

**CITY OF AFTON**

**AUDITED FINANCIAL STATEMENTS**

**OTHER FINANCIAL STATEMENTS  
SCHEDULES AND INFORMATION**

**December 31, 2015**

**City of Afton, Minnesota  
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December 31, 2015**

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## **INTRODUCTORY SECTION**

**City of Afton  
Washington County, Minnesota**

**Organization  
December 31, 2015**

**Elected**

			<b><u>Term Expires</u></b>
Mayor	Richard Bend		12/31/2016
Council Members	Bill Palmquist	Ward 1	12/31/2016
	Joe Richter	Ward 2	12/31/2018
	Stan Ross	Ward 3	12/31/2018
	Randy Nelson	Ward 4	12/31/2016

**Appointed**

City Administrator	Ron Moore
City Clerk	Kim Swanson Linner

**FINANCIAL SECTION**

# **INDEPENDENT AUDITOR'S REPORT**

**MICHAEL W. POFAHL**  
**Certified Public Accountant**  
**10780 North Avenue, 14E**  
**Chisago City, Minnesota 55014**  
**651-213-6632**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and  
City Council  
City of Afton  
Afton, Minnesota 55001

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Afton, Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United State of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Afton, Minnesota, as of December 31, 2015 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iv-xii and 7-15, respectively 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. I 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

## Other Information

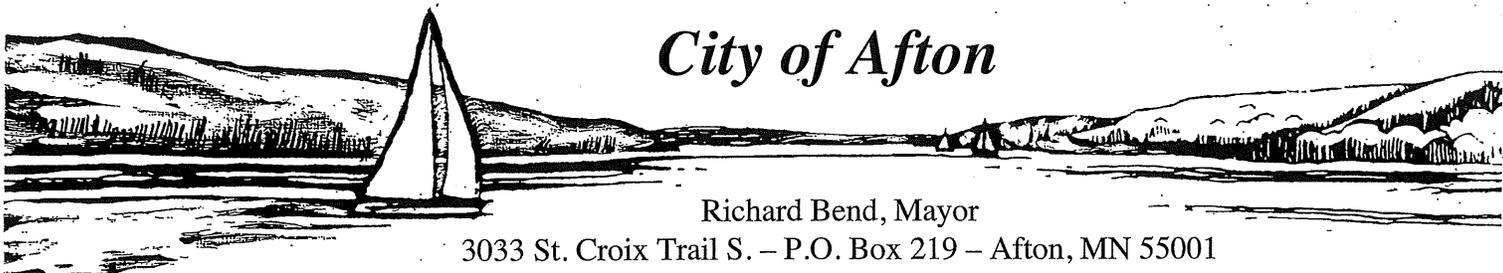
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Afton, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for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

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



Michael W. Pofahl  
Certified Public Accountant  
Chisago City, MN 55013  
April 21, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



# City of Afton

Richard Bend, Mayor

3033 St. Croix Trail S. – P.O. Box 219 – Afton, MN 55001

Office (651) 436-5090 Fax (651) 436-1453

[www.ci.afton.mn.us](http://www.ci.afton.mn.us)

Bill Palmquist - Ward 1

Joe Richter - Ward 2

Stan Ross - Ward 3

Randy Nelson - Ward 4

## Management's Discussion and Analysis

As management of the City of Afton, this section of the City's annual financial report presents a discussion and analysis of the City's activities during the fiscal year ended December 31, 2015.

### Downtown Village Improvements Project

Afton is a historic community located along the St. Croix River. The Downtown Village area of the City is prone to flooding. Major flooding occurred in Afton in 1965, 1969, 1993, 1997, and 2001. The repetitive flooding causes substantial damage resulting in a reoccurring cost to private property and various levels of government agencies. The 100-year floodplain runs through the east side of the Downtown Village impacting residential properties, businesses, reinvestment, and the preservation of historical parcels as well as ultimately affecting the financial viability of the community.

The proposed project will consist of:

1. Reconstruction and accreditation of the flood levee along the St. Croix River
2. Reconstruction of Downtown Village roadways, stormwater treatment, and rate control
3. Construction of sanitary collection, conveyance, and treatment facilities to reduce pollutant loadings to the St. Croix River and removal of existing subsurface sanitary treatment systems (SSTS)
4. Improved pedestrian access and trail system

Funding for the project will be through the Minnesota Department of Natural Resources (DNR), the Minnesota Board of Water and Soil Resources (BWSR), Minnesota Public Facilities Authority (PFA), Washington County, City funds, and assessments to the benefitting properties.

### Primary City Project Objectives

1. Protect and improve water quality
2. Protect Community and Residential Properties from flooding.
3. Reconstruction of County Road 21 to create a vibrant and pedestrian-friendly main street

## **Management's Discussion and Analysis**

As management of the City of Afton, this section of the City's annual financial report presents a discussion and analysis of the City's activities during the fiscal year ended December 31, 2015.

### **Financial Highlights**

- During 2015, the City expended \$1,224,460 for primarily land costs and engineering related to the Downtown Improvements Project from the City's Infrastructure Development Fund- Previously classified as the DNR Flood Hazard Mitigation Grant Fund.
- The assets of the City exceeded liabilities by \$5,260,221. Of this amount, \$4,287,551 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$779,764 from 2014.
- The City's government funds reported combined ending fund balances of \$4,407,551 as of December 31, 2015.
- As of December 31, 2015, unrestricted/unassigned fund balance for the General Fund was \$327,317 or 27% of the General Fund budget for 2016. In addition, the unrestricted/unassigned fund balance of the Special Reserve Fund was \$433,969, or 35.8% of the General Fund budget for 2016.

### **Overview of the Financial Statements**

This discussion and analysis is intended to provide an introduction to the City's basic financial statements. The City's basic financial statements consist of 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.

Government-wide financial statements consist of Statement of Net Assets and the Statement of Activities, and provide information about the activities of the City as a whole and present a long-term view of the City's finances.

Fund financial statements provide information about governmental activities by showing how these services were financed in the short-term as well as what remains for future spending. These statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining fund financial statements provide information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Notes to the financial statements provided 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 can be found on pages 15-29 of this report.

## **Reporting the City as a Whole**

The analysis of the City as a whole begins with the Statements of Net Assets and the Statements of Activities found on pages 1 and 2. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the City's net assets and changes in them. The City's net assets can be used as a way of measuring the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's tax base or the condition of the City's infrastructure to assess the overall health of the City.

## **Reporting the City's Most Significant Funds**

The fund financial statements that begin on page 3 provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other revenues.

- **Governmental funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end are available for spending. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. I describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in reconciliation to each of the fund financial statements on pages 4 and 6. The basic governmental fund financial statements can be found on pages 3-14.

- **The City uses fiduciary funds** to account for resources held for the benefit of parties outside the government. These funds are usually reflected in the government-wide statements as cash in trust and deposits payable, because the resources of these funds are not available to support programs of the City. The accounting method used for fiduciary funds is similar to that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 14 and 14a.

- Notes to financial statements - The notes provide additional information that is essential to fully understand the data provided in government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 15-29 of this report.
- Other information - The combining statements referred to earlier in connection with Non-major governmental funds are presented immediately following the basic financial statements.

### Financial Analysis of The City as a Whole

City of Afton Net Assets (in thousands) December 31.

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Assets:		
Current and Other Assets	\$ 4,668,664	\$ 1,794,329
Capital Assets	<u>7,719,795</u>	<u>6,484,896</u>
<b>Total Assets</b>	<b><u>\$ 12,388,459</u></b>	<b><u>\$ 8,279,225</u></b>
Liabilities:		
Long-Term Liabilities	6,705,000	3,145,000
Other Liabilities	423,238	505,237
DNR Grant Match Pledge	<u>-</u>	<u>332,820</u>
<b>Total Liabilities</b>	<b><u>7,128,238</u></b>	<b><u>3,983,057</u></b>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	972,670	2,807,813
Unrestricted	<u>4,287,551</u>	<u>1,488,355</u>
<b>Total Net Assets</b>	<b><u>\$ 5,260,221</u></b>	<b><u>\$ 4,296,168</u></b>

# City of Afton

## Changes in Net Assets December 31, 2015

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 209,957	\$ 176,763
Operating Grants and Contributions	85,315	61,616
Capital Grants and Contributions	156,190	11,200
General Revenues:		
Property Taxes	1,676,572	1,634,042
Grants and Contributions	10,696	6,456
Investment Income	999	262
Flood Hazard Mitigation Grant	-	-
	<hr/>	<hr/>
<b>Total Revenues</b>	<b>2,139,729</b>	<b>1,890,339</b>
<b>Expenses:</b>		
General Government	498,703	452,129
Public Safety	498,432	487,921
Public Works	463,652	515,082
Park and Recreation	7,313	19,031
Pension Expense	20,000	-
Interest on Long-Term Debt	154,450	131,057
	<hr/>	<hr/>
<b>Total Expenses</b>	<b>1,642,550</b>	<b>1,605,220</b>
Change in Net Assets before Other Financing	497,179	285,119
Premium - Sale of Bonds	234,054	-
(Provision) Credit for DNR Grant Match	332,820	494,645
	<hr/>	<hr/>
Change in Net Assets	1,064,053	779,764
Net Assets, January 1	4,196,168	3,516,404
Prior Year Adjustment P,E.R.A.	<hr/>	<hr/>
		(100,000)
Net Assets, December 31	<u>5,260,221</u>	<u>\$ 4,196,168</u>

## Governmental Activities

Governmental activities increased net assets by \$1,064,053 which is a 25% increase in the net assets of the City.

Revenues and other financing increased \$321,619 or 13%, the key elements of this change are as follows:

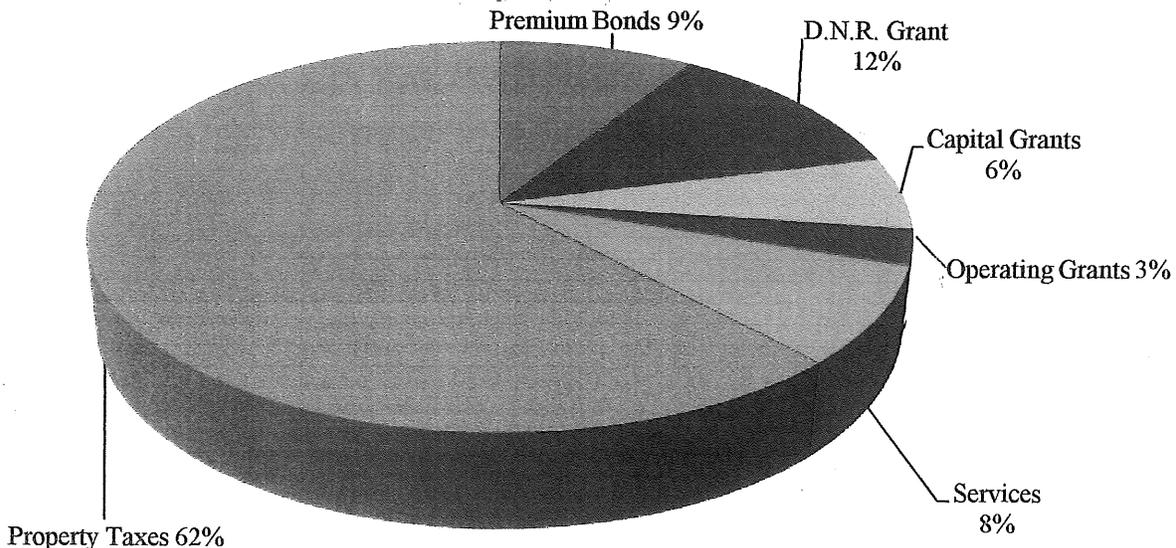
- Minnesota DNR Flood Hazard Mitigation Grant matching credit change decreases revenue by \$161,825.
- Property tax revenue increased \$42,530 from 2014.
- Increased Capital Grants; Park Fees \$54,743, Road Aid \$60,510 and DNR/Washington County Aid \$40,937.
- Charges for services primarily building permits and fees up \$33,194 from 2014.
- Premium on Sale of Bonds in 2015 \$234,054.

Expenses increased by \$37,330. The key elements of this change were as follows:

- Increase in general governmental expenditures, including building inspection fees, up about \$12,000. Comprehensive Plan expenses up about \$8,000 and other benefits and wages up about \$17,000.
- Increase in Pension Expense \$20,000.
- Decrease in Public Works expenditures, \$52,000 Primarily Snow and Ice Control.
- Increase in Fire Protection about \$6,000.
- Interest Expense up about \$12,000.

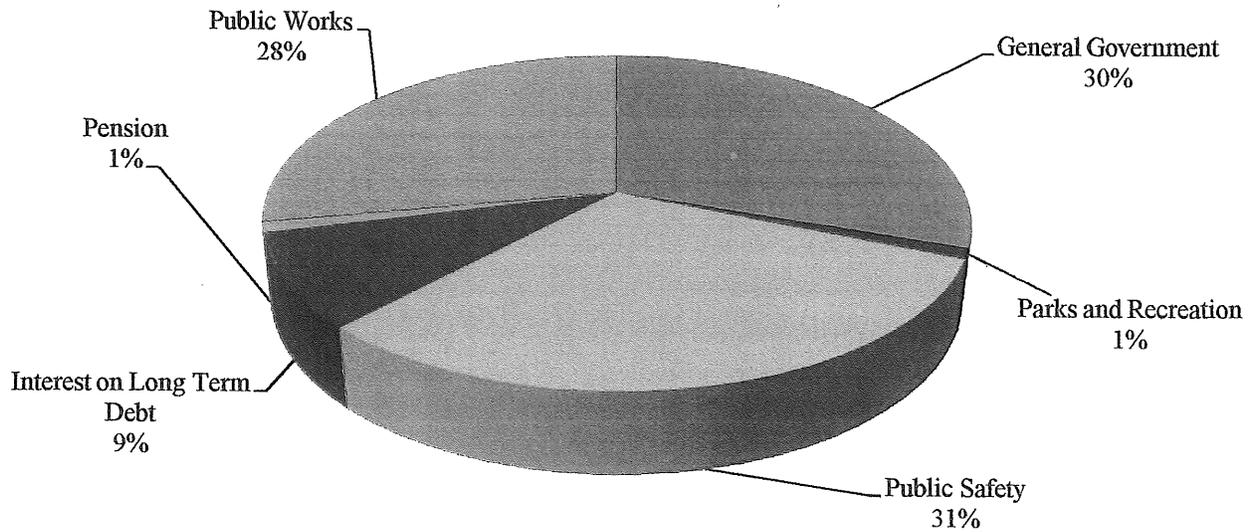
## Revenues by Source

### Revenues and Other Financing Sources



December 31, 2015

### Expenditures by Activity




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### Fund Financial

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#### Fund Financial - all Funds

Revenues / Expenditures - Year Ended December 31.

Revenues:	<u>2015</u>	<u>2014</u>
Property Taxes	\$ 1,676,572	\$ 1,634,042
Licenses Permits and Fees	252,552	177,316
Intergovernmental	180,558	64,222
Other	<u>30,047</u>	<u>14,759</u>
	2,139,729	1,890,339
Expenditures:		
General Government	471,028	422,808
Public Safety / Health	498,432	487,921
Public Works	229,606	292,281
Park and Recreation	4,113	14,393
Capital Outlay	1,499,820	653,271
Debt Service	<u>166,588</u>	<u>268,054</u>
	2,869,587	2,138,728
Net Change in Fund Balances	<u>\$ (729,858)</u>	<u>\$ (248,389)</u>

**General Fund Budget/Actual - Fund Financial**

2015

	<u>Actual</u>	<u>Budget</u>
<b>Revenues:</b>		
Charges for Services	\$ 190,309	\$ 131,885
Fines and Forfeits	15,861	16,250
Other revenue	13,050	2,825
Property Taxes	1,308,639	1,336,250
Intergovernmental	22,648	5,824
Investment Income	203	50
	<hr/>	<hr/>
<b>Total Revenues</b>	<u>1,550,710</u>	<u>1,493,084</u>
<b>Expenses:</b>		
General Government	465,860	473,031
Public Safety/Public Health	393,152	395,103
Public Works	220,445	261,150
Parks and Recreation	3,833	5,100
Capital Outlay	-	
	<hr/>	<hr/>
<b>Total Expenses</b>	<u>1,083,290</u>	<u>1,134,384</u>
Change in Net Assets before Transfers	<u>\$ 467,420</u>	<u>\$ 358,700</u>

**Capital Assets and Debt Administration**

Capital Assets

The City's investment in capital assets for its governmental activities at the end of the year amounts to \$7,719,795 (net of accumulated depreciation). The investment in capital assets includes land, buildings, park facilities, equipment and streets, and other site improvements. The total increase in the City's net capital assets for the current fiscal year was \$1,234,899.

Capital assets added during the current year included the following:

- Infrastructure in Progress additions \$588,778.
- Improvement Project Land Costs \$635,682.
- Road Construction \$275,360 (various projects)
- Depreciation was \$264,921 for 2015.

City of Afton - Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Improvement Project Land	\$ 1,828,553	\$ 1,192,871
City Roads	4,132,281	4,086,267
Land and Improvements	178,119	178,119
Park Equipment	16,566	19,766
Building and Improvements	161,008	172,737
Furniture and Equipment	22,995	33,895
Site Improvements	84,816	94,562
Development Infrastructure in Progress	<u>1,295,457</u>	<u>706,679</u>
Total net capital assets	<u>\$ 7,719,795</u>	<u>\$ 6,484,896</u>

Additional information on the City's Capital Assets can be found on Note 4 - Capital Assets.

**Bonded Debt**

**Road Paving Bond - Refinancing Bonds of 2014A**

During 2005 the City issued \$4,000,000 in General obligation Tax abatement bonds for Road Paving construction. The balance of Bonds outstanding at December 31, 2014 was \$3,290,000 a principal payoff of \$3,290,000 was made in 2015 and Refinance Bonds of \$2,950,000 were issued in 2015 that results in a balance of outstanding bonds at December 31, 2015 of \$2,950,000. Interest paid in 2015 was \$127,742. (\$65,116 old bonds, \$62,626 new)

Bonds were refinanced in December of 2014, effective on the "Bonds" call date February 1, 2015. \$3,290,000 of principal and \$65,116 of interest to February 1, 2015, a total of \$3,355,116 was paid. The proceeds of the "Refinance Bonds" was \$2,950,000 in Bond Principal and a Bond premium received upon sale of \$234,040. \$38,845 in Bond Costs were paid from the proceeds.

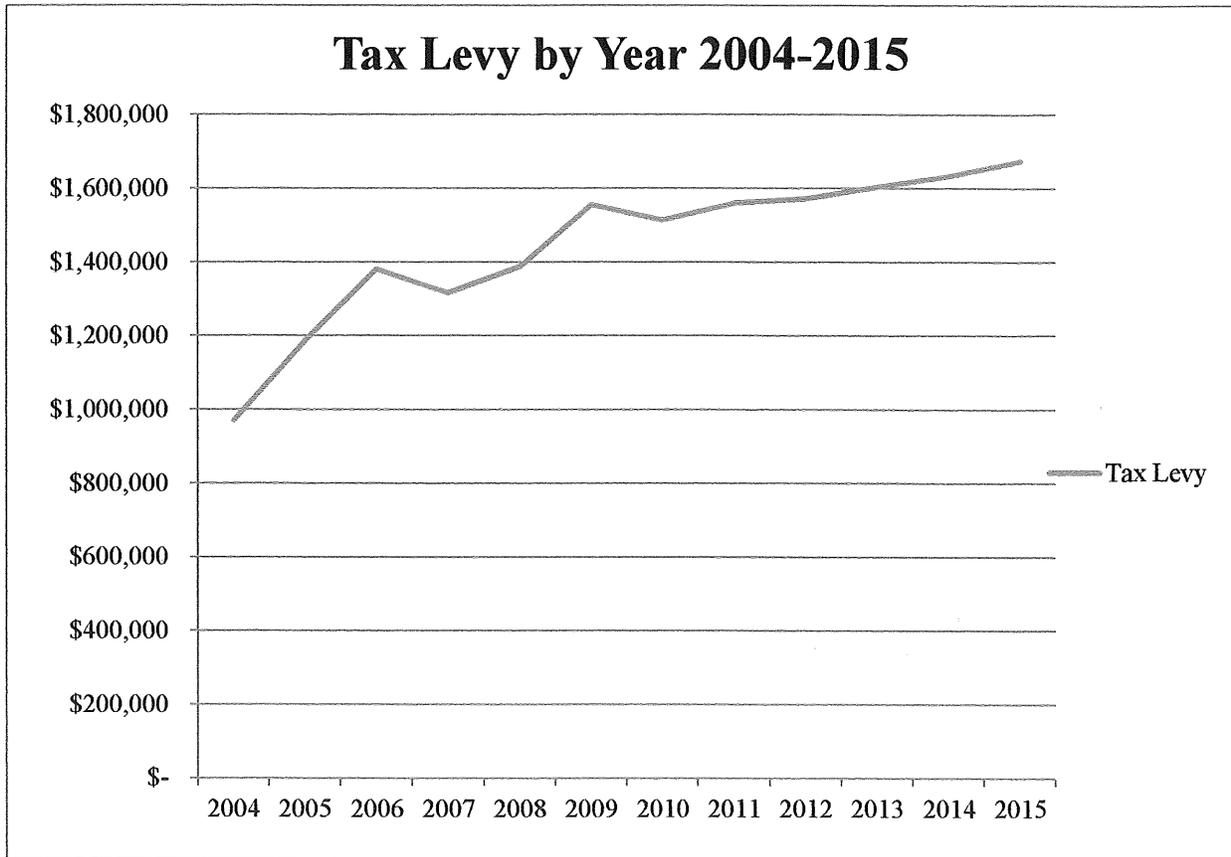
General Obligation Tax Abatement Refunding Bonds, Series 2014A, 3% and 4%, Debt Service summary as follows: Page 38 is a Complete Debt Service

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 140,000	\$ 99,000	\$ 239,000
2017	165,000	94,425	259,425
2018	180,000	89,250	269,250
2019	195,000	83,625	278,625
2020-2027	2,270,000	332,600	2,602,600
<b>Total</b>	<b>\$ 2,950,000</b>	<b>\$ 698,900</b>	<b>\$ 3,648,900</b>

**Temporary Improvement Bonds**

In April 2015, the City issued \$3,755,000 in General Obligation Temporary Improvement Bonds to provide interim financing for the design and construction of the Downtown Village Improvements Project. These temporary bonds will be replaced with long term bonds in 2016 or 2017. Interest paid for 2015 \$12,908, October 1, 2015. Accrued interest at December 31, 2015 is \$7,041.

## Tax Levy by Year 2004-2015



### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those interested in the government's finances. If you have any questions about this report or need additional information, contact the City of Afton.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

City of Afton, Minnesota

Statement of Net Assets  
December 31, 2015

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Cash Pool	\$ 4,630,260
Accounts Receivable	14,261
Taxes Receivable	14,143
Capital Assets, Net of Accumulated Depreciation:	
Land and Improvements	2,006,672
Park Equipment and Improvements	16,566
Buildings and Improvements	161,008
Furniture and Equipment	22,995
Infrastructure-Other	84,816
City Roads	4,132,281
Construction in Progress	1,295,457
Deferred Outflows	10,000
<b>Total Assets</b>	<u>\$ 12,388,459</u>
<b>Liabilities</b>	
Interest Payable	\$ 42,125
Account Payable & Accrued Expense	251,113
Accrued Pension Liability	120,000
Noncurrent Liabilities:	
Due within one year	140,000
Due in more than one year	6,565,000
Deferred Inflows	10,000
<b>Total Liabilities</b>	<u>\$ 7,128,238</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of related Debt	972,670
Unrestricted	<u>4,287,551</u>
<b>Total Net Assets</b>	<u>\$ 5,260,221</u>

The Notes to Financial Statements are an integral part of this statement.

City of Afton, Minnesota

Statement of Activities  
For Year Ended December 2015

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Functions and Programs				
Governmental activities				
General Government	\$ 498,703	\$ 27,678	\$ -	\$ (276,929)
Public Health	1,087			(1,087)
Public Safety	497,345	53,787		(427,697)
Public Works	463,652	3,850	101,447	(358,355)
Parks and Recreation	7,313		54,743	47,430
Interest on Long-Term Debt	154,450			(154,450)
Pension Expense	20,000			(20,000)
<b>Total Governmental Activities</b>	<u>\$1,642,550</u>	<u>\$ 85,315</u>	<u>\$ 156,190</u>	<u>\$ (1,191,088)</u>
City matching portion of DNR Grant				\$ 332,820
Premium on Sale of Bonds (interest \$14)				234,054
General Revenues:				
State of Minnesota, DNR Flood Hazard Mitigation Grant				\$ -
Property Taxes levied for general purposes				1,308,639
Property Taxes - Debt Service				367,933
Grants and Contributions not restricted to specific programs				10,696
Investment Income				999
<b>Total General Revenues and Internal Transfers</b>				<u>1,688,267</u>
Change in Net Assets				1,064,053
P.E.R.A. Prior Years Adjustment				(100,000)
Net Assets, December 31, 2014				4,296,168
Net Assets, December 31, 2015				<u>\$ 5,260,221</u>

The Notes to Financial Statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

City of Afton, Minnesota  
Balance Sheet  
Governmental Funds  
December 31, 2014

		City				
	<u>General</u>	<u>Street Improvement Capital Fund</u>	<u>Infrastructure Improvement Fund</u>	<u>Special Reserve Fund</u>	<u>Road Paving Debt Service Fund</u>	<u>Non-Major Funds</u>
						<u>Total</u>
<b>Assets</b>						
Equity in Cash Pool	\$ 744,519	\$ 503,660	\$ 2,268,845	\$ 433,969	\$ 410,501	\$ 4,630,260
Due from other Funds						
Intergovernmental Receivables	14,143					14,143
Taxes Receivable, Unremitted	14,261					14,261
Other Receivables	\$ 772,923	\$ 503,660	\$ 2,268,845	\$ 433,969	\$ 410,501	\$ 4,658,664
<b>Total Assets</b>						
<b>Liabilities and Fund Balance</b>						
<b>Liabilities:</b>						
Accounts Payable	242,389					242,389
Deposits						
Accrued Expenses	1,682		7,042			8,724
Deferred Revenue						
<b>Total Liabilities</b>	\$ 244,071		\$ 7,042			\$ 251,113
<b>Fund Balances:</b>						
Restricted for debt Service					410,501	410,501
Unrestricted, reported in:						
General Fund Unassigned	327,317					327,317
General Fund Assigned	201,535					201,535
Capital projects Funds Assigned		503,660	2,261,803	433,969		3,386,890
Special Revenue Funds, Assigned					187,458	187,458
<b>Total Fund Balances</b>	\$ 528,852	\$ 503,660	\$ 2,261,803	\$ 433,969	\$ 410,501	\$ 4,407,551
<b>Total Liabilities and Fund Balances</b>	\$ 772,923	\$ 503,660	\$ 2,268,845	\$ 433,969	\$ 410,501	\$ 4,658,664

The Notes to Financial Statements are an integral part of this statement.

City of Afton, Minnesota

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
Governmental Funds  
December 31, 2015

**Total Fund Balances - Governmental Funds** **\$4,407,551**

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital Assets used in Governmental Activities are not Financial  
Resources and therefore are not reported in the Governmental Funds.

Capital Assets	9,842,445
Less Accumulated Depreciation	(2,122,650)
Bonds Payable	(2,950,000)
Interest Payable	(42,125)
Temporary Financial Bonds	(3,755,000)
P.E.R.A. Liability	<u>(120,000)</u>

**Net Assets of Governmental Activities** **\$5,260,221**

The Notes to Financial Statements are an integral part of this statement.

**City of Afton, Minnesota**  
**Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds**  
**For the Year Ended December 31, 2015**

	City					<b>Total</b>
	<u>General</u>	<u>Street Improvement Capital Fund</u>	<u>Infrastructure Improvement Fund</u>	<u>Special Reserve Fund</u>	<u>Road Paving Debt Service Fund</u>	<u>Non-Major Funds</u>
<b>Revenues</b>						
Property Taxes	\$ 1,308,639		\$	\$	\$ 310,000	\$ 57,933
Licenses, Permits and Fees	190,172					62,380
Intergovernmental Revenue	22,648	60,510	40,937			56,463
Charges for Services	137					137
Fines and Forfeits	15,861					15,861
Investment Income	203	130	395	102	99	999
Other	13,050					13,050
<b>Total Revenues</b>	<b>\$ 1,550,710</b>	<b>\$ 60,640</b>	<b>\$ 41,332</b>	<b>\$ 102</b>	<b>\$ 310,099</b>	<b>\$ 176,846</b>
<b>Expenditures</b>						
Current:						
General Governmental	465,860					5,168
Public Health	1,087					1,087
Public Safety	392,065					105,280
Public Works	220,445					9,161
Parks and Recreation	3,833					280
Capital Outlay		275,360	1,224,460			1,499,820
Debt Service:						-
Principal Retirement						-
Interest and Fiscal Fees/Bond Cost					166,588	166,588
<b>Total Expenditures</b>	<b>1,083,290</b>	<b>275,360</b>	<b>1,224,460</b>	<b>-</b>	<b>166,588</b>	<b>119,889</b>
Excess (Deficiency) of Revenues Over Expenses	467,420	(214,720)	(1,183,128)	102	143,511	56,957
<b>Other Financing Sources (Uses)</b>						
Bond Proceeds			3,755,000		3,184,054	6,939,054
Bonds Retired					(3,290,000)	(3,290,000)
Transfers In/Out	(391,739)	243,500	(310,069)	402,087		56,221
<b>Total Other Financing Sources (Uses)</b>	<b>(391,739)</b>	<b>243,500</b>	<b>3,444,931</b>	<b>402,087</b>	<b>(105,946)</b>	<b>56,221</b>
Net change in Fund Balances	75,681	28,780	2,261,803	402,189	37,565	113,178
Fund Balances, January 1	453,171	474,880	-	31,780	372,936	155,588
Fund Balances, December 31	<b>\$ 528,852</b>	<b>\$ 503,660</b>	<b>\$ 2,261,803</b>	<b>\$ 433,969</b>	<b>\$ 410,501</b>	<b>\$ 268,766</b>

City of Afton, Minnesota

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2015

Net change in Fund Balances - Total Governmental Funds \$ 2,919,196

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Temporary Bonds Issues	(3,755,000)
Bonds Paid - 2005A	3,290,000
Change in Accrued Interest	12,138
Bonds Issued - 2014A	(2,950,000)

Pledged Funds Liability - DNR Grant - Change	332,820
P.E.R.A. Pension Expense	(20,000)

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 as depreciation expense. This is the amount  
by which capital outlay exceeded depreciation in the current period.

Capital Outlay	1,499,820
Depreciation Expense	<u>(264,921)</u>

<b>Change in Net Assets of Governmental Activities Exclusive of P.E.R.A. Adjustment</b>	<b><u><u>\$ 1,064,053</u></u></b>
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The Notes to Financial Statements are an integral part of this statement.

**City of Afton, Minnesota**

**Annual Financial Report  
For the Year Ended December 31, 2015**

General Fund

The General Fund is used to account for all financial resources not required to be accounted for in another fund.

City of Afton, Minnesota

General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
December 31, 2015

<u>Revenues</u>	<u>2015</u>	<u>2014</u>
Taxes	\$ 1,308,639	\$ 1,271,686
Licenses, Fees and Permits	190,172	162,119
Intergovernmental	22,648	14,268
Charges for Services	137	70
Fines and Forfeits	15,861	10,359
Special Assessments		
Investment Earnings	203	77
Miscellaneous	13,050	2,868
	<u>13,050</u>	<u>2,868</u>
<b>Total Revenues</b>	<b>\$ 1,550,710</b>	<b>\$ 1,461,447</b>
	<u>1,550,710</u>	<u>1,461,447</u>
<u>Expenditures</u>		
General Government	\$ 465,860	\$ 420,575
Public Safety	392,065	384,098
Public Works	220,445	285,764
Public Health	1,087	1,780
Culture and Recreation	3,833	5,019
	<u>3,833</u>	<u>5,019</u>
<b>Total Expenditures</b>	<b>\$ 1,083,290</b>	<b>\$ 1,097,236</b>
	<u>1,083,290</u>	<u>1,097,236</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 467,420</u>	<u>\$ 364,211</u>
Other Financing Sources (Uses)		
Operating Transfers In	\$ 849	\$ -
Operating Transfers Out	(392,588)	(316,294)
	<u>(392,588)</u>	<u>(316,294)</u>
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (391,739)</b>	<b>\$ (316,294)</b>
	<u>(391,739)</u>	<u>(316,294)</u>
Excess of revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 75,681	\$ 47,917
Fund Balance - January 1	<u>\$ 453,171</u>	<u>\$ 405,254</u>
Fund Balance - December 31	<u>\$ 528,852</u>	<u>\$ 453,171</u>

**City of Afton, Minnesota**

**General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2015  
With Comparative Amounts for the year ended December 31, 2014**

<u>Revenues</u>	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Taxes			
Current Property	\$ 1,290,492	\$ 1,258,279	\$ 1,206,087
Fiscal Disparities	45,758	44,904	47,649
Delinquent Property		5,456	17,950
<b>Total Taxes</b>	<u>\$ 1,336,250</u>	<u>\$ 1,308,639</u>	<u>\$ 1,271,686</u>
Licenses, Fees and Permits			
Building Permits	\$ 65,250	\$ 118,868	\$ 87,685
July 4th Permits	500	-	250
Impound and Dog Licenses	300	1,025	335
Liquor Licenses	2,600	3,000	3,000
Other Licenses	350	260	413
Utility Franchise Fees	58,000	59,554	59,438
Street Opening Permits/Utility Fees	1,750	500	750
Zoning Fees and Permits	3,000	6,965	10,248
<b>Total Licenses, Fees, &amp; Permits</b>	<u>\$ 131,750</u>	<u>\$ 190,172</u>	<u>\$ 162,119</u>
Intergovernmental			
State			
Local Government Aid	\$	\$	\$
PERA Rate Increase Aid	634	634	634
Market Value Credits		10,033	5,797
Federal FEMA - Flood		6,440	
County			
Gravel Tax	(2,400)	(2,332)	
Agricultural Preserve Credit	500	663	659
Recycling	7,090	7,210	7,178
<b>Total Intergovernmental</b>	<u>\$ 5,824</u>	<u>\$ 22,648</u>	<u>\$ 14,268</u>

City of Afton, Minnesota

General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended December 31, 2015  
 With Comparative Amounts for the year ended December 31, 2014

<u>Revenues (continued)</u>	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Charges for Services			
Assessment Search	\$ 35	\$ 20	\$ 50
Sale of Copies	100	117	20
Newsletter			
Recycling Bins			
Recording			
Planning			
<b>Total Charges for Services</b>	<u>\$ 135</u>	<u>\$ 137</u>	<u>\$ 70</u>
Fines and Forfeits			
Court Fines	\$ 16,000	\$ 15,861	\$ 10,359
Other Fines	250		
<b>Total Fines and Forfeits</b>	<u>\$ 16,250</u>	<u>\$ 15,861</u>	<u>\$ 10,359</u>
Special Assessments			
Principal & Interest	\$	\$	\$
Investment Earnings	<u>\$ 50</u>	<u>\$ 203</u>	<u>\$ 77</u>
<u>Miscellaneous</u>			
Insurance Dividend	\$ 1,125	\$ 3,270	\$ 3,208
Park Rental	500	560	835
Cable Commission	1,200	9,200	1,200
Other		20	(2,375)
<b>Total Miscellaneous</b>	<u>\$ 2,825</u>	<u>\$ 13,050</u>	<u>\$ 2,868</u>
<b>Total Revenues</b>	<u>\$ 1,493,084</u>	<u>\$ 1,550,710</u>	<u>\$ 1,461,447</u>

**City of Afton, Minnesota**

**General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
For the Year Ended December 31, 2015  
With Comparative Amounts for the year ended December 31, 2014**

<u>Expenditures</u>	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
<b>General Government</b>			
<b>Administration - Wages and Benefits</b>			
Mayor and Council	\$ 13,200	\$ 13,400	\$ 13,200
Administrator	89,025	88,150	81,575
Office Assistant/Intern	20,106	16,059	17,717
Office Manager/Deputy Clerk	41,616	38,922	38,593
Maintenance Personnel	23,253	17,300	17,849
Social Security Contributions	14,321	17,702	13,425
PERA Contributions	14,040	12,178	11,416
Other Financial Benefits	26,400	26,400	16,842
Insurance-Disability	720	646	-
Workers Compensation	2,600	3,689	2,530
<b>Total Wages and Benefits</b>	<u>\$ 245,281</u>	<u>\$ 234,446</u>	<u>\$ 213,147</u>
<b>Administration - Professional Services</b>			
Assessor	\$ 21,200	\$ 20,716	\$ 20,191
Accounting Fees	14,150	14,375	13,365
Audit Fees	5,700	5,450	5,350
Building Inspection	22,750	48,576	36,910
Engineering	30,000	17,707	12,722
Legal Fees - Prosecution	28,000	25,140	29,698
Legal Fees - General	22,000	20,447	13,772
Legal Fees - Litigation	-	-	-
Contract-Videographer/Recording	1,300	1,956	606
Other Services/Comprehensive Plan 1000	1,500	8,208	(48)
Well Monitoring Program	1,000	-	144
St. Croix Valley WMO	500	488	488
<b>Total Professional Services</b>	<u>\$ 148,100</u>	<u>\$ 163,063</u>	<u>\$ 133,198</u>

City of Afton, Minnesota

General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended December 31, 2015  
 With Comparative Amounts for the year ended December 31, 2014

<u>Expenditures (continued)</u>	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
General Government (continued)			
Administration - Other			
Office Equipment	\$ 600	\$ 1,613	\$ 176
Newsletter	6,600	6,058	5,281
Bank Service Charge	400	347	135
Computer Service/Software	9,500	5,396	4,825
Copier Lease	7,500	6,796	6,424
Equipment Maintenance	1,000	-	62
Insurance - General Liability	20,000	17,886	18,377
Miscellaneous	3,000	956	4,225
Office Supplies	4,500	2,953	2,673
Other Administration	500	713	475
Postage	3,500	3,439	4,816
Publishing and Printing	2,800	3,656	2,336
Telephone	3,500	2,682	2,759
Travel and Mileage	500	-	180
Membership and Dues	3,000	3,158	2,987
Seminars and Education	2,000	2,364	1,932
Elections	-	-	6,122
<b>Total Administration - Other</b>	<u>\$ 68,900</u>	<u>\$ 58,017</u>	<u>\$ 63,785</u>
Grounds and Buildings			
Heat - Gas	2,500	1,937	2,060
Electricity	1,750	1,732	1,822
Miscellaneous	500	1,036	776
Repair and Maintenance, Cleaning	3,000	2,784	1,929
Supplies	500	288	594
City Garage Expense	2,500	2,557	3,264
<b>Total Grounds and Building</b>	<u>\$ 10,750</u>	<u>\$ 10,334</u>	<u>\$ 10,445</u>
<b>Total General Government</b>	<u>\$ 473,031</u>	<u>\$ 465,860</u>	<u>\$ 420,575</u>
Public Safety			
Animal Control	4,000	2,823	1,899
Fire and Ambulance Service	219,953	219,953	213,705
Police Service	169,150	169,289	168,494
Fire Relief Association	-	-	-
<b>Total Public Safety</b>	<u>\$ 393,103</u>	<u>\$ 392,065</u>	<u>\$ 384,098</u>

City of Afton, Minnesota

General Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual  
 For the Year Ended December 31, 2015  
 With Comparative Amounts for the year ended December 31, 2014

<u>Expenditures (continued)</u>	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Public Works			
Streets			
Bridge/Culvert/Guardrail Repair	\$ -	\$ -	\$ -
Gravel Roads Maintenance	4,000	3,530	1,755
Crack Seal/Seal Coat/Gravel Shouldering	71,000	51,829	90,685
Snow and Ice Control	110,000	62,432	115,692
Surface Maintenance/Repair/Sweeping	30,000	49,873	29,844
Brush/Weeds/Sod/Seed/Mow	25,000	40,117	25,502
Street Lighting	5,000	4,286	3,982
Gas Lamps	2,700	2,491	2,851
Signs and Signals	4,000	3,247	2,977
Other Road Maintenance	2,000	605	758
<b>Total Streets</b>	<u>\$ 253,700</u>	<u>\$ 218,410</u>	<u>\$ 274,046</u>
Other Public Works			
Sidewalk Improvements	-	121	-
Flood Control	4,000	-	9,684
Repairs & Maintenance - Equipment	1,500	1,080	1,312
Motor Fuel and Lubricants	1,000	558	478
Tools & Minor Equipment	950	276	244
<b>Total Other Public Works</b>	<u>\$ 7,450</u>	<u>\$ 2,035</u>	<u>\$ 11,718</u>
Equipment/culvert replacement	\$ -	\$ -	\$ -
<b>Total Public Works</b>	<u>\$ 261,150</u>	<u>\$ 220,445</u>	<u>\$ 285,764</u>
Public Health			
Recycling	500	268	150
Refuse Collection and Disposal	1,500	819	1,630
<b>Total Public Health</b>	<u>\$ 2,000</u>	<u>\$ 1,087</u>	<u>\$ 1,780</u>

**City of Afton, Minnesota**

**General Fund  
Statement of Revenues, Expenditures and Changes  
in Fund Balance Budget and Actual  
For the Year Ended December 31, 2015  
With Comparative Amounts for the year ended December 31, 2014**

<u>Expenditures (continued)</u>	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Culture and Recreation			
July 4th Celebration	\$ 3,500	\$ 3,500	\$ 3,692
Cemetery Maintenance	100	-	-
Park Maintenance	1,200	271	1,275
Miscellaneous	300	62	52
Equipment Replacement	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Culture and Recreation</b>	<b>\$ 5,100</b>	<b>\$ 3,833</b>	<b>\$ 5,019</b>
Capital Outlay			
Walking Bridge	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
<b>Total Expenditures</b>	<b>\$ 1,134,384</b>	<b>\$ 1,083,290</b>	<b>\$ 1,097,236</b>
Excess of Revenues Over (Under)			
Expenditures	\$ 358,700	\$ 459,420	\$ 364,211
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)			
Operating Transfers In	\$ -	\$ 849	\$ -
Operating Transfers Out	(358,700)	(392,588)	(316,294)
<b>Total Other Financing Sources</b>	<b>\$ (358,700)</b>	<b>\$ (391,739)</b>	<b>\$ (316,294)</b>
	<hr/>	<hr/>	<hr/>
Excess of Revenues and Other Sources			
Over (Under) Expenditures and Other Uses	\$ -	\$ 75,681	\$ 47,917
	<hr/>	<hr/>	<hr/>
Fund Balance - January 1	<hr/>	453,171	405,254
	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	<u>\$</u>	<u>\$ 528,852</u>	<u>\$ 453,171</u>

**City of Afton, Minnesota**

**Audited Financial Statements  
For the Year Ended December 31, 2015**

Fiduciary Type Funds

Fiduciary type funds are used to receive and pass through funds not belonging to the City. The Minnesota Investments Fund received funds from the State of Minnesota and passed them through to the Chandler House in Afton. The Chandler House made payments to the City of Afton, which in turn made payments to the State of Minnesota. The Fund monies are available for use of a similar project.

The Bond Refinance Fund

The Fund is classified as Fiduciary only until February 1, 2015 when the 2005A Bonds are paid-expending the entire balance of this fund. This Fund was closed in 2015.

City of Afton, Minnesota

Minnesota Investment Fund  
 Fiduciary Type Fund  
 for the year ended December 31, 2015  
 Balance Sheet

<b>Assets</b>	
Cash	\$ 104,409
Receivable from Developers	
	<hr/>
Total assets	<u>104,409</u>
<b>Liabilities and Fund Balance</b>	
Liabilities	
Cash Deficit	
Deposits Payable	
Total Liabilities	
Fund Balance	
Reserved	104,409
	<hr/>
Total Liabilities and Fund Balance	<u>\$ 104,409</u>

Statement of Revenues and Expenditures and Changes in Fund Balance  
 for the year ended December 31, 2015

<b>Revenues</b>	
State Loan Proceeds	\$ -
Interest	48
Payments	-
	<hr/>
Total Revenues	<u>48</u>
<b>Expenditures</b>	
Remittance	
Payments to State	-
	<hr/>
Total Expenditures	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	48
Other Financing Sources - Transfers	
	<hr/>
Excess of Revenues and Other Sources Over Expenditures	48
Fund Balance - January 1	<u>104,361</u>
Fund Balance - December 31	<u>\$ 104,409</u>

**City of Afton, Minnesota**

**Bond Refinance Fund  
Fiduciary Type Fund  
for the year ended December 31, 2015  
Balance Sheet**

<b>Assets</b>	
Cash	\$ -
Total assets	-
 <b>Liabilities and Fund Balance</b>	
Liabilities	
Cash Deficit	
Deposits Payable	
Total Liabilities	
Fund Balance	
Reserved	-
Total Liabilities and Fund Balance	\$ -

**Statement of Revenues and Expenditures and Changes in Fund Balance  
for the year ended December 31, 2015**

<b>Revenues</b>	
Bond Proceeds	\$2,950,000
Bond Premium	234,040
Interest	14
Total Revenues 2014	3,184,054
 <b>Expenditures - 2014</b>	
Interest	\$ -
Payments of Bond Costs	38,845
Total Expenditures	38,845
Available for Bond Retirement	3,145,209
 Other Financing Sources - Transfers	
 Excess of Expenditures Other (uses) 2015	
	(3,145,209)
Fund Balance - January 1	3,145,209
Fund Balance - December 31	\$ -

## **NOTES TO FINANCIAL STATEMENTS**

City of Afton, Minnesota

Notes to Financial Statements

December 31, 2015

**NOTE 1. Summary of Significant Accounting Policies**

The financial statements of the City of Afton, Minnesota, have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

**A. Reporting Entity**

The City operates under Plan A form of governmental and provides services such as public safety, public works, public health, culture, recreation, and community development, as authorized by statute.

For Financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions, and authorities and has considered all potential component units and other organizations for which the City is financially accountable or for which the nature and significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability.

After applying the criteria to all potential component units, it was determined that the City has no component units.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the City. The effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues included 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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 fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year in 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.

**City of Afton, Minnesota**

**Notes to Financial Statements  
December 31, 2015**

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 be available if they are collected within 60 days 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 claims and judgments, are recorded when the payment is due.

Property taxes, license 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.

The City reports the following major governmental funds:

The General Fund is the City'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 Public Works Capital Fund accounts for funds set aside from property taxes for the construction and improvement of City streets.

The Special Reserve Fund is used to account for transfers from the General Fund for the purpose of financing capital projects within the City and providing for contingencies.

The City Infrastructure Improvement Fund is used to account for grants monies from the Minnesota DNR, taxes and transfers from the General Fund for the purpose of purchasing land and other costs for a joint flood hazard mitigation project and the City's Downtown Improvement projects.

The Road Debt Service Fund is used to account for Bond Debt Service.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as they are needed.

City of Afton, Minnesota

Notes to Financial Statements  
December 31, 2015

**D. Cash and Investments**

Cash balances from all funds are pooled and invested to the extent available in savings accounts, certificates of deposit and other authorized investments. Earnings from such investments are allocated to the funds on the basis of applicable average balance participation by each of the funds. See Note 3.

**E. Interfund Receivable/Payables**

These accounts have been substantially eliminated in the Financial Statements.

**F. Capital Assets**

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., streets, bridges, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. The City defines capital assets as asset with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years; for infrastructure the parameters are \$10,000 and five years. Such assets are recorded at historical cost where historical records are available and otherwise at estimated historical cost. The City has not reported infrastructure for all streets and bridges, etc. retrospective to 2004.

The costs of normal maintenance and repairs that do not increase asset value or materially extend asset lives are not capitalized.

Buildings, equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Life</u>
Buildings	20 to 60 years
Building Improvements	10 to 35 years
Streets	10 to 40 years
Vehicle and Equipment	5 to 15 years
Furniture	10 years
Office Equipment	5 to 10 years
Park Improvements	20 years

**G. Property Taxes**

Property tax levies are set by the City Council in December of each year and are certified to Washington County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Property tax levies are based on property values assessed on January 2 of the proceeding year. The County spreads all levies over all taxable property. Such taxes become a lien on January 1 of current year. Property taxes are due from taxpayers in two equal installments on May 15 and October 15. The county provides tax settlements to cities and other local governments three times a year, in July, December and January.

## City of Afton

### Notes to Financial Statements December 31, 2015

Revenues are accrued and recognized in the government-wide financial statements in the current period. In the fund financial statements, taxes that remain unpaid at December 31 are classified as delinquent taxes and fully offset by deferred revenue, because it is not known when they will be available to finance current expenditures.

#### **H. Special Assessments**

Special assessments are levied against the benefited properties for the assessable costs of special assessments improvement projects in accordance with State statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a period of five to twenty years, depending on the type of assessment. Annual installments (including interest) for special assessments are collected by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments to the City without interest or prepayment penalties.

The City recognizes special assessment revenue in the government-wide financial statements when the assessment rolls are levied. In the fund financial statements, the City recognizes special assessment revenue when it becomes both measurable and available. Current assessments, which remain unpaid at December 31, are classified as delinquent receivables and together with deferred assessments, are fully offset by deferred revenue because it is not known when they will be available to finance current expenditures. No outstanding assessments for the City at December 31, 2015.

#### **I. Compensated Absences**

The liability for accrued compensated absences includes accumulated vacation leave and sick leave and is estimated at approximately \$10,000 at December 31, 2015.

#### **J. Long-term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, if significant, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, if significant or discount. Bond issuance costs, if significant, are reported as deferred charges and amortized over the term of the related debt. There were \$2,950,000 in bonds outstanding at December 31, 2015 and \$3,755,000 In Temporary Bonds, see Notes 5 and 12.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### **K. Fund Equity**

In the fund financial statements, governmental fund types report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balances represent tentative management plans for future use of financial resources that are subject to change.

#### **L. Pensions**

For the purpose of measuring pension liability, deferred outflows/inflows of resources and pension expense, information about fiduciary net position of the Public Employees Retirement Association (P.E.R.A.) and additions to/deductions from P.E.R.A. Fiduciary net positions have been determined on the same basis as they are reported by P.E.R.A. For this purpose, plan contributions are recognized as of employer payroll paid dates and no benefits payments and refunds are recognized with the benefit terms.

City of Afton, Minnesota

Notes to Financial Statements  
December 31, 2015

**NOTE 2. Budgets, Compliance and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year-end. Financial controls for debt service funds are achieved through bond indenture provisions. Project-length financial plans are adopted for all capital projects funds.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance Accounting, under which contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the capital projects funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. No significant City encumbrances existed at December 31, 2015.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The finance director submits to the City Council a proposed operating budget, which includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The preliminary property tax levy is legally enacted through passage of a resolution and certified to the county by September 15 of each year.
4. The final budget is legally adopted through the passage of a resolution by December 20 of each year.
5. Formal budgets are adopted for the General Fund and Special Revenue Funds. Budget control for Debt Service Funds is achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
6. The City Council may authorize the transfer of budgeted amounts between funds.
7. The legal level of budgetary control (i.e., the level at which expenditures may not exceed appropriations) is the fund level. For management purposes, budgetary control is maintained at the department level. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where the need has been properly demonstrated, the Administrator can make an adjustment within the department budget. Therefore, there is a constant review process and expenditures are not approved until it has been determined that 1) adequate funds were appropriated, 2) the expenditure is still necessary, and 3) funds are available.

Budgeted amounts are as originally adopted by City Council. Revenues exceeding budgeted amounts are sometimes used for supplemental appropriations during the year. Neither the revenue nor the expenditure budget is adjusted to reflect these items. The City did not make any supplemental appropriations during the year.

City of Afton, Minnesota

Notes to Financial Statements  
December 31, 2015

**B. Expenditures/Appropriations**

Actual expenditures were less than appropriations (budget) in the General Fund in the amount of \$51,094 for the year ended December 31, 2015.

**NOTE 3. Deposits and Investments**

Minn. Statute 118A.02 and 118A.04 authorized the City to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all City deposits be covered by insurance, surety bond, or collateral.

At December 31, 2015, the City's bank deposits were none. The carrying value of these deposits on the City's books was also none. All of the City's bank deposits were covered by insurance during 2015.

Minn. Statute 118A.04 and 118A.05 generally authorized the following types of investments as available to the City;

1. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. 118A.04, subd. 6.
2. Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments.
3. General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states, provided such obligations have certain specified bond ratings by a national bond rating service.
4. Banker's acceptance of the United States banks.
5. Commercial paper issued by the United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less.
6. With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investments, trusts and guaranteed investment contracts.

Generally accepted accounting principles have determined three levels of custodial credit risk for investments;

1. Insured or registered, or for which the securities are held by the City or its agent in the City's name.
2. Uninsured and unregistered and held by the counter party's trust department or agent in the City's name.
3. Uninsured and unregistered and held by the counter party or by its trust department or agent, but not in the City's name.

The City has no investments that need to be categorized by custodial credit risk. The following is a summary of the carrying values of the City's cash items at December 31, 2015.

	<b><u>Carrying Value</u></b>
Cash on hand	\$ 185
Minnesota Municipal Money Market Fund	<u>4,734,484</u>
<b>Total Cash and Investments</b>	<b><u>\$ 4,734,669</u></b>
Governmental Activities - Cash Pool	\$ 4,630,260
Fiduciary Fund - Cash Pool MN. Investment Fund	104,409
Fiduciary Fund - Cash Pool - Refinance Fund	-
	<b><u>\$ 4,734,669</u></b>

**City of Afton, Minnesota**

**Notes to Financial Statements  
December 31, 2015**

**NOTE 4. Capital Assets**

Capital assets activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Development in Progress - Land	\$ 1,192,871	\$ 635,682	\$ -	\$ 1,828,553
Development in Progress - Improvements	706,679	588,778		1,295,457
Land and Improvements	<u>178,119</u>			<u>178,119</u>
<b>Total Capital Assets, Not being Depreciated</b>	<b><u>\$ 2,077,669</u></b>	<b><u>\$1,224,460</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,302,129</u></b>
Capital Assets Being Depreciated:				
City Roads	\$ 5,339,831	\$ 275,360	\$ -	\$ 5,615,191
Park Equipment and Improvements	84,635	-	-	84,635
Building and Improvements	459,549	-	-	459,549
Furniture and Equipment - City Hall	70,545	-	-	70,545
Equipment Public Works	109,091	-	-	109,091
Infrastructure-Site Improvements	<u>201,305</u>	<u>-</u>	<u>-</u>	<u>201,305</u>
<b>Total Capital Assets, Being Depreciated</b>	<b><u>\$ 6,264,956</u></b>	<b><u>\$ 275,360</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,540,316</u></b>
Less Accumulated Depreciation:				
City Roads	\$ 1,253,564	\$ 229,346	\$ -	\$ 1,482,910
Park Equipment	64,869	3,200	-	68,069
Building and Improvements	286,812	11,729	-	298,541
Furniture and Equipment - City Hall	54,299	6,200	-	60,499
Equipment Public Works	91,442	4,700	-	96,142
Infrastructure - Site Improvements	<u>106,743</u>	<u>9,746</u>	<u>-</u>	<u>116,489</u>
<b>Total Accumulated Depreciation</b>	<b><u>\$ 1,857,729</u></b>	<b><u>\$ 264,921</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,122,650</u></b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b><u>\$ 4,407,227</u></b>	<b><u>\$ 10,439</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,417,666</u></b>
<b>Governmental Activities, Capital Assets, Net</b>	<b><u>\$ 6,484,896</u></b>	<b><u>\$1,234,899</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,719,795</u></b>

Depreciation expense was charged to City functions as follows:

Governmental Activities:	
General Government	\$ 27,675
Public Works	234,046
Parks and Recreation	<u>3,200</u>
<b>Total Depreciation Expense - Governmental Activities</b>	<b><u>\$ 264,921</u></b>

**City of Afton, Minnesota**

**Notes to Financial Statements  
December 31, 2015**

**NOTE 5. Long-Term Debt - 2005A Bonds - See note 12.**

During 2005 the City issued \$4,000,000 in newly legislated general obligation tax abatement bonds for the construction of the City's Roads. These bonds are refinanced and to be paid February 1, 2015.

Bonds payable at December 31, 2015 are summarized as follows:

<b>Bond Year</b>	<b>Maturity</b>	<b>Interest Rate</b>	<b>Amount</b>
2005A	2027	3.55 - 4.20%	\$3,290,000

Changes in bonds payable during 2015 are as follows:

<b>Bond Year</b>	<b>12/31/2014</b>	<b>Issued</b>	<b>Retired</b>	<b>12/31/2015</b>
2005A	3,290,000		3,290,000	-
<b>Total</b>	<b>\$ 3,290,000</b>	<b>\$</b>	<b>\$ 3,290,000</b>	<b>\$ -</b>

See Note 12 Refinancing.

**NOTE 6. Defined Benefit Pension Plans - Statewide**

**A. PLAN DESCRIPTION**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by P.E.R.A. P.E.R.A.'s defined benefit pension plans are established and administered in accordance with Minnesota Statutes. P.E.R.A.'s defined pension plans are tax qualified plans under Section 401A of the Internal Revenue Code.

**General Employees Retirement Fund (GERF)**

P.E.R.A.'s defined benefit pension plans are established and administered in accordance with Minnesota statutes, Chapters 353 and 356.

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

**CITY OF AFTON, MINNESOTA**  
**Notes for Financial Statement**  
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**B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by state Statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80% are given 1% increases.

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

**GERF Benefits**

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

**C. Contributions**

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

**GERF Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members are required to contribute 9.1% and 6.5% respectively, of their annual covered salary in calendar year 2015. Coordinated Plan members contributed 6.5% of pay in 2015. In Calendar year 2015, the City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The City contributions to the GERF for the year ended December 31, 2015 were \$11,564. The City's contributions were equal to the required contributions for each year as set by state statutes.

CITY OF AFTON, MINNESOTA  
Notes to Financial Statements  
December 31, 2015

**D. Pension Costs**

**GERF Pension Costs**

At December 31, 2015, the City reported a liability of \$120,000 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contribution received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.000027.

For the year ended December 31, 2015, the City recognized pension expense of \$20,000 for its proportionate share of GERF's pension expense.

At December 31, 2015, the City reported its proportion share for GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ 5,000
Changes in actuarial assumptions	\$ -	\$ -
Difference between projected and actual investment earnings	\$ -	\$ -
Changes in proportion and differences between contributions made and City's proportionate share of contributions (second part to be determined by the City)	\$ -	\$ 5,000
City's contributions to GERF subsequent to the measurement date.	\$ 10,000	\$ -
<b>Total</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>

**CITY OF AFTON, MINNESOTA**

**Notes to Financial Statements**

**December 31, 2015**

\$10,000 reported as deferred outflows of resources related to pensions resulting from City contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

<b>Year ended June 30</b>	<b>Pension Expense Amount</b>
2015	\$ -
2016	\$ (2,500)
2017	\$ (2,500)
2018	\$ (2,500)
2019	\$ (2,500)

**E. Actuarial Assumptions**

The total pension liability, in the June 30, 2015 actuarial valuation, was determined using the entry age normal actuarial cost method and the following actuarial assumptions.

<b>Assumptions</b>	<b>PERA</b>
Inflation	2.75% per year
Active Member Payroll Growth	3.5% per year
Investment Rate of Return	7.90%

Salary increased were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions, used in the June 30, 2015 valuation, were based on the results of actuarial experience studies. The actuarial assumptions, used in the June 30, 2015 valuation, were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008 and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rates of return for the GASB 67 valuation.

The following changes in actuarial assumptions for GERS occurred in 2015: As of July 1, 2013, the post-retirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

PERA's long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected

CITY OF AFTON, MINNESOTA

Notes to Financial Statements

December 31, 2015

rate of return on a regular basis using a building-block method in which best-estimated 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 weighing the expected future rates of returns by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.05%
Total	100%	

**F. Discount Rate**

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

**G. Pension Liability Sensitivity**

The following table presents the City's proportionate share of the net pension liability for all plans it participates in, calculate 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% lower or 1% higher than the current discount rate.

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
PERA Discount Rate			
City's proportionate share of the GERS net pension liability	190,000	120,000	90,000

**H. Pension Plan Fiduciary Net Position**

Detailed information about PERA's pension funds' fiduciary net position is available in separately-issued PERA financial report. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF AFTON, MINNESOTA**  
**Notes to Financial Statements**  
**December 31, 2015**

**NOTE 7. EMPLOYEE PENSION PLANS - STATEWIDE (continued)**

**Defined Contribution Plan**

Five City Council members are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to plan plus investment earnings, less administrative expenses. Minn. Stat. 353D.03 specifies plan provision, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary, which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each members account annually.

Total contributions made by the City during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$660	\$660	5%	5%	5%

**City of Afton**  
**Notes to Financial Statement**  
**December 31, 2015**

**Note 7b Joint Venture - Lower St. Croix Valley Fire Protection District**

The City participates in a Joint Powers Agreement, pursuant to Minn. Stat. 471.59, with the Cities of Lake St. Croix Beach, Lakeland Shores and St. Mary's Point to provide fire protection services. Control of the Fire Protection District is vested in the District's Board, which consists of two members appointed by each city council.

At December 31, 2015 (unaudited information), the District has long-term debt consisting of \$795,000 in bonds payable, \$859,788 in capital leases/loans payable. Funding is provided by assessments from the member cities and is based on a predetermined formula. During 2015, the City of Afton's contribution was \$277,886, representing about 50% of the District's total budget. Complete financial information can be obtained from the District's office at P.O. Box 234, Lakeland, Minnesota 55043.

**Note 8. 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; employee health; and natural disasters. Risks of loss associated with worker's compensation claims, property, casualty, and liability are insured through participation in the League of Minnesota Cities Insurance Trust. There were no significant reductions in insurance coverage from the previous year.

The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers; compensation coverage.

**Note 9. Contingent Assets**

The City has approximately \$30,000 in delinquent taxes receivable at December 31, 2015.

**Note 10. Flood Hazard Mitigation Grant - State of Minnesota**

During 2012, the City commenced activities on this DNR grant expending \$443,429 (\$6674 in 2011) while being reimbursed \$360,921 mostly for the purchase of land. The original grant was dated October 24, 2100 and was amended as follows in 2012 (Expiration date December 31, 2013). \$756,544 DNR Funds received while \$935,490 was expended in 2013. No DNR Funds received in 2014, \$523,191 expended by the City.

REVISION 1. Provision 1.0 AMOUNT OF GRANT, 1.1 STATE SHARE is amended as follows:

In accordance with the Minnesota Sessions Laws-2011, 1st Special Session, Chapter 12, Section 5, Subdivision 3, and Minnesota Sessions Laws 2012, Chapter 293, Section 7, Subdivision 2, this grant is to fund the local share of a flood hazard mitigation project in the City of Afton, Minnesota, under Minnesota Statutes, Section 103F.161 to the extent that the cost of this project exceeds two percent of the median household income (MHI) in the municipality multiplied by the number of households in the municipality. Under the computation of the two percent median household income and the number of households, the Grantee shall contribute 50% of the project costs up to a total Grantee share of \$2,090,459.00 and the State shall award the Grantee 100% of the balance of the total cost of the approved Project as identified in Section 2.1 (hereinafter "Project") or \$1,750,000.00 whichever is less, for the costs authorized herein. The total obligation of the State for all compensation and reimbursements to Grantee under this Grant shall not exceed \$1,750,000.00.

The City has received \$1,117,465 to December 31, 2015 under this grant and \$35,137 for interest costs. The City has no unpaid funds match liability balance at December 31, 2015.

**City of Afton**  
**Notes to Financial Statements**  
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**NOTE 11. New Long-Term Debt**

During 2005, the City issued \$4,000,000 in General obligation Tax abatement bonds for Road Paving construction. The balance of Bonds outstanding at December 31, 2014 was \$3,290,000 and a principal payoff of \$3,290,000 was made in 2015 and new Refinance Bonds of \$2,950,000 were issued that results in a balance of outstanding bonds at December 31, 2015 of \$2,950,000. Interest paid in 2015 was \$127,742.

These Bonds were refinanced in December of 2014, effective on the "Bonds" call date February 1, 2015. \$3,290,000 of principal and \$65,116 of interest to February 1, 2015, a total of \$3,355,116 was paid. The proceeds of the "Refinance Bonds" was \$2,950,000 in Bond Principal and a Bond premium received upon sale of \$234,040. \$38,845 in Bond Costs were paid from the proceeds. See page 14a for the full accounting of this Fiduciary Fund Activity.

General Obligation Tax Abatement Refunding Bonds, Series 2014A, 3% and 4%, Debt Service Summary as follows: (Page 38 is a Complete Debt Service Schedule)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	140,000	99,000	239,000
2017	165,000	94,425	259,425
2018	180,000	89,250	269,250
2019	195,000	83,625	278,625
2020-2027	2,270,000	332,600	2,602,600
Total	\$ 2,950,000	\$ 698,900	\$ 3,648,900

**General Obligation Temporary Bonds**

In April of 2015, the City issued General Obligation Temporary Improvement Bonds, Series 2015A in the amount of \$3,755,000. Interest only at a coupon rate of .75% was paid on October 1, 2015 (\$12,908) and is due every six months thereafter until April 1, 2017, when Bonds become due. The City intends to obtain Long-Term Refinancing for these Temporary Bonds. Accrued interest at December 31, 2015 is \$7,041 for a total of \$19,949 of interest for 2015, which was capitalized as cost of Infrastructure project.

**Note 12. Litigation**

At December 31, 2015, the city has two legal suits in process. One case involves a driveway and building permit denied under city code. The second case involves parcel lot splits. This second case is being handled by the City Insurer. Neither plaintiff seeks money damages. Exposure to the city is possible mediation and litigation expenses or other settlements costs.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

City of Afton, Minnesota  
 Non-Major Governmental Funds  
 Balance Sheet  
 December 31, 2015

	Buildings and Land Capital <u>Fund</u>	201 Project <u>Fund</u>	Fire District <u>Fund</u>	Special Activities <u>Fund</u>	City Dock <u>Fund</u>	Park Reserve <u>Fund</u>	<u>Total</u>
Assets:							
Equity in Cash Pool	\$ 81,728	\$ (2,000)	\$ 2,160	\$ 24,890	\$ 56,258	\$ 105,730	\$ 268,766
Due from Other Funds							
Accounts Receivable							
Prepaid Expense							
Taxes Receivable							
Special Assessments Receivable							
<b>Total Assets</b>	<u>\$ 81,728</u>	<u>\$ (2,000)</u>	<u>\$ 2,160</u>	<u>\$ 24,890</u>	<u>\$ 56,258</u>	<u>\$ 105,730</u>	<u>\$ 268,766</u>
Liabilities and Fund Balance							
Liabilities							
Accounts Payable	\$	\$	\$	\$	\$	\$	\$
Deposits							
Advance from Other Funds							
<b>Total Liabilities</b>							
Fund Balance							
Unrestricted, Report in:							
Special Revenue Funds, Assigned		(2,000)	2,160	24,890	56,258	105,730	81,308
Capital Projects Funds, Assigned	81,728						187,458
Capital Projects Funds, Unassigned	<u>81,728</u>	<u>(2,000)</u>	<u>2,160</u>	<u>24,890</u>	<u>56,258</u>	<u>105,730</u>	<u>268,766</u>
<b>Total Fund Balances</b>	<u>\$ 81,728</u>	<u>\$ (2,000)</u>	<u>\$ 2,160</u>	<u>\$ 24,890</u>	<u>\$ 56,258</u>	<u>\$ 105,730</u>	<u>\$ 268,766</u>

The Notes to Financial Statements are an integral part of this statement.

City of Afton, Minnesota  
 Non-Major Governmental Funds  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
 December 31, 2015

	Buildings and Land Capital	201 Project	Fire District	Special Activities	City Dock	Park Reserve	Total
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Revenues							
Property Taxes	\$	\$	\$	\$	\$	\$	\$
Licenses, Permits and Fees		3,787	57,933		3,850	54,743	57,933
Intergovernmental Revenue				56,463			62,380
Investment Income	17		2		25	26	56,463
Donations							70
<b>Total Revenues</b>	<b>17</b>	<b>3,787</b>	<b>57,935</b>	<b>56,463</b>	<b>3,875</b>	<b>54,769</b>	<b>176,846</b>
Expenditures							
General Government	2,563			2,605			5,168
Public Safety			57,933	47,347			105,280
Public Works		9,161					9,161
Parks and Recreation						280	280
Capital Outlay							
Debt Service							
Principal Retirement							
Interest and Fiscal Fees							
<b>Total Expenditures</b>	<b>2,563</b>	<b>9,161</b>	<b>57,933</b>	<b>49,952</b>	<b>-</b>	<b>280</b>	<b>119,889</b>
Excess (Deficiency) of Revenues Over Expenditures	(2,546)	(5,374)	2	6,511	3,875	54,489	56,957
Other Financing Sources (Uses)							
Transfers In	41,000			16,070			57,070
Transfers Out				(849)			(849)
<b>Total Other Financing Sources</b>	<b>41,000</b>	<b>-</b>	<b>-</b>	<b>15,221</b>	<b>-</b>	<b>-</b>	<b>56,221</b>
Net Change in Fund Balances	38,454	(5,374)	2	21,732	3,875	54,489	113,178
Fund Balance - January 1	43,274	3,374	2,158	3,158	52,383	51,241	155,588
Fund Balance - December 31	\$ 81,728	\$ (2,000)	\$ 2,160	\$ 24,890	\$ 56,258	\$ 105,730	\$ 268,766

The Notes to Financial Statements are an integral part of this statement.

**City of Afton, Minnesota**

**Annual Financial Report  
For the Year Ended December 31, 2015**

**Special Revenue Funds**

The Fire District Fund is used to fund the City's share of the Lower St. Croix Valley Fire Protection District's lease and purchase option agreement and mortgage trust indenture.

**City of Afton, Minnesota**  
**Fire District Special Revenue Fund**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual for the year ended**  
**December 31, 2015**

	<u>Budget</u>	<u>Actual</u>
<b><u>REVENUES</u></b>		
Taxes	\$ 57,933	\$ 57,933
Investment Earnings	<u>                    </u>	<u>                    2</u>
<b>Total Revenues</b>	<u>                    57,933</u>	<u>                    57,935</u>
 <b><u>Expenditures</u></b>		
Public Safety		
Fire and Ambulance Service	<u>                    57,933</u>	<u>                    57,933</u>
<b>Total Expenditures</b>	<u>                    57,933</u>	<u>                    57,933</u>
Excess of Revenues Over (Under) Expenditures	<u>                    </u>	<u>                    2</u>
 Fund Balance - January 1	 <u>                    </u>	 <u>                    2,158</u>
Fund Balance - December 31	<u>                    \$</u>	<u>                    \$ 2,160</u>

**City of Afton, Minnesota**

**Annual Financial Report  
For the Year Ended December 31, 2015**

**Capital Projects Fund**

The Buildings and Land Fund is used to account for capital outlays for general government improvements for buildings and land.

The Street Improvements Capital Fund is used to account for the accumulation of resources and expenditures for public works capital improvements.

The Park Reserve Fund is used to account for the park set-aside fees collected from developers and used for park capital improvements.

**City of Afton, Minnesota**  
**Building and Land Capital Projects Fund**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual for the year ended**  
**December 31, 2015**

	<u>Budget</u>	<u>Actual</u>
<b><u>REVENUES</u></b>		
Grants	\$	\$ -
Insurance Proceeds		
Investment Earnings	<u>                    </u>	<u>                    17</u>
Total Revenues	<u>                    </u>	<u>                    17</u>
 <b><u>Expenditures</u></b>		
General Government		
City Hall Improvements		
Building Repairs	<u>                    </u>	<u>                    2,563</u>
Total Expenditures	<u>                    </u>	<u>                    2,563</u>
Excess of Revenues Over (Under) Expenditures	<u>                    </u>	<u>                    (2,546)</u>
 Other Financing Sources (Uses)		
Operating Transfers In	21,000	41,000
Operating Transfers Out	<u>                    </u>	<u>                    </u>
Total Other Financing Sources (Uses)	<u>                    21,000</u>	<u>                    41,000</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	21,000	38,454
 Fund Balance - January 1	 <u>                    62,449</u>	 <u>                    43,274</u>
Fund Balance - December 31	<u>                    \$ 83,449</u>	<u>                    \$ 81,728</u>

**City of Afton, Minnesota**  
**Street Improvements Capital Fund**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual for the year ended**  
**December 31, 2015**

	<u>Budget</u>	<u>Actual</u>
<b><u>REVENUES</u></b>		
Taxes	\$	
Intergovernmental - Small City Assistance for Streets		60,510
Special Assessments		
Investment Earnings		130
<b>Total Revenues</b>		60,640
<b><u>Expenditures</u></b>		
Public Works		
Street Projects	200,000	275,360
Flood Mitigation		
<b>Total Expenditures</b>	200,000	275,360
Excess of Revenues Over (Under) Expenditures	(200,000)	(214,720)
Other Financing Sources (Uses)		
Operating Transfers In	200,000	243,500
Operating Transfers Out		
<b>Total Other Financing Sources (Uses)</b>	200,000	243,500
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses		28,780
Fund Balance - January 1	-	474,880
Fund Balance - December 31	\$ -	\$ 503,660

**City of Afton, Minnesota**  
**Park Reserve Capital Projects Fund**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**Budget and Actual for the year ended**  
**December 31, 2015**

	<u>Budget</u>	<u>Actual</u>
<b><u>REVENUES</u></b>		
Dedication Fees	\$	\$ 54,743
Donations		-
Investment Earnings		26
<b>Total Revenues</b>		<b>54,769</b>
<b><u>Expenditures</u></b>		
Culture and Recreation		
Park Improvements		280
<b>Total Expenditures</b>		<b>280</b>
Excess of Revenues Over (Under) Expenditures		54,489
Transer to Disaster Fund		
Fund Balance - January 1		51,241
Fund Balance - December 31	\$ -	\$ 105,730

**MICHAEL W. POFAHL**  
**Certified Public Accountant**  
**10780 North Avenue, 14E**  
**Chisago Lake, Minnesota 55013**  
**651-213-6632**

Report on Compliance with Minnesota Legal  
Compliance Audit Guide for Local Government

To the Honorable Mayor and  
Members of the City Council  
City of Afton, Minnesota

I have audited the financial statements of the City of Afton, Minnesota, as of and for the year ended December 31, 2015, and have issued my report thereon dated April 21, 2016.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and Provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by State Auditor pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

The Minnesota Legal compliance Audit Guide for Local Government covers 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 districts. My study included all of the listed categories.

The results of my tests indicate that for the items tested, the City of Afton, Minnesota complied with the material terms and conditions of applicable legal provisions.

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

  
Michael W. Pofahl, C.P.A.  
April 21, 2016

**MICHAEL W. POFAHL**  
**Certified Public Accountant**  
**10780 North Avenue, 14E**  
**Chisago City, Minnesota 55013**  
**651-213-6632**

Report on Internal Control/Compliance

To the Honorable Mayor and  
Members of the City Council  
City of Afton, Minnesota

I have audited the financial statements of the governmental activities and each major fund of the City of Afton, Minnesota, as of and for the year ended December 31, 2015 which collectively comprise the City of Afton's basic financial statements as listed in the table of contents. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits.

In planning and performing my audit, I considered the City of Afton, Minnesota's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Afton, Minnesota's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Afton, Minnesota's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. I identified no deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

As part of obtaining reasonable assurance about whether the City of Afton, Minnesota's financial statements are free of material misstatements, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance.

This report is intended solely for the information and use of management, members of the board, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

  
Michael W. Pofahl C.P.A.  
April 21, 2016

**\$2,950,000**  
**City of Afton, Minnesota**  
**General Obligation Tax Abatement Bonds, Series 2014A**  
**Current Refunding of Series 2005A**

**Debt Service Schedule**

	Principal	Coupon	Interest	Total P&I
8/1/2015	-	-	62,625.83	62,625.83
2/1/2016	140,000.00	3.000%	50,550.00	190,550.00
8/1/2016	-	-	48,450.00	48,450.00
2/1/2017	165,000.00	3.000%	48,450.00	213,450.00
8/1/2017	-	-	45,975.00	45,975.00
2/1/2018	180,000.00	3.000%	45,975.00	225,975.00
8/1/2018	-	-	43,275.00	43,275.00
2/1/2019	195,000.00	3.000%	43,275.00	238,275.00
8/1/2019	-	-	40,350.00	40,350.00
2/1/2020	210,000.00	4.000%	40,350.00	250,350.00
8/1/2020	-	-	36,150.00	36,150.00
2/1/2021	230,000.00	4.000%	36,150.00	266,150.00
8/1/2021	-	-	31,550.00	31,550.00
2/1/2022	250,000.00	4.000%	31,550.00	281,550.00
8/1/2022	-	-	26,550.00	26,550.00
2/1/2023	275,000.00	4.000%	26,550.00	301,550.00
8/1/2023	-	-	21,050.00	21,050.00
2/1/2024	295,000.00	4.000%	21,050.00	316,050.00
8/1/2024	-	-	15,150.00	15,150.00
2/1/2025	315,000.00	3.000%	15,150.00	330,150.00
8/1/2025	-	-	10,425.00	10,425.00
2/1/2026	345,000.00	3.000%	10,425.00	355,425.00
8/1/2026	-	-	5,250.00	5,250.00
2/1/2027	350,000.00	3.000%	5,250.00	355,250.00
<b>Total</b>	<b>\$2,950,000.00</b>		<b>\$ 761,525.83</b>	<b>\$ 3,711,525.83</b>