

CITY OF AFTON

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2019

**CITY OF AFTON, MINNESOTA
ELECTED AND APPOINTED OFFICIALS**

ELECTED OFFICIALS

		Term Expires
Bill Palmquist	Mayor	2020
Annie Perkins	Council	2020
Lucia Wroblewski	Council	2022
Stan Ross	Council	2022
Randy Nelson	Council	2020

EX OFFICIO

Ron Moorse	City Administrator	Appointed
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Afton, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements 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 our 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Carlson AV LLP

Golden Valley, Minnesota
April 20, 2020

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

This section of the City of Afton's financial report provides the reader with the management's overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2019. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position, and (4) identify any changes in the City's financial plan (approved budget).

The financial discussion and analysis presented in this section is intended to be used in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2019 fiscal year include the following:

- The assets of the City exceeded its liabilities by \$22,073,834 (net position) as of December 31, 2019. Of this amount, \$3,926,415 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,906,723 from 2018.
- The City's governmental funds reported combined ending fund balances of \$4,155,364 as of December 31, 2019.
- As of December 31, 2019, the unrestricted/unassigned fund balance for the General Fund was \$383,559.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, providing information for the City as a whole, 2) fund financial statements, providing detailed information for the City's significant funds, and 3) notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements can be found on pages 16 and 17 of this report.

Fund Financial Statements

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

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

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements (Continued)

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

The City maintains fourteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, city infrastructure improvement, and 2017B road debt service funds, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18-21.

Proprietary funds – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer utility, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 22-24.

Fiduciary funds – 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 basic fiduciary funds financial statements can be found on page 25.

Notes to the financial statements provide additional information that is essential for 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 26-51 of this report.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as pension schedules and a budgetary comparison schedule for the general fund. Required supplementary information can be found on pages 52-57 of this report. Also, this report presents certain other supplementary information such as combining financial information for the nonmajor governmental funds. Other supplementary information can be found on pages 58-63 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The City's combined net position was \$22,073,834 on December 31, 2019:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current	\$ 7,446,799	\$ 7,173,846	\$ 47,872	\$ 57,686	\$ 7,494,671	\$ 7,231,532
Capital assets	10,761,380	10,838,554	14,886,857	15,110,571	25,648,237	25,949,125
Total Assets	18,208,179	18,012,400	14,934,729	15,168,257	33,142,908	33,180,657
Deferred Outflows of Resources	32,526	52,776	-	-	32,526	52,776
Liabilities						
Current	3,151,065	1,414,020	4,303	4,543	3,155,368	1,418,563
Long-term	6,863,883	9,456,770	-	-	6,863,883	9,456,770
Total Liabilities	10,014,948	10,870,790	4,303	4,543	10,019,251	10,875,333
Deferred Inflows of Resources	1,082,349	2,190,989	-	-	1,082,349	2,190,989
EXCESS OF TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES OVER TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 7,143,408	\$ 5,003,397	\$ 14,930,426	\$ 15,163,714	\$ 22,073,834	\$ 20,167,111
Net Assets						
Net investment in capital assets	\$ 1,425,303	\$ 905,569	\$ 14,886,857	\$ 15,110,571	\$ 16,312,160	\$ 16,016,140
Restricted	1,835,259	728,602	-	-	1,835,259	728,602
Unrestricted	3,882,846	3,369,226	43,569	53,143	3,926,415	3,422,369
TOTAL NET ASSETS	\$ 7,143,408	\$ 5,003,397	\$ 14,930,426	\$ 15,163,714	\$ 22,073,834	\$ 20,167,111

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net Position (Continued)

The larger portion of the City's net position (74%) reflects its investment in capital assets (e.g. land, land improvements, buildings, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position

The change in net position is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Charges for services	\$ 428,222	\$ 315,238	\$ 40,700	\$ 29,850	\$ 468,922	\$ 345,088
Operating grants and contributions	158,073	246,257	-	-	158,073	246,257
Capital grants and contributions	1,675,503	1,025,831	-	-	1,675,503	1,025,831
General revenues						
Property taxes	2,162,464	2,080,582	15,000	15,000	2,177,464	2,095,582
Franchise taxes	11,561	12,391	-	-	11,561	12,391
Fiscal disparity	63,842	54,350	-	-	63,842	54,350
Aids and payments from the State	11,184	11,269	-	-	11,184	11,269
Gain (loss) on disposal of equipment	3,910	(87,820)	-	-	3,910	(87,820)
Investment earnings	73,528	46,458	953	13	74,481	46,471
Miscellaneous	16,494	11,191	-	-	16,494	11,191
Total Revenues	4,604,781	3,715,747	56,653	44,863	4,661,434	3,760,610
Expenses						
General government	613,091	709,583	-	-	613,091	709,583
Public safety	555,841	540,638	-	-	555,841	540,638
Public works	725,243	437,278	-	-	725,243	437,278
Public health	441	641	-	-	441	641
Culture and recreation	39,552	35,774	-	-	39,552	35,774
Other	13,018	-	-	-	13,018	-
Interest on long-term debt	209,991	214,767	-	-	209,991	214,767
Sewer	-	-	597,534	570,519	597,534	570,519
Total Expenses	2,157,177	1,938,681	597,534	570,519	2,754,711	2,509,200
Excess (deficiency) of revenues over expenditures before capital contributions	2,447,604	1,777,066	(540,881)	(525,656)	1,906,723	1,251,410
Capital contributions	(307,593)	(15,631,625)	307,593	15,631,625	-	-
Change in net position	2,140,011	(13,854,559)	(233,288)	15,105,969	1,906,723	1,251,410
Net position – beginning, as previously stated	5,003,397	19,557,518	15,163,714	-	20,167,111	19,557,518
Prior period adjustment	-	(699,562)	-	57,745	-	(641,817)
Net position – beginning, as restated	5,003,397	18,857,956	15,163,714	57,745	20,167,111	18,915,701
NET POSITION - ENDING	\$ 7,143,408	\$ 5,003,397	\$ 14,930,426	\$ 15,163,714	\$ 22,073,834	\$ 20,167,111

**CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position (Continued)

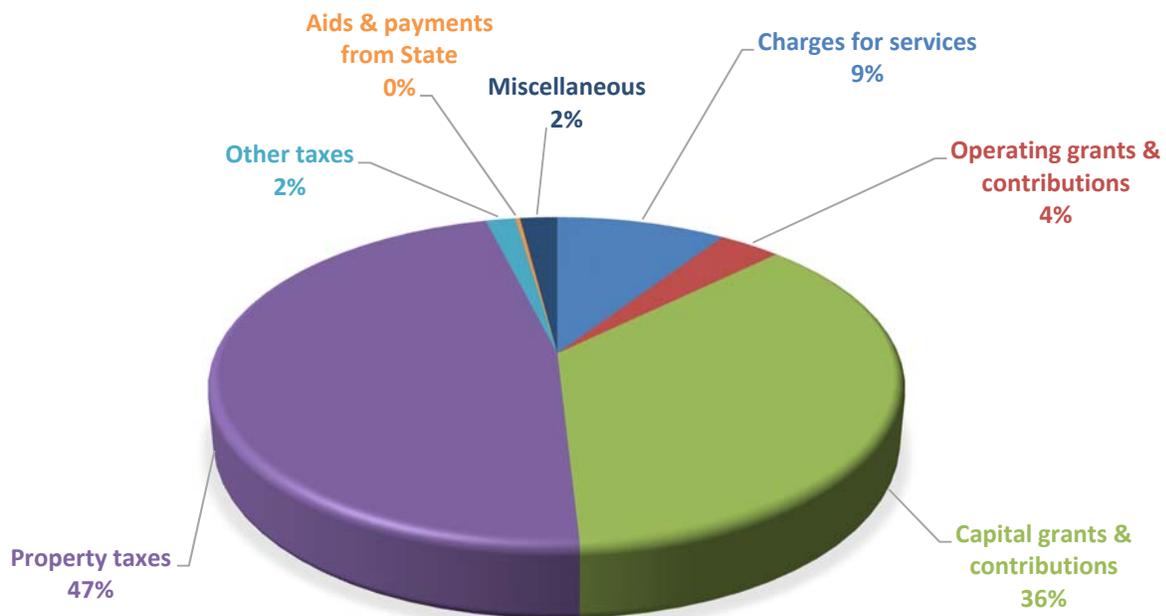
Governmental Activities

Governmental activities increased the City's net position by \$2,140,011.

Revenues increased by \$889,034 or 24%. The key elements of this change are as follows:

- Capital grants and contributions increased \$649,672 from 2018.
- Charges for services increased \$112,984 from 2018, due mostly to an increase in park dedication fees.
- Property tax revenue increased \$81,882 from 2018.

REVENUES BY SOURCE

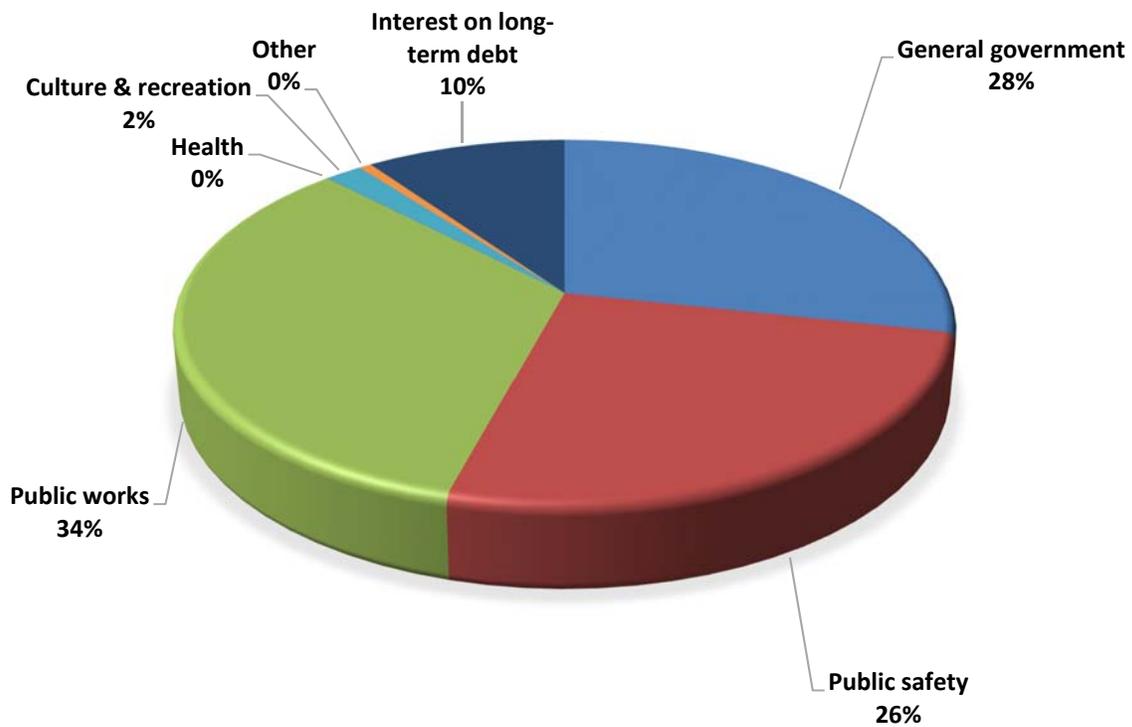


**CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position (Continued)
Governmental Activities (Continued)

EXPENDITURES BY ACTIVITY



Business-Type Activities

Business-type activities decreased the City's net position by \$233,288. The key factor for this change results from depreciation expense.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

FINANCIAL ANALYSIS OF THE CITY'S FUNDS
(FUND FINANCIAL STATEMENTS)

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,155,364, an increase of \$1,693,659 from the prior year. Of this balance, \$1,835,259 is restricted by law or ordinance.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached \$664,018, a decrease of \$67,879 from the prior year.

The city infrastructure fund has a total fund balance of \$1,110,949, all of which is restricted. The net increase in the fund balance during the current year was \$1,562,482. This increase was due mostly to a flood hazard mitigation grant received in the current year and related expenditures have not yet been made.

The 2017B road debt service fund has a total fund balance of \$389,941 all of which is restricted for debt repayment. The net increase in the fund balance during the year was \$554.

The nonmajor special revenue funds have total fund balances of \$39,517 all of which is assigned for use related to the purpose of each fund. The net decrease in the fund balances during the current year was \$29,759. This decrease was due mainly to expenses for the city dock improvements.

The nonmajor debt service funds have total fund balances of \$334,369, all of which is restricted for debt repayment. The net decrease in the fund balance during the year was \$4,846.

The nonmajor capital projects funds have total fund balances of \$1,616,570, all of which is assigned for use in respective projects. The net increase in total fund balances for the year was \$233,107. This increase was due mainly to park dedication fees of \$190,000 received in the current year as well as a significant decrease in street improvement expenses in the current year.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)
(FUND FINANCIAL STATEMENTS)

Proprietary Funds

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

Unrestricted net position of the sewer fund was \$43,569. The total decrease in net position was \$233,288. Factors concerning the finances of this fund has already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was approved in December 2018 and was not updated during the year.

The net difference between the general fund budget and actual amounts received/expended can be briefly summarized as follows:

- Revenues were above expectations by \$128,163
 - Property taxes revenue was above expectations by \$14,206.
 - Licenses, fees, and permits revenue was above expectations by \$77,737, due mainly to higher than expected building permit fees.
 - Local grants revenue was above expectations by \$10,000, due to a legacy grant received from the MN Historical Society.
 - Investment earnings were above expectations by \$15,927
- Expenditures were above expectations by \$199,952
 - General government expenditures were above expectations by 68,057, due mainly to higher than anticipated building inspection fees, engineering fees, and legal co-pay fees.
 - Miscellaneous expenditures were above expectation by \$13,018, due mainly to unexpected flood-related costs.
 - Capital outlay was above expectation by \$134,900, due mainly to high speed internet project costs not budgeted for.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2019 amounted to \$25,648,237. The investment in capital assets includes land, buildings, park facilities, equipment, streets, and downtown improvements (including sewer system). The total decrease in the City's investment in capital assets for the current fiscal year was \$300,888 (\$77,174 decrease in governmental activities and a \$223,714 decrease for business-type activities). The major portion of this decrease was due to current year depreciation expense.

Capital assets added during the current year included the following:

- Downtown improvements \$247,188
- City dock improvements \$34,465
- High speed internet upgrades \$125,000
- Road paving and culvert replacement \$74,730
- Septic system additions \$307,593

Additional information on the City's capital assets can be found in Note 5 on pages 41-42 of this report.

Long-Term Obligations

A summary of the City's debt is as follows:

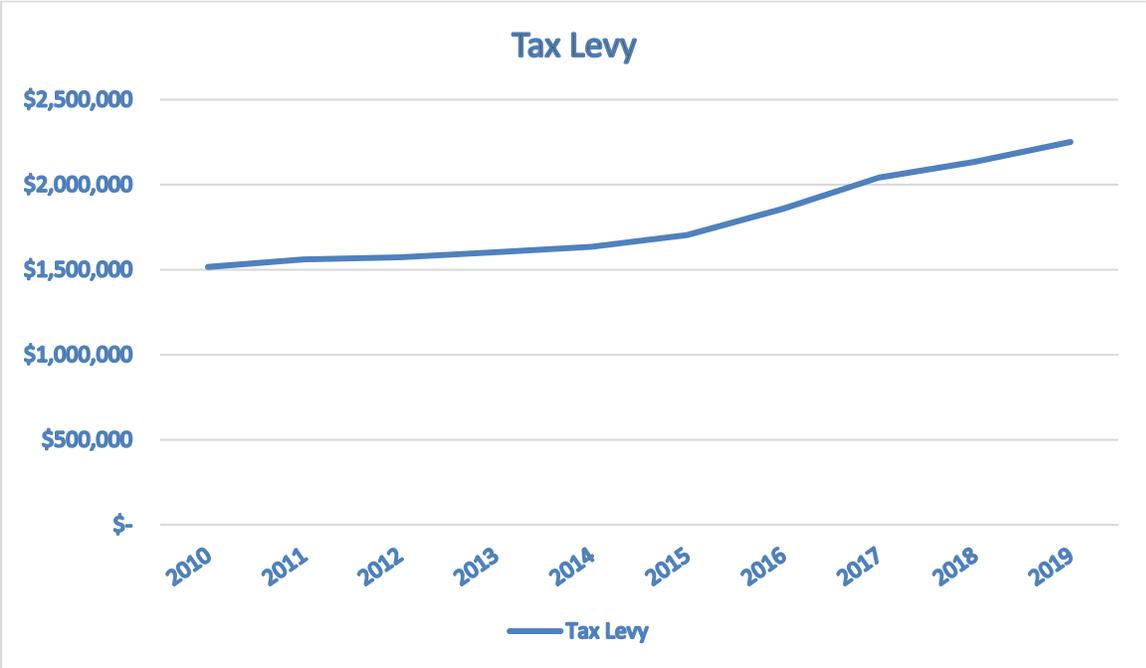
	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u> <u>2018</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance</u> <u>2019</u>	<u>Current</u>
2014A GO improvement bonds	3 & 4%	4-1-2027	\$ 2,465,000	\$ -	\$ 195,000	\$ 2,270,000	\$ 210,000
2017A GO temporary improvement bonds	1.55%	4-1-2020	1,980,000	-	-	1,980,000	1,980,000
2017B GO improvement bonds	2.25%	2-1-2028	3,500,000	-	320,000	3,180,000	325,000
GO PFA loans	1.095 & 1.094%	8-20-2036	1,987,985	29,092	111,000	1,906,077	112,000
TOTAL			<u>\$ 9,932,985</u>	<u>\$ 29,092</u>	<u>\$ 626,000</u>	<u>\$ 9,336,077</u>	<u>\$ 2,627,000</u>

At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,430,000 and total Public Facilities Authority loans outstanding of \$1,906,077. All obligations outstanding are backed by the full faith and credit of the government.

Additional information on the City's long-term debt can be found in Note 6 on pages 43-44 of this report.

CITY OF AFTON, MINNESOTA
MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2019

The following represents the tax levy by year:



CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City’s finances and to demonstrate the City’s accountability for the money it receives. If you have any questions about this report or would like additional information, contact the City of Afton, 3033 St. Croix Trail South, Afton, MN 55001.

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

CITY OF AFTON, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2019

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets			
Cash and investments	\$ 4,513,029	\$ 47,872	\$ 4,560,901
Taxes receivable	24,787	-	24,787
Special assessments receivable	1,785,296	-	1,785,296
Due from other governmental units	22,693	-	22,693
Other receivables	1,089,104	-	1,089,104
Prepaid items	11,890	-	11,890
Total Current Assets	<u>7,446,799</u>	<u>47,872</u>	<u>7,494,671</u>
Noncurrent assets			
Capital assets not being depreciated	2,125,373	-	2,125,373
Capital assets net of accumulated depreciation	8,636,007	14,886,857	23,522,864
Total Noncurrent Assets	<u>10,761,380</u>	<u>14,886,857</u>	<u>25,648,237</u>
Total Assets	<u>18,208,179</u>	<u>14,934,729</u>	<u>33,142,908</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	32,526	-	32,526
LIABILITIES			
Current Liabilities			
Accounts payable	247,285	4,303	251,588
Accrued expenses	159,039	-	159,039
Accrued interest payable	76,374	-	76,374
Customer deposits	27,647	-	27,647
Compensated absences	13,720	-	13,720
Current portion of long-term debt	2,627,000	-	2,627,000
Total Current Liabilities	<u>3,151,065</u>	<u>4,303</u>	<u>3,155,368</u>
Long-Term Liabilities			
Bonds and loans payable	6,709,077	-	6,709,077
Net pension liability	154,806	-	154,806
Total Long-Term Liabilities	<u>6,863,883</u>	<u>-</u>	<u>6,863,883</u>
Total Liabilities	<u>10,014,948</u>	<u>4,303</u>	<u>10,019,251</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	34,968	-	34,968
Unavailable grants	1,047,381	-	1,047,381
Total Deferred Inflows of Resources	<u>1,082,349</u>	<u>-</u>	<u>1,082,349</u>
EXCESS OF TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES OVER TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
	<u>\$ 7,143,408</u>	<u>\$ 14,930,426</u>	<u>\$ 22,073,834</u>
NET POSITION			
Net investment in capital assets	\$ 1,425,303	\$ 14,886,857	\$ 16,312,160
Restricted	1,835,259	-	1,835,259
Unrestricted	3,882,846	43,569	3,926,415
TOTAL NET POSITION	<u>\$ 7,143,408</u>	<u>\$ 14,930,426</u>	<u>\$ 22,073,834</u>

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

CITY OF AFTON, MINNESOTA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities							
General government	\$ 613,091	\$ 238,222	\$ -	\$ -	\$ (374,869)	\$ -	\$ (374,869)
Public safety	555,841		50,819	-	(505,022)	-	(505,022)
Public works	725,243	-	-	1,675,503	950,260	-	950,260
Health	441	-	6,676	-	6,235	-	6,235
Culture and recreation	39,552	190,000	10,000	-	160,448	-	160,448
Other	13,018	-	-	-	(13,018)	-	(13,018)
Interest and fiscal costs on long-term debt	209,991	-	90,578	-	(119,413)	-	(119,413)
Total Governmental Activities	<u>2,157,177</u>	<u>428,222</u>	<u>158,073</u>	<u>1,675,503</u>	<u>104,621</u>	<u>-</u>	<u>104,621</u>
Business-Type Activities							
Sewer	597,534	40,700	-	-	-	(556,834)	(556,834)
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,754,711</u>	<u>\$ 468,922</u>	<u>\$ 158,073</u>	<u>\$ 1,675,503</u>	104,621	(556,834)	(452,213)
General revenues							
Property taxes					2,162,464	15,000	2,177,464
Franchise taxes					11,561	-	11,561
Fiscal disparity tax					63,842	-	63,842
Aids and payments from the state					11,184	-	11,184
Unrestricted net investment earnings					73,528	953	74,481
Miscellaneous							
Sale of property/land					3,910	-	3,910
Fines and forfeitures					13,706	-	13,706
Other					2,788	-	2,788
Capital contributions					(307,593)	307,593	-
Total General Revenues and Capital Contributions					<u>2,035,390</u>	<u>323,546</u>	<u>2,358,936</u>
CHANGE IN NET POSITION					2,140,011	(233,288)	1,906,723
NET POSITION – BEGINNING					<u>5,003,397</u>	<u>15,163,714</u>	<u>20,167,111</u>
NET POSITION – ENDING					<u>\$ 7,143,408</u>	<u>\$ 14,930,426</u>	<u>\$ 22,073,834</u>

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

Fund Financial Statements

CITY OF AFTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019

	General Fund	City Infrastructure Improvement	2017B Road Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and investments	\$ 810,757	\$ 1,276,260	\$ 390,659	\$ 2,035,353	\$ 4,513,029
Taxes receivable – delinquent	24,787	-	-	-	24,787
Special assessments receivable	-	1,785,296	-	-	1,785,296
Due from other governmental units	22,693	-	-	-	22,693
Other receivables	41,723	1,047,381	-	-	1,089,104
Prepaid items	11,890	-	-	-	11,890
TOTAL ASSETS	<u>\$ 911,850</u>	<u>\$ 4,108,937</u>	<u>\$ 390,659</u>	<u>\$ 2,035,353</u>	<u>\$ 7,446,799</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 153,846	\$ 47,824	\$ 718	\$ 44,897	\$ 247,285
Accrued expenses	41,552	117,487	-	-	159,039
Customer deposits	27,647	-	-	-	27,647
Total Liabilities	223,045	165,311	718	44,897	433,971
Deferred Inflows of Resources					
Unavailable revenue - taxes	24,787	-	-	-	24,787
Unavailable revenue - special assessments	-	1,785,296	-	-	1,785,296
Unearned revenue - grants receivable	-	1,047,381	-	-	1,047,381
Total Deferred Inflows of Resources	24,787	2,832,677	-	-	2,857,464
Fund Balances					
Nonspendable	11,890	-	-	-	11,890
Restricted	-	1,110,949	389,941	334,369	1,835,259
Unrestricted					
Assigned	268,569	-	-	1,656,087	1,924,656
Unassigned	383,559	-	-	-	383,559
Total Fund Balances	664,018	1,110,949	389,941	1,990,456	4,155,364
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 911,850</u>	<u>\$ 4,108,937</u>	<u>\$ 390,659</u>	<u>\$ 2,035,353</u>	<u>\$ 7,446,799</u>

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

CITY OF AFTON, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2019

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 4,155,364

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

Capital assets used in governmental activities are not financial resources; therefore, they are not reported as assets in the governmental funds:

General capital assets	\$ 14,114,714	
Accumulated depreciation	<u>(3,353,334)</u>	10,761,380

Other long-term assets (delinquent property taxes, special assessments) are not available to pay for current-period expenditures; therefore, they are considered deferred outflows of resources in the governmental funds until the amounts are received. Deferred outflows of resources at year-end consists of:

Unavailable revenue - property taxes	24,787	
Unavailable revenue - special assessments	<u>1,785,296</u>	1,810,083

Accrued severance pay is not due and payable with current financial resources; therefore, it is not reported as a liability in the governmental funds. (13,720)

Accrued interest on bonds is not recorded as a liability in the governmental funds; however, the statement of net position records this amount. Accrued interest at year-end is: (76,374)

Long-term debt payable is not due and payable in the current period; therefore, they are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds and notes		(9,336,077)
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Some liabilities, including net pension obligations, are not due and payable in the current period; therefore, they are not reported in the governmental funds. (154,806)

Deferred outflows and inflows of resources related to pension are applicable to future periods; therefore, they are not reported in the governmental funds.

Deferred outflow of resources related to pensions of \$32,526 = \$24,281 deferred outflows of resources pension expense + \$8,245 deferred outflows of 2019 employer contributions related to pensions.		32,526
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Deferred inflows of resources related to pensions		<u>(34,968)</u>
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TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES **\$ 7,143,408**

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

CITY OF AFTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2019

	General Fund	City Infrastructure Improvement	2017B Road Debt Service	Other Governmental Funds	Total
REVENUES					
Taxes					
Property taxes	\$ 1,065,253	\$ 202,000	\$ 390,000	\$ 501,224	\$ 2,158,477
Franchise taxes	-	-	-	11,561	11,561
Special assessments	-	157,862	-	-	157,862
Licenses and permits	231,137	-	-	193,850	424,987
Intergovernmental	89,893	1,677,312	-	50,819	1,818,024
Charges for services	3,235	-	-	-	3,235
Fines and forfeits	13,706	-	-	-	13,706
Net investment earnings	16,927	22,027	2,347	32,227	73,528
Other	2,788	-	-	-	2,788
Total Revenues	<u>1,422,939</u>	<u>2,059,201</u>	<u>392,347</u>	<u>789,681</u>	<u>4,664,168</u>
EXPENDITURES					
Current					
General government	621,876	-	-	19,020	640,896
Public safety	455,398	-	-	100,442	555,840
Health	441	-	-	-	441
Public works	250,000	-	-	-	250,000
Sanitation	-	-	-	842	842
Culture and recreation	19,095	-	-	-	19,095
Other	13,018	-	-	-	13,018
Debt service					
Principal	-	111,000	320,000	195,000	626,000
Interest	-	55,871	71,793	87,941	215,605
Capital outlay	134,900	358,940	-	187,934	681,774
Total Expenditures	<u>1,494,728</u>	<u>525,811</u>	<u>391,793</u>	<u>591,179</u>	<u>3,003,511</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(71,789)	1,533,390	554	198,502	1,660,657
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	29,092	-	-	29,092
Sale of property	3,910	-	-	-	3,910
Net Other Financing Sources (Uses)	<u>3,910</u>	<u>29,092</u>	<u>-</u>	<u>-</u>	<u>33,002</u>
NET CHANGE IN FUND BALANCES	(67,879)	1,562,482	554	198,502	1,693,659
FUND BALANCES – BEGINNING	731,897	(451,533)	389,387	1,791,954	2,461,705
FUND BALANCES – ENDING	<u>\$ 664,018</u>	<u>\$ 1,110,949</u>	<u>\$ 389,941</u>	<u>\$ 1,990,456</u>	<u>\$ 4,155,364</u>

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

CITY OF AFTON, MINNESOTA
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 1,693,659

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

Capital assets are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 524,681	
Depreciation	<u>(601,855)</u>	(77,174)

Interest on long-term debt is not recognized until due in the governmental funds. In the statement of activities, interest is recognized as it accrues. This adjustment is the difference in accrued interest payable between the prior year and the current year.

Accrued interest payable - December 31, 2019	(76,374)	
Accrued interest payable - December 31, 2018	<u>81,988</u>	5,614

Delinquent property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditures; therefore, they are deferred inflows of resources. This amount represents the change in deferred inflows of resources in the current period.

Unavailable taxes - December 31, 2019	24,787	
Unavailable taxes - December 31, 2018	<u>(20,802)</u>	3,985

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the change in unearned revenue in the current period.

Unavailable taxes - special assessments - December 31, 2019	1,785,296	
Unavailable taxes - special assessments - December 31, 2018	<u>(1,852,580)</u>	(67,284)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Notes proceeds	(29,092)	
Principal payments on long-term debt	<u>626,000</u>	596,908

In the statement of activities, accrued compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount paid during the year:

Compensated absences - December 31, 2018		(13,720)
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Governmental funds report City pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:

Net pension liability - December 31, 2019	(154,806)	
Net pension liability - December 31, 2018	149,785	
Deferred outflows of resources - December 31, 2019	32,526	
Deferred outflows of resources - December 31, 2018	(52,776)	
Deferred inflows of resources - December 31, 2019	(34,968)	
Deferred inflows of resources - December 31, 2018	<u>58,262</u>	<u>(1,977)</u>

CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES **\$ 2,140,011**

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

CITY OF AFTON, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2019

	Sewer
ASSETS	
Current Assets	
Cash and investments	\$ 47,872
Noncurrent Assets	
Capital assets being depreciated, net	14,886,857
Total Assets	14,934,729
LIABILITIES	
Current Liabilities	
Accounts payable	4,303
EXCESS OF TOTAL ASSETS OVER TOTAL LIABILITIES	\$ 14,930,426
NET POSITION	
Net investment in capital assets	\$ 14,886,857
Unrestricted	43,569
TOTAL NET POSITION	\$ 14,930,426

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

CITY OF AFTON, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2019

	Sewer
OPERATING REVENUES	
Charges for services	\$ 40,700
OPERATING EXPENSES	
Insurance	5,291
Utilities	19,009
Contract services	27,031
Professional fees	12,739
Depreciation	531,307
Miscellaneous	2,157
Total Operating Expenses	597,534
OPERATING LOSS	(556,834)
NONOPERATING REVENUES (EXPENSES)	
Property taxes	15,000
Net investment earnings	953
Net Nonoperating Revenues (Expenses)	15,953
NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(540,881)
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital Contributions	307,593
CHANGE IN NET POSITION	(233,288)
TOTAL NET POSITION – BEGINNING	15,163,714
TOTAL NET POSITION – ENDING	\$ 14,930,426

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

CITY OF AFTON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2019

	Business-Type Activities – Enterprise Funds
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 40,700
Payments to suppliers	(64,310)
Other payments	(2,157)
Net Cash Used by Operating Activities	(25,767)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from property taxes	15,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	953
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,814)
CASH AND CASH EQUIVALENTS – BEGINNING	57,686
CASH AND CASH EQUIVALENTS – ENDING	\$ 47,872
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (556,834)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	531,307
Net operating changes in Accounts payable	(240)
NET CASH USED BY OPERATING ACTIVITIES	\$ (25,767)

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

CITY OF AFTON, MINNESOTA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
Year Ended December 31, 2019

	<u>Agency Funds</u> <u>MN</u> <u>Investment</u> <u>Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 109,325</u>
 LIABILITIES	
Amounts held for others	<u>\$ 109,325</u>

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City has a mayor-council form of government. A mayor and four council members are elected by the voters of the City. For financial reporting purposes, the City's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other component units for which the City is considered to be financially accountable.

This report includes all of the funds of the City of Afton. The reporting entity of the City consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization and (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. Based on this criteria, there are no organizations considered to be component units of the City.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following represents the significant accounting policies used by the City:

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and the statement of activities report information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities, which are supported mostly by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges. The financial data of the City's component units is discretely presented in a separate column in the combined financial statements to emphasize that they are legally separate from the City. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements

The financial statements of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position/fund equity, revenues, and expenditure/expenses.

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Funds are organized as major funds or nonmajor funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. The same element of the individual governmental fund or enterprise fund that met the 10% test is at least 5% of the corresponding total for all governmental and enterprise funds combined.
3. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

The City reports the following types of funds:

Governmental Funds

General Fund – used to account for the City’s primary operating activities. It is used to account for all financial resources and transactions, except those required to be accounted for in another fund. The general fund is a major fund.

Special Revenue Funds – used to account for the proceeds of certain specific revenue sources that are legally restricted to expenditures for specific purposes. The City has no major special revenue funds.

Capital Project Funds – used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City’s major capital projects fund and its purpose is as follows:

City Infrastructure Improvement Fund – used to account for grant 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.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Funds – used to account for the accumulation of, resources for, and the payment of, long-term debt principal, interest, and related costs. The City’s major debt service fund and its purpose is as follows:

2017B Road Debt Service Fund – used to account for bond proceeds and expenditures of the street improvement.

Proprietary Funds

Enterprise Funds – account for operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the cost of providing goods or services be financed or recovered primarily through user charges. The City’s major enterprise funds and their purposes are as follows:

Sewer – used to account for the provision of sewer services to the City’s residents.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and unearned revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when the services are provided.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)
Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Revenues are recorded when they are both measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities for the current period. For this purpose, the City considers revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes, sales and excise taxes, franchise taxes, special assessments, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the measurable and available criteria for recognition in the current period. This unavailable revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, sewer, and liquor funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Cash and Investments (Including Cash Equivalents)

Available cash balances from all funds are pooled and invested in accordance with Minnesota Statutes. Each fund's share of the pool is shown on the financial statements as "cash and investments." For reporting purposes, petty cash and change funds are also considered cash and cash equivalents. For the purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificates of deposit are valued at cost plus reinvested dividends, and other investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. Adjustments necessary to record all investments at fair value are recorded in the operating statement as increases or decreases in investment income.

Receivables

In the government-wide financial statements, accounts receivable consist of all revenues earned at year-end and not yet received. These amounts include charges for services rendered or for goods and material provided by the City, including amounts for unbilled services. No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary. Receivables are also recognized for property taxes, assessments, accrued interest, and intergovernmental grants. In the governmental fund financial statements, receivables are recorded when they are both measurable and available.

Taxes and tax increments receivable consist of uncollected taxes levied and payable in prior years. In the governmental fund financial statements, these receivables are deferred to indicate they are not available to finance expenditures of the current fiscal period.

Due from Other Governments

Due from other governments includes amounts due from grantors for grants related to specific financial assistance programs and amounts due from the County for December property tax settlements. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Government-Wide Financial Statements

Capital assets which include property, plant, equipment, and infrastructure (i.e. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 for governmental funds. The threshold for business-type activity funds is based on the discretion of the Director of Public Services. All capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed by the City, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide financial statements.

Compensated Absences

It is the City's policy that all regular full-time and certain part-time employees are entitled to vacation time with pay based upon length of continuous service, with a maximum annual accrual of 160 hours (20 days) per year. Employees may accrue vacation leave up to a maximum of one-and-a-half times the employee's annual accrual rate. Upon termination, employees are compensated for unused vacation leave.

Accumulated unpaid vested vacation leave is accrued when incurred in the business-type activities in the government-wide and fund financial statements. Such amounts are not accrued in the governmental funds' fund financial statements, but are recorded in the governmental activities in the government-wide financial statements.

The liability for accrued compensated absences is \$13,720 as of December 31, 2019.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

Government-Wide Financial Statements

All long-term debt obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bond using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

Fund Financial Statements

Long-term debt obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt obligations is reported as other financing sources and payments of principal and interest are reported as expenditures. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The accounting in proprietary funds' fund financial statements is the same as it is in the government-wide financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one type of item that qualifies for reporting in this category. It is a combination of actuarial valuations of the pension plans and employer contributions to the plan from July through December of the current fiscal period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. The first type, unavailable revenue, is reported only in the governmental funds balance sheet as it arises only under the modified accrual basis of accounting, where revenues are not recognized until available (collected not later than 60 days after the end of the City's year). The governmental funds report unavailable revenues from property taxes as these amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available. The second type of item relates to actuarial valuations of the pension plans.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
2. Restricted – consists of net position with constraints placed on their use by either external groups such as creditors, grantors or contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted – consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

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

Fund Financial Statements

Governmental fund equity is classified as fund balance. In accordance with Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balance as follows:

1. Nonspendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements mandate funds be maintained intact.
2. Restricted – includes fund balance amounts with constraints placed on their use by either external groups such as creditors, grantors or contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)
Fund Financial Statements (Continued)

3. Unrestricted
 - a. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action at the highest level of decision making authority. The City Council through a formal action (ordinance or resolution) commits fund balance amounts for the City. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which is subject to constraints, may be determined in a subsequent period. Any changes to the constraints imposed require the same formal action of the City that originally created the commitment.
 - b. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance is assigned through formal action (ordinance or resolution) by the City Council for specific purposes. Assignments may take place after the end of the reporting period.
 - c. Unassigned – includes residual positive fund balance amounts within the general fund which have not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

Proprietary fund equity is classified the same as in the government-wide financial statements.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – NATURE OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

Interfund services provided and used are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Interfund loans are reported as due to/due from other funds, offsetting the movement of cash between funds. All other interfund transactions are reported as transfers.

Pensions

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

Total Columns

Total columns on the financial statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flow in conformity with generally accepted accounting principles.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Equity

The City infrastructure fund had a deficit fund balance of \$451,533 as of December 31, 2019.

Budgetary Information

GASB Statement No. 34 requires that budget vs. actual information be presented for the general fund and all budgeted major special revenue funds. Budget vs. actual information can be found in the required supplementary information following this report.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

Minnesota Statutes authorize the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. Deposits in each local area bank are insured by the FDIC up to specified limits. All financial institutions acting as a depository for the City are required to pledge collateral to secure all City funds over and above amounts guaranteed by the FDIC. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated “A” or better; revenue obligations of a state or local government rated “AA” or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – the risk that in the event of a financial institution failure the City’s deposits may not be returned to it. The City’s deposit policy for custodial credit risk follows *Minnesota Statutes* for deposits, and states the City will obtain collateral or bonds for all uninsured amounts. As of December 31, 2019, all of the bank balance was covered by federal depository insurance or by collateral held by the City’s agent in the City’s name; therefore, the City is not exposed to custodial credit risk.

Investments

Investment of the City funds is restricted by state statutes. Available investments are limited to:

- Governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues by the United States, its agencies, its instrumentalities or organizations created by an act of Congress
- General obligations of any state or local government rated “A” or better by a national bond rating service
- Revenue obligations of any state or local government rated “AA” or better by a national bond rating service
- General obligations of the Minnesota Housing Finance Agency rated “A” or better by a national bond rating agency
- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

- Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks
- General obligation temporary bonds of the same governmental entity issued under Minnesota Statutes 429.091, subd. 7, 469.178, subd. 5 or 475.61, subd. 6
- Repurchase agreements consisting of collateral allowable in Minnesota Statutes 118A.04, and reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" of public funds of the government entity; with any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York or certain Minnesota securities broker-dealers; reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that either (1) holds itself out as a money market fund and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization or (2) whose shares are registered under the Federal Securities Act of 1933, receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization, and is invested in financial instruments with a final maturity no longer than 13 months
- Guaranteed investment contracts that are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing if similar debt obligations of the issuer are rated in one of the two highest categories by a nationally recognized rating agency

The City's investments consist of money market funds held in the Minnesota Municipal Money Market Fund.

The investments of the City are exposed to various risks as follows:

Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy. The City's policy for managing exposure to fair value loss arising from increasing interest rates is to comply with MN statutes.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The City’s investments in money market and certificates of deposit are not rated.

Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount that the City may invest in any one issuer.

The cash and investments are presented in the financial statements as follows:

	Government- Wide	Fiduciary Fund
Cash		
Petty cash	\$ 224	\$ -
MN 4M fund	4,560,677	109,325
TOTAL	\$ 4,560,901	\$ 109,325

NOTE 4 – PROPERTY TAXES AND SPECIAL ASSESSMENTS

Property Taxes

Property tax levies are set by the council in December of each year and are certified to Washington County for collection in the following year. In Minnesota, counties act as collection agencies for all property taxes. The county spreads all levies over assessable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Property taxes must be paid by taxpayers in two equal installments, on May 15 and October 15. The County is required to distribute collections to the City three times each year.

In the government-wide financial statements, revenues are accrued and recognized in the year collectible, net of delinquencies. Taxes which remain unpaid at year-end are delinquent. In the governmental fund financial statements, delinquent taxes are fully offset by deferred inflows of resources because they are not available to finance current expenditures. Collections made by the County through the end of the year and remitted to the City within 60 days after year-end are recognized as revenue and the remainder is deferred. City property tax revenues are recognized in the year received.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 – PROPERTY TAXES AND SPECIAL ASSESSMENTS (Continued)

Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council.

NOTE 5 – CAPITAL ASSETS

Activity in capital assets for the City was as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance 2019</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 2,006,672	\$ 118,701	\$ -	\$ 2,125,373
Capital assets being depreciated				
Roads, bridges, pathways	9,240,420	91,645	-	9,332,065
Downtown improvements	1,732,197	128,487	-	1,860,684
Buildings and improvements	404,846	34,465	-	439,311
Park equipment and improvements	175,608	9,593	-	185,201
Furniture and equipment - city hall	18,339	6,890	-	25,229
Equipment - public works	11,951	134,900	-	146,851
	<u>11,583,361</u>	<u>405,980</u>	<u>-</u>	<u>11,989,341</u>
Accumulated depreciation for				
Roads, bridges, pathways	(2,469,992)	(459,252)	-	(2,929,244)
Downtown improvements	(86,609)	(93,034)	-	(179,643)
Buildings and improvements	(125,980)	(21,742)	-	(147,722)
Park equipment and improvements	(53,925)	(16,597)	-	(70,522)
Furniture and equipment - city hall	(9,395)	(1,440)	-	(10,835)
Equipment - public works	(5,578)	(9,790)	-	(15,368)
	<u>(2,751,479)</u>	<u>(601,855)</u>	<u>-</u>	<u>(3,353,334)</u>
Total capital assets being depreciated, net	<u>8,831,882</u>	<u>(195,875)</u>	<u>-</u>	<u>8,636,007</u>
GOVERNMENTAL ACTIVITIES, NET	<u>\$ 10,838,554</u>	<u>\$ (77,174)</u>	<u>\$ -</u>	<u>\$ 10,761,380</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 – CAPITAL ASSETS (Continued)

	<u>Balance 2018</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance 2019</u>
Business-Type Activities				
Capital assets not being depreciated				
Construction in progress	\$ 13,764,527	\$ -	\$ 13,764,527	\$ -
Capital assets being depreciated				
Infrastructure	15,631,625	307,593	-	15,939,218
Accumulated depreciation for				
Infrastructure	<u>(521,054)</u>	<u>(531,307)</u>	<u>-</u>	<u>(1,052,361)</u>
Total capital assets being depreciated, net	<u>15,110,571</u>	<u>(223,714)</u>	<u>-</u>	<u>14,886,857</u>
BUSINESS-TYPE ACTIVITIES, NET	<u>\$ 28,875,098</u>	<u>\$ (223,714)</u>	<u>\$ 13,764,527</u>	<u>\$ 14,886,857</u>

Depreciation expense was charged to the following functions or programs as follows:

Governmental Activities		
General government		\$ 114,776
Administration		10,434
Public works		460,048
Culture and recreation		<u>16,597</u>
TOTAL		<u>\$ 601,855</u>
Business-Type Activities		
SEWER		<u>\$ 531,307</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 6 – LONG-TERM OBLIGATIONS

The City’s long-term debt obligations activity was as follows:

	<u>Balance 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 2019</u>	<u>Due Within One Year</u>
Governmental Activities					
General Obligation Debt					
Bonds	\$ 7,945,000	\$ -	\$ 515,000	\$ 7,430,000	\$ 2,515,000
PFA notes	1,987,985	29,092	111,000	1,906,077	112,000
Total Bonds and Notes Payable	9,932,985	29,092	626,000	9,336,077	2,627,000
Other Liabilities					
Net pension liability	149,785	5,021	-	154,806	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 10,082,770</u>	<u>\$ 34,113</u>	<u>\$ 626,000</u>	<u>\$ 9,490,883</u>	<u>\$ 2,627,000</u>

Details of bonds and notes payable are as follows:

	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 2019</u>
Governmental Activities				
General Obligations				
Bonds				
2014A tax abatement refunding	\$ 2,950,000	2027	3.00%	\$ 2,270,000
2017A temporary improvement	1,980,000	2020	1.55%	1,980,000
2017B tax abatement	3,500,000	2028	2.00%	3,180,000
				<u>7,430,000</u>
PFA Notes				
2017 stormwater	1,049,815	2036	1.095%	831,638
2017 sanitary sewer	1,194,959	2036	1.094%	1,074,439
				<u>1,906,077</u>
TOTAL GOVERNMENTAL ACTIVITIES				<u>\$ 9,336,077</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 6 – LONG-TERM OBLIGATIONS (Continued)

In 2014, the City issued \$2,950,000 of general obligation tax abatement refunding bonds, series 2014A. The proceeds from the bonds were used to refinance the general obligation tax abatement bonds, series 2005. The proceeds of those bonds were used to finance road paving construction.

In 2017, the City issued \$1,980,000 of general obligation temporary improvement bonds, series 2017A. These temporary bonds become due April 1, 2020.

In 2017, the City issued \$3,500,000 of general obligation tax abatement bonds. The proceeds from the bonds were used to finance the 2017 street improvement construction project.

In 2017, the City obtained financing from Minnesota Public Facilities Authority (PFA) totaling \$2,244,774. Of this amount, \$2,041,759 has been drawn upon. The proceeds from these notes were used to finance the downtown project, sanitary sewer, and storm sewer projects. The notes are being repaid with special assessments charged to benefitted properties.

The annual debt service requirements to maturity for all bonds and notes outstanding are as follows:

	Governmental Activities	
	Principal	Interest
Years Ending December 31		
2020	\$ 2,627,000	\$ 176,942
2021	673,000	146,813
2022	705,000	129,277
2023	736,000	110,669
2024	767,000	90,999
2025 - 2029	3,100,000	186,578
2030 - 2034	619,638	35,582
2035 - 2036	108,439	2,318
TOTAL	\$ 9,336,077	\$ 879,178

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 7 – NET POSITION AND FUND BALANCES

Governmental Activities' Net Position

Governmental activities net position reported as net investment in capital assets and restricted on the government-wide statement of net position includes the following:

Net investment in capital assets	
Land	\$ 2,125,373
Other capital assets, net of accumulated depreciation	8,636,007
Long-term debt outstanding	<u>(9,336,077)</u>

NET INVESTMENT IN CAPITAL ASSETS **\$ 1,425,303**

Restricted for	
Debt service	\$ 724,310
City infrastructure improvement expenditures	<u>1,110,949</u>

TOTAL RESTRICTED **\$ 1,835,259**

Business-Type Activities' Net Position

Business-type activities net investment in capital assets reported on the government-wide statement of net position includes the following:

Net investment in capital assets	
OTHER CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$ 14,886,857</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 7 – NET POSITION AND FUND BALANCES (Continued)

Governmental Fund Balances

Governmental fund balances reported as nonspendable, restricted, and assigned on the fund financial statements includes the following:

Nonspendable for	
PREPAID ITEMS	\$ 11,890
Restricted for	
Debt service	\$ 724,310
City infrastructure improvement expenditures	1,110,949
	1,110,949
TOTAL RESTRICTED	\$ 1,835,259
Assigned for	
201 project expenditures	\$ 356
Fire district expenditures	2,725
Cable and fire aid	310
City dock expenditures	36,126
Capital projects	1,616,570
General fund special activities	268,569
	268,569
TOTAL ASSIGNED	\$ 1,924,656

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2019. The City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019, were \$13,057. The City's contributions were equal to the required contributions as set by state statute.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Costs

At December 31, 2019, the City reported a liability of \$154,806 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$4,833. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2019, the City’s proportion was 0.0028% which was an increase of 0.0001% from its proportion measured as of June 30, 2018.

City’s proportionate share of the net pension liability	\$ 154,806
State of Minnesota’s proportionate share of the net pension liability associated with the City	4,833
TOTAL	\$ 159,639

For the year ended December 31, 2019, the City recognized pension expense of \$15,062 for its proportionate share of General Employees Plan’s pension expense. In addition, the City recognized an additional \$362 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,454	\$ -
Changes in actuarial assumptions	-	10,553
Difference between projected and actual investment earnings	8,132	22,385
Changes in proportion	12,695	2,030
Contributions paid to PERA subsequent to the measurement date	8,245	-
TOTAL	\$ 32,526	\$ 34,968

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Costs (Continued)

\$8,245 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
Year Ended December 31	
2020	\$ (3,528)
2021	(5,392)
2022	(1,967)
2023	200
TOTAL	\$ (10,687)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following assumptions:

Inflation	2.50% per year
Salary growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.50%	5.10%
Private markets	25.00%	5.90%
Fixed income	20.00%	0.75%
International equity	17.50%	5.90%
Cash equivalents	2.00%	0.00%
TOTAL	100.00%	

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liability Sensitivity

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

Sensitivity Analysis		
Net Pension Liability (Asset) at Different Discount Rates		
	General Employees Fund	
1% lower	6.50%	\$ 254,492
Current discount rate	7.50%	154,806
1% higher	8.50%	72,495

Pension Plan Fiduciary Net Position

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

NOTE 9 – DEFINED CONTRIBUTION PLAN

Five City Council members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan 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 the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent 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 contributions 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 one percent (0.25%) of the assets in each member’s account annually.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 9 – DEFINED CONTRIBUTION PLAN (Continued)

Total contributions made by the City during fiscal year 2019 were:

<u>Contribution Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required Rate</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	
\$ 660	\$ 660	5%	5%	5%

NOTE 10 – 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 District is vested in the District’s Board, which consists of two members appointed by each city council.

At December 31, 2019, the District has long-term debt consisting of \$485,000 in bonds and notes payable and \$530,624 in capital leases payable. Funding is provided by assessments from the member cities and is based on a predetermined formula. During 2019, the City of Afton’s contribution was \$309,920 for operations, representing about 52% of the District’s budget. The City of Afton also contributed \$49,624 for debt service. Complete financial information can be obtained from the District’s office at PO Box 234, Lakeland, Minnesota 55043.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job-related illnesses or injuries to employees and natural disasters. The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance.

The agreement for formation of the LMCIT provides that the pool be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insurance event. The LMCIT can make additional assessments to make the pool self-sustaining. The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements.

There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three years.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 12 – LEGAL PROCEEDINGS

The City is currently involved in legal proceedings related to the price of easements acquired from three property owners. The easement dispute is currently going through the judicial system. The City will be liable for an amount on the easements, however, that amount cannot be determined at this time. There is possibility that the easements liability to the City could be significantly higher than what was originally budgeted for.

The City is also involved in legal proceedings regarding appeals of special assessments related to the downtown improvement project. There is a possibility that the amounts of the original assessments could be reduced through the appeal process. A reduction in assessments could result in the City being responsible for more of the cost of the project.

NOTE 13 – SUBSEQUENT EVENT – COVID-19

The COVID-19 outbreak is disrupting supply chains and affecting operations across a range of industries. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the City's customers, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the City's financial condition or results of operations is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AFTON, MINNESOTA
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
(Last Ten Years*)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
December 31, 2019	\$ 15,066	\$ 15,066	\$ -	\$ 200,873	7.50%
December 31, 2018	14,057	14,057	-	187,427	7.50%
December 31, 2017	11,856	11,856	-	158,080	7.50%
December 31, 2016	12,264	12,264	-	163,521	7.50%
December 31, 2015	11,572	11,572	-	154,293	7.50%

*Schedules will be provided prospectively until ten years of data is available.

CITY OF AFTON, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
(Last Ten Years*)

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.0028%	\$ 154,806	\$ 4,833	\$ 159,639	\$ 200,873	79.47%	80.23%
June 30, 2018	0.0027%	149,785	4,933	154,718	187,427	82.55%	79.53%
June 30, 2017	0.0024%	153,214	1,942	155,156	158,080	98.15%	75.90%
June 30, 2016	0.0025%	202,988	2,617	205,605	163,521	125.74%	68.91%
June 30, 2015	0.0027%	139,928	-	139,928	154,293	90.69%	78.19%

*Schedules will be provided prospectively until ten years of data is available.

CITY OF AFTON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Property taxes	\$ 1,051,047	\$ 1,051,047	\$ 1,065,253	\$ 14,206
Licenses and permits	153,400	153,400	231,137	77,737
Intergovernmental				
State				
Market value credit	4,000	4,000	10,550	6,550
Disparity reduction credit	63,420	63,420	63,842	422
PERA aid	634	634	634	-
County				
Other County Grant	5,190	5,190	4,867	(323)
Local	-	-	10,000	10,000
Total Intergovernmental	<u>73,244</u>	<u>73,244</u>	<u>89,893</u>	<u>16,649</u>
Charges for Services				
General government fees	135	135	60	(75)
Rental income	500	500	3,175	2,675
Total Charges for Services	<u>635</u>	<u>635</u>	<u>3,235</u>	<u>2,600</u>
Fines and Forfeitures	12,250	12,250	13,706	1,456
Investment Earnings	1,000	1,000	16,927	15,927
Other	3,200	3,200	2,788	(412)
Total Revenues	<u>1,294,776</u>	<u>1,294,776</u>	<u>1,422,939</u>	<u>128,163</u>
EXPENDITURES				
Current				
General Government				
Administration - wages and benefits				
Mayor and council	13,200	13,200	13,200	-
Administrator	102,100	102,100	97,330	(4,770)
Office assistant/intern	27,300	27,300	24,866	(2,434)
Office manager/deputy clerk	54,600	54,600	50,450	(4,150)
Maintenance personnel	40,000	40,000	31,848	(8,152)
Social security and medicare	18,146	18,146	17,793	(353)
PERA	18,383	18,383	16,490	(1,893)
Other financial benefits	26,400	26,400	27,396	996
Disability insurance	720	720	565	(155)
Workers compensation	3,100	3,100	4,638	1,538
Total administration - wages and benefits	<u>303,949</u>	<u>303,949</u>	<u>284,576</u>	<u>(19,373)</u>

CITY OF AFTON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
Administration - professional services				
Assessor	24,000	24,000	26,015	2,015
Accounting fees	17,350	17,350	26,527	9,177
Audit fees	15,000	15,000	19,295	4,295
Building inspection	34,400	34,400	64,093	29,693
Engineering	20,600	20,600	44,580	23,980
Legal fees - prosecution	29,800	29,800	32,020	2,220
Legal fees - general	22,000	22,000	48,498	26,498
Videographer/recording	4,300	4,300	4,448	148
Planning/other services	5,620	5,620	795	(4,825)
Well monitoring program	1,200	1,200	2,182	982
Watershed management	600	600	596	(4)
Total administration - professional services	<u>174,870</u>	<u>174,870</u>	<u>269,049</u>	<u>94,179</u>
Administration - other				
Office equipment	700	700	-	(700)
Bank fees	400	400	452	52
Computer service and software	9,500	9,500	9,344	(156)
Copier lease	3,500	3,500	2,760	(740)
Equipment maintenance	500	500	-	(500)
General liability insurance	21,600	21,600	21,722	122
Office supplies	4,000	4,000	2,978	(1,022)
Other administration	500	500	41	(459)
Postage	3,500	3,500	2,315	(1,185)
Publishing and printing	2,000	2,000	846	(1,154)
Newsletter	6,000	6,000	6,326	326
Telephone	3,500	3,500	3,595	95
Travel and mileage	500	500	416	(84)
Memberships and dues	3,200	3,200	3,474	274
Seminars and education	2,600	2,600	1,535	(1,065)
Miscellaneous	1,500	1,500	508	(992)
Elections	-	-	1,567	1,567
Total administration - other	<u>63,500</u>	<u>63,500</u>	<u>57,879</u>	<u>(5,621)</u>
Grounds and buildings				
Gas (heat)	\$ 2,200	\$ 2,200	\$ 1,167	\$ (1,033)
Electricity	2,000	2,000	2,482	482
Repairs and maintenance	2,500	2,500	902	(1,598)
Supplies	500	500	940	440
City garage	2,500	2,500	2,864	364
Public works garage/deputy facility	1,000	1,000	488	(512)
Miscellaneous	800	800	1,529	729
Total grounds and buildings	<u>11,500</u>	<u>11,500</u>	<u>10,372</u>	<u>(1,128)</u>
Total General Government	<u>553,819</u>	<u>553,819</u>	<u>621,876</u>	<u>68,057</u>
Public Safety				
Police service	191,011	191,011	191,686	675
Fire and ambulance services	260,296	260,296	260,296	-
Animal control	4,000	4,000	3,416	(584)
Total Public Safety	<u>455,307</u>	<u>455,307</u>	<u>455,398</u>	<u>91</u>

CITY OF AFTON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued)				
Public Health				
Recycling	500	500	(28)	(528)
Refuse collection and disposal	1,000	1,000	469	(531)
Public Health	1,500	1,500	441	(1,059)
Public Works				
Streets				
Gravel road maintenance	4,000	4,000	6,567	2,567
Creackseal, seal coat, gravel shouldering	75,000	75,000	13,543	(61,457)
Snow and ice control	113,000	113,000	138,959	25,959
Surface maintenance, repair, sweeping	10,000	10,000	15,379	5,379
Brush, tree, mow, bridge, culvert, guardrail	52,000	52,000	57,858	5,858
Street lighting	5,500	5,500	1,810	(3,690)
Signs and signals	3,500	3,500	9,100	5,600
Other road maintenance	2,000	2,000	2,000	-
Total streets	265,000	265,000	245,216	(19,784)
Other public works				
Flood control (operating pump, dike maintenance)	1,600	1,600	-	(1,600)
Equipment repairs and maintenance	1,500	1,500	4,278	2,778
Fuel and lubricants	1,000	1,000	506	(494)
Tools and minor equipment	950	950	-	(950)
Total other public works	5,050	5,050	4,784	(266)
Total Public Works	270,050	270,050	250,000	(20,050)
Culture and Recreation				
4th of July celebration	3,500	3,500	3,500	-
Park maintenance	1,300	1,300	3,069	1,769
Park utilities	-	-	3,288	3,288
Cemetary maintenance	9,000	9,000	9,000	-
Miscellaneous	300	300	238	(62)
Total Culture and Recreation	14,100	14,100	19,095	4,995
Miscellaneous				
Comprehensive plan	-	-	1,466	1,466
Council contingency	-	-	(1,770)	(1,770)
Other	-	-	13,322	13,322
Total Miscellaneous	-	-	13,018	13,018
Capital Outlay				
General government	-	-	134,900	134,900
Total Expenditures	1,294,776	1,294,776	1,494,728	199,952
DEFICIENCY OF REVENUES OVER EXPENDITURES	-	-	(71,789)	(71,789)
OTHER FINANCING SOURCES (USES)				
Sale of property	-	-	3,910	3,910
NET CHANGE IN FUND BALANCES	-	-	(67,879)	(67,879)
FUND BALANCES – BEGINNING	731,897	731,897	731,897	-
FUND BALANCES – ENDING	<u>\$ 731,897</u>	<u>\$ 731,897</u>	<u>\$ 664,018</u>	<u>\$ (67,879)</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2019

NOTE 1 – BUDGETARY INFORMATION

Budgetary Data

An operating budget is adopted each year for the general fund and is prepared on a basis consistent with generally accepted accounting principles. Annual appropriations lapse at year-end. Encumbrances outstanding at year-end expire and are not reported in the financial statements. Budgeted amounts are as originally adopted or as amended by the council.

The Administration can authorize transfers of budgeted amounts within any fund. Revisions that change total expenditures of any fund must be approved by the council. Budgetary control is maintained at the object of expenditure category within each activity and is in compliance with state statutes.

Compliance

The general fund disbursements exceeded budgeted appropriations by \$199,952 for the year ended December 31, 2019. The overage was due mostly to the City's share of high speed internet project that was not budgeted for. The overage, considered by City management to be a result of necessary disbursements critical to operation, was approved by the City Council.

NOTE 2 – SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

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

CITY OF AFTON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2019

NOTE 2 – SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS (Continued)

General Employees Fund (Continued)

2017 Changes

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

SUPPLEMENTARY INFORMATION

**CITY OF AFTON, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 December 31, 2019**

	<u>Special Revenue Funds</u>	<u>Road Paving Debt Service</u>	<u>Capital Projects Funds</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 56,750	\$ 338,185	\$ 1,640,418	\$ 2,035,353
TOTAL ASSETS	<u>\$ 56,750</u>	<u>\$ 338,185</u>	<u>\$ 1,640,418</u>	<u>\$ 2,035,353</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 17,233	\$ 3,816	\$ 23,848	\$ 44,897
Fund Balances				
Restricted	-	334,369	-	334,369
Unrestricted				
Assigned	39,517	-	1,616,570	1,656,087
Total Fund Balances	<u>39,517</u>	<u>334,369</u>	<u>1,616,570</u>	<u>1,990,456</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 56,750</u>	<u>\$ 338,185</u>	<u>\$ 1,640,418</u>	<u>\$ 2,035,353</u>

CITY OF AFTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2019

	<u>Special Revenue Funds</u>	<u>Road Paving Debt Service</u>	<u>Capital Projects Funds</u>	<u>Total</u>
REVENUES				
Taxes				
Property taxes	\$ 49,624	\$ 275,000	\$ 176,600	\$ 501,224
Franchise taxes	11,561	-	-	11,561
Licenses and permits	3,850	-	190,000	193,850
Intergovernmental	50,819	-	-	50,819
Net investment earnings	1,622	3,095	27,510	32,227
Total Revenues	<u>117,476</u>	<u>278,095</u>	<u>394,110</u>	<u>789,681</u>
EXPENDITURES				
Current				
General government	11,310	-	7,710	19,020
Public safety	100,442	-	-	100,442
Sanitation	842	-	-	842
Debt service				
Principal	-	195,000	-	195,000
Interest	-	87,941	-	87,941
Capital outlay	34,641	-	153,293	187,934
Total Expenditures	<u>147,235</u>	<u>282,941</u>	<u>161,003</u>	<u>591,179</u>
NET CHANGE IN FUND BALANCES	(29,759)	(4,846)	233,107	198,502
FUND BALANCES – BEGINNING	<u>69,276</u>	<u>339,215</u>	<u>1,383,463</u>	<u>1,791,954</u>
FUND BALANCES – ENDING	<u><u>\$ 39,517</u></u>	<u><u>\$ 334,369</u></u>	<u><u>\$ 1,616,570</u></u>	<u><u>\$ 1,990,456</u></u>

CITY OF AFTON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
December 31, 2019

	<u>201 Project</u>	<u>Fire District</u>	<u>Cable & Fire Aid</u>	<u>City Dock</u>	<u>Total</u>
ASSETS					
Cash and investments	\$ 356	\$ 2,725	\$ 310	\$ 53,359	\$ 56,750
TOTAL ASSETS	<u>\$ 356</u>	<u>\$ 2,725</u>	<u>\$ 310</u>	<u>\$ 53,359</u>	<u>\$ 56,750</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 17,233	\$ 17,233
Fund Balances					
Unrestricted					
Assigned	356	2,725	310	36,126	39,517
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 356</u>	<u>\$ 2,725</u>	<u>\$ 310</u>	<u>\$ 53,359</u>	<u>\$ 56,750</u>

CITY OF AFTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended December 31, 2019

	<u>201 Project</u>	<u>Fire District</u>	<u>Cable & Fire Aid</u>	<u>City Dock</u>	<u>Total</u>
REVENUES					
Taxes					
Property taxes	\$ -	\$ 49,624	\$ -	\$ -	\$ 49,624
Franchise taxes	-	-	11,561	-	11,561
Licenses and permits	-	-	-	3,850	3,850
Intergovernmental	-	-	50,819	-	50,819
Net investment earnings	17	213	56	1,336	1,622
Total Revenues	<u>17</u>	<u>49,837</u>	<u>62,436</u>	<u>5,186</u>	<u>117,476</u>
EXPENDITURES					
Current					
General government	-	-	11,310	-	11,310
Public safety	-	49,624	50,818	-	100,442
Sanitation	842	-	-	-	842
Capital outlay	-	-	-	34,641	34,641
Total Expenditures	<u>842</u>	<u>49,624</u>	<u>62,128</u>	<u>34,641</u>	<u>147,235</u>
NET CHANGE IN FUND BALANCES	(825)	213	308	(29,455)	(29,759)
FUND BALANCES – BEGINNING	<u>1,181</u>	<u>2,512</u>	<u>2</u>	<u>65,581</u>	<u>69,276</u>
FUND BALANCES – ENDING	<u>\$ 356</u>	<u>\$ 2,725</u>	<u>\$ 310</u>	<u>\$ 36,126</u>	<u>\$ 39,517</u>

**CITY OF AFTON, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 December 31, 2019**

	<u>Buildings & Land</u>	<u>Street Improvement</u>	<u>Special Reserve</u>	<u>Park Reserve</u>	<u>Bridge Replacement</u>	<u>Total</u>
ASSETS						
Cash and investments	\$ 14,297	\$ 814,468	\$ 481,851	\$ 256,809	\$ 72,993	\$ 1,640,418
TOTAL ASSETS	<u>\$ 14,297</u>	<u>\$ 814,468</u>	<u>\$ 481,851</u>	<u>\$ 256,809</u>	<u>\$ 72,993</u>	<u>\$ 1,640,418</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 4,870	\$ 12,196	\$ -	\$ -	\$ 6,782	\$ 23,848
Fund Balances						
Unrestricted						
Assigned	<u>9,427</u>	<u>802,272</u>	<u>481,851</u>	<u>256,809</u>	<u>66,211</u>	<u>1,616,570</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 14,297</u>	<u>\$ 814,468</u>	<u>\$ 481,851</u>	<u>\$ 256,809</u>	<u>\$ 72,993</u>	<u>\$ 1,640,418</u>

CITY OF AFTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
Year Ended December 31, 2019

	<u>Buildings & Land</u>	<u>Street Improvement</u>	<u>Special Reserve</u>	<u>Park Reserve</u>	<u>Bridge Replacement</u>	<u>Total</u>
REVENUES						
Taxes						
Property taxes	\$ 6,000	\$ 120,500	\$ 100	\$ -	\$ 50,000	\$ 176,600
Licenses and permits	-	-	-	190,000	-	190,000
Net investment earnings	225	13,571	9,216	3,572	926	27,510
Total Revenues	<u>6,225</u>	<u>134,071</u>	<u>9,316</u>	<u>193,572</u>	<u>50,926</u>	<u>394,110</u>
OPERATING EXPENSES						
General Government	7,710	-	-	-	-	7,710
Capital Outlay	-	115,075	-	13,277	24,941	153,293
Total Expenditures	<u>7,710</u>	<u>115,075</u>	<u>-</u>	<u>13,277</u>	<u>24,941</u>	<u>161,003</u>
NET CHANGE IN FUND BALANCES	(1,485)	18,996	9,316	180,295	25,985	233,107
FUND BALANCES – BEGINNING	<u>10,912</u>	<u>783,276</u>	<u>472,535</u>	<u>76,514</u>	<u>40,226</u>	<u>1,383,463</u>
FUND BALANCES – ENDING	<u><u>\$ 9,427</u></u>	<u><u>\$ 802,272</u></u>	<u><u>\$ 481,851</u></u>	<u><u>\$ 256,809</u></u>	<u><u>\$ 66,211</u></u>	<u><u>\$ 1,616,570</u></u>

OTHER REPORTS



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Afton, Minnesota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated April 20, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency, described in the accompanying schedule of current year findings and responses, as item 2019-001.

Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of current year findings and responses. The City's responses were not subject to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Golden Valley, Minnesota
April 20, 2020

CITY OF AFTON, MINNESOTA
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
December 31, 2019

CURRENT YEAR FINDINGS

The current year audit contains one finding:

2019-001. Segregation of Duties

Criteria: Internal controls should be in place that provide reasonable assurance that proper segregation of duties is achieved.

Condition: The City has a limited number of office personnel and, accordingly, does not have adequate separation of duties in cash receipts, cash disbursements, accounts payable and purchasing, payroll and related liabilities, and general ledger maintenance and reconciliation. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has a limited number of office personnel and inadequate internal controls.

Effect: The failure to properly segregate duties increases the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize the City's office staff is not large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the City be aware of this condition and look for opportunities to improve segregation of duties or add mitigating controls to prevent material misstatement of the financial statements.

Management's Response and Actions Planned: The City's management is aware of this condition and believes that it is not economically feasible to attain the ideal segregation of duties. Management attempts to mitigate the associated risks by doing the following:

1. Identifying areas lacking segregation of duties and where there are higher risks of fraud occurring.
2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
3. Using the knowledge of management and the Council to review accounting records and reports.

CITY OF AFTON, MINNESOTA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
December 31, 2019

STATUS OF PRIOR AUDIT FINDINGS

The prior year audit contains one finding:

2018-001. Segregation of Duties

Condition: A fundamental concept in a system of internal controls is the segregation of duties. Duties should be separated so that no one person performs incompatible duties or has complete control over any type of transaction.

Current Status: This condition is noted during the current year audit of the financial statements.