

City of Afton

**AUDITED FINANCIAL STATEMENTS
AND FINANCIAL INFORMATION
DECEMBER 31, 2017**

CITY OF AFTON

**MICHAEL W. POFAHL
CERTIFIED PUBLIC ACCOUNTANT**

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December 31, 2017

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INTRODUCTORY SECTION

**City of Afton
Washington County, Minnesota**

**Organization
December 31, 2017**

<u>Elected</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Richard Bend	12/31/2018
Council Members	Randy Nelson	Ward 4 12/31/2019
	Bill Palmquist	Ward 1 12/31/2019
	Joe Richter	Ward 2 12/31/2018
	Stan Ross	Ward 3 12/31/2018

Appointed:

City Administrator	Ron Moorse
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Afton, Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the Financial Statements, the City of Afton, Minnesota financial statements for the year ended December 31, 2017 are not in accordance with Generally Accepted Accounting Principles (GAAP). The effects on the financial statements not being in conformity with accounting principles generally accepted in the United States of America are material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In my opinion because of the significance of the matters discussed in the Basis for Adverse Opinion or U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Afton, Minnesota as of December 31, 2017 or the changes in in financial position for the year then ended.

My Engagement did not encompass *or* include conducting a Federal Awards Single Audit for Federal monies received in 2017. These Federal Awards are being spent in 2018 and the disbursements are comingled with other funds. The Federal Loans are recorded as revenue.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iv-xii and 7-15, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquires, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

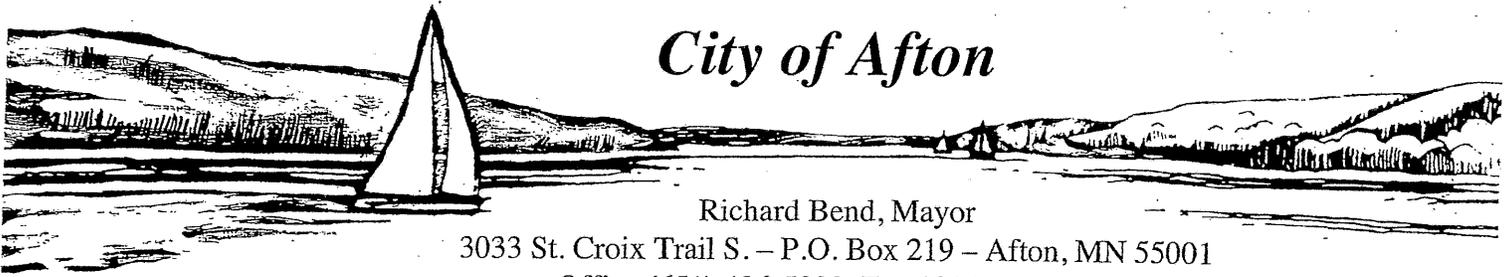
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Afton, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. No opinion is given thereon.



Michael W. Pofahl
Certified Public Accountant
Chisago City, MN 55013
April 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS



City of Afton

Richard Bend, Mayor

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

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

www.ci.afton.mn.us

Bill Palmquist - Ward 1

Joe Richter - Ward 2

Stan Ross - Ward 3

Randy Nelson - Ward 4

Management's Discussion and Analysis

As management of the City of Afton, this section of the City's annual financial report presents a discussion and analysis of the City's activities during the fiscal year ended December 31, 2017

Capital Improvement Projects

In 2017, Afton addressed its highest priority and highest cost infrastructure needs through two sets of large capital improvement projects. One was the 2017 Pavement Management Project, which involved the reclamation of all rural streets in poor condition. The other was the Downtown Village Improvement Project, which included a set of interrelated capital improvements to help protect the water quality of the St. Croix River and to revitalize the Downtown Village retail area.

2017 Pavement Management Project

The City Council made the decision to approve a \$3.5 million bond issue to take advantage of low interest rates, low oil costs and a very competitive bidding climate to improve the streets that were in the worst condition. A very favorable bid enabled 17 miles of streets to be improved, which was 30% more than anticipated.

Downtown Village Improvement Project

The Downtown Village Improvement Project was substantially completed in 2017. This included the reconstruction of all streets in the Downtown Village area, including the creation of a vibrant and walkable main street, the construction of major stormwater improvements, the construction of a wastewater collection and treatment system to serve the Downtown Village area, and the upgrade of the flood levee along the St. Croix River to enable it to be accredited by the Army Corps of Engineers. The project, which was originally planned as a two-year project, was substantially completed in one year and came in under the anticipated cost.

The bulk of the funding for the \$20 million project came from the intergovernmental funding partners including the Public Facilities Authority, the Department of Natural Resources, Washington County, the Valley Branch Watershed District and the Board of Soil and Water resources.

Long Term Street Improvement Funding

Along with the approval of the \$3.5 million bond issue for the 2017 Pavement Management Project, the City Council also substantially increased the levy for street capital improvements and put in place a plan of annual levy increases to enable future street improvement needs to be funded on a pay-as-you-go basis.

Downtown Village Improvement Project Continued

Funding was received from these sources in 2017:

	<u>2017</u>	Certified <u>2017</u>
Minnesota Department of Natural Resources	\$ 1,611,106	
Washington County	4,092,589	
Point Source Implement Grant	4,382,993	
Green Infrastructure Forgiveness Grant - Clean Water State Revolving Fund	748,258	
VBWD Grant	50,000	
Tax Levy	95,000	
Interest	3,306	
Special Assessments Certified for 2018 Collection		2,000,482
	<hr/>	
	10,983,252	
Public Facilities Authority Loans	1,657,545	
	<hr/>	
Total Resources 2017	\$ 12,640,797	

Which was used as follows:

Septic Construction	\$ 11,541,511
Village Improvements	1,305,268
Property purchase, Easements, Assessment expense, Engineering and other	560,654
	<hr/>
TOTAL 2017 COSTS	\$ 13,407,433

Flow of expenditures and revenues will continue to completion of the Project in 2018.

Management's Discussion and Analysis

As management of the City of Afton, this section of the City's annual financial report presents a discussion and analysis of the City's activities during the fiscal year ended December 31, 2017.

Financial Highlights

- During 2017, the City expended \$13,407,430 for primarily improvement costs and engineering related to the Downtown Improvements Project from the City's Infrastructure Development Fund. \$3,075,139 was expended on 2017 Road Improvement Project.
- The assets of the City exceed liabilities by \$19,557,518. Of this amount, \$5,044,662 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$13,608,175 from 2016.
- The City's government funds reported combined ending fund balances of \$3,212,180 as of December 31, 2017.
- As of December 31, 2017, unrestricted/unassigned fund balance for the General Fund was \$332,805.

Overview of the Financial Statements

This discussion and analysis is intended to provide an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

Notes to the financial statements provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-29 of this report.

Reporting the City as a Whole

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

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

Reporting the City's Most Significant Funds

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

- **Governmental funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end are available for spending. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. I describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in reconciliation to each of the fund financial statements on pages 4 and 6. The basic governmental fund financial statements can be found on pages 3-14.
- The City uses fiduciary funds to account for resources held for the benefit of parties outside the government. These funds are usually reflected in the government-wide statements as cash in trust and deposits payable, because the resources of these funds are not available to support programs of the City. The accounting method used for fiduciary funds is similar to that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 14.

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

Financial Analysis of The City as a Whole

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

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Assets:		
Current and Other Assets	\$ 6,510,881	\$ 5,089,855
Capital Assets	<u>24,396,238</u>	<u>7,947,359</u>
Total Assets	<u>\$ 30,907,119</u>	<u>\$ 13,037,214</u>
Liabilities:		
Long-Term Liabilities	9,782,545	6,565,000
Other Liabilities	1,567,056	512,871
DNR Grant Match Pledge	<u>-</u>	<u>-</u>
Total Liabilities	<u>11,349,601</u>	<u>7,077,871</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	14,512,856	1,341,984
Unrestricted	<u>5,044,662</u>	<u>4,617,359</u>
Total Net Assets	<u>\$ 19,557,518</u>	<u>\$ 5,959,343</u>

City of Afton

Changes in Net Assets December 31, 2017

	Governmental <u>Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 290,420	\$ 297,070
Operating Grants and Contributions	73,126	72,715
Capital Grants and Contributions	156,859	112,810
General Revenues:		
Property Taxes	2,020,162	1,861,437
Grants and Contributions	9,854	9,076
Investment Income	29,683	9,111
	<u>-</u>	<u>-</u>
Total Revenues	<u>2,580,104</u>	<u>2,362,219</u>
Expenses:		
General Government	554,412	538,186
Public Safety Health	515,572	513,930
Public Works	520,862	430,999
Park and Recreation	23,673	26,063
Pension Expense	13,000	25,000
Interest on Long-Term Debt	229,838	128,919
	<u>1,857,357</u>	<u>1,663,097</u>
Change in Net Assets before Other Financing	722,747	699,122
Capital Grants-Downtown Project	10,884,496	-
Special Assessments	2,000,482	-
	<u>12,884,978</u>	<u>-</u>
Change in Net Assets	13,608,175	699,122
Net Assets, January 1	5,959,343	5,260,221
Prior Year Adjustment P,E.R.A.	<u>-</u>	<u>(10,000)</u>
Net Assets, December 31	<u>19,557,518</u>	<u>\$ 5,949,343</u>

Governmental Activities - Exclusive of downtown Project

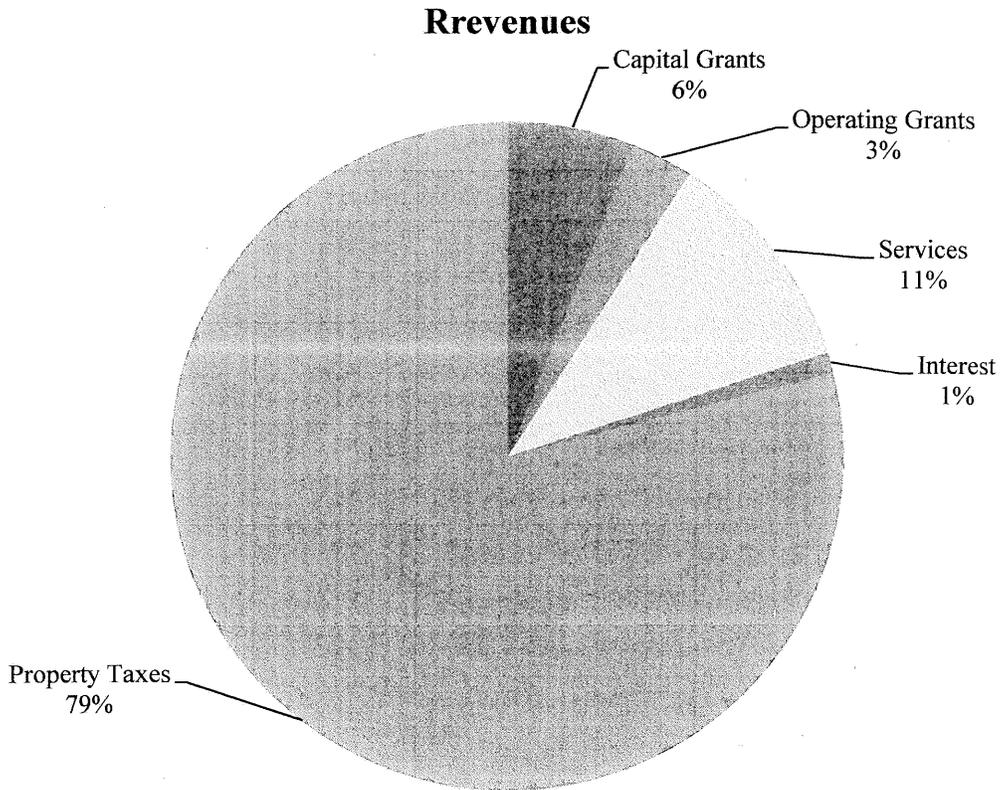
Governmental activities increased net assets by \$723,197 which is a 12% increase in the net assets of the City.

Revenues increased \$218,335 or 9%, the key elements of this change are as follows:

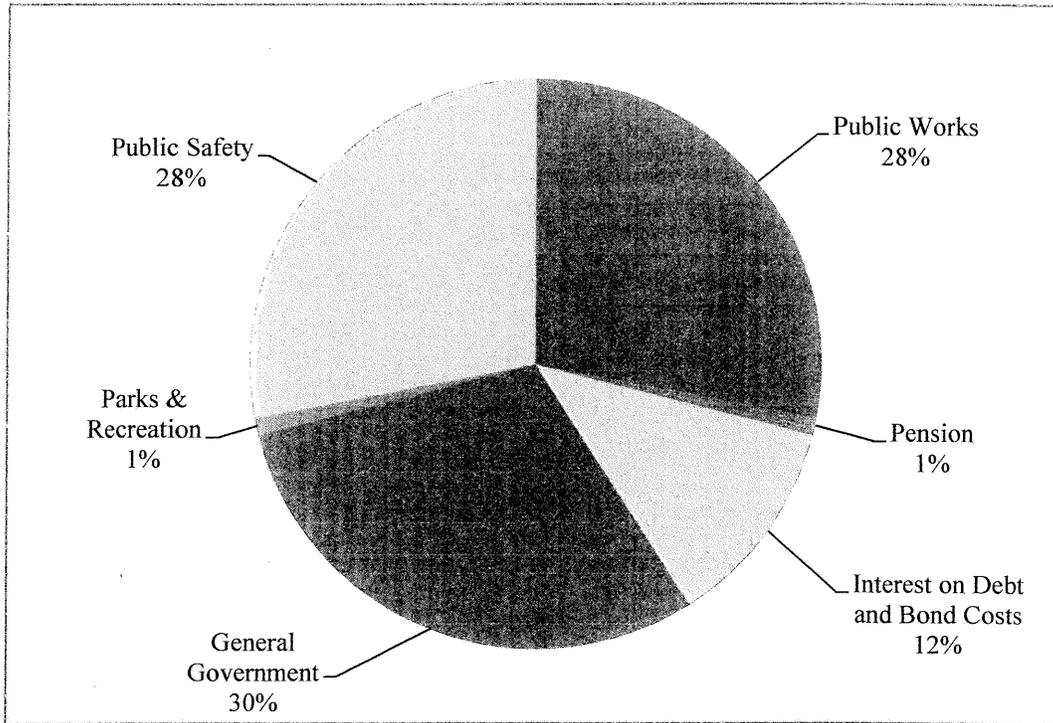
- Property tax revenue increased \$158,725 from 2016.
- Increased Capital Grants; Special Assessments.

Expenses increased by \$194,460 in interest and depreciation.

Revenues by Source



Expenditures by Activity
(Exclusive of Downtown Project)



Fund Financial

Fund Financial - all Funds

Revenues / Expenditures - Year Ended December 31.

	<u>2017</u>	<u>2016</u>
Revenues:		
Property Taxes	\$ 2,020,162	\$ 1,861,437
Licenses Permits and Fees	299,101	348,530
Intergovernmental	10,995,279	121,550
Other	150,508	30,702
Total	13,465,050	2,362,219
Expenditures:		
General Government	531,100	520,620
Public Safety / Health	515,572	513,930
Public Works	249,046	170,820
Park and Recreation	20,459	22,856
Capital Outlay	16,747,221	508,516
Debt Service	382,855	270,669
Total	18,446,253	2,007,411
Net Change in Fund Balances	<u>\$ (4,981,203)</u>	<u>\$ 354,808</u>

General Fund Budget/Actual - Fund Financial

	<u>2017</u>	
	<u>Actual</u>	<u>Budget</u>
Revenues:		
Charges for Services	\$ 279,427	\$ 152,385
Fines and Forfeits	11,061	14,250
Other revenue	5,242	3,700
Property Taxes	1,710,329	1,732,068
Intergovernmental	17,064	9,824
Investment Income	14,478	50
	<hr/>	<hr/>
Total Revenues	<u>2,037,601</u>	<u>1,912,277</u>
Expenses:		
General Government	515,079	502,131
Public Safety/Public Health	422,264	424,296
Public Works	246,162	292,750
Parks and Recreation	20,459	14,000
Capital Outlay	-	-
	<hr/>	<hr/>
Total Expenses	<u>1,203,964</u>	<u>1,233,177</u>
Change in Net Assets before <u>Transfers</u>	<u>\$ 833,637</u>	<u>\$ 679,100</u>

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities at the end of the year amounts to \$24,396,238 (net of accumulated depreciation). The investment in capital assets includes land, buildings, park facilities, equipment and streets, and downtown improvements. The total increase in the City's net capital assets for the current fiscal year was \$16,448,879, a major portion of which was Septic System Improvements and 2017 Road Improvements.

Capital assets added during the current year included the following:

- Infrastructure in Progress additions \$13,407,433.
- Road Construction \$3,107,480 (mostly 2017 street project)
- Depreciation was \$298,342 for 2017.
- Building Improvements \$113,980
- Park Improvements \$118,328

City of Afton - Capital Assets (net of depreciation)

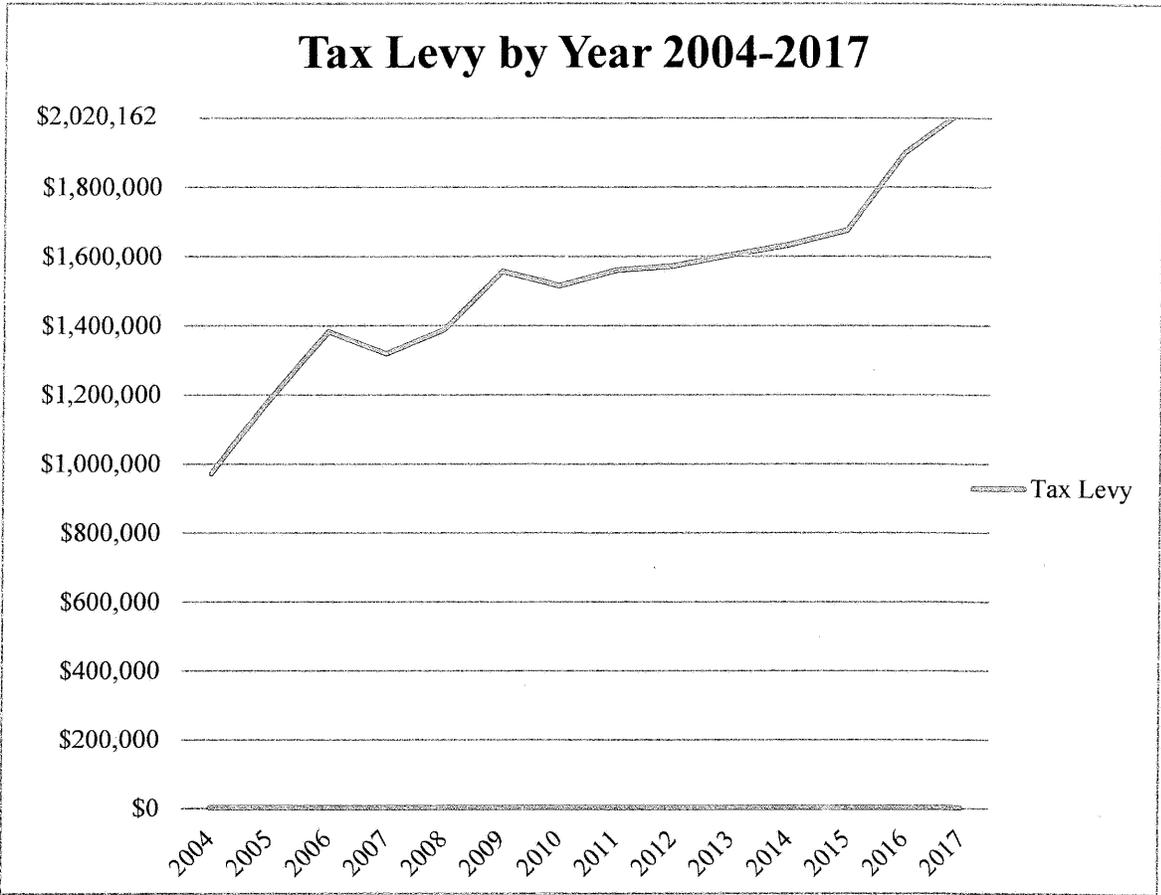
	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Improvement Project Land	\$ 1,828,553	\$ 1,828,553
City Roads	6,838,065	3,999,919
Land and Improvements	178,119	178,119
Park Equipment and Improvements	128,473	13,359
Building and Improvements	270,082	167,955
Furniture and Equipment	17,827	22,022
Site Improvements	65,324	75,070
Development Infrastructure in Progress	<u>15,069,795</u>	<u>1,662,362</u>
Total net capital assets	<u>\$ 24,396,238</u>	<u>\$ 7,947,359</u>

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

General Obligation Debt – December 31, 2017

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

<u>RATE</u>		<u>12/31/16</u>	<u>Issued</u>	<u>Paid</u>	<u>12/31/17</u>	<u>Current</u>	<u>Maturity</u>
-	2015A Temporary G.O. Improvement Bonds	\$ 3,755,000	\$ -	\$3,755,000	\$ -	\$ -	-
1.55%	2017A Temporary G.O. Improvement Bonds	-	1,980,000	-	1,980,000	1,980,000	4/1/2020
2.25%	2017B G.O. Improvement Bonds	-	3,500,000	-	3,500,000	-	2/1/2028
3 & 4%	2014A G.O. Improvement Bonds	2,810,000	-	165,000	2,645,000	180,000	4/1/2027
1.095 & 1.094%	PFA Loans G.O.	-	1,657,545	-	1,657,545	53,774	8/20/2036
		<u>\$ 6,565,000</u>	<u>\$7,137,545</u>	<u>\$3,920,000</u>	<u>\$9,782,545</u>	<u>\$2,213,774</u>	



Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Afton, Minnesota

Statement of Net Assets
December 31, 2017

	Governmental <u>Activities</u>
Assets	
Equity in Cash Pool	\$ 4,469,136
Accounts Receivable	14,600
Taxes Receivable	21,663
Special Assessments	2,000,482
Capital Assets, Net of Accumulated Depreciation:	
Land and Improvements	2,006,672
Park Equipment and Improvements	128,473
Buildings and Improvements	270,082
Furniture and Equipment	17,827
Infrastructure-Other	65,324
City Roads	6,838,065
Construction in Progress	15,069,795
Deferred Outflows	5,000
Total Assets	<u>\$ 30,907,119</u>
Liabilities	
Interest Payable	\$ 100,837
Account Payable & Accrued Expense	1,293,219
Accrued Pension Liability	153,000
Noncurrent Liabilities:	
Due within one year	2,213,774
Due in more than one year	7,568,771
Deferred Inflows	20,000
Total Liabilities	<u>\$ 11,349,601</u>
Net Assets	
Invested in Capital Assets, Net of related Debt	14,512,856
Unrestricted	5,044,662
Total Net Assets	<u>\$ 19,557,518</u>

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

City of Afton, Minnesota

Statement of Activities
For Year Ended December 2017

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Functions and Programs				
Governmental activities				
General Government	\$ 554,412	\$ 23,401	\$ -	\$ (251,652)
Public Health	1,270			(1,270)
Public Safety	514,302	43,475		(459,766)
Public Works	520,862	3,850	146,859	(370,153)
Parks and Recreation	23,673	2,400	10,000	(11,273)
Interest/Bond Costs	229,838			(229,838)
Pension Expense	13,000			(13,000)
Total Governmental Activities	\$1,857,357	\$ 73,126	\$ 156,859	\$ (1,336,952)
General Revenues:				
State of Minnesota, DNR Flood Hazard Mitigation Grant/Washington County				\$ 10,884,946
Property Taxes levied for general purposes				1,710,329
Property Taxes - Debt Service				309,833
Grants and Contributions not restricted to specific programs				9,854
Special Assessments certified				2,000,482
Investment Income				29,683
Total General Revenues and Internal Transfers				14,945,127
Change in Net Assets				13,608,175
Net Assets, December 31, 2016				5,949,343
Net Assets, December 31, 2017				<u>\$ 19,557,518</u>

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

FUND FINANCIAL STATEMENTS

City of Afton, Minnesota
Balance Sheet
Governmental Funds
December 31, 2017

		Street Improvement Capital Fund	2017 Street Improvement Fund	City Infrastructure Improvement Fund	Special Reserve Fund	Road Paving Debt Service Fund	Non-Major Funds	Total
Assets								
Equity in Cash Pool	\$	919,906	\$ 996,227	\$ 984,920	\$ 460,286	\$ 433,178	\$ 177,037	\$ 4,469,136
Due from other Funds								
Special Assessments	21,663			2,000,482				2,000,482
Taxes Receivable, Unremitted	14,600							21,663
Other Receivables								14,600
Total Assets	\$	956,169	\$ 996,227	\$ 2,985,402	\$ 460,286	\$ 433,178	\$ 177,037	\$ 6,505,881
Liabilities and Fund Balance								
Liabilities:								
Accounts Payable	192,070			984,694				1,253,513
Deposits	35,666							35,666
Accrued Expenses	4,040							4,040
Deferred Revenue				2,000,482				2,000,482
Total Liabilities	\$	231,776	\$ 76,749	\$ 2,985,176				\$ 3,293,701
Fund Balances:								
Restricted for debt Service						433,178		433,178
Unrestricted, reported in:								
General Fund Unassigned	332,805							332,805
Assigned:								
General Fund	391,588							391,588
Capital projects Funds		996,227		226	460,286		96,406	1,973,978
Special Revenue Funds							80,631	80,631
Total Fund Balances		724,393	\$ 996,227	\$ 226	\$ 460,286	\$ 433,178	\$ 177,037	\$ 3,212,180
Total Liabilities and Fund Balances	\$	956,169	\$ 996,227	\$ 2,985,402	\$ 460,286	\$ 433,178	\$ 177,037	\$ 6,505,881

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

City of Afton, Minnesota

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Governmental Funds
December 31, 2017

Total Fund Balances - Governmental Funds \$ 3,212,180

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

Deferred Outflows/Inflows (15,000)

Special Assessments certified 2,000,482

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

Capital Assets 27,098,182

Less Accumulated Depreciation (2,701,944)

Bonds Payable (8,125,000)

Interest Payable (100,837)

Loans Payable (1,657,545)

P.E.R.A. Liability (153,000)

Net Assets of Governmental Activities \$19,557,518

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

City of Afton, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds
For the Year Ended December 31, 2017

	General	Street Improvement Capital Fund	2017 Street Improvement Fund	City Infrastructure Improvement Fund	Special Reserve Fund	Road Paving Debt Service Fund	Non-Major Funds	Total
Revenues								
Property Taxes	\$ 1,710,329	\$ -	\$ -	\$ -	\$ -	\$ 260,000	\$ 49,833	\$ 2,020,162
Licenses, Permits and Fees	279,359						19,742	299,101
Intergovernmental Revenue	17,064	38,913		10,884,946			54,356	10,995,279
Special Assessments	-			102,054				102,054
Fines and Forfeits	11,061							11,061
Investment Income	14,478	4,437		3,306	2,862	2,489	2,111	29,683
Other	5,310						2,400	7,710
Total Revenues	\$ 2,037,601	\$ 43,350	\$ -	\$ 10,990,306	\$ 2,862	\$ 262,489	\$ 128,442	\$ 13,465,050
Expenditures								
Current:								
General Governmental	515,079						16,021	531,100
Public Health	1,270							1,270
Public Safety	420,994						93,308	514,302
Public Works	246,162						2,884	249,046
Parks and Recreation	20,459							20,459
Capital Outlay		32,341	3,075,139	13,407,433			232,308	16,747,221
Debt Service:								
Principal Retirement						165,000		165,000
Interest and Fiscal Fees/Bond Cost			52,507	70,923		94,425		217,855
Total Expenditures	1,203,964	32,341	3,127,646	13,478,356		259,425	344,521	18,446,253
Excess (Deficiency) of Revenues Over Expenses	833,637	11,009	(3,127,646)	(2,488,050)	2,862	3,064	(216,079)	(4,981,203)
Other Financing Sources (Uses)								
Loan Proceeds				1,657,545				1,657,545
Bond Proceeds			3,548,479	1,980,000				5,528,479
Bonds Retired				(3,755,000)				(3,755,000)
Transfers In/Out	(648,500)	175,000		493,000			46,000	-
Total Other Financing Sources (Uses)	(648,500)	175,000	3,548,479	375,545			46,000	3,431,024
Net change in Fund Balances	185,137	186,009	420,833	(2,112,505)	(62,638)	3,064	(170,079)	(1,550,179)
Fund Balances, January 1	539,256	810,218		2,112,731	522,924	430,114	347,116	4,762,359
Fund Balances, December 31	\$ 724,393	\$ 996,227	\$ 420,833	\$ 226	\$ 460,286	\$ 433,178	\$ 177,037	\$ 3,212,180

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

City of Afton, Minnesota

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2017

Net change in Fund Balances - Total Governmental Funds \$ (1,550,179)

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

Bonds Retired (Temporary Bonds) 3,755,000
Bonds Issued (3,500,000)
Temporary Bonds Issued (1,980,000)

Change in Accrued Interest (60,462)
Bond Payments - Principal 165,000

Minnesota Public Facilities Authority Loans (1,657,545)

P.E.R.A. Pension Expense (13,000)

Special Assessments Certified 2,000,482

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense. This is the amount
by which capital outlay exceeded depreciation in the current period.

Capital Outlay 16,747,221
Depreciation Expense (298,342)

Change in Net Assets of Governmental Activities \$ 13,608,175

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

City of Afton, Minnesota

**Annual Financial Report
For the Year Ended December 31, 2017**

General Fund

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

City of Afton, Minnesota

**General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
December 31, 2017 and 2016**

<u>Revenues</u>	<u>2017</u>	<u>2016</u>
Taxes	\$ 1,710,329	\$ 1,551,544
Licenses, Fees and Permits	279,359	281,870
Intergovernmental	17,064	16,286
Charges for Services	68	114
Fines and Forfeits	11,061	15,086
Special Assessments		
Investment Earnings	14,478	1,418
Miscellaneous	5,242	5,641
	<hr/>	<hr/>
Total Revenues	\$ 2,037,601	\$ 1,871,959
	<hr/>	<hr/>
<u>Expenditures</u>		
General Government	\$ 515,079	\$ 503,026
Public Safety	420,994	413,237
Public Works	246,162	165,102
Public Health	1,270	1,784
Culture and Recreation	20,459	21,406
	<hr/>	<hr/>
Total Expenditures	\$ 1,203,964	\$ 1,104,555
	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	\$ 833,637	\$ 767,404
	<hr/>	<hr/>
Other Financing Sources (Uses)		
Operating Transfers In	\$ 100,000	\$ -
Operating Transfers Out	(748,500)	(757,000)
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	\$ (648,500)	\$ (757,000)
	<hr/>	<hr/>
Excess of revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 185,137	\$ 10,404
	<hr/>	<hr/>
Fund Balance - January 1	\$ 539,256	\$ 528,852
	<hr/>	<hr/>
Fund Balance - December 31	\$ 724,393	\$ 539,256
	<hr/>	<hr/>

City of Afton, Minnesota

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017
With Comparative Amounts for the year ended December 31, 2016

<u>Revenues</u>	<u>2017</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
Taxes			
Current Property	\$ 1,682,543	\$ 1,653,435	\$ 1,482,978
Fiscal Disparities	49,525	46,265	44,674
Delinquent Property		10,629	23,892
Total Taxes	<u>\$ 1,732,068</u>	<u>\$ 1,710,329</u>	<u>\$ 1,551,544</u>
Licenses, Fees and Permits			
Building Permits	\$ 86,250	\$ 196,213	\$ 207,965
July 4th Permits	-	-	-
Impound and Dog Licenses	300	1,055	325
Liquor Licenses	2,600	3,500	5,022
Other Licenses	350	1,119	589
Utility Franchise Fees	58,000	62,497	57,833
Street Opening Permits/Utility Fees	1,750	3,500	2,250
Zoning Fees and Permits	3,000	11,475	7,886
Total Licenses, Fees, & Permits	<u>\$ 152,250</u>	<u>\$ 279,359</u>	<u>\$ 281,870</u>
Intergovernmental			
State			
Local Government Aid	\$	\$	\$
PERA Rate Increase Aid	634	634	634
Market Value Credits	4,000	10,423	9,596
Federal FEMA - Flood			
County			
Gravel Tax	(2,400)	(2,267)	(2,160)
Agricultural Preserve Credit	500	1,064	1,006
Recycling	7,090	7,210	7,210
Total Intergovernmental	<u>\$ 9,824</u>	<u>\$ 17,064</u>	<u>\$ 16,286</u>

City of Afton, Minnesota

General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Year Ended December 31, 2017
 With Comparative Amounts for the year ended December 31, 2016

<u>Revenues (continued)</u>	<u>2017 Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
Charges for Services			
Assessment Search	\$ 35	\$ 60	\$ 80
Sale of Copies	100	8	34
Newsletter			
Recycling Bins			
Recording			
Planning			
Total Charges for Services	<u>\$ 135</u>	<u>\$ 68</u>	<u>\$ 114</u>
Fines and Forfeits			
Court Fines	\$ 14,000	\$ 11,061	\$ 14,422
Other Fines	250		664
Total Fines and Forfeits	<u>\$ 14,250</u>	<u>\$ 11,061</u>	<u>\$ 15,086</u>
Special Assessments			
Principal & Interest	\$	\$	\$
Investment Earnings	<u>\$ 50</u>	<u>\$ 14,478</u>	<u>\$ 1,418</u>
<u>Miscellaneous</u>			
Insurance Dividend	\$ 2,000	\$ 998	\$ 3,972
Park Rental	500	225	225
Cable Commission	1,200	1,500	1,200
Other		2,519	244
Total Miscellaneous	<u>\$ 3,700</u>	<u>\$ 5,242</u>	<u>\$ 5,641</u>
Total Revenues	<u>\$ 1,912,277</u>	<u>\$ 2,037,601</u>	<u>\$ 1,871,959</u>

City of Afton, Minnesota

**General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017
With Comparative Amounts for the year ended December 31, 2016**

<u>Expenditures</u>	<u>2017 Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
General Government			
Administration - Wages and Benefits			
Mayor and Council	\$ 13,200	\$ 13,200	\$ 13,200
Administrator	97,759	92,150	91,483
Office Assistant/Intern	21,056	21,793	18,272
Office Manager/Deputy Clerk	44,150	34,150	38,798
Maintenance Personnel	24,669	24,076	18,816
Social Security Contributions	15,364	18,047	17,854
PERA Contributions	15,063	12,771	13,008
Other Financial Benefits	26,400	26,400	26,400
Insurance-Disability	720	227	648
Workers Compensation	3,100		3,171
Total Wages and Benefits	<u>\$ 261,481</u>	<u>\$ 242,814</u>	<u>\$ 241,650</u>
Administration - Professional Services			
Assessor	\$ 21,850	\$ 22,215	\$ 21,269
Accounting Fees	16,500	17,130	15,247
Audit Fees	8,700	6,600	5,350
Building Inspection	34,400	82,428	80,054
Engineering	20,000	24,410	23,561
Legal Fees - Prosecution	28,000	27,943	23,160
Legal Fees - General	22,000	19,082	21,951
Legal Fees - Litigation	-	-	-
Contract-Videographer/Recording	2,300	2,475	1,807
Other Services/Comprehensive Plan 1000	5,500	7,350	(433)
Well Monitoring Program	1,000		768
St. Croix Valley WMO	500	596	595
Total Professional Services	<u>\$ 160,750</u>	<u>\$ 210,229</u>	<u>\$ 193,329</u>

City of Afton, Minnesota

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017
With Comparative Amounts for the year ended December 31, 2016

<u>Expenditures (continued)</u>	<u>2017</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
General Government (continued)			
Administration - Other			
Office Equipment	\$ 700		\$ 576
Newsletter	6,000	4,804	5,339
Bank Service Charge	400	314	262
Computer Service/Software	9,500	6,900	5,610
Copier Lease	7,000	2,760	3,243
Equipment Maintenance	1,000	-	-
Insurance - General Liability	21,000	15,962	17,250
Miscellaneous	2,000	5,263	21
Office Supplies	4,000	3,563	2,631
Other Administration	500	320	5,406
Postage	3,500	3,847	3,281
Publishing and Printing	2,800	407	2,201
Telephone	3,500	3,050	2,703
Travel and Mileage	500	186	132
Membership and Dues	3,000	3,229	3,207
Seminars and Education	2,500	1,058	682
Elections	-	1,550	7,207
Total Administration - Other	<u>\$ 67,900</u>	<u>\$ 53,213</u>	<u>\$ 59,751</u>
Grounds and Buildings			
Heat - Gas	2,200	533	1,071
Electricity	2,000	2,039	1,635
Miscellaneous	800	910	944
Repair and Maintenance, Cleaning	4,000	2,658	1,175
Supplies	500	536	289
City Garage Expense	2,500	2,147	3,182
Total Grounds and Building	<u>\$ 12,000</u>	<u>\$ 8,823</u>	<u>\$ 8,296</u>
Total General Government	<u>\$ 502,131</u>	<u>\$ 515,079</u>	<u>\$ 503,026</u>
Public Safety			
Animal Control	4,000	1,280	1,959
Fire and Ambulance Service	243,296	243,296	232,893
Police Service	175,000	176,418	178,385
Fire Relief Association	-	-	-
Total Public Safety	<u>\$ 422,296</u>	<u>\$ 420,994</u>	<u>\$ 413,237</u>

City of Afton, Minnesota

General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Year Ended December 31, 2017
 With Comparative Amounts for the year ended December 31, 2016

<u>Expenditures (continued)</u>	<u>2017 Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
Public Works			
Streets			
Bridge/Culvert/Guardrail Repair	\$ -	\$ -	\$ -
Gravel Roads Maintenance	4,000	13,722	7,944
Crack Seal/Seal Coat/Gravel Shouldering	75,000	33,098	11,701
Snow and Ice Control	110,000	76,152	78,910
Surface Maintenance/Repair/Sweeping	46,000	28,672	33,139
Brush/Weeds/Sod/Seed/Mow	39,000	80,978	21,136
Street Lighting	5,000	4,494	3,164
Gas Lamps	2,700	1,236	1,889
Signs and Signals	4,000	2,624	3,413
Other Road Maintenance	2,000	888	1,696
Total Streets	<u>\$ 287,700</u>	<u>\$ 241,864</u>	<u>\$ 162,992</u>
Other Public Works			
Sidewalk Improvements	-	-	-
Flood Control	1,600	-	200
Repairs & Maintenance - Equipment	1,500	3,940	1,324
Motor Fuel and Lubricants	1,000	263	311
Tools & Minor Equipment	950	95	275
Total Other Public Works	<u>\$ 5,050</u>	<u>\$ 4,298</u>	<u>\$ 2,110</u>
Equipment/culvert replacement	\$ -	\$ -	\$ -
Total Public Works	<u>\$ 292,750</u>	<u>\$ 246,162</u>	<u>\$ 165,102</u>
Public Health			
Recycling	500	525	1,076
Refuse Collection and Disposal	1,500	745	708
Total Public Health	<u>\$ 2,000</u>	<u>\$ 1,270</u>	<u>\$ 1,784</u>

City of Afton, Minnesota

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance Budget and Actual
For the Year Ended December 31, 2017
With Comparative Amounts for the year ended December 31, 2016

<u>Expenditures (continued)</u>	<u>2017</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
Culture and Recreation			
July 4th Celebration	\$ 3,500	\$ 3,500	\$ 3,500
Cemetery Maintenance	9,000	9,354	9,000
Park Maintenance	1,200	2,587	569
Miscellaneous	300	18	112
Improvements	-	5,000	8,225
	<hr/>	<hr/>	<hr/>
Total Culture and Recreation	\$ 14,000	\$ 20,459	\$ 21,406
	<hr/>	<hr/>	<hr/>
Capital Outlay			
Capital Expenditures	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 1,233,177	\$ 1,203,964	\$ 1,104,555
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under)			
Expenditures	\$ 679,100	\$ 833,137	\$ 767,404
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)			
Operating Transfers In	\$ -	\$ 100,000	
Operating Transfers Out	(679,100)	(748,500)	(757,000)
Total Other Financing Sources	\$ (679,100)	\$ (648,500)	\$ (757,000)
	<hr/>	<hr/>	<hr/>
Excess of Revenues and Other Sources			
Over (Under) Expenditures and Other Uses	\$	\$ 185,137	\$ 10,404
	<hr/>	<hr/>	<hr/>
Fund Balance - January 1	<hr/>	539,256	528,852
	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$	\$ 724,393	\$ 539,256
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

City of Afton, Minnesota
Audited Financial Statements
For the Year Ended December 31, 2017

Fiduciary Type Funds

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

City of Afton, Minnesota

Minnesota Investment Fund
Fiduciary Type Fund
for the year ended December 31, 2017
Balance Sheet

Assets	
Cash	\$ 105,378
Receivable from Developers	
	<hr/>
Total assets	<u>105,378</u>
Liabilities and Fund Balance	
Liabilities	
Cash Deficit	
Deposits Payable	
Total Liabilities	
Fund Balance	
Reserved	105,378
	<hr/>
Total Liabilities and Fund Balance	<u>\$ 105,378</u>

Statement of Revenues and Expenditures and Changes in Fund Balance
for the year ended December 31, 2016

Revenues	
State Loan Proceeds	\$ -
Interest	743
Payments	-
	<hr/>
Total Revenues	<u>743</u>
Expenditures	
Remittance	
Payments to State	-
	<hr/>
Total Expenditures	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	743
Other Financing Sources - Transfers	
	<hr/>
Excess of Revenues and Other Sources Over Expenditures	743
Fund Balance - January 1	<u>104,635</u>
Fund Balance - December 31	<u>\$ 105,378</u>

NOTES TO FINANCIAL STATEMENTS

City of Afton, Minnesota

Notes to Financial Statements December 31, 2017

NOTE 1. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the City of Afton for the year ended December 31, 2017 have been prepared on a basis not in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The City's basis of accounting recognizes only some receivables and some payables and all payables recorded are classified as general fund. Bond issuances and payments are not accounted for under GAAP in the fund financials as sources and uses of funds. Special Assessments certified were not recorded on the books of the City. In 2017 the City did not maintain property and depreciation records as needed for Government wide Financials. All extremely significant omissions.

A. Reporting Entity

The City operates under Plan A form of governmental and provides services such as public safety, public works, public health, culture, recreation, and community development, as authorized by statute. For Financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions, and authorities and has considered all potential component units and other organizations for which the is financially accountable or for which the nature and significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. After applying the criteria the to all potential component units, it was determined that the City has no component units.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues included 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

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

City of Afton, Minnesota

Notes to Financial Statements December 31, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded when the payment is due.

Property taxes, license and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received.

The City reports the following major governmental funds:

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

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

The 2017 Street Improvement Fund accounts for Bond Proceeds (2017B) and expenditures of this Street Improvement.

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

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

The Road Debt Service Fund is used to account for Bond Debt Service of 2014A Refunding Boards.

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

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

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

City of Afton, Minnesota

**Notes to Financial Statements
December 31, 2017**

D. Cash and Investments

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

E. Interfund Receivable/Payables

These accounts have been substantially eliminated in the Financial Statements.

F. Capital Assets

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

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

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

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

G. Property Taxes

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

City of Afton

Notes to Financial Statements December 31, 2017

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

H. Special Assessments

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

The City recognizes special assessment revenue in the government-wide financial statements when the assessment rolls are levied. In the fund financial statements, the City recognizes special assessment revenue when it becomes both measurable and available. Current assessments, which remain unpaid at December 31, are classified as delinquent receivables and together with deferred assessments, are fully offset by deferred revenue because it is not known when they will be available to finance current expenditures.

I. Compensated Absences

The liability for accrued compensated absences includes accumulated vacation leave and sick leave and is estimated at approximately \$20,000 at December 31, 2017.

J. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, if significant, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, if significant or discount. Bond issuance costs, if significant, are reported as deferred charges and amortized over the term of the related debt.

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

K. Fund Equity

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

L. Pensions

For the purpose of measuring pension liability, deferred outflows/inflows of resources and pension expense, information about fiduciary net position of the Public Employees Retirement Association (P.E.R.A.) and additions to/deductions from P.E.R.A. Fiduciary net positions have been determined on the same basis as they are reported by P.E.R.A. except that PERA's year end is June 30th. For this purpose, plan contributions are recognized as of employer payroll paid dates and no benefits payments and refunds are recognized with the benefit terms.

City of Afton, Minnesota

Notes to Financial Statements
December 31, 2017

NOTE 2. Budgets, Compliance and Accountability

A. Budgetary Information

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance Accounting, under which contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the capital projects funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. See Note 11a on page 29c.

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

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

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

City of Afton, Minnesota

Notes to Financial Statements
December 31, 2017

B. Expenditures/Appropriations

Actual expenditures were less than appropriations (budget) in the General Fund in the amount of \$29,213 for the year ended December 31, 2017.

NOTE 3. Deposits and Investments

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

At December 31, 2017, the City's bank deposits were none. The carrying value of these deposits on the City's books was also none. All of the City's bank deposits were covered by insurance during 2017.

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

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

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

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

The City has no investments that need to be categorized by custodial credit risk. The following is a summary of the carrying values of the City's cash items at December 31, 2017.

	<u>Carrying Value</u>
Cash on hand	\$ 1,099
Minnesota Municipal Money Market Fund	<u>4,573,415</u>
Total Cash and Investments	<u>\$ 4,574,514</u>
Governmental Activities - Cash Pool	\$ 4,469,136
Fiduciary Fund - Cash Pool MN. Investment Fund	105,378
Fiduciary Fund - Cash Pool - Refinance Fund	-
	<u>\$ 4,574,514</u>

City of Afton, Minnesota

**Notes to Financial Statements
December 31, 2017**

NOTE 4. Capital Assets

Capital assets activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Development in Progress - Land	\$ 1,828,553		\$ -	\$ 1,828,553
Development in Progress - Improvements	1,662,362	1) 13,407,433		15,069,795
Land and Improvements	<u>178,119</u>			<u>178,119</u>
Total Capital Assets, Not being Depreciated	\$ 3,669,034	\$ -	\$ -	\$17,076,467
Capital Assets Being Depreciated:				
City Roads	\$ 5,739,711	\$ 3,107,480	\$ -	\$ 8,847,191
Park Equipment and Improvements	84,635	118,328	-	202,963
Building and Improvements	476,640	113,980	-	590,620
Furniture and Equipment - City Hall	70,545	-	-	70,545
Equipment Public Works	109,091	-	-	109,091
Infrastructure-Site Improvements	<u>201,305</u>	<u>-</u>	<u>-</u>	<u>201,305</u>
Total Capital Assets, Being Depreciated	\$ 6,681,927	\$ 3,339,788	\$ -	\$10,021,715
Less Accumulated Depreciation:				
City Roads	\$ 1,739,792	\$ 269,334	\$ -	\$ 2,009,126
Park Equipment	71,276	3,214	-	74,490
Building and Improvements	308,685	11,853	-	320,538
Furniture and Equipment - City Hall	58,175	1,713	-	59,888
Equipment Public Works	99,439	2,482	-	101,921
Infrastructure - Site Improvements	<u>126,235</u>	<u>9,746</u>	<u>-</u>	<u>135,981</u>
Total Accumulated Depreciation	\$ 2,403,602	\$ 298,342	\$ -	\$ 2,701,944
Total Capital Assets Being Depreciated, Net	\$ 4,278,325	\$ 3,041,446	\$ -	\$ 7,319,771
Governmental Activities, Capital Assets, Net	\$ 7,947,359	\$ 3,041,446	\$ -	\$24,396,238

Depreciation expense was charged to City functions as follows:

Governmental Activities:

General Government	\$ 23,312
Public Works	271,816
Parks and Recreation	<u>3,214</u>

Total Depreciation Expense - Governmental Activities \$ 298,342

1) Includes Septic System Construction, \$11,541,511.

City of Afton, Minnesota

**Notes to Financial Statements
December 31, 2017**

NOTE 5. Defined Benefit Pension Plans - Statewide

A. PLAN DESCRIPTION

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

General Employees Retirement Fund (GERF)

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

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

City of Afton, Minnesota

Notes to Financial Statement
December 31, 2017

A. Benefits Provided

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

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

GERF Benefits

Benefits are based on a member's highest average salary for any successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

B. Contributions

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

GERF Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members are required to contribution 9.1% and 6.5% respectively, of their annual covered salary in calendar year 2017. Coordinated Plan members contributed 6.5% of pay in 2017. In Calendar year 2017, the City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The City contributions to the GERF for the year ended December 31, 2017 were \$11,691. The City's contributions were equal to the required contributions for each year as set by state statutes.

CITY OF AFTON, MINNESOTA
Notes to Financial Statements
December 31, 2017

C. Pension Costs

GERF Pension Costs

At December 31, 2017, the City reported a liability of \$153,000 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contribution received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.000025, about the same as prior year.

For the year ended December 31, 2017, the City recognized pension expense of \$13,000 for its proportionate share of GERF's pension expense.

At December 31, 2017, the City reported its proportion share for GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,000	\$ 10,000
Changes in actuarial assumptions		\$ -
Difference between projected and actual investment earnings		\$ -
Changes in proportion and differences between contributions made and City's proportionate share of contributions (second part to be determined by the City)	\$ -	\$ 10,000
City's contributions to GERF subsequent to the measurement date.		\$ -
Total	\$ 5,000	\$ 20,000

GERF State of Minnesota

The state made a 6 million dollar contribution in 2017. The State of Minnesota is considered a non-employer contributions entity and the states contribution meets the certification of a special funding situation. The states proportionate share of the net pension liability associated with the city at June 30, 2017 was about \$2000.

CITY OF AFTON, MINNESOTA
Notes to Financial Statements
December 31, 2017

Amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2017	\$ (3,000)
2018	\$ (3,000)
2019	\$ (3,000)
2020	\$ (3,000)
2021	\$ (3,000)

D. Actuarial Assumptions

The total pension liability, in the June 30, 2017 actuarial valuation, was determined using the following actuarial assumptions.

Assumptions	PERA
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan and Police and Fire Plan, and 2.5 percent for all years for the Correctional Plan.

Actuarial assumptions, used in the June 30, 2017 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 2015.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

The combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

CITY OF AFTON, MINNESOTA

Notes to Financial Statements

December 31, 2017

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the 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.

F. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase
PERA Discount Rate			
City's proportionate share of the GERF net pension liability	237,000	153,000	84,000

G. Pension Plan Fiduciary Net Position

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

CITY OF AFTON, MINNESOTA
Notes to Financial Statements
December 31, 2017

EMPLOYEE PENSION PLANS - STATEWIDE (continued)

Note 6. Defined Contribution Plan

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

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

Total contributions made by the City during fiscal year 2017 were:

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

City of Afton
Notes to Financial Statement
December 31, 2017

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

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

At December 31, 2017, the District has long-term debt consisting of \$675,000 in bonds payable, \$679,432 in capital leases/loans payable. Funding is provided by assessments from the member cities and is based on a predetermined formula. During 2017, the City of Afton's contribution was \$293,129, representing about 50% of the District's total budget. Complete financial information can be obtained from the District's office at P.O. Box 234, Lakeland, Minnesota 55043.

Note 8. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health; and natural disasters. Risks of loss associated with worker's compensation claims, property, casualty, and liability are insured through participation in the League of Minnesota Cities Insurance Trust. There were no significant reductions in insurance coverage from the previous year.

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

Note 9. Contingent Assets

The City has approximately \$30,000 in delinquent taxes receivable at December 31, 2017.

Note 10. Flood Hazard Mitigation Grant - State of Minnesota

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

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

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

The City had received \$1,117,465 to December 31, 2016 under this grant and \$35,137 for interest costs. The City had no unpaid funds match liability balance at December 31, 2016.

Continued on Page 28a

City of Afton
Notes to Financial Statement
December 31, 2017

NOTE 10 CONTINUED

Grant Amendment

REVISION 1. Provision **11.1 EFFECTIVE DATE** is amended as follows:

This Grant shall become legally effective upon such date as it is executed by the Department of Natural Resources and shall remain in effect until December 31, 2018 or until all obligations set forth in this Grant have been satisfactorily fulfilled, whichever occurs first.

REVISION 2. Provision **1.1 STATE SHARE** is amended as follows:

In accordance with the Minnesota Session Laws-2011, 1st Special Session, Chapter 12, Section 5 Subdivision 3, Minnesota Session Laws 2012 Chapter 293, Section 7, Subdivision 2, Minnesota Session Laws 2013, Chapter 136, Section 2, this grant is to fund the local share of a flood hazard mitigation project in the City of Afton, Minnesota, under Minnesota Statutes, Section 103F.161, to the extent that the cost of this project exceeds two percent of the median household income (MHI) in the municipality multiplied by the number of households in the municipality. Under the computation of the two percent median household income and the number of households, the Grantee shall contribute 50% of the project costs up to a total Grantee share of \$2,090,459 and the State shall award the Grantee 100% of the balance of the total cost of the approved Project as identified in Section 2.1 (hereinafter "Project"), or \$3,414,874 whichever is less, for the costs authorized herein. The total obligation of the State for all compensation and reimbursements to Grantee under this Grant shall not exceed \$3,414,874. The city received \$1,611,106 from this grant during 2017, combined with previous receipts (Page 28) of \$1,117,465.00 equals an amount to date at December 31, 2017 of \$2,728,571.

City of Afton
Notes to Financial Statements
December 31, 2017

NOTE 11. Long-Term Debt

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

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

General Obligation Tax Abatement Refunding Bonds, Series 2014A, 3% and 4%, Debt Service Summary as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 165,000	\$ 94,425	\$ 259,425 PAID 2017
2018	180,000	89,250	269,250
2019	195,000	83,625	278,625
2020	210,000	76,500	286,500
2021	230,000	67,700	297,700
2022-2027	1,830,000	188,400	2,018,400
Total	\$ 2,645,000	\$ 505,475	\$ 3,150,475

General Obligation Temporary Bonds

In April of 2015, the City issued General Obligation Temporary Improvement Bonds, Series 2015A in the amount of \$3,755,000. Interest only at a coupon rate of .75% was paid on October 1, 2015 (\$12,908) and is due every six months thereafter until April 1, 2017, when Bonds become due. The City intends to obtain Long-Term Refinancing for these Temporary Bonds. Accrued interest at December 31, 2016 is \$7,041 for a total of \$29,769 of interest for 2016, which was capitalized as cost of Infrastructure project. These temporary bonds were paid/refinanced on March 26, 2017.

City of Afton
Notes to Financial Statements
December 31, 2017

NOTE 11 Continued

Temporary Improvement Bonds 2017A

The City's outstanding general obligation Temporary Improvement Bonds of \$3,755,000-Series 2015A, dated April 16, 2015 with a due date of April 1, 2017 were paid effective April 1, 2017 with funds being deposited with the US Bank. Interest paid in 2017 was \$7,041.

This financing was accomplished by using available city funds of \$1,800,000 and Bond proceeds of \$1,988,078.40 from issuance of City of Afton, Minnesota \$1,980,000, General Obligation Temporary Improvement Bond Series 2017A. \$31,794 was the cost of the issuance.

These Temporary Bonds bear interest at 1.55% and become due April 1, 2020. Interest paid during 2017 was \$16,027.

General Obligation Tax Abatement Bonds, Series 2017B

During 2017 the City issued \$3,500,000 of General Obligation Bonds to be used for the City's main 2017 street improvement construction project.

These 2017B Series Bonds are dated May 18, 2017 and bear interest of 2% through August 1 of 2025, thereafter 2.25% to August 1, 2017, with the final installment, \$385,000 on February 1, 2018 bearing 2.5% interest. These bonds were issued at a premium of \$70,960 less underwriter discount of \$22,481 or \$48,479. Cost of issuance were \$52,507.

Debt Service Schedule at December 31, 2017

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018		88,735	88,735
2019	320,000	70,575	390,575
2020	325,000	64,125	389,125
2021	330,000	55,575	385,575
2022	340,000	47,725	387,725
2023-2028	2,185,000	156,900	2,341,900
Total	\$ 3,500,000	\$ 483,635	\$ 3,983,635

CITY OF AFTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 11 - Long Term Debt Continued

Public Facilities Authority (PFA) Loans

In order to finance the City's downtown Project, sanitary, sewer and storm sewer projects, the City has obtained financing connected to a Point Source Implementation Grant (PSIG) from the State of Minnesota of \$5,742,716, \$4,382,493 received 2017 and two PFA Loans. MPFA-CWRFL-054-FY17 dated June 29, 2017, interest at 1.095%-\$1,049,815 and MPFA-CWRF-L-055-FY17 also dated June 29, 2017 with interest at 1.094%-\$1,194,959. MPFA-CWRF- L-.54-FY17 and L-055-FY17 both have a maturity of August 20, 2036.

Each of these loans has a forgiveness clause:

- L-055-FY17 has a green infrastructure principal forgiveness grant of \$193,786, plus disbursed funds received by the City during 2017-\$1,001,173 equals the total loan \$1,194,959.
- L-054-FY forgiveness grant \$393,443 plus loan disbursed during 2017 \$656,372 equals total loans with L-055 of \$1,657,545 at December 31, 2017. The city must comply with all provisions of the loan agreement in order to earn the forgiveness grants and maintain the low interest rates.

Principal forgiveness grants received 2017 for L-054-FY 17 or G-P54FY17 \$349,938 and \$398,320 for L-055 or G-055. Total received by city \$748,258. Amorization of both loans to 8-20-2036 is interest about \$8,000 a year.

Loan costs were \$8,000 and \$8,061 respectively for each of these loans.

The additional Loan Proceeds above \$193,786 L-055 and \$393,443 for L-054 were projected for disbursement about March 28, 2018 per the Clean Water State Revolving Fund amortization schedule.

City of Afton, Minnesota
Notes to Financial Statements
December 31, 2017

NOTE 11 - Long Term Debt Continued

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

<u>RATE</u>		<u>12/31/16</u>	<u>Issued</u>	<u>Paid</u>	<u>12/31/17</u>	<u>Current</u>	<u>Maturity</u>
-	2015A Temporary G.O. Improvement Bonds	\$ 3,755,000	\$ -	\$ 3,755,000	\$ -	\$ -	-
1.55%	2017A Temporary G.O. Improvement Bonds	-	1,980,000	-	1,980,000	1,980,000	4/1/2020
2.25%	2017B G.O. Improvement Bonds	-	3,500,000	-	3,500,000	-	2/1/2028
3 & 4%	2014A G.O. Improvement Bonds	2,810,000	-	165,000	2,645,000	180,000	4/1/2027
1.095 & 1.094%	PFA Loans G.O.	-	1,657,545	-	1,657,545	53,774	8/20/2036
		<u>\$ 6,565,000</u>	<u>\$ 7,137,545</u>	<u>\$ 3,920,000</u>	<u>\$ 9,782,545</u>	<u>\$ 2,213,774</u>	

Note 11a Encumbrances

The Downtown Project and Septic System Project has about \$2,000,000 in encumbrances at December 31, 2017 and a \$505,000 retainer payable. 2017 Street Project has a retainer payable of \$130,000.

Note 12 Litigation

No significant litigation is in process at December 31, 2017.

City of Afton, Minnesota
Notes to Financial Statements
December 31, 2017

NOTE 13 - Downtown Project

A summary of costs follows:

Primary Contractor:

Total Original Contract with Small Changes of \$53,090	\$ 12,595,567
Paid to date December 31, 2017	\$ 9,604,451
Retained at December 31, 2017	\$ 505,497
Work to December 31, 2017	<u>\$ 10,109,948</u>
Other costs for Septic	<u>\$ 1,431,563</u>
	<u>\$ 11,541,511</u>
Other costs other than Septic	<u>\$ 1,865,922</u>
Per Financial Statement (Page 3)	<u><u>\$ 13,407,433</u></u>

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

City of Afton, Minnesota
Non-Major Governmental Funds
Balance Sheet
December 31, 2017

		Buildings and Land Capital <u>Fund</u>	201 Project <u>Fund</u>	Fire District <u>Fund</u>	Cable & Fire Aid <u>Fund</u>	City Dock <u>Fund</u>	Park Reserve <u>Fund</u>	<u>Total</u>
Assets:								
Equity in Cash Pool	\$	40,586	1,752	2,276	12,084	64,519	55,820	\$ 177,037
Due from Other Funds								
Accounts Receivable								
Prepaid Expense								
Taxes Receivable								
Special Assessments Receivable								
Total Assets	\$	40,586	1,752	2,276	12,084	64,519	55,820	\$ 177,037
Liabilities and Fund Balance								
Liabilities								
Accounts Payable	\$							\$
Deposits								
Advance from Other Funds								
Total Liabilities								
Fund Balance								
Unrestricted, Report in:								
Special Revenue Funds, Assigned			1,752	2,276	12,084	64,519		80,631
Capital Projects Funds, Assigned		40,586					55,820	96,406
Capital Projects Funds, Unassigned		40,586	1,752	2,276	12,084	64,519	55,820	177,037
Total Fund Balances	\$	40,586	1,752	2,276	12,084	64,519	55,820	\$ 177,037

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

City of Afton, Minnesota
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
December 31, 2017

	Buildings and Land Capital	201 Project	Fire District	Cable & Fire Aid	City Dock	Park Reserve	Total
	Fund	Fund	Fund	Fund	Fund	Fund	
Revenues							
Property Taxes	\$	\$	\$	\$	\$	\$	\$
Licenses, Permits and Fees		5,892	49,833		3,850	10,000	49,833
Intergovernmental Revenue				54,356			19,742
Investment Income	696	10	91		436	878	54,356
Donations/Refunds						2,400	2,111
Total Revenues	<u>696</u>	<u>5,902</u>	<u>49,924</u>	<u>54,356</u>	<u>4,286</u>	<u>13,278</u>	<u>128,442</u>
Expenditures							
General Government	3,675			12,346			16,021
Public Safety			49,833	43,475			93,308
Public Works		2,884					2,884
Parks and Recreation						118,328	
Capital Outlay	113,980						
Debt Service							
Principal Retirement							
Interest and Fiscal Fees							
Total Expenditures	<u>117,655</u>	<u>2,884</u>	<u>49,833</u>	<u>55,821</u>	<u>-</u>	<u>118,328</u>	<u>344,521</u>
Excess (Deficiency) of Revenues							
Over Expenditures	(116,959)	3,018	91	(1,465)	4,286	(105,050)	(216,079)
Other Financing Sources (Uses)							
Transfers In	46,000						46,000
Transfers Out							
Total Other Financing Sources	<u>46,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,000</u>
Net Change in Fund Balances	(70,959)	3,018	91	(1,465)	4,286	(105,050)	(170,079)
Fund Balance - January 1	111,545	(1,266)	2,185	13,549	60,233	160,870	347,116
Fund Balance - December 31	<u>\$ 40,586</u>	<u>\$ 1,752</u>	<u>\$ 2,276</u>	<u>\$ 12,084</u>	<u>\$ 64,519</u>	<u>\$ 55,820</u>	<u>\$ 177,037</u>

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

City of Afton, Minnesota
Annual Financial Report
For the Year Ended December 31, 2017

Special Revenue Funds

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

City of Afton, Minnesota
Fire District Special Revenue Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual for the year ended
December 31, 2017

	<u>Budget</u>	<u>Actual</u>
<u>REVENUES</u>		
Taxes	\$ 49,834	\$ 49,833
Investment Earnings	<u> </u>	<u> 91</u>
Total Revenues	<u> 49,834</u>	<u> 49,924</u>
 <u>Expenditures</u>		
Public Safety		
Fire and Ambulance Service	<u> 49,834</u>	<u> 49,833</u>
Total Expenditures	<u> 49,834</u>	<u> 49,833</u>
Excess of Revenues Over (Under) Expenditures	<u> </u>	<u> 91</u>
Fund Balance - January 1	<u> </u>	<u> 2,185</u>
Fund Balance - December 31	<u><u> </u></u>	<u><u> 2,276</u></u>

City of Afton, Minnesota

**Annual Financial Report
For the Year Ended December 31, 2017**

Capital Projects Funds

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

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

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

City of Afton, Minnesota
Building and Land Capital Projects Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual for the year ended
December 31, 2017

	<u>Budget</u>	<u>Actual</u>
<u>REVENUES</u>		
Grants	\$	\$ -
Insurance Proceeds		
Investment Earnings	_____	_____ 696
Total Revenues	_____	_____ 696
 <u>Expenditures</u>		
General Government		
City Hall Improvements		113,980
Building Repairs	_____	_____ 3,675
Total Expenditures	_____	_____ 117,655
Excess of Revenues Over (Under) Expenditures	_____	_____ (116,959)
 Other Financing Sources (Uses)		
Operating Transfers In	21,000	46,000
Operating Transfers Out	_____	_____
Total Other Financing Sources (Uses)	_____ 21,000	_____ 46,000
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	21,000	(70,959)
Fund Balance - January 1	_____ 111,545	_____ 111,545
Fund Balance - December 31	<u>\$ 132,545</u>	<u>\$ 40,586</u>

City of Afton, Minnesota
Street Improvements Capital Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual for the year ended
December 31, 2017

	<u>Budget</u>	<u>Actual</u>
<u>REVENUES</u>		
Taxes	\$	\$
Intergovernmental - Small City Assistance for Streets		38,913
Special Assessments		
Investment Earnings		4,437
Total Revenues		43,350
<u>Expenditures</u>		
Public Works		
Street Repairs		32,341
Total Expenditures	-	32,341
Excess of Revenues Over (Under) Expenditures	-	(11,009)
Other Financing Sources (Uses)		
Operating Transfers In	375,000	475,000
Operating Transfers Out		(300,000)
Total Other Financing Sources (Uses)	375,000	175,000
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses		186,009
Fund Balance - January 1	-	810,218
Fund Balance - December 31	\$ -	\$ 996,227

City of Afton, Minnesota
Park Reserve Capital Projects Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual for the year ended
December 31, 2017

	<u>Budget</u>	<u>Actual</u>
<u>REVENUES</u>		
Dedication Fees	\$	\$ 10,000
Donations		2,400
Investment Earnings		878
Total Revenues		13,278
<u>Expenditures</u>		
Culture and Recreation		
Park Improvements		118,328
Total Expenditures		118,328
Excess of Revenues Over (Under) Expenditures		(105,050)
Transer to Disaster Fund		
Fund Balance - January 1		160,870
Fund Balance - December 31	\$ -	\$ 55,820

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

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

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

I have audited the financial statements of the City of Afton, Minnesota, as of and for the year ended December 31, 2017, and have issued my report thereon dated April 30, 2018.

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

The Minnesota Legal compliance Audit Guide for Local Government covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment districts. My study included all of the listed categories.

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

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

I am unable to determine the certain legality of the 2017 \$3,500,000 Tax Abatement Bond Issue.



Michael W. Pofahl, C.P.A.
April 30, 2018

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

Report on Internal Control/Compliance

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

I have audited the financial statements of the governmental activities and each major fund of the City of Afton, Minnesota, as of and for the year ended December 31, 2017 which collectively comprise the City of Afton's basic financial statements a listed in the table of contents. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits.

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

As part of obtaining reasonable assurance about whether the City of Afton, Minnesota's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed that there is not adequate oversight of the financial reporting process; management is responsible for establishing and monitoring internal controls and for fair presentation of assets, liabilities and fund balances and the results of its operations and changes in its fund balances for the year then ended on Generally Accepted Accounting principles Basis (GAAP). The City does not have a system of internal controls that is adequate to enable management to conclude the financial statements and related disclosures are complete and presented in accordance with Generally Accepted Accounting Principals (GAAP).

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



Michael W. Pofahl C.P.A.
April 30, 2018