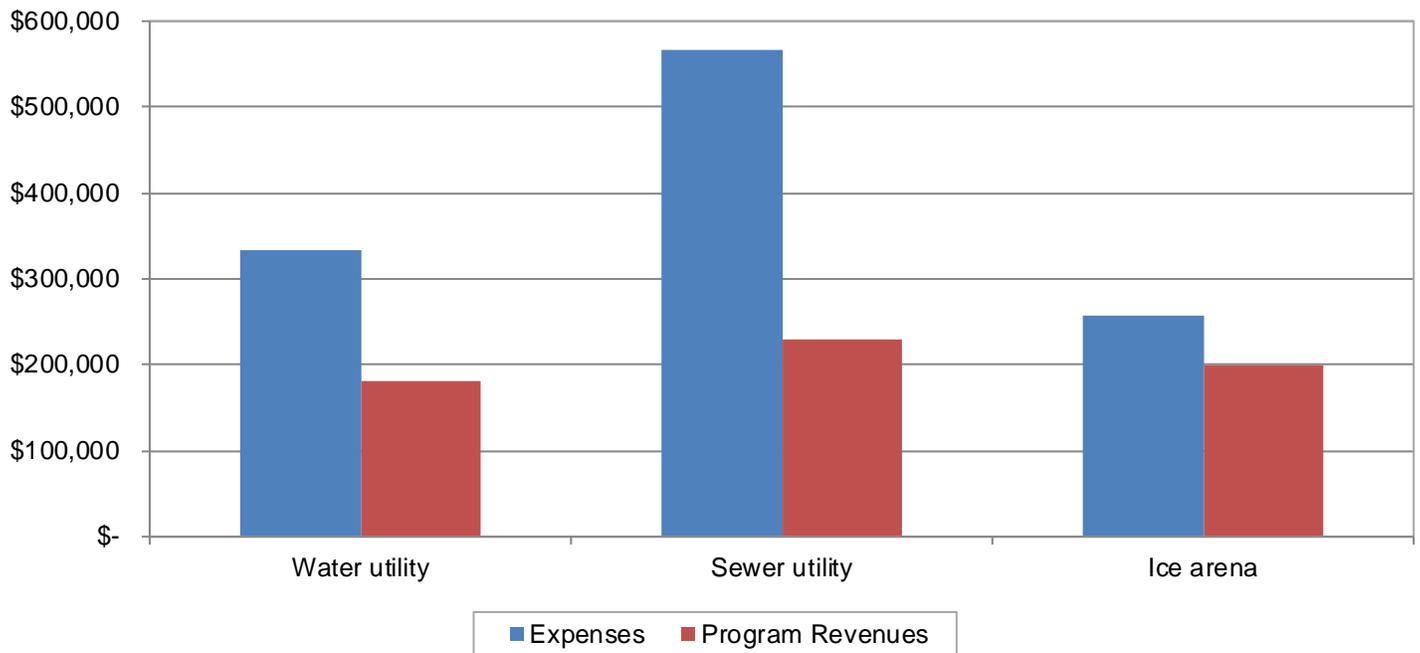


Revenues by Source - Governmental Activities



Business-type Activities. Business-type activities decreased net position by \$545,033. 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 \$5,268,133, an increase of \$75,791 in comparison with the prior year. Approximately 57.9 percent of this total amount (\$3,048,861) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance (\$2,219,272) is not available for new spending because it is either 1) restricted (\$1,466,448) or 2) assigned (\$752,824). For further classification refer to Note 3E on page 59 of this report.

The General fund balance decreased by \$516,127 in 2018. The fund also transferred \$1,232,000 to fund future capital projects which was \$682,000 more than budgeted.

The Debt Service fund has a total fund balance of \$1,062,835 which is entirely restricted for the payment of debt service. The fund balance increased by \$211,267 in 2018 due to excess tax revenue over debt service payments.

The Street Capital fund decreased fund balance by \$245,156 compared to the prior year.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail on page 39 of this report.

Unrestricted net position of the enterprise funds at the end of the year amounted to a balance of \$518,241. The total decrease in net position for the funds was \$545,033. 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 2018 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 \$172,691 and expenditures were more than budgetary estimates by \$6,818. The net result was a \$516,127 decrease in the General fund balance. 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 \$9,503.
- All expenditure departments were under budget with the exception of public safety capital outlay which was over budget by \$167,571.
- Other financing uses were over budget by \$682,000 to fund future capital projects.

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, 2018, amounts to \$42,024,363 (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.

City of East Bethel's Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Land	\$ 1,055,117	\$ 887,546	\$ 167,571	\$ 30,000	\$ 30,000	\$ -
Construction in Progress	4,132,011	2,940,301	1,191,710	-	-	-
Buildings and Structures	2,070,707	2,267,280	(196,573)	291,937	336,044	(44,107)
Machinery and Equipment	2,243,616	2,248,093	(4,477)	128,957	138,531	(9,574)
Park Improvements	656,205	650,874	5,331	-	-	-
Sewer Main Lines and Storm Sewers	880,877	941,238	(60,361)	-	-	-
Infrastructure	16,844,830	18,614,916	(1,770,086)	13,690,106	14,232,395	(542,289)
Total Capital Assets	\$ 27,883,363	\$ 28,550,248	\$ (666,885)	\$ 14,141,000	\$ 14,736,970	\$ (595,970)

Additional information on the City's capital assets can be found in Note 3B starting on page 55 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$19,083,384 which was a decrease of \$157,896 from 2017.

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, 2018 is as follows:

City of East Bethel's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
General Obligation Improvement Bonds	\$ 900,000	\$ 995,000	\$ (95,000)	\$ -	\$ -	\$ -
General Obligation Revenue Bonds	17,480,000	17,745,000	(265,000)	-	-	-
Loan Payable	-	-	-	703,384	501,280	202,104
Totals	\$ 18,380,000	\$18,740,000	\$ (360,000)	\$ 703,384	\$ 501,280	\$ 202,104

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 \$32,267,667. Of the City's outstanding debt, \$900,000 is counted within the statutory limitation.

Additional information on the City's long-term debt can be found in Note 3D starting on page 57 of this report.

Economic Factors and Next Year's Budget

- Residential building activity is expected to continue to be strong.
- The City adopted a General Fund Budget for 2019 that was 3 percent higher than 2018.
- The City adopted an Overall City Levy for 2019 that was 2.9 percent higher than 2018.

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 City of East Bethel, 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, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of East Bethel, Minnesota
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 6,961,123	\$ 526,682	\$ 7,487,805
Receivables			
Accrued interest	17,689	-	17,689
Taxes	209,131	-	209,131
Special assessments	516,747	3,524	520,271
Accounts	11,723	20,108	31,831
Due from other governments	43,737	-	43,737
Net pension asset	410,690	-	410,690
Capital assets			
Land and construction in progress	5,187,128	30,000	5,217,128
Depreciable assets (net of accumulated depreciation)	22,696,235	14,111,000	36,807,235
Total Assets	<u>36,054,203</u>	<u>14,691,314</u>	<u>50,745,517</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>310,276</u>	<u>-</u>	<u>310,276</u>
Liabilities			
Accounts and contracts payable	237,714	15,801	253,515
Salaries payable	50,918	-	50,918
Accrued interest payable	259,806	-	259,806
Deposits payable	275,596	-	275,596
Unearned revenue	2,898	16,272	19,170
Noncurrent liabilities			
Due within one year	768,025	-	768,025
Due in more than one year	<u>18,827,556</u>	<u>703,384</u>	<u>19,530,940</u>
Total Liabilities	<u>20,422,513</u>	<u>735,457</u>	<u>21,157,970</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>347,688</u>	<u>-</u>	<u>347,688</u>
Net Position			
Net investment in capital assets	12,236,159	13,437,616	25,673,775
Restricted for			
Debt service	1,044,341	-	1,044,341
Recycling	30,700	-	30,700
Housing and redevelopment	132,762	-	132,762
Economic development	175,168	-	175,168
Park development	75,472	-	75,472
Unrestricted	<u>1,899,676</u>	<u>518,241</u>	<u>2,417,917</u>
Total Net Position	<u>\$ 15,594,278</u>	<u>\$ 13,955,857</u>	<u>\$ 29,550,135</u>

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, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Government Activities				
General government	\$ 1,145,366	\$ 717,572	\$ 74,093	\$ -
Public safety	2,471,865	-	80,002	-
Public works	3,154,854	18,000	-	1,344,860
Culture and recreation	540,159	33,000	-	-
Housing and economic development	189,235	-	3,903	-
Miscellaneous	81,218	-	-	-
Interest on long-term debt	629,731	-	-	-
Total Government Activities	<u>8,212,428</u>	<u>768,572</u>	<u>157,998</u>	<u>1,344,860</u>
Business-type Activities				
Water utility	333,517	103,602	-	76,500
Sewer utility	566,308	120,811	-	107,624
Ice arena	256,992	198,169	-	-
Total Business-type Activities	<u>1,156,817</u>	<u>422,582</u>	<u>-</u>	<u>184,124</u>
Total Primary Government	<u>\$ 9,369,245</u>	<u>\$ 1,191,154</u>	<u>\$ 157,998</u>	<u>\$ 1,528,984</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

Governmental Activities	Business-Type Activities	Total
\$ (353,701)	\$ -	\$ (353,701)
(2,391,863)	-	(2,391,863)
(1,791,994)	-	(1,791,994)
(507,159)	-	(507,159)
(185,332)	-	(185,332)
(81,218)	-	(81,218)
(629,731)	-	(629,731)
<u>(5,940,998)</u>	<u>-</u>	<u>(5,940,998)</u>
-	(153,415)	(153,415)
-	(337,873)	(337,873)
-	(58,823)	(58,823)
<u>-</u>	<u>(550,111)</u>	<u>(550,111)</u>
<u>(5,940,998)</u>	<u>(550,111)</u>	<u>(6,491,109)</u>
4,480,231	-	4,480,231
1,172,139	-	1,172,139
48,418	-	48,418
67,741	-	67,741
42,652	-	42,652
27,400	-	27,400
84,529	5,078	89,607
54,971	-	54,971
<u>5,978,081</u>	<u>5,078</u>	<u>5,983,159</u>
37,083	(545,033)	(507,950)
<u>15,557,195</u>	<u>14,500,890</u>	<u>30,058,085</u>
<u>\$ 15,594,278</u>	<u>\$ 13,955,857</u>	<u>\$ 29,550,135</u>

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

FUND FINANCIAL STATEMENTS

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

City of East Bethel, Minnesota

Balance Sheet

Governmental Funds

December 31, 2018

	101	300's	406	Other	Total
	General	Debt Service	Street Capital	Governmental Funds	Governmental Funds
Assets					
Cash and investments	\$ 3,428,429	\$ 1,047,472	\$ 450,137	\$ 720,496	\$ 5,646,534
Receivables					
Taxes	163,218	40,764	-	5,149	209,131
Special assessments	-	215,911	293,475	7,361	516,747
Accounts	11,723	-	-	-	11,723
Accrued interest	17,689	-	-	-	17,689
Due from other governments	3,823	-	-	39,914	43,737
	<u>3,624,882</u>	<u>1,304,147</u>	<u>743,612</u>	<u>772,920</u>	<u>6,445,561</u>
Total Assets	\$ 3,624,882	\$ 1,304,147	\$ 743,612	\$ 772,920	\$ 6,445,561
Liabilities					
Accounts and contracts payable	\$ 80,902	\$ -	\$ 62,775	\$ 56,614	\$ 200,291
Salaries payable	50,918	-	-	-	50,918
Deposits payable	275,596	-	-	-	275,596
Unearned revenue	2,898	-	-	-	2,898
Total Liabilities	410,314	-	62,775	56,614	529,703
Deferred Inflows of Resources					
Unavailable revenue - property taxes	102,449	25,401	-	3,128	130,978
Unavailable revenue - special assessments	-	215,911	293,475	7,361	516,747
Total Deferred Inflows of Resources	102,449	241,312	293,475	10,489	647,725
Fund Balances					
Restricted	-	1,062,835	-	403,613	1,466,448
Assigned	-	-	387,362	365,462	752,824
Unassigned	3,112,119	-	-	(63,258)	3,048,861
Total Fund Balances	3,112,119	1,062,835	387,362	705,817	5,268,133
Total Liabilities, Deferred Inflows of Resources and Fund Balances					
	\$ 3,624,882	\$ 1,304,147	\$ 743,612	\$ 772,920	\$ 6,445,561

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, 2018

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

Total Fund Balances - Governmental	\$ 5,268,133
Long-term assets from pensions reported in governmental activities are not financial and therefore are not reported as assets in governmental funds.	
Pension asset	410,690
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	69,244,757
Less accumulated depreciation	(43,480,479)
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	
Bonds payable	(18,380,000)
Pension liability	(1,042,947)
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	130,978
Special assessments receivable	516,747
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	310,276
Deferred inflows of pension resources	(347,688)
Governmental funds do not report a liability for accrued interest until due and payable.	(259,806)
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>3,223,617</u>
Net Position of Governmental Activities	<u><u>\$15,594,278</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, 2018

	101	300's	406	Other Governmental Funds	Total
	General	Debt Service	Street Capital		
Revenues					
Taxes	\$ 4,443,895	\$ 1,172,139	\$ -	\$ 197,558	\$ 5,813,592
Licenses and permits	308,542	-	-	-	308,542
Intergovernmental	302,097	-	-	659,114	961,211
Charges for services	348,178	-	-	51,000	399,178
Fines and forfeitures	35,497	-	-	-	35,497
Special assessments	-	27,087	3,672	3,903	34,662
Interest on investments	32,335	7,376	15,239	9,661	64,611
Miscellaneous	23,247	-	-	2,108	25,355
Total Revenues	<u>5,493,791</u>	<u>1,206,602</u>	<u>18,911</u>	<u>923,344</u>	<u>7,642,648</u>
Expenditures					
Current					
General government	1,201,239	-	-	12,674	1,213,913
Public safety	2,013,568	-	-	-	2,013,568
Public works	894,455	-	-	98,599	993,054
Culture and recreation	419,867	-	-	-	419,867
Housing and economic development	-	-	-	142,835	142,835
Miscellaneous	81,218	-	-	-	81,218
Capital outlay					
Public safety	167,571	-	-	-	167,571
Public works	-	-	1,371,067	18,994	1,390,061
Culture and recreation	-	-	-	103,035	103,035
Housing and economic development	-	-	-	46,400	46,400
Debt service					
Principal	-	360,000	-	-	360,000
Interest and other	-	635,335	-	-	635,335
Total Expenditures	<u>4,777,918</u>	<u>995,335</u>	<u>1,371,067</u>	<u>422,537</u>	<u>7,566,857</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>715,873</u>	<u>211,267</u>	<u>(1,352,156)</u>	<u>500,807</u>	<u>75,791</u>
Other Financing Sources (Uses)					
Transfers in	-	-	1,107,000	125,000	1,232,000
Transfers out	<u>(1,232,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,232,000)</u>
Total Other Financing Sources (Uses)	<u>(1,232,000)</u>	<u>-</u>	<u>1,107,000</u>	<u>125,000</u>	<u>-</u>
Net Change in Fund Balances	(516,127)	211,267	(245,156)	625,807	75,791
Fund Balances, January 1	<u>3,628,246</u>	<u>851,568</u>	<u>632,518</u>	<u>80,010</u>	<u>5,192,342</u>
Fund Balances, December 31	<u>\$ 3,112,119</u>	<u>\$ 1,062,835</u>	<u>\$ 387,362</u>	<u>\$ 705,817</u>	<u>\$ 5,268,133</u>

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, 2018

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

Net Changes in Fund Balances - Total Governmental Funds	\$ 75,791
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.	
Depreciation	(2,301,684)
Capital outlay	1,609,442
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.	
Principal payments on bonds payable	360,000
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.	
	5,604
Long-term pension activity is not reported in governmental funds.	
Pension expense	12,246
Pension revenue	7,971
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.	
Property taxes	(2,411)
Special assessments	245,414
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.	
Consolidation of internal service fund activities with governmental activities	24,710
Change in Net Position of Governmental Activities	\$ 37,083

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,405,700	\$ 4,405,700	\$ 4,443,895	\$ 38,195
Licenses and permits	249,400	249,400	308,542	59,142
Intergovernmental	295,500	295,500	302,097	6,597
Charges for services	300,500	300,500	348,178	47,678
Fines and forfeitures	45,000	45,000	35,497	(9,503)
Interest on investments	10,000	10,000	32,335	22,335
Miscellaneous	15,000	15,000	23,247	8,247
Total Revenues	<u>5,321,100</u>	<u>5,321,100</u>	<u>5,493,791</u>	<u>172,691</u>
Expenditures				
Current				
General government	1,298,300	1,298,300	1,201,239	97,061
Public safety	2,018,200	2,018,200	2,013,568	4,632
Public works	923,100	923,100	894,455	28,645
Culture and recreation	439,000	439,000	419,867	19,133
Miscellaneous	92,500	92,500	81,218	11,282
Capital outlay	-	-	167,571	(167,571)
Total Expenditures	<u>4,771,100</u>	<u>4,771,100</u>	<u>4,777,918</u>	<u>(6,818)</u>
Excess of Revenues Over Expenditures	550,000	550,000	715,873	165,873
Other Financing Uses				
Transfers out	<u>(550,000)</u>	<u>(550,000)</u>	<u>(1,232,000)</u>	<u>(682,000)</u>
Net Change in Fund Balances	-	-	(516,127)	(516,127)
Fund Balances, January 1	<u>3,628,246</u>	<u>3,628,246</u>	<u>3,628,246</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 3,628,246</u>	<u>\$ 3,628,246</u>	<u>\$ 3,112,119</u>	<u>\$ (516,127)</u>

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, 2018

	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	\$ 119,750	\$ 217,245	\$ 189,687	\$ 526,682	\$ 1,314,589
Receivables					
Special assessments	1,762	1,762	-	3,524	-
Accounts	9,358	10,750	-	20,108	-
Total Current Assets	<u>130,870</u>	<u>229,757</u>	<u>189,687</u>	<u>550,314</u>	<u>1,314,589</u>
Noncurrent Assets					
Capital assets					
Land	-	-	30,000	30,000	-
Buildings and structures	-	-	1,541,440	1,541,440	-
Machinery and equipment	-	-	158,237	158,237	4,040,155
Infrastructure	8,027,491	8,775,139	-	16,802,630	-
Less accumulated depreciation	<u>(1,595,960)</u>	<u>(1,510,315)</u>	<u>(1,285,032)</u>	<u>(4,391,307)</u>	<u>(1,921,070)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>6,431,531</u>	<u>7,264,824</u>	<u>444,645</u>	<u>14,141,000</u>	<u>2,119,085</u>
Total Assets	<u>6,562,401</u>	<u>7,494,581</u>	<u>634,332</u>	<u>14,691,314</u>	<u>3,433,674</u>
Liabilities					
Current Liabilities					
Accounts payable	2,985	-	12,422	15,407	37,423
Due to other governments	-	394	-	394	-
Compensated absences payable - current portion	-	-	-	-	158,025
Unearned revenue	-	-	16,272	16,272	-
Total Current Liabilities	<u>2,985</u>	<u>394</u>	<u>28,694</u>	<u>32,073</u>	<u>195,448</u>
Noncurrent Liabilities					
Compensated absences payable - noncurrent portion	-	-	-	-	14,609
Loan payable - noncurrent portion	-	703,384	-	703,384	-
Total Noncurrent Liabilities	<u>-</u>	<u>703,384</u>	<u>-</u>	<u>703,384</u>	<u>14,609</u>
Total Liabilities	<u>2,985</u>	<u>703,778</u>	<u>28,694</u>	<u>735,457</u>	<u>210,057</u>
Net Position					
Net investment in capital assets	6,431,531	6,561,440	444,645	13,437,616	2,119,085
Unrestricted	<u>127,885</u>	<u>229,363</u>	<u>160,993</u>	<u>518,241</u>	<u>1,104,532</u>
Total Net Position	<u>\$ 6,559,416</u>	<u>\$ 6,790,803</u>	<u>\$ 605,638</u>	<u>\$ 13,955,857</u>	<u>\$ 3,223,617</u>

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of East Bethel, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2018

	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	\$ -	\$ -	\$ 177,917	\$ 177,917	\$ -
Rentals, signs, lockers and tower	-	-	9,000	9,000	-
Dry floor events	-	-	9,045	9,045	-
Concession revenue	-	-	2,207	2,207	-
Charges for services	103,602	120,811	-	224,413	295,840
Total Operating Revenues	<u>103,602</u>	<u>120,811</u>	<u>198,169</u>	<u>422,582</u>	<u>295,840</u>
Operating Expenses					
Personnel services	-	-	-	-	14,840
Repairs and maintenance	7,032	6,775	58,287	72,094	-
Utilities	24,717	3,094	47,495	75,306	-
Professional services	620	26,153	84,655	111,428	-
Supplies	11,525	150	5,528	17,203	-
Other services and charges	26,751	22,462	1,097	50,310	-
Depreciation	262,872	279,417	59,930	602,219	331,179
Total Operating Expenses	<u>333,517</u>	<u>338,051</u>	<u>256,992</u>	<u>928,560</u>	<u>346,019</u>
Operating Loss	<u>(229,915)</u>	<u>(217,240)</u>	<u>(58,823)</u>	<u>(505,978)</u>	<u>(50,179)</u>
Nonoperating Revenues (Expenses)					
Gain on sale of capital assets	-	-	-	-	54,971
Interest on investments	869	2,069	2,140	5,078	19,918
Financing charge	-	(228,257)	-	(228,257)	-
Total Nonoperating Revenues (Expenses)	<u>869</u>	<u>(226,188)</u>	<u>2,140</u>	<u>(223,179)</u>	<u>74,889</u>
Income (Loss) Before Contributions	<u>(229,046)</u>	<u>(443,428)</u>	<u>(56,683)</u>	<u>(729,157)</u>	<u>24,710</u>
Capital Contributions	<u>76,500</u>	<u>107,624</u>	<u>-</u>	<u>184,124</u>	<u>-</u>
Change in Net Position	<u>(152,546)</u>	<u>(335,804)</u>	<u>(56,683)</u>	<u>(545,033)</u>	<u>24,710</u>
Net Position, January 1	<u>6,711,962</u>	<u>7,126,607</u>	<u>662,321</u>	<u>14,500,890</u>	<u>3,198,907</u>
Net Position, December 31	<u>\$ 6,559,416</u>	<u>\$ 6,790,803</u>	<u>\$ 605,638</u>	<u>\$ 13,955,857</u>	<u>\$ 3,223,617</u>

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, 2018

	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	\$ 102,140	\$ 121,701	\$ 212,137	\$ 435,978	\$ -
Receipts from interfund services provided	-	-	-	-	295,840
Payments to suppliers	(75,922)	(58,578)	(195,235)	(329,735)	37,423
Payments to employees	-	-	-	-	(2,233)
Net Cash Provided (Used) by Operating Activities	<u>26,218</u>	<u>63,123</u>	<u>16,902</u>	<u>106,243</u>	<u>331,030</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition of capital assets	(6,249)	-	-	(6,249)	(356,537)
Connection fees received	76,500	107,624	-	184,124	-
Proceeds from sale of capital assets	-	-	-	-	54,971
Principal paid on bonds payable	-	(26,153)	-	(26,153)	-
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>70,251</u>	<u>81,471</u>	<u>-</u>	<u>151,722</u>	<u>(301,566)</u>
Cash Flows from Investing Activities					
Interest received on investments	<u>869</u>	<u>2,069</u>	<u>2,140</u>	<u>5,078</u>	<u>19,918</u>
Net Increase (Decrease) in Cash and Cash Equivalents	97,338	146,663	19,042	263,043	49,382
Cash and Cash Equivalents, January 1	<u>22,412</u>	<u>70,582</u>	<u>170,645</u>	<u>263,639</u>	<u>1,265,207</u>
Cash and Cash Equivalents, December 31	<u>\$ 119,750</u>	<u>\$ 217,245</u>	<u>\$ 189,687</u>	<u>\$ 526,682</u>	<u>\$ 1,314,589</u>

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, 2018

	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	\$ (229,915)	\$ (217,240)	\$ (58,823)	\$ (505,978)	\$ (50,179)
Adjustments to reconcile operating loss to net cash provided (used) operating activities					
Depreciation expense	262,872	279,417	59,930	602,219	331,179
(Increase) decrease in assets					
Accounts receivable	(1,622)	730	-	(892)	-
Special assessments receivable	160	160	-	320	-
Increase (decrease) in liabilities					
Accounts payable	(5,277)	56	1,827	(3,394)	37,423
Accrued salaries/compensated absences payable	-	-	-	-	12,607
Unearned revenue	-	-	13,968	13,968	-
 Net Cash Provided (Used) by Operating Activities	 <u>\$ 26,218</u>	 <u>\$ 63,123</u>	 <u>\$ 16,902</u>	 <u>\$ 106,243</u>	 <u>\$ 331,030</u>
 Noncash Investing, Capital and Financing Activities					
Financing charge	<u>\$ -</u>	<u>\$ 228,257</u>	<u>\$ -</u>	<u>\$ 228,257</u>	<u>\$ -</u>

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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

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.

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.

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* is used to account for the costs associated with the street projects completed within the City.

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.

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. 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 54 and are valued using quoted market prices (Level 1 inputs).

The City has the following recurring fair value measurements as of December 31, 2018:

- Negotiable certificates of deposits of \$2,259,585 are valued using quoted market prices (Level 2 inputs)

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

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 2018. 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. Donated capital assets are recorded at acquisition value at the date of donation. 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, 2018, 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, 2018

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.

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 for taxes and assessments. The governmental funds report unavailable revenues from two sources: taxes, 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.

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 2018.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General Fund	\$ 4,771,100	\$ 4,777,918	\$ 6,818
Special Revenue - Nonmajor Funds			
Recycling Fund	53,800	98,599	44,799
HRA Fund	26,600	31,886	5,286

These excess expenditures were funded by excess fund balance and greater than anticipated revenues.

Note 2: Stewardship, Compliance and Accountability (Continued)

C. Deficit Fund Balance

For the year ended December 31, 2018, the Municipal State Aid Street Improvement fund had a fund deficit of \$63,258. This fund deficit will be eliminated with future MSA monies.

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 \$238,115 and the bank balance was \$279,802. Of the bank balance, \$279,802 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, 2018

Note 3: Detailed Notes on All Funds (Continued)

Investments

As of December 31, 2018, 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	\$ 3,777,576	\$ -	\$ -	\$ -
4MP Fund	N/A	less than 6 months	1,212,379	-	-	-
Non-pooled Investments at Fair Value						
Negotiable certificates of deposits	N/A	less than 6 months	400,000	-	400,000	-
Negotiable certificates of deposits	N/A	6 months to 1 year	1,386,185	-	1,386,185	-
Negotiable certificates of deposits	N/A	1 to 3 years	473,400	-	473,400	-
Total Investments			\$ 7,249,540	\$ -	\$ 2,259,585	\$ -

(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 48 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	\$ 238,115
Investments	7,249,540
Cash on Hand	<u>150</u>
Total	<u>\$ 7,487,805</u>

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decrease	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 887,546	\$ 167,571	\$ -	\$ 1,055,117
Construction in progress	2,940,301	1,231,761	(40,051)	4,132,011
Total Capital Assets not being Depreciated	<u>3,827,847</u>	<u>1,399,332</u>	<u>(40,051)</u>	<u>5,187,128</u>
Capital Assets being Depreciated				
Buildings and improvements	5,650,819	12,674	-	5,663,493
Park improvements	1,543,717	79,998	-	1,623,715
Machinery and equipment	4,755,496	356,537	(401,097)	4,710,936
Streets	53,885,049	157,489	-	54,042,538
Storm sewers	2,057,102	-	-	2,057,102
Total Capital Assets being Depreciated	<u>67,892,183</u>	<u>606,698</u>	<u>(401,097)</u>	<u>68,097,784</u>
Less Accumulated Depreciation for				
Buildings and improvements	(3,383,539)	(209,247)	-	(3,592,786)
Park improvements	(892,843)	(74,667)	-	(967,510)
Machinery and equipment	(2,507,403)	(361,013)	401,096	(2,467,320)
Streets	(35,270,133)	(1,927,575)	-	(37,197,708)
Storm sewers	(1,115,864)	(60,361)	-	(1,176,225)
Total Accumulated Depreciation	<u>(43,169,782)</u>	<u>(2,632,863)</u>	<u>401,096</u>	<u>(45,401,549)</u>
Total Capital Assets being Depreciated, Net	<u>24,722,401</u>	<u>(2,026,165)</u>	<u>(802,193)</u>	<u>22,696,235</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,550,248</u>	<u>\$ (626,833)</u>	<u>\$ (842,244)</u>	<u>\$ 27,883,363</u>

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

Governmental Activities	
General government	\$ 131,827
Public safety	112,524
Public works	1,960,078
Culture and recreation	97,255
Depreciation on capital assets held by governmental internal service activities charged to each function based on use	<u>331,179</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,632,863</u>

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decrease	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital Assets being Depreciated				
Buildings and improvements	1,541,440	-	-	1,541,440
Machinery and equipment	158,237	6,249	-	164,486
Infrastructure	16,796,381	-	-	16,796,381
Total Capital Assets being Depreciated	<u>18,496,058</u>	<u>6,249</u>	<u>-</u>	<u>18,502,307</u>
Less Accumulated Depreciation for				
Buildings and improvements	(1,205,396)	(44,107)	-	(1,249,503)
Machinery and equipment	(19,706)	(15,823)	-	(35,529)
Infrastructure	(2,563,986)	(542,289)	-	(3,106,275)
Total Accumulated Depreciation	<u>(3,789,088)</u>	<u>(602,219)</u>	<u>-</u>	<u>(4,391,307)</u>
Total Capital Assets being Depreciated, Net	<u>14,706,970</u>	<u>(595,970)</u>	<u>-</u>	<u>14,111,000</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,736,970</u>	<u>\$ (595,970)</u>	<u>\$ -</u>	<u>\$ 14,141,000</u>

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

Business-type Activities		
Water utility		\$ 262,872
Sewer utility		279,417
Ice Arena		<u>59,930</u>
Total Depreciation Expense - Business-type Activities		<u>\$ 602,219</u>

Construction Commitments

The City has active construction projects as of December 31, 2018. The projects include various street and road improvements and public facilities projects. At year end the City's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
189th Avenue Street Reconstruction/Utility Expansion	<u>\$ 29,033</u>	<u>\$ 416,622</u>

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

C. Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2018 is as follows:

Fund	Transfer in		Total
	Street Capital Fund	Nonmajor Governmental Funds	
Transfer Out General	\$ 1,107,000	\$ 125,000	\$ 1,232,000

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

D. 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. Public Safety Bonds, Series 2013A	\$ 1,250,000	3.00 %	11/13/2013	2/1/2026	\$ 900,000

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 100,000	\$ 25,500	\$ 125,500
2020	100,000	22,500	122,500
2021	110,000	19,350	129,350
2022	110,000	16,050	126,050
2023	115,000	12,675	127,675
2024 - 2026	365,000	16,575	381,575
Total	\$ 900,000	\$ 112,650	\$ 1,012,650

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

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.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue Bonds, Series 2008A	\$ 1,715,000	3.00 - 4.70 %	5/1/2008	2/1/2029	\$ 550,000
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>11,445,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 17,480,000</u></u>

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

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 510,000	\$ 587,485	\$ 1,097,485
2020	525,000	569,085	1,094,085
2021	435,000	551,935	986,935
2022	375,000	537,525	912,525
2023	360,000	524,680	884,680
2024 - 2028	2,635,000	2,395,438	5,030,438
2029 - 2033	4,570,000	1,830,413	6,400,413
2034 - 2038	5,620,000	947,447	6,567,447
2039 - 2040	<u>2,450,000</u>	<u>89,512</u>	<u>2,539,512</u>
Total	<u><u>\$ 17,480,000</u></u>	<u><u>\$ 8,033,520</u></u>	<u><u>\$ 25,513,520</u></u>

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. The balance at December 31, 2018 totaled \$703,384.

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. improvement bonds	\$ 995,000	\$ -	\$ (95,000)	\$ 900,000	\$ 100,000
G.O. revenue bonds	17,745,000	-	(265,000)	17,480,000	510,000
Total Bonds Payable	<u>18,740,000</u>	-	<u>(360,000)</u>	<u>18,380,000</u>	<u>610,000</u>
Pension Liability	1,193,796	-	(150,849)	1,042,947	-
Compensated Absences	<u>160,027</u>	<u>170,632</u>	<u>(158,025)</u>	<u>172,634</u>	<u>158,025</u>
Total Governmental Activity					
Long-term Debt	<u>\$ 20,093,823</u>	<u>\$ 170,632</u>	<u>\$ (668,874)</u>	<u>\$ 19,595,581</u>	<u>\$ 768,025</u>
Business-type Activities					
Loan payable	<u>\$ 501,280</u>	<u>\$ 228,256</u>	<u>\$ (26,152)</u>	<u>\$ 703,384</u>	<u>\$ -</u>

E. Components of Fund Balance

At December 31, 2018, 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					
Restricted					
Debt service	\$ -	\$ 1,062,835	\$ -	\$ -	\$ 1,062,835
Recycling	-	-	-	30,700	30,700
Housing and redevelopment authority	-	-	-	131,912	131,912
Economic development authority	-	-	-	165,529	165,529
Park development	-	-	-	75,472	75,472
Total Restricted	<u>\$ -</u>	<u>\$ 1,062,835</u>	<u>\$ -</u>	<u>\$ 403,613</u>	<u>\$ 1,466,448</u>
Assigned to					
Park capital projects	\$ -	\$ -	\$ -	\$ 67,459	\$ 67,459
Street capital projects	-	-	387,362	81,274	468,636
Other capital projects	-	-	-	216,729	216,729
Total Assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 387,362</u>	<u>\$ 365,462</u>	<u>\$ 752,824</u>

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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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. 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 members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

C. Contributions

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

GERF Contributions

Plan members were required to contribute 6.50 percent of their annual covered salary and the City was required to contribute 7.50 percent of pay for Coordinated Plan members in fiscal year 2018. City's contributions to the GERF for the year ending December 31, 2018, 2017 and 2016 were \$95,295, \$91,668 and \$90,070, respectively. 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, 2018

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

D. Pension Costs

GERF Pension Costs

At December 31, 2018, the City reported a liability of \$1,042,947 for its proportionate share of the GERF'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 2018. 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 \$34,181. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0188 percent which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2017.

City's Proportionate Share of the Net Pension Liability	
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	\$ 1,042,947
	<u>34,181</u>
Total	<u>\$ 1,077,128</u>

For the year ended December 31, 2018, the City recognized pension expense of (\$74,594) for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$7,714 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERF.

At December 31, 2018, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 27,534	\$ 30,741
Changes in Actuarial Assumptions	99,320	117,186
Net Difference Between Projected and Actual Earnings on Plan Investments	-	104,034
Changes in Proportion	15,899	27,439
Contributions to GERF Subsequent to the Measurement Date	<u>47,110</u>	<u>-</u>
Total	<u>\$ 189,863</u>	<u>\$ 279,400</u>

Deferred outflows of resources totaling \$47,110 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2019	\$ 35,498
2020	(67,821)
2021	(82,567)
2022	(21,757)

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2018 was \$59,012.

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% 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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for GERF.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the GERF plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

GERF

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	36.00 %	5.10 %
International Stocks	17.00	5.30
Bonds (Fixed Income)	20.00	0.75
Alternative Assets (Private Markets)	25.00	5.90
Cash	2.00	-
Total	100.00 %	

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net 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	\$ 1,694,922	\$ 1,042,947

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, 2018, the plan covered 32 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, 2018

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 \$64,229 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2018, 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, 2018 was \$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, 2018, the City reported a net pension asset of \$410,690 for the plan. The net pension asset was measured as of December 31, 2018. 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, 2018. 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)
Beginning Balance January 1, 2018	\$ 1,405,785	\$ 1,985,599	\$ (579,814)
Changes for the Year			
Service cost	56,769	-	56,769
Interest on pension liability (asset)	94,644	-	94,644
Differences between expected and actual experience	-	-	-
Changes of assumptions	(7,477)	-	(7,477)
Contributions (State)	-	78,229	(78,229)
Net investment income	-	(95,247)	95,247
Benefit payouts	(13,000)	(13,000)	-
Administrative costs	-	(8,170)	8,170
Total Net Changes	130,936	(38,188)	169,124
Ending Balance December 31, 2018	\$ 1,536,721	\$ 1,947,411	\$ (410,690)

For the year ended December 31, 2018, the City recognized pension expense of \$133,603.

City of East Bethel, Minnesota
Notes to the Financial Statements
December 31, 2018

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

At December 31, 2018, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 42,261
Changes in Actuarial Assumptions	5,245	26,027
Net Difference Between Projected and Actual Earnings on Plan Investments	115,168	-
Total	\$ 120,413	\$ 68,288

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

2019	\$ 27,517
2020	4,545
2021	8,341
2022	35,129
2023	(9,909)
Thereafter	(13,498)

E. Actuarial Assumptions

The total pension liability at December 31, 2018 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement Eligibility at 50 Percent of Age 50, 20 Percent at Ages 51-54 and 100 Percent at Age 55	
Inflation rate	2.75% per year
Cost of Living Increases	3.00% per year
Investment Rate of Return	6.75%
20 Year Municipal Bond Yield	3.71%

In 2018, actuarial assumptions changed by increasing the investment rate of return from 6.50 percent to 6.75 percent.

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, 2018

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	53.00 %	4.95 %
International Equity	17.00	5.24
Fixed Income	26.00	1.99
Real estate	-	4.19
Cash	<u>4.00</u>	0.58
 Total	 <u><u>100.00 %</u></u>	

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:

	<u>1 Percent Decrease (5.75%)</u>	<u>Current (6.75%)</u>	<u>1 Percent Increase (7.75%)</u>
Defined Benefit Plan	<u>\$ (380,301)</u>	<u>(\$410,690)</u>	<u>\$ (439,733)</u>

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, 2018

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, 2018.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

City of East Bethel, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2018

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Retirement Fund

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
06/30/18	0.018800 %	\$ 1,042,947	\$ 34,181	\$ 1,077,128	\$ 1,261,833	82.7 %	79.5 %
06/30/17	0.018700	1,193,796	15,026	1,208,822	1,222,240	97.7	75.9
06/30/16	0.019600	1,591,423	20,831	1,612,254	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

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)
12/31/18	\$ 95,295	\$ 95,295	\$ -	\$ 1,270,600	7.5 %
12/31/17	91,668	91,668	-	1,222,240	7.5
12/31/16	90,070	90,070	-	1,200,933	7.5
12/31/15	89,225	89,225	-	1,189,667	8.0

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, 2018

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - 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.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of East Bethel, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2018

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2018 (Fire Relief Report Date 2018)	2017 (Fire Relief Report Date 2017)	2016 (Fire Relief Report Date 2016)	2015 (Fire Relief Report Date 2015)
Total Pension Liability				
Service cost	\$ 56,769	\$ 59,100	\$ 68,319	\$ 62,875
Interest on pension liability (asset)	94,644	94,271	84,026	81,913
Changes of benefit terms	-	37,036	9,614	-
Differences between expected and actual experience	-	(54,839)	-	-
Changes of assumptions	(7,477)	6,807	(29,843)	-
Benefit payments	(13,000)	(148,200)	(227,000)	-
Net Change in Total Pension Liability	<u>130,936</u>	<u>(5,825)</u>	<u>(94,884)</u>	<u>144,788</u>
Total Pension Liability - January 1	<u>1,405,785</u>	<u>1,411,610</u>	<u>1,506,494</u>	<u>1,361,706</u>
Total Pension Liability - December 31 (a)	<u>\$ 1,536,721</u>	<u>\$ 1,405,785</u>	<u>\$ 1,411,610</u>	<u>\$ 1,506,494</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000
Nonemployer contributions	64,229	62,446	62,370	59,194
Projected investment return	(95,247)	247,596	119,082	(9,494)
Benefit payments	(13,000)	(148,200)	(227,000)	-
Administrative expenses	(8,170)	(7,075)	(8,800)	(4,575)
Net Change in Plan Fiduciary Net Position	<u>(38,188)</u>	<u>168,767</u>	<u>(40,348)</u>	<u>59,125</u>
Plan Fiduciary Net Position - January 1	<u>1,985,599</u>	<u>1,816,832</u>	<u>1,857,180</u>	<u>1,798,055</u>
Plan Fiduciary Net Position - December 31 (b)	<u>\$ 1,947,411</u>	<u>\$ 1,985,599</u>	<u>\$ 1,816,832</u>	<u>\$ 1,857,180</u>
Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	<u>\$ (410,690)</u>	<u>\$ (579,814)</u>	<u>\$ (405,222)</u>	<u>\$ (350,686)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	126.73%	141.24%	128.71%	123.28%
Covered-employee Payroll	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll	N/A	N/A	N/A	N/A

Notes to Schedule:

Benefit Changes. In 2017, 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. The expected investment return and discount rate increased from 6.50% to 6.75% to reflect updated capital market. The mortality and withdrawal assumption were updated from the rates used in the July 1, 2016 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2017 Minnesota PERA Police & Fire Plan actuarial valuation.

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, 2018

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/18	\$ 78,229	\$ 78,229	\$ -
12/31/17	76,446	76,446	-
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

THIS PAGE IS LEFT
BLANK INTENTIONALLY

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

City of East Bethel, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2018

	Special Revenue	Capital Projects	Total
Assets			
Cash and investments	\$ 304,159	\$ 416,337	\$ 720,496
Receivables			
Taxes	5,149	-	5,149
Special assessments	7,361	-	7,361
Due from other governments	39,914	-	39,914
	<u>\$ 356,583</u>	<u>\$ 416,337</u>	<u>\$ 772,920</u>
Liabilities			
Accounts and contracts payable	\$ 26,981	\$ 29,633	\$ 56,614
Deferred Inflows of Resources			
Unavailable revenue - property taxes	3,128	-	3,128
Unavailable revenue - special assessments	7,361	-	7,361
Total Deferred Inflows of Resources	<u>10,489</u>	<u>-</u>	<u>10,489</u>
Fund Balances			
Restricted	319,113	84,500	403,613
Assigned	-	365,462	365,462
Unassigned	-	(63,258)	(63,258)
Total Fund Balances	<u>319,113</u>	<u>386,704</u>	<u>705,817</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances			
	<u>\$ 356,583</u>	<u>\$ 416,337</u>	<u>\$ 772,920</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, 2018

	Special Revenue	Capital Projects	Total
Revenues			
Taxes	\$ 149,140	\$ 48,418	\$ 197,558
Intergovernmental	74,093	585,021	659,114
Special assessments	3,903	-	3,903
Charges for services	-	51,000	51,000
Interest on investments	3,161	6,500	9,661
Miscellaneous	2,108	-	2,108
Total Revenues	<u>232,405</u>	<u>690,939</u>	<u>923,344</u>
Expenditures			
Current			
General government	-	12,674	12,674
Public works	98,599	-	98,599
Housing and economic development	142,835	-	142,835
Capital outlay			
Public works	2,181	16,813	18,994
Culture and recreation	-	103,035	103,035
Housing and economic development	-	46,400	46,400
Total Expenditures	<u>243,615</u>	<u>178,922</u>	<u>422,537</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,210)	512,017	500,807
Other Financing Sources			
Transfers in	-	125,000	125,000
Net Changes in Fund Balances	(11,210)	637,017	625,807
Fund Balance, January 1	<u>330,323</u>	<u>(250,313)</u>	<u>80,010</u>
Fund Balance, December 31	<u>\$ 319,113</u>	<u>\$ 386,704</u>	<u>\$ 705,817</u>

City of East Bethel, Minnesota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2018

	226 Recycling	230 HRA	232 EDA	Total
Assets				
Cash and investments	\$ (5,010)	\$ 153,763	\$ 155,406	\$ 304,159
Receivables				
Taxes	-	1,521	3,628	5,149
Special assessments	-	-	7,361	7,361
Due from other governments	39,914	-	-	39,914
	<u>34,904</u>	<u>155,284</u>	<u>166,395</u>	<u>356,583</u>
Total Assets	<u>\$ 34,904</u>	<u>\$ 155,284</u>	<u>\$ 166,395</u>	<u>\$ 356,583</u>
Liabilities				
Accounts payable	\$ 4,204	\$ 22,522	\$ 255	\$ 26,981
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	850	2,278	3,128
Unavailable revenue - special assessments	-	-	7,361	7,361
Total Deferred Inflows of Resources	<u>-</u>	<u>850</u>	<u>9,639</u>	<u>10,489</u>
Fund Balances				
Restricted	30,700	131,912	156,501	319,113
	<u>30,700</u>	<u>131,912</u>	<u>156,501</u>	<u>319,113</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 34,904</u>	<u>\$ 155,284</u>	<u>\$ 166,395</u>	<u>\$ 356,583</u>

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, 2018

	226 Recycling	230 HRA	232 EDA	Total
Revenues				
Taxes	\$ -	\$ 51,514	\$ 97,626	\$ 149,140
Intergovernmental	74,093	-	-	74,093
Special assessments	-	-	3,903	3,903
Interest on investments	320	1,393	1,448	3,161
Miscellaneous	2,108	-	-	2,108
Total Revenues	<u>76,521</u>	<u>52,907</u>	<u>102,977</u>	<u>232,405</u>
Expenditures				
Current				
Public works	98,599	-	-	98,599
Housing and economic development	-	29,705	113,130	142,835
Capital outlay				
Public works	-	2,181	-	2,181
Total Expenditures	<u>98,599</u>	<u>31,886</u>	<u>113,130</u>	<u>243,615</u>
Net Change in Fund Balances	(22,078)	21,021	(10,153)	(11,210)
Fund Balances, January 1	<u>52,778</u>	<u>110,891</u>	<u>166,654</u>	<u>330,323</u>
Fund Balances, December 31	<u>\$ 30,700</u>	<u>\$ 131,912</u>	<u>\$ 156,501</u>	<u>\$ 319,113</u>

THIS PAGE IS LEFT
BLANK INTENTIONALLY

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, 2018
 (With Comparative Totals for the Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Intergovernmental	\$ 51,400	\$ 51,400	\$ 74,093	\$ 22,693	\$ 131,638
Interest on investments	-	-	320	320	183
Miscellaneous	2,400	2,400	2,108	(292)	1,903
Total Revenues	<u>53,800</u>	<u>53,800</u>	<u>76,521</u>	<u>22,721</u>	<u>133,724</u>
Expenditures					
Current					
Public works	53,800	53,800	98,599	(44,799)	134,734
Net Change in Fund Balances	-	-	(22,078)	(22,078)	(1,010)
Fund Balances, January 1	<u>52,778</u>	<u>52,778</u>	<u>52,778</u>	<u>-</u>	<u>53,788</u>
Fund Balances, December 31	<u><u>\$ 52,778</u></u>	<u><u>\$ 52,778</u></u>	<u><u>\$ 30,700</u></u>	<u><u>\$ (22,078)</u></u>	<u><u>\$ 52,778</u></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, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 51,600	\$ 51,600	\$ 51,514	\$ (86)	\$ 36,328
Interest on investments	-	-	1,393	1,393	2,728
Total Revenues	<u>51,600</u>	<u>51,600</u>	<u>52,907</u>	<u>1,307</u>	<u>39,056</u>
Expenditures					
Current					
Housing and economic development	26,600	26,600	29,705	(3,105)	30,831
Capital outlay					
Public works	-	-	2,181	(2,181)	621,901
Total Expenditures	<u>26,600</u>	<u>26,600</u>	<u>31,886</u>	<u>(5,286)</u>	<u>652,732</u>
Net Change in Fund Balances	25,000	25,000	21,021	(3,979)	(613,676)
Fund Balances, January 1	<u>110,891</u>	<u>110,891</u>	<u>110,891</u>	-	<u>724,567</u>
Fund Balances, December 31	<u>\$ 135,891</u>	<u>\$ 135,891</u>	<u>\$ 131,912</u>	<u>\$ (3,979)</u>	<u>\$ 110,891</u>

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, 2018
 (With Comparative Totals for the Year Ended December 31, 2017)

	2018				2017
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Revenues					
Property taxes	\$ 97,500	\$ 97,500	\$ 97,626	\$ 126	\$ 97,669
Special assessments	4,000	4,000	3,903	(97)	4,029
Interest on investments	-	-	1,448	1,448	851
Total Revenues	<u>101,500</u>	<u>101,500</u>	<u>102,977</u>	<u>1,477</u>	<u>102,549</u>
Expenditures					
Current					
Housing and economic development	<u>120,600</u>	<u>120,600</u>	<u>113,130</u>	<u>7,470</u>	<u>75,026</u>
Net Change in Fund Balances	(19,100)	(19,100)	(10,153)	8,947	27,523
Fund Balances, January 1	<u>166,654</u>	<u>166,654</u>	<u>166,654</u>	<u>-</u>	<u>139,131</u>
Fund Balances, December 31	<u>\$ 147,554</u>	<u>\$ 147,554</u>	<u>\$ 156,501</u>	<u>\$ 8,947</u>	<u>\$ 166,654</u>

City of East Bethel, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2018

	402	404	411	407
	Municipal State Aid Street Improvement	Park Acquisition	Minard Street	Park Capital
	<u>\$ (33,625)</u>	<u>\$ 75,472</u>	<u>\$ 81,274</u>	<u>\$ 67,459</u>
Assets				
Cash and investments	<u>\$ (33,625)</u>	<u>\$ 75,472</u>	<u>\$ 81,274</u>	<u>\$ 67,459</u>
Liabilities				
Accounts and contracts payable	<u>\$ 29,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances				
Restricted	-	75,472	-	-
Assigned	-	-	81,274	67,459
Unassigned	<u>(63,258)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>(63,258)</u>	<u>75,472</u>	<u>81,274</u>	<u>67,459</u>
 Total Liabilities and Fund Balance	 <u>\$ (33,625)</u>	 <u>\$ 75,472</u>	 <u>\$ 81,274</u>	 <u>\$ 67,459</u>

401	435	
Building	TIF No. 1-1	Total
<u>\$ 216,729</u>	<u>\$ 9,028</u>	<u>\$ 416,337</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,633</u>
-	9,028	84,500
216,729	-	365,462
<u>-</u>	<u>-</u>	<u>(63,258)</u>
<u>216,729</u>	<u>9,028</u>	<u>386,704</u>
<u>\$ 216,729</u>	<u>\$ 9,028</u>	<u>\$ 416,337</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, 2018

	402	404	411	407
	Municipal State Aid Street Improvement	Park Acquisition	Minard Street	Park Capital
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	585,021	-	-	-
Charges for services	-	33,000	18,000	-
Interest on investments	19	805	1,016	1,481
Total Revenues	<u>585,040</u>	<u>33,805</u>	<u>19,016</u>	<u>1,481</u>
Expenditures				
Current				
General government	-	-	-	-
Capital outlay				
Public works	16,813	-	-	-
Culture and recreation	-	-	-	103,035
Housing and economic development	-	-	-	-
Total Expenditures	<u>16,813</u>	<u>-</u>	<u>-</u>	<u>103,035</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	568,227	33,805	19,016	(101,554)
Other Financing Sources				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Net Change in Fund Balances	568,227	33,805	19,016	(26,554)
Fund Balances, January 1	<u>(631,485)</u>	<u>41,667</u>	<u>62,258</u>	<u>94,013</u>
Fund Balances, December 31	<u>\$ (63,258)</u>	<u>\$ 75,472</u>	<u>\$ 81,274</u>	<u>\$ 67,459</u>

401	435	
Building	TIF No. 1-1	Total
\$ -	\$ 48,418	\$ 48,418
-	-	585,021
-	-	51,000
3,047	132	6,500
<u>3,047</u>	<u>48,550</u>	<u>690,939</u>
12,674	-	12,674
-	-	16,813
-	-	103,035
-	46,400	46,400
<u>12,674</u>	<u>46,400</u>	<u>178,922</u>
(9,627)	2,150	512,017
<u>50,000</u>	<u>-</u>	<u>125,000</u>
40,373	2,150	637,017
<u>176,356</u>	<u>6,878</u>	<u>(250,313)</u>
<u>\$ 216,729</u>	<u>\$ 9,028</u>	<u>\$ 386,704</u>

THIS PAGE IS LEFT
BLANK INTENTIONALLY

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, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018			Variance with Final Budget	2017
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Revenue					
Taxes					
Property	\$ 4,320,700	\$ 4,320,700	\$ 4,333,502	\$ 12,802	\$ 4,172,254
Franchise	60,000	60,000	67,741	7,741	64,960
Gambling	25,000	25,000	42,652	17,652	35,084
Total taxes	<u>4,405,700</u>	<u>4,405,700</u>	<u>4,443,895</u>	<u>38,195</u>	<u>4,272,298</u>
Licenses and permits					
Business	34,900	34,900	38,513	3,613	34,993
Nonbusiness	214,500	214,500	270,029	55,529	389,475
Total licenses and permits	<u>249,400</u>	<u>249,400</u>	<u>308,542</u>	<u>59,142</u>	<u>424,468</u>
Intergovernmental					
State					
Local government aid	19,500	19,500	19,643	143	32,880
MSA	200,000	200,000	202,666	2,666	189,122
Agricultural market value credit	7,000	7,000	5,634	(1,366)	7,173
PERA	2,000	2,000	2,123	123	2,123
Fire aid	67,000	67,000	72,031	5,031	73,682
Total intergovernmental	<u>295,500</u>	<u>295,500</u>	<u>302,097</u>	<u>6,597</u>	<u>304,980</u>
Charges for services	<u>300,500</u>	<u>300,500</u>	<u>348,178</u>	<u>47,678</u>	<u>271,139</u>
Fines and forfeitures	<u>45,000</u>	<u>45,000</u>	<u>35,497</u>	<u>(9,503)</u>	<u>37,961</u>
Interest on investments	<u>10,000</u>	<u>10,000</u>	<u>32,335</u>	<u>22,335</u>	<u>19,808</u>
Miscellaneous					
Refunds and reimbursements	<u>15,000</u>	<u>15,000</u>	<u>23,247</u>	<u>8,247</u>	<u>44,591</u>
Total Revenues	<u>5,321,100</u>	<u>5,321,100</u>	<u>5,493,791</u>	<u>172,691</u>	<u>5,375,245</u>
Expenditures					
Current					
General government					
Mayor and council					
Personnel services	31,400	31,400	31,401	(1)	31,397
Other services and charges	46,600	46,600	41,487	5,113	37,252
Total mayor and council	<u>78,000</u>	<u>78,000</u>	<u>72,888</u>	<u>5,112</u>	<u>68,649</u>
Elections					
Supplies	500	500	314	186	-
Other services and charges	14,400	14,400	12,277	2,123	2,689
Total elections	<u>14,900</u>	<u>14,900</u>	<u>12,591</u>	<u>2,309</u>	<u>2,689</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, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018			Variance with Final Budget	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
General government (continued)					
Planning and zoning					
Personnel services	\$ 227,900	\$ 227,900	\$ 167,810	\$ 60,090	\$ 161,734
Supplies	100	100	951	(851)	3,374
Other services and charges	40,900	40,900	33,366	7,534	42,734
Total planning and zoning	<u>268,900</u>	<u>268,900</u>	<u>202,127</u>	<u>66,773</u>	<u>207,842</u>
Administration/support					
Personnel services	573,100	573,100	577,875	(4,775)	536,041
Supplies	1,100	1,100	2,310	(1,210)	4,977
Other services and charges	80,600	80,600	73,887	6,713	76,643
Total administration/support	<u>654,800</u>	<u>654,800</u>	<u>654,072</u>	<u>728</u>	<u>617,661</u>
General government buildings					
Supplies	3,500	3,500	2,094	1,406	5,110
Other services and charges	38,200	38,200	35,671	2,529	30,910
Total general government buildings	<u>41,700</u>	<u>41,700</u>	<u>37,765</u>	<u>3,935</u>	<u>36,020</u>
Miscellaneous					
Contractual services	240,000	240,000	221,796	18,204	217,444
Total general government	<u>1,298,300</u>	<u>1,298,300</u>	<u>1,201,239</u>	<u>97,061</u>	<u>1,150,305</u>
Public safety					
Fire protection					
Personnel services	367,500	367,500	380,999	(13,499)	353,880
Supplies	64,200	64,200	47,780	16,420	72,137
Other services and charges	246,500	246,500	246,800	(300)	212,632
Total fire protection	<u>678,200</u>	<u>678,200</u>	<u>675,579</u>	<u>2,621</u>	<u>638,649</u>
Police protection					
Other services and charges	1,064,000	1,064,000	1,059,508	4,492	1,038,227
Building inspection					
Personnel services	252,600	252,600	256,774	(4,174)	262,167
Supplies	8,100	8,100	5,336	2,764	9,632
Other services and charges	15,300	15,300	16,371	(1,071)	14,826
Total building inspection	<u>276,000</u>	<u>276,000</u>	<u>278,481</u>	<u>(2,481)</u>	<u>286,625</u>
Total public safety	<u>2,018,200</u>	<u>2,018,200</u>	<u>2,013,568</u>	<u>4,632</u>	<u>1,963,501</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, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018			Variance with Final Budget	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public works					
Street maintenance					
Personnel services	\$ 506,900	\$ 506,900	\$ 484,671	\$ 22,229	\$ 449,500
Supplies	168,100	168,100	162,019	6,081	108,166
Other services and charges	248,100	248,100	247,765	335	232,855
Total public works	<u>923,100</u>	<u>923,100</u>	<u>894,455</u>	<u>28,645</u>	<u>790,521</u>
Culture and recreation					
Personnel services	349,800	349,800	316,167	33,633	325,848
Supplies	42,200	42,200	59,523	(17,323)	37,152
Other services and charges	47,000	47,000	44,177	2,823	40,276
Total culture and recreation	<u>439,000</u>	<u>439,000</u>	<u>419,867</u>	<u>19,133</u>	<u>403,276</u>
Miscellaneous					
Other services and charges	<u>92,500</u>	<u>92,500</u>	<u>81,218</u>	<u>11,282</u>	<u>76,655</u>
Total current	<u>4,771,100</u>	<u>4,771,100</u>	<u>4,610,347</u>	<u>160,753</u>	<u>76,655</u>
Capital outlay					
Public safety	<u>-</u>	<u>-</u>	<u>167,571</u>	<u>(167,571)</u>	<u>-</u>
Total Expenditures	<u>4,771,100</u>	<u>4,771,100</u>	<u>4,777,918</u>	<u>(6,818)</u>	<u>4,384,258</u>
Excess of Revenues Over Expenditures	550,000	550,000	715,873	165,873	990,987
Other Financing Uses					
Transfers out	<u>(550,000)</u>	<u>(550,000)</u>	<u>(1,232,000)</u>	<u>(682,000)</u>	<u>(544,968)</u>
Net Change in Fund Balances	-	-	(516,127)	(516,127)	446,019
Fund Balances, January 1	<u>3,628,246</u>	<u>3,628,246</u>	<u>3,628,246</u>	<u>-</u>	<u>3,182,227</u>
Fund Balances, December 31	<u>\$ 3,628,246</u>	<u>\$ 3,628,246</u>	<u>\$ 3,112,119</u>	<u>\$ (516,127)</u>	<u>\$ 3,628,246</u>

City of East Bethel, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2018

	301 2005/2013A Safety Bond	308 2008A Sewer Revenue Bond	310 2015A Revenue Bond	311 2014A G.O. Refunding Bond	Total
Assets					
Cash and investments	\$ 117,465	\$ 57,442	\$ 283,582	\$ 588,983	\$ 1,047,472
Receivables					
Taxes	5,444	6,266	17,552	11,502	40,764
Special assessments	-	100,000	115,911	-	215,911
Total Assets	\$ 122,909	\$ 163,708	\$ 417,045	\$ 600,485	\$ 1,304,147
Deferred Inflows of Resources					
Unavailable revenue - property taxes	\$ 3,649	\$ 3,927	\$ 10,625	\$ 7,200	\$ 25,401
Unavailable revenue - special assessments	-	100,000	115,911	-	215,911
Total Deferred Inflows of Resources	3,649	103,927	126,536	7,200	241,312
Fund Balances					
Restricted	119,260	59,781	290,509	593,285	1,062,835
Total Deferred Inflows of Resources and Fund Balances	\$ 122,909	\$ 163,708	\$ 417,045	\$ 600,485	\$ 1,304,147

City of East Bethel, Minnesota
Debt Service Funds
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2018

	301 2005/2013A Safety Bond	308 2008A Sewer Revenue Bond	310 2015A Revenue Bond	311 2014A G.O. Refunding Bond	Total
Revenues					
Property taxes	\$ 129,426	\$ 179,778	\$ 532,343	\$ 330,592	\$ 1,172,139
Special assessments	-	15,500	11,587	-	27,087
Interest on investments	623	114	828	5,811	7,376
Total Revenues	<u>130,049</u>	<u>195,392</u>	<u>544,758</u>	<u>336,403</u>	<u>1,206,602</u>
Expenditures					
Debt service					
Principal	95,000	155,000	110,000	-	360,000
Interest and other charges	29,700	26,910	389,775	188,950	635,335
Total Expenditures	<u>124,700</u>	<u>181,910</u>	<u>499,775</u>	<u>188,950</u>	<u>995,335</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,349	13,482	44,983	147,453	211,267
Fund Balances, January 1	<u>113,911</u>	<u>46,299</u>	<u>245,526</u>	<u>445,832</u>	<u>851,568</u>
Fund Balances, December 31	<u>\$ 119,260</u>	<u>\$ 59,781</u>	<u>\$ 290,509</u>	<u>\$ 593,285</u>	<u>\$ 1,062,835</u>

City of East Bethel, Minnesota
Internal Service Funds
Combining Statement of Net Position
December 31, 2018

	702	701	
	Compensated Absences	Equipment Replacement	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 176,627	\$ 1,137,962	\$ 1,314,589
Noncurrent Assets			
Capital assets			
Machinery and equipment	-	4,040,155	4,040,155
Less accumulated depreciation	-	(1,921,070)	(1,921,070)
Net Capital Assets	-	2,119,085	2,119,085
Total Assets	176,627	3,257,047	3,433,674
Liabilities			
Current Liabilities			
Accounts payable	-	37,423	37,423
Compensated absences payable - current portion	158,025	-	158,025
Total Current Liabilities	158,025	37,423	195,448
Noncurrent Liabilities			
Compensated absences payable - noncurrent portion	14,609	-	14,609
Total Liabilities	172,634	37,423	210,057
Net Position			
Investment in capital assets	-	2,119,085	2,119,085
Unrestricted	3,993	1,100,539	1,104,532
Total Net Position	\$ 3,993	\$ 3,219,624	\$ 3,223,617

City of East Bethel, Minnesota
Internal Service Funds
Combining Statement of Revenues, Expenses and
Changes in Net Position
For the Year Ended December 31, 2018

	702	701	
	Compensated Absences	Equipment Replacement	Total
Operating Revenues			
Charges for services			
Services to departments	\$ 14,840	\$ 281,000	\$ 295,840
Operating Expenses			
Personnel services	14,840	-	14,840
Depreciation	-	331,179	331,179
Total Operating Expenses	<u>14,840</u>	<u>331,179</u>	<u>346,019</u>
Operating Loss	<u>-</u>	<u>(50,179)</u>	<u>(50,179)</u>
Nonoperating Revenues			
Gain sale of capital assets	-	54,971	54,971
Interest on investments	2,233	17,685	19,918
Total Nonoperating Revenues	<u>2,233</u>	<u>72,656</u>	<u>74,889</u>
Change in Net Position	2,233	22,477	24,710
Net Position, January 1	<u>1,760</u>	<u>3,197,147</u>	<u>3,198,907</u>
Net Position, December 31	<u>\$ 3,993</u>	<u>\$ 3,219,624</u>	<u>\$ 3,223,617</u>

City of East Bethel, Minnesota
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended December 31, 2018

	702	701	
	Compensated Absences	Equipment Replacement	Total
Cash Flows from Operating Activities			
Receipts from interfund services provided	\$ 14,840	\$ 281,000	\$ 295,840
Payments to suppliers	-	37,423	37,423
Payments to employees	(2,233)	-	(2,233)
Net Cash Provided (Used) by Operating Activities	<u>12,607</u>	<u>318,423</u>	<u>331,030</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	-	(356,537)	(356,537)
Proceeds from sale of capital assets	-	54,971	54,971
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(301,566)</u>	<u>(301,566)</u>
Cash Flows from Investing Activities			
Interest received on investments	<u>2,233</u>	<u>17,685</u>	<u>19,918</u>
Net Increase in Cash and Cash Equivalents	14,840	34,542	49,382
Cash and Cash Equivalents, January 1	<u>161,787</u>	<u>1,103,420</u>	<u>1,265,207</u>
Cash and Cash Equivalents, December 31	<u>\$ 176,627</u>	<u>\$ 1,137,962</u>	<u>\$ 1,314,589</u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities			
Operating loss	\$ -	\$ (50,179)	\$ (50,179)
Adjustments to reconcile operating loss to net cash provided (used) operating activities			
Depreciation expense	-	331,179	331,179
Increase (decrease) in liabilities			
Accounts payable	-	37,423	37,423
Compensated absences	<u>12,607</u>	<u>-</u>	<u>12,607</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 12,607</u>	<u>\$ 318,423</u>	<u>\$ 331,030</u>

City of East Bethel, Minnesota
 Summary Financial Report
 Revenues and Expenditures For General Operations
 Governmental Funds
 For the Year Ended December 31, 2018 and 2017

	Total		Percent Increase (Decrease)
	2018	2017	
Revenues			
Taxes	\$ 5,813,592	\$ 5,614,532	3.55 %
Licenses and permits	308,542	424,468	(27.31)
Intergovernmental	961,211	1,966,066	(51.11)
Charges for services	399,178	308,000	29.60
Fines and forfeitures	35,497	37,961	(6.49)
Special assessments	34,662	31,608	9.66
Interest on investments	64,611	33,981	90.14
Miscellaneous	25,355	48,494	(47.72)
Total Revenues	\$ 7,642,648	\$ 8,465,110	(9.72) %
Per Capita	\$ 633	\$ 718	(11.84) %
Expenditures			
Current			
General government	\$ 1,213,913	\$ 1,150,305	5.53 %
Public safety	2,013,568	1,964,132	2.52
Public works	993,054	927,814	7.03
Culture and recreation	419,867	403,276	4.11
Housing and economic development	142,835	105,857	34.93
Miscellaneous	81,218	76,655	5.95
Capital outlay			
Public safety	167,571	-	N/A
Public works	1,390,061	2,589,515	(46.32)
Parks and recreation	103,035	128,012	(19.51)
Housing and economic development	46,400	48,749	(4.82)
Debt service			
Principal	360,000	950,589	(62.13)
Interest and other charges	635,335	658,706	(3.55)
Total Expenditures	\$ 7,566,857	\$ 9,003,610	(15.96) %
Per Capita	\$ 627	\$ 764	(17.93) %
Total Long-term Indebtedness	\$ 18,380,000	\$ 18,740,000	(1.92) %
Per Capita	1,522	1,590	(4.28)
General Fund Balance - December 31	\$ 3,112,119	\$ 3,628,246	(14.23) %
Per Capita	258	308	(16.23)

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.

THIS PAGE IS LEFT
BLANK INTENTIONALLY

OTHER REQUIRED REPORTS

CITY OF EAST BETHEL
EAST BETHEL, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2018

THIS PAGE IS LEFT
BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of East Bethel, Minnesota

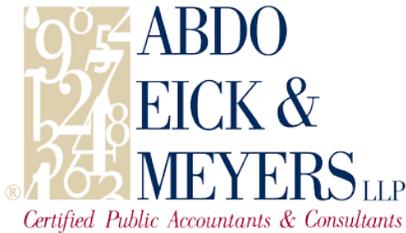
We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental 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, 2018, 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 20, 2019.

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* except as noted in the Schedule of Findings and Responses as item 2018-001. 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 20, 2019



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, 2018, 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 20, 2019.

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.

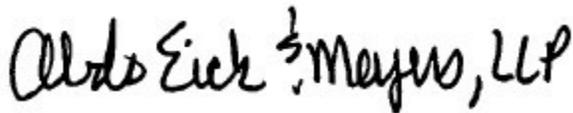
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control described on the Schedule of Findings and Responses as item 2018-002 that we consider to be a significant deficiency.

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 20, 2019

THIS PAGE IS LEFT
BLANK INTENTIONALLY

City of East Bethel, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2018

2018-001 Declaration for Payment

Condition: Auditing for legal compliance requires a review of the City's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.

Criteria: Minnesota statute 471.38 requires that each declaration for payment be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid. The statute is satisfied if on the back of City checks is a declaration as defined in Minnesota statute 471.391 reading "I declare under the penalties of law that this account, claim, or demand is just and correct and that no part of it has been paid."

Cause: The City did not have the required statement on the back of their checks during 2018.

Effect: The City was out of compliance with this Minnesota statute.

Recommendation: The City has a stamp with the declaration, which we recommend using until new checks with the pre-printed declaration are available.

Management Response:

The City immediately purchased check stock that included the correct declaration on the back of the check.

2018-002 Building Permits Miscalculation

Condition: During our audit, we noted that the billing software was overcharging the total amount charged for certain building permits as a result of an incorrect formula.

Criteria: From an operational standpoint, the City was relying on software to make calculation and failed to detect miscalculations.

Cause: Incorrect input in formula.

Effect: The City overcharged some customers and refunded \$8,654 to those effected.

Recommendation: We recommend that the City corrects the formula in the software and identify customers affected and issue a refund.

Management Response:

The City immediately corrected the rate table and refunded permit overages to the appropriate sources.