

CITY OF AFTON

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2018

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

ELECTED OFFICIALS

		Term Expires
Richard Bend	Mayor	2018
Randy Nelson	Council	2020
Bill Palmquist	Council	2020
Joe Richter	Council	2018
Stan Ross	Council	2018

EX OFFICIO

Ron Moorse	City Administrator	Appointed
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Afton, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature in cursive script, appearing to read "Carlson AV AP".

Golden Valley, Minnesota
July 15, 2019

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

This section of the City of Afton's financial report provides the reader with the management's overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2018. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position, and (4) identify any changes in the City's financial plan (approved budget).

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2018 fiscal year include the following:

- During 2018, the City expended \$2,086,293 for improvement costs and engineering related to the Downtown Improvements Project from the City's Infrastructure Improvement Fund.
- The assets of the City exceeded its liabilities by \$20,167,111 (net position) as of December 31, 2018. Of this amount, \$3,422,369 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,251,410 from 2017.
- The City's governmental funds reported combined ending fund balances of \$2,461,705 as of December 31, 2018.
- As of December 31, 2018, the unrestricted/unassigned fund balance for the General Fund was \$336,339.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements (Continued)

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

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

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

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

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

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

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

Fiduciary funds – the City uses fiduciary funds to account for resources held for the benefit of parties outside the government. These funds are usually reflected in the government-wide statements as cash in trust and deposits payable because the resources of these funds are not available to support programs of the City.

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

Notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-53 of this report.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as pension schedules and a budgetary comparison schedule for the general fund. Required supplementary information can be found on pages 54-60 of this report. Also, this report presents certain other supplementary information such as combining financial information for the nonmajor governmental funds. Other supplementary information can be found on pages 61-66 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The City's combined net position was \$20,167,111 on December 31, 2018:

	Governmental		Business-Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Assets						
Current	\$ 7,173,846	\$ 6,505,881	\$ 57,686	\$ -	\$ 7,231,532	\$ 6,505,881
Capital assets	10,838,554	24,396,238	15,110,571	-	25,949,125	24,396,238
Total Assets	<u>18,012,400</u>	<u>30,902,119</u>	<u>15,168,257</u>	<u>-</u>	<u>33,180,657</u>	<u>30,902,119</u>
Deferred Outflows of Resources	52,776	5,000	-	-	52,776	5,000
Liabilities						
Current	1,414,020	1,547,056	4,543	-	1,418,563	1,547,056
Long-term	9,456,770	9,782,545	-	-	9,456,770	9,782,545
Total Liabilities	<u>10,870,790</u>	<u>11,329,601</u>	<u>4,543</u>	<u>-</u>	<u>10,875,333</u>	<u>11,329,601</u>
Deferred Inflows of Resources	<u>2,190,989</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>2,190,989</u>	<u>20,000</u>
EXCESS OF TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES OVER TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 5,003,397</u>	<u>\$ 19,557,518</u>	<u>\$ 15,163,714</u>	<u>\$ -</u>	<u>\$ 20,167,111</u>	<u>\$ 19,557,518</u>
Net Assets						
Net investment in capital assets	\$ 905,569	\$ 14,512,856	\$ 15,110,571	\$ -	\$ 16,016,140	\$ 14,512,856
Restricted	728,602	-	-	-	728,602	-
Unrestricted	<u>3,369,226</u>	<u>5,044,662</u>	<u>53,143</u>	<u>-</u>	<u>3,422,369</u>	<u>5,044,662</u>
TOTAL NET ASSETS	<u>\$ 5,003,397</u>	<u>\$ 19,557,518</u>	<u>\$ 15,163,714</u>	<u>\$ -</u>	<u>\$ 20,167,111</u>	<u>\$ 19,557,518</u>

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net Position (Continued)

The larger portion of the City's net position (79%) reflects its investment in capital assets (e.g. land, land improvements, buildings, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position

The change in net position is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services	\$ 315,238	\$ 290,420	\$ 29,850	\$ -	\$ 345,088	\$ 290,420
Operating grants and contributions	246,257	73,126	-	-	246,257	73,126
Capital grants and contributions	1,025,831	12,974,084	-	-	1,025,831	12,974,084
General revenues						
Property taxes	2,080,582	2,020,162	15,000	-	2,095,582	2,020,162
Franchise taxes	12,391	10,881	-	-	12,391	10,881
Fiscal disparity	54,350	46,265	-	-	54,350	46,265
Aids and payments from the State	11,269	11,057	-	-	11,269	11,057
Gain (loss) on disposal of equipment	(87,820)	-	-	-	(87,820)	-
Investment earnings	46,458	29,683	13	-	46,471	29,683
Miscellaneous	11,191	9,854	-	-	11,191	9,854
Total Revenues	3,715,747	15,465,532	44,863	-	3,760,610	15,465,532
Expenses						
General government	709,583	554,412	-	-	709,583	554,412
Public safety	540,638	514,302	-	-	540,638	514,302
Public works	437,278	520,862	-	-	437,278	520,862
Public health	641	1,270	-	-	641	1,270
Culture and recreation	35,774	23,673	-	-	35,774	23,673
Other	-	13,000	-	-	-	13,000
Interest on long-term debt	214,767	229,838	-	-	214,767	229,838
Sewer	-	-	570,519	-	570,519	-
Total Expenses	1,938,681	1,857,357	570,519	-	2,509,200	1,857,357
Excess (deficiency) of revenues over expenditures before capital contributions	1,777,066	13,608,175	(525,656)	-	1,251,410	13,608,175
Capital contributions	(15,631,625)	-	15,631,625	-	-	-
Change in net position	(13,854,559)	13,608,175	15,105,969	-	1,251,410	13,608,175
Net position – beginning, as previously stated	19,557,518	5,949,343	-	-	19,557,518	5,949,343
Prior period adjustment	(699,562)	-	57,745	-	(641,817)	-
Net position – beginning, as restated	18,857,956	5,949,343	57,745	-	18,915,701	5,949,343
NET POSITION - ENDING	\$ 5,003,397	\$ 19,557,518	\$ 15,163,714	\$ -	\$ 20,167,111	\$ 19,557,518

**CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position (Continued)

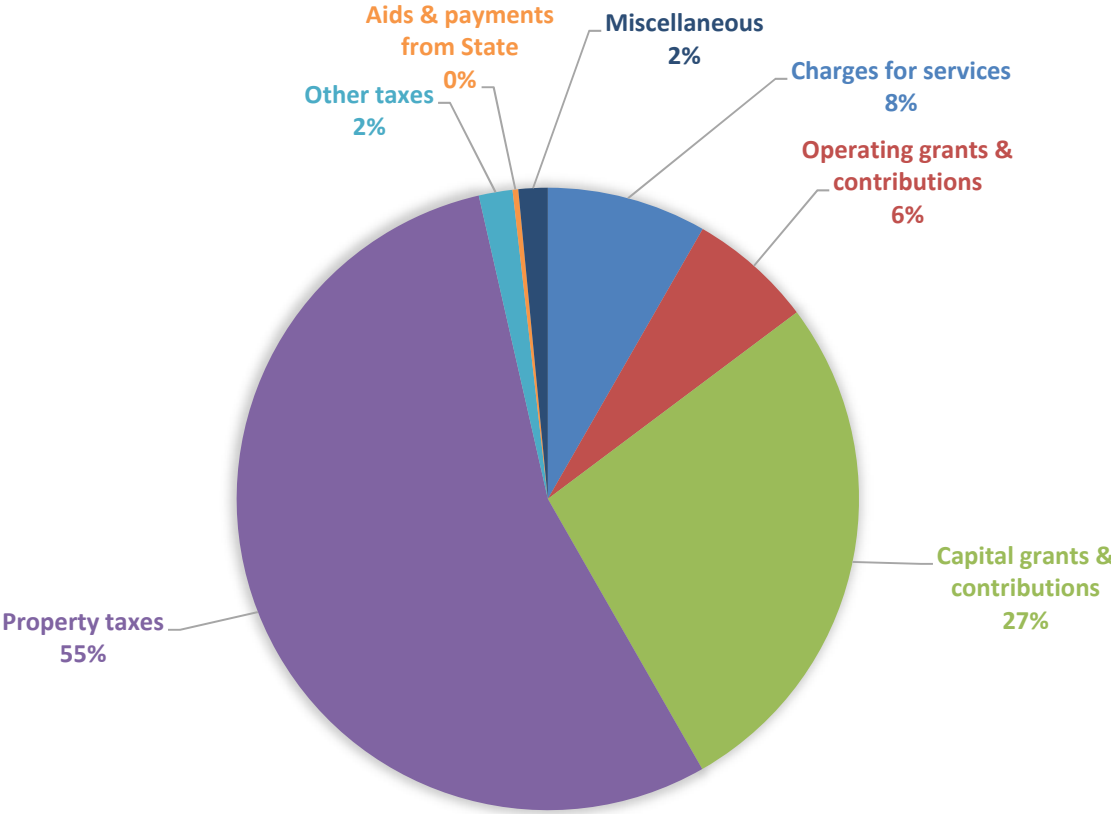
Governmental Activities

Governmental activities decreased the City's net position by \$13,854,559.

Revenues decreased by \$11,749,785 or 76%. The key elements of this change are as follows:

- Capital grants and contributions decreased \$11,948,253 from 2017.
- Disposals of unused assets in the current created a loss of \$87,820.
- Property tax revenue increased \$60,420 from 2017.

Revenues by Source

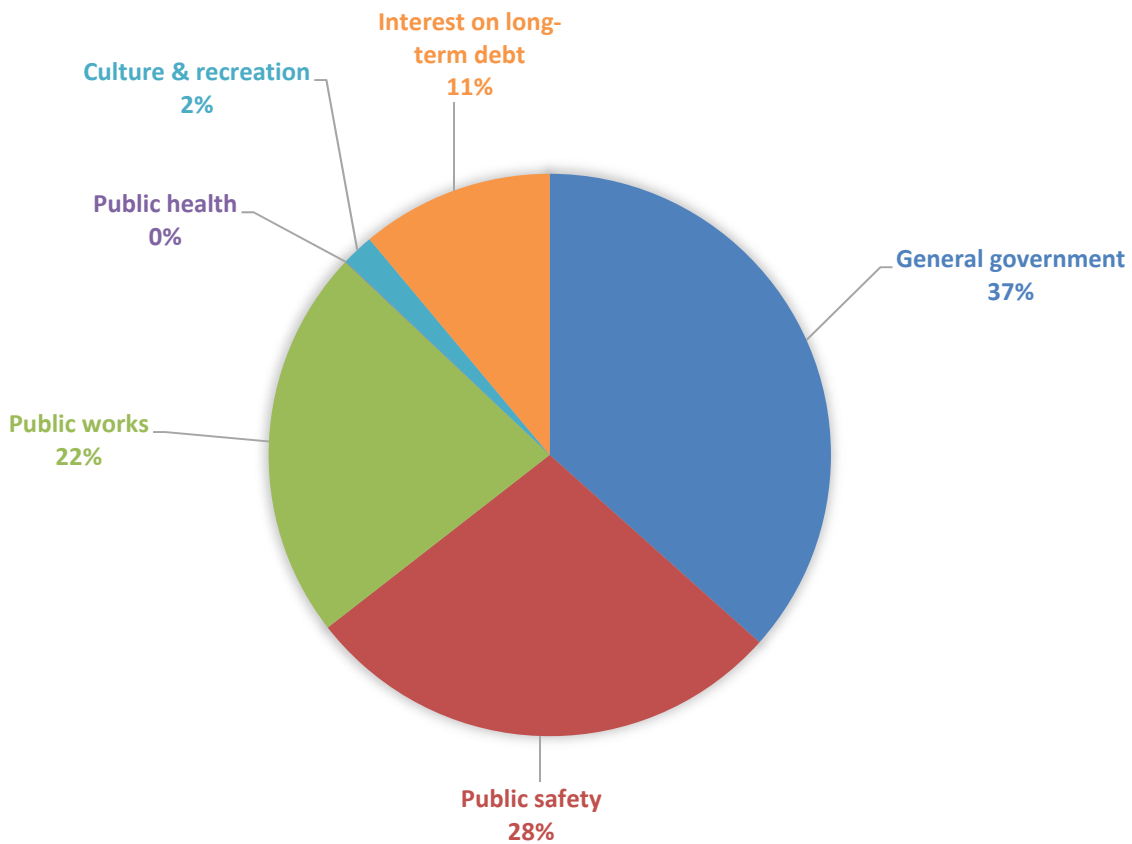


CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

Expenditures by Activity



Business-Type Activities

Business-type activities increased the City's net position by \$15,105,969. The key factor for this change results from a capital contribution from the governmental activities for the asset value of the sewer utility system.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

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

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2,461,705, a decrease of \$50,911 from the prior year. Of this balance, \$728,602 is restricted by law or ordinance.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached \$731,897, an increase of \$7,504 from the prior year.

The city infrastructure fund has a total fund balance of (\$451,533), all of which is unassigned due to the negative balance at year end. The net decrease in the fund balance during the current year was \$451,759. This decrease was due mostly to current year project expenses and debt repayment made in excess of grants, loans, and special assessments received.

The 2017B road debt service fund has a total fund balance of \$389,387 all of which is restricted for debt repayment. The net increase in the fund balance during the year was \$389,387. The increase was due to property taxes received in excess of current year repayment obligation.

The nonmajor special revenue funds have total fund balances of \$69,276 all of which is assigned for use related to the purpose of each fund. The net decrease in the fund balances during the current year was \$11,355. This decrease was due mainly to the purchase of communication equipment and software.

The nonmajor debt service funds have total fund balances of \$339,215, all of which is restricted for debt repayment. The net decrease in the fund balance during the year was \$93,963. This decrease was due to the current year repayment obligation being greater than property taxes received.

The nonmajor capital projects funds have total fund balances of \$1,383,463, all of which is assigned for use in respective projects. The net increase in total fund balances for the year was \$109,275. This increase was due mainly to coming in under budget on the street pavement project.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

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

Proprietary Funds

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

Unrestricted net position of the sewer fund was \$53,143. The total growth in net position was \$15,105,969. Factors concerning the finances of this fund has already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget was approved in December 2017 and was not updated during the year.

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

- Revenues were above expectations by \$65,603
 - Property taxes revenue was above expectations by \$27,258
 - Licenses, fees, and permits revenue was above expectations by \$23,165, due mainly to higher than expected building permits
 - Investment earnings were above expectations by \$15,602
- Expenditures were above expectations by \$43,099
 - General government expenditures were above expectations by \$40,443, due mainly to higher than expected costs for building inspections and engineering.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2018 amounted to \$25,949,125. The investment in capital assets includes land, buildings, park facilities, equipment, streets, and downtown improvements (including sewer system). The total increase in the City's investment in capital assets for the current fiscal year was \$1,552,887 (\$13,557,684 decrease in governmental activities and a \$15,110,571 increase for business-type activities). The major portion of this increase was due to continuation of the septic system and road improvements projects.

CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Capital assets added during the current year included the following:

- Road paving and culvert replacement \$366,070
- Park equipment and improvements \$9,167
- Downtown improvements \$426,929
- Sheriff facility and city garage \$72,282
- Septic system additions \$1,867,098

Additional information on the City's capital assets can be found in Note 6 on pages 41-42 of this report.

Long-Term Obligations

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

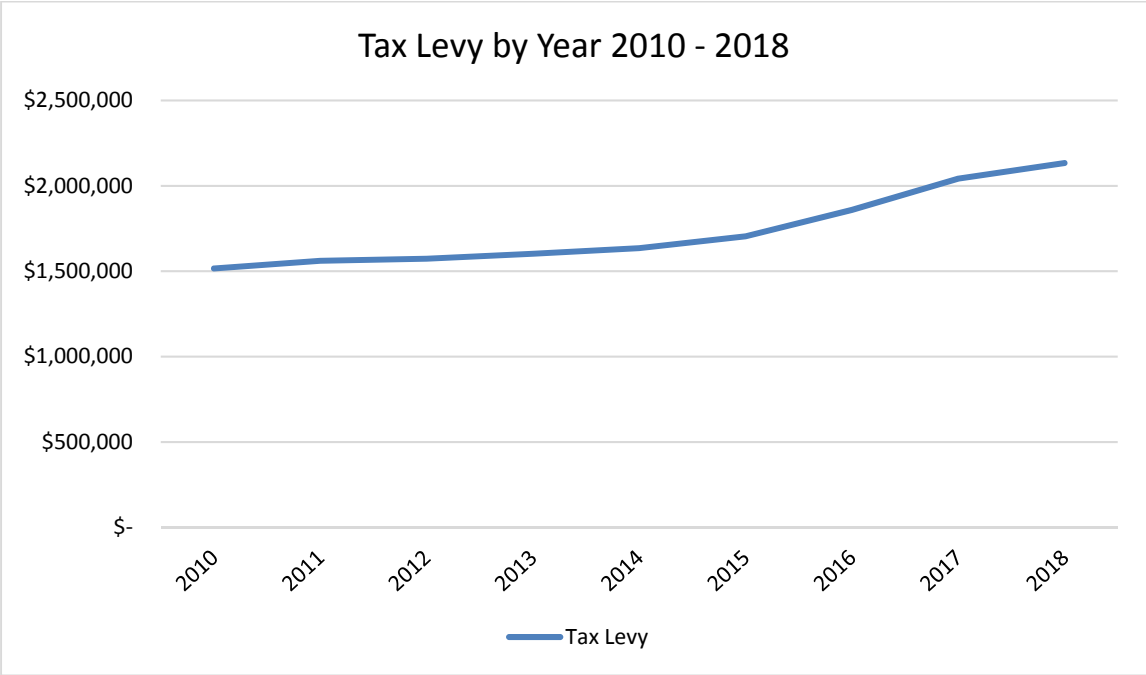
	<u>Rate</u>	<u>Maturity</u>	<u>Balance 12-31-2017</u>	<u>Issued</u>	<u>Payments</u>	<u>Balance 12/31/2018</u>	<u>Current</u>
2014A GO improvement bonds	3 & 4%	4-1-2027	\$ 2,645,000	\$ -	\$ 180,000	\$ 2,465,000	\$ 195,000
2017A GO temporary improvement bonds	1.55%	4-1-2020	1,980,000	-	-	1,980,000	-
2017B GO improvement bonds	2.25%	2-1-2028	3,500,000	-	-	3,500,000	320,000
GO PFA loans	1.095 & 1.094%	8-20-2036	1,657,545	384,214	53,774	1,987,985	111,000
TOTAL			<u>\$ 9,782,545</u>	<u>\$ 384,214</u>	<u>\$ 233,774</u>	<u>\$ 9,932,985</u>	<u>\$ 626,000</u>

At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,945,000 and total Public Facilities Authority loans outstanding of \$1,987,985. All obligations outstanding are backed by the full faith and credit of the government.

Additional information on the City's long-term debt can be found in Note 7 on pages 43-44 of this report.

**CITY OF AFTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

The following represents the tax levy by year:



CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

CITY OF AFTON, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 3,123,971	\$ 57,686	\$ 3,181,657
Due from other governmental units	18,819	-	18,819
Taxes receivable	20,802	-	20,802
Special assessments receivable	1,852,580	-	1,852,580
Grants receivable	2,132,727	-	2,132,727
Other receivables	24,947	-	24,947
Total Current Assets	<u>7,173,846</u>	<u>57,686</u>	<u>7,231,532</u>
Noncurrent Assets			
Capital assets not being depreciated	2,006,672	-	2,006,672
Capital assets being depreciated, net	8,831,882	15,110,571	23,942,453
Total Noncurrent Assets	<u>10,838,554</u>	<u>15,110,571</u>	<u>25,949,125</u>
Total Assets	<u>18,012,400</u>	<u>15,168,257</u>	<u>33,180,657</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	52,776	-	52,776
LIABILITIES			
Current Liabilities			
Accounts payable	368,454	4,543	372,997
Accrued liabilities	300,297	-	300,297
Accrued interest payable	81,988	-	81,988
Customer deposits	37,281	-	37,281
Current portion of long-term debt	626,000	-	626,000
Total Current Liabilities	<u>1,414,020</u>	<u>4,543</u>	<u>1,418,563</u>
Noncurrent Liabilities			
Bonds and notes payable	9,306,985	-	9,306,985
Net pension liability	149,785	-	149,785
Total Noncurrent Liabilities	<u>9,456,770</u>	<u>-</u>	<u>9,456,770</u>
Total Liabilities	<u>10,870,790</u>	<u>4,543</u>	<u>10,875,333</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	58,262	-	58,262
Unavailable grants	2,132,727	-	2,132,727
Total Deferred Inflows of Resources	<u>2,190,989</u>	<u>-</u>	<u>2,190,989</u>
EXCESS OF TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES OVER TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
	<u><u>\$ 5,003,397</u></u>	<u><u>\$ 15,163,714</u></u>	<u><u>\$ 20,167,111</u></u>
NET POSITION			
Net investment in capital assets	\$ 905,569	\$ 15,110,571	\$ 16,016,140
Restricted	728,602	-	728,602
Unrestricted	3,369,226	53,143	3,422,369
TOTAL NET POSITION	<u><u>\$ 5,003,397</u></u>	<u><u>\$ 15,163,714</u></u>	<u><u>\$ 20,167,111</u></u>

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

CITY OF AFTON, MINNESOTA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 709,583	\$ 281,388	\$ -	\$ -	\$ (428,195)	\$ -	\$ (428,195)
Public safety	540,638	-	50,414	-	(490,224)	-	(490,224)
Public works	437,278	-	37,774	1,025,831	626,327	-	626,327
Public health	641	-	7,210	-	6,569	-	6,569
Culture and recreation	35,774	33,850	2,820	-	896	-	896
Interest on long-term debt	214,767	-	148,039	-	(66,728)	-	(66,728)
Total Governmental Activities	<u>1,938,681</u>	<u>315,238</u>	<u>246,257</u>	<u>1,025,831</u>	<u>(351,355)</u>	<u>-</u>	<u>(351,355)</u>
Business-Type Activities							
Sewer	570,519	29,850	-	-	-	(540,669)	(540,669)
TOTAL GOVERNMENT-WIDE ACTIVITIES	<u>\$ 2,509,200</u>	<u>\$ 345,088</u>	<u>\$ 246,257</u>	<u>\$ 1,025,831</u>	(351,355)	(540,669)	(892,024)
General Revenues							
Property taxes					2,080,582	15,000	2,095,582
Franchise taxes					12,391	-	12,391
Fiscal disparity					54,350	-	54,350
Aids and payments from the state					11,269	-	11,269
Sale of capital assets					(87,820)	-	(87,820)
Unrestricted investment earnings					46,458	-	46,458
Fines and forfeitures					8,700	-	8,700
Miscellaneous					2,491	13	2,504
Capital Contributions					<u>(15,631,625)</u>	<u>15,631,625</u>	<u>-</u>
Total General Revenues and Capital Contributions					<u>(13,503,204)</u>	<u>15,646,638</u>	<u>2,143,434</u>
CHANGE IN NET POSITION					(13,854,559)	15,105,969	1,251,410
NET POSITION – BEGINNING, AS PREVIOUSLY STATED					19,557,518	-	19,557,518
Prior period adjustment					<u>(699,562)</u>	<u>57,745</u>	<u>(641,817)</u>
NET POSITION – BEGINNING, AS RESTATED					<u>18,857,956</u>	<u>57,745</u>	<u>18,915,701</u>
NET POSITION – ENDING					<u>\$ 5,003,397</u>	<u>\$ 15,163,714</u>	<u>\$ 20,167,111</u>

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

Fund Financial Statements

CITY OF AFTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General Fund	City Infrastructure Improvement	2017B Road Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 929,517	\$ 829,113	\$ 389,387	\$ 975,954	\$ 3,123,971
Due from other governmental units	18,819	-	-	-	18,819
Taxes receivable	20,802	-	-	-	20,802
Special assessments receivable	-	1,852,580	-	-	1,852,580
Grants receivable	-	2,132,727	-	-	2,132,727
Other receivable	24,947	-	-	-	24,947
Due from other funds	15,000	40,000	-	816,000	871,000
TOTAL ASSETS	<u>\$ 1,009,085</u>	<u>\$ 4,854,420</u>	<u>\$ 389,387</u>	<u>\$ 1,791,954</u>	<u>\$ 8,044,846</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 159,808	\$ 208,646	\$ -	\$ -	\$ 368,454
Accrued liabilities	4,297	296,000	-	-	300,297
Customer deposits	37,281	-	-	-	37,281
Due to other funds	55,000	816,000	-	-	871,000
Total Liabilities	256,386	1,320,646	-	-	1,577,032
Deferred Inflows of Resources					
Unavailable revenue – property taxes	20,802	-	-	-	20,802
Unavailable revenue – special assessments	-	1,852,580	-	-	1,852,580
Unavailable revenue – grants receivable	-	2,132,727	-	-	2,132,727
Total Deferred Inflows of Resources	20,802	3,985,307	-	-	4,006,109
Fund Balances					
Restricted	-	-	389,387	339,215	728,602
Unrestricted					
Assigned	395,558	-	-	1,452,739	1,848,297
Unassigned	336,339	(451,533)	-	-	(115,194)
Total Fund Balances	731,897	(451,533)	389,387	1,791,954	2,461,705
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,009,085</u>	<u>\$ 4,854,420</u>	<u>\$ 389,387</u>	<u>\$ 1,791,954</u>	<u>\$ 8,044,846</u>

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

CITY OF AFTON, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2018

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 2,461,705

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

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

Capital assets	\$ 13,590,033	
Accumulated depreciation	<u>(2,751,479)</u>	10,838,554

Delinquent property taxes receivable are earned, but not available in the current period; therefore, they are recorded as deferred inflows of resources in the governmental funds, but are a part of net position. 20,802

Other long-term assets (special assessments) are not available to pay for current-period expenditures and therefore, are unearned revenue in the governmental funds until the amounts are received. Unearned revenue at year-end consists of:

Unavailable special assessments		1,852,580
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Accrued interest on bonds is not recorded as a liability in the governmental funds; however, the statement of net position records this amount. Accrued interest at year-end is: (81,988)

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

Bonds	(7,945,000)	
Notes	<u>(1,987,985)</u>	(9,932,985)

Some liabilities, including net pension obligations, are not due and payable in the current period; therefore, they are not reported in the governmental funds. (149,785)

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

Deferred outflows of resources related to pensions of \$52,776 equals \$45,819 deferred outflows of resources pension expense plus \$6,957 deferred outflows of resources for 2018 employer contributions related to pensions.		52,776
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Deferred inflows of resources related to pensions		<u>(58,262)</u>
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TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES **\$ 5,003,397**

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

CITY OF AFTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2018

	General Fund	City Infrastructure Improvement	2017B Road Debt Service	Other Governmental Funds	Total
REVENUES					
Taxes	\$ 1,088,675	\$ 195,000	\$ 480,000	\$ 350,455	\$ 2,114,130
Special assessments	-	295,941	-	-	295,941
Licenses, fees, and permits	175,415	-	-	34,320	209,735
Intergovernmental	16,957	1,025,831	-	102,521	1,145,309
Charges for services	653	-	-	104,850	105,503
Fines and forfeitures	8,700	-	-	-	8,700
Investment earnings	16,602	1,842	58	27,956	46,458
Contributions and donations	-	-	-	2,400	2,400
Miscellaneous	2,491	-	-	-	2,491
Total Revenues	<u>1,309,493</u>	<u>1,518,614</u>	<u>480,058</u>	<u>622,502</u>	<u>3,930,667</u>
EXPENDITURES					
Current					
General government	558,117	-	-	34,446	592,563
Public safety	440,440	-	-	100,198	540,638
Public works	251,928	-	-	1,069	252,997
Public health	641	-	-	-	641
Culture and recreation	16,118	-	-	-	16,118
Other	18,426	-	-	-	18,426
Debt service					
Principal	-	53,774	-	180,000	233,774
Interest	-	51,813	90,671	91,132	233,616
Capital outlay	1,319	2,143,255	-	332,445	2,477,019
Total Expenditures	<u>1,286,989</u>	<u>2,248,842</u>	<u>90,671</u>	<u>739,290</u>	<u>4,365,792</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	22,504	(730,228)	389,387	(116,788)	(435,125)
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	384,214	-	-	384,214
Transfers in	15,000	15,000	-	405,258	435,258
Transfers out	(30,000)	(120,745)	-	(284,513)	(435,258)
Net Other Financing Sources (Uses)	<u>(15,000)</u>	<u>278,469</u>	<u>-</u>	<u>120,745</u>	<u>384,214</u>
NET CHANGE IN FUND BALANCES	7,504	(451,759)	389,387	3,957	(50,911)
FUND BALANCES – BEGINNING, AS PREVIOUSLY STATED	724,393	226	-	2,487,559	3,212,178
Prior period adjustment	-	-	-	(699,562)	(699,562)
FUND BALANCES – BEGINNING, AS RESTATED	<u>724,393</u>	<u>226</u>	<u>-</u>	<u>1,787,997</u>	<u>2,512,616</u>
FUND BALANCES – ENDING	<u>\$ 731,897</u>	<u>\$ (451,533)</u>	<u>\$ 389,387</u>	<u>\$ 1,791,954</u>	<u>\$ 2,461,705</u>

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

CITY OF AFTON, MINNESOTA
RECONCILIATION OF THE CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ (50,911)

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

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

Capital outlay	\$ 874,448	
Depreciation	(579,785)	
Capital contribution of prior year construction in progress of sewer system	<u>(13,764,527)</u>	(13,469,864)

When capital assets are sold, the total amount of cash received is recorded as a gain on sale of capital assets in the governmental funds. However, in the statement of activities, the net book value of the assets are deducted from the proceeds to determine a gain or loss on the sale. This amount is the net effect of the difference in the treatment of the sale of capital assets. (87,820)

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

Unavailable taxes - December 31, 2018	20,802	
Unavailable taxes - December 31, 2017	<u>-</u>	20,802

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

Unavailable taxes - special assessments - December 31, 2018	1,852,580	
Unavailable taxes - special assessments - December 31, 2017	<u>(2,000,482)</u>	(147,902)

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

Accrued interest payable - December 31, 2018	(81,988)	
Accrued interest payable - December 31, 2017	<u>100,835</u>	18,847

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

Proceeds from long-term obligations	(384,214)	
Principal payments on long-term obligations	<u>233,774</u>	(150,440)

Governmental funds report City pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense:

Net pension liability - December 31, 2018	(149,785)	
Net pension liability - December 31, 2017	153,000	
Deferred outflows of resources - December 31, 2018	52,776	
Deferred outflows of resources - December 31, 2017	(5,000)	
Deferred inflows of resources - December 31, 2018	(58,262)	
Deferred inflows of resources - December 31, 2017	<u>20,000</u>	<u>12,729</u>

CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES **\$ (13,854,559)**

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

CITY OF AFTON, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2018

	Business-Type Activities - Enterprise Funds <hr/> Sewer <hr/>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 57,686
Noncurrent Assets	
Capital assets being depreciated, net	15,110,571
Total Assets	<hr/> 15,168,257
LIABILITIES	
Current Liabilities	
Accounts payable	4,543
EXCESS OF TOTAL ASSETS OVER TOTAL LIABILITIES	<hr/> \$ 15,163,714 <hr/>
NET POSITION	
Net investment in capital assets	\$ 15,110,571
Unrestricted	53,143
TOTAL NET POSITION	<hr/> \$ 15,163,714 <hr/>

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

CITY OF AFTON, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2018

	<u>Business-Type Activities - Enterprise Funds Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 29,850
OPERATING EXPENSES	
Utilities	15,004
Contracted services	21,291
Chemicals	10,582
Depreciation	521,054
Other expenses	2,588
Total Operating Expenses	<u>570,519</u>
OPERATING LOSS	(540,669)
NONOPERATING REVENUES (EXPENSES)	
Property taxes	15,000
Interest revenue	13
Net Nonoperating Revenues (Expenses)	<u>15,013</u>
NET LOSS BEFORE CONTRIBUTIONS	(525,656)
CONTRIBUTIONS	
Capital contributions	<u>15,631,625</u>
CHANGE IN NET POSITION	15,105,969
TOTAL NET POSITION – BEGINNING, AS PREVIOUSLY STATED	-
Prior period adjustment	57,745
TOTAL NET POSITION – BEGINNING, AS RESTATED	<u>57,745</u>
TOTAL NET POSITION – ENDING	<u><u>\$ 15,163,714</u></u>

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

CITY OF AFTON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2018

	<u>Business-Type Activities - Enterprise Funds</u> <u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 29,850
Payments to suppliers	(6,039)
Payments for services provided	(36,295)
Payments to other governments	57,745
Other payments	(2,588)
Net Cash Provided by Operating Activities	<u>42,673</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	15,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>13</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	57,686
CASH AND CASH EQUIVALENTS - BEGINNING	<u>-</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 57,686</u></u>
RECONCILIATION OF OPERATING LOSS TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (540,669)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Prior period adjustment	57,745
Depreciation expense	521,054
Operating changes in	
Accounts payable	4,543
Total Adjustments	<u>583,342</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 42,673</u></u>

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

CITY OF AFTON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2018

	Agency Funds
ASSETS	
Cash and cash equivalents	<u><u>\$ 107,168</u></u>
LIABILITIES	
Amounts held for others	<u><u>\$ 107,168</u></u>

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Reporting Entity

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

This report includes all of the funds of the City of Afton. The reporting entity of the City consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization and (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

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

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

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

The City reports the following types of funds:

Governmental Funds

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

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

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

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

City Infrastructure Improvement Fund – used to account for grant monies from the Minnesota DNR, taxes and transfers from the general fund for the purpose of purchasing land, and other costs for a joint flood hazard mitigation project and the City’s downtown improvement projects.

Proprietary Funds

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

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

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

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

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

Use of Estimates

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

Cash and Investments (Including Cash Equivalents)

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Receivables

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

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

Due from Other Governments

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

Capital Assets

Government-Wide Financial Statements

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

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Capital Assets (Continued)

Fund Financial Statements

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

Compensated Absences

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

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

The liability for accrued compensated absences is \$8,701 as of December 31, 2018.

Long-Term Obligations

Government-Wide Financial Statements

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

Fund Financial Statements

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Deferred Outflows/Inflows of Resources

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

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

Equity Classifications

Government-Wide Financial Statements

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

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Equity Classifications

Fund Financial Statements

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

1. Nonspendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements mandate funds be maintained intact.
2. Restricted – includes fund balance amounts with constraints placed on their use by either external groups such as creditors, grantors or contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted
 - a. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action at the highest level of decision making authority. The City Council through a formal action (ordinance or resolution) commits fund balance amounts for the City. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which is subject to constraints, may be determined in a subsequent period. Any changes to the constraints imposed require the same formal action of the City that originally created the commitment.
 - b. Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance is assigned through formal action (ordinance or resolution) by the City Council for specific purposes. Assignments may take place after the end of the reporting period.
 - c. Unassigned – includes residual positive fund balance amounts within the general fund which have not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any other governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

Equity Classifications (Continued)

Fund Financial Statements (Continued)

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

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

Interfund Transactions

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

Pensions

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

Total Columns

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Equity

The City infrastructure fund had a deficit fund balance of \$451,533 as of December 31, 2018.

Budgetary Information

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

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

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

Custodial Credit Risk – the risk that in the event of a financial institution failure the City’s deposits may not be returned to it. The City’s deposit policy for custodial credit risk follows *Minnesota Statutes* for deposits, and states the City will obtain collateral or bonds for all uninsured amounts. As of December 31, 2018, all of the bank balance was covered by federal depository insurance or by collateral held by the City’s agent in the City’s name; therefore, the City is not exposed to custodial credit risk.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments

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

- Governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues by the United States, its agencies, its instrumentalities or organizations created by an act of Congress
- General obligations of any state or local government rated “A” or better by a national bond rating service
- Revenue obligations of any state or local government rated “AA” or better by a national bond rating service
- General obligations of the Minnesota Housing Finance Agency rated “A” or better by a national bond rating agency
- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less
- Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers’ acceptances of United States banks
- General obligation temporary bonds of the same governmental entity issued under Minnesota Statutes 429.091, subd. 7, 469.178, subd. 5 or 475.61, subd. 6
- Repurchase agreements consisting of collateral allowable in Minnesota Statutes 118A.04, and reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” of public funds of the government entity; with any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York or certain Minnesota securities broker-dealers; reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that either (1) holds itself out as a money market fund and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization or (2) whose shares are registered under the Federal Securities Act of 1933, receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization, and is invested in financial instruments with a final maturity no longer than 13 months
- Guaranteed investment contracts that are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing if similar debt obligations of the issuer are rated in one of the two highest categories by a nationally recognized rating agency

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

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

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

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

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

	<u>Government- Wide</u>	<u>Fiduciary Fund</u>
Cash		
Cash in bank	\$ (106,912)	\$ -
MN 4M fund	<u>3,288,569</u>	<u>107,168</u>
TOTAL	<u><u>\$ 3,181,657</u></u>	<u><u>\$ 107,168</u></u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 – PROPERTY TAXES AND SPECIAL ASSESSMENTS

Property Taxes

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

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

Special Assessments

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

NOTE 5 – INTERFUND TRANSFERS

The City-transferred cash between funds is as follows:

<u>Transferred From</u>	<u>Transferred To</u>	<u>Amount</u>
General	Special Activities	\$ 4,000
General	Special Activities	11,000
General	City Infrastructure Improvement	40,000
Road Construction	Street Improvement	284,513
City Infrastructure Improvement	Street Improvement	120,745

The transfers made from the general fund to the special activities fund were for council contingency (\$4,000) and election reserve (\$11,000). The transfer made from the general fund to the city infrastructure improvement fund was to pay off bond maturity. The transfers from the road construction and city infrastructure improvement funds to the street improvement fund was to correct a prior year transfer.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – CAPITAL ASSETS

Activity in capital assets for the City was as follows:

	<u>Balance 12-31-17</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance 12-31-18</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 2,006,672	\$ -	\$ -	\$ 2,006,672
Construction in progress	1,305,268	-	1,305,268	-
	<u>3,311,940</u>	-	<u>1,305,268</u>	<u>2,006,672</u>
Capital assets being depreciated				
Roads, bridges, pathways	9,048,496	366,070	174,146	9,240,420
Downtown improvements	-	1,732,197	-	1,732,197
Buildings and improvements	590,620	72,282	258,056	404,846
Park equipment and improvements	202,963	9,167	36,522	175,608
Furniture and equipment - city hall	70,545	-	52,206	18,339
Equipment - public works	109,091	-	97,140	11,951
	<u>10,021,715</u>	<u>2,179,716</u>	<u>618,070</u>	<u>11,583,361</u>
Accumulated depreciation for				
Roads, bridges, pathways	(2,145,107)	(454,116)	(129,231)	(2,469,992)
Downtown improvements	-	(86,609)	-	(86,609)
Buildings and improvements	(320,538)	(20,593)	(215,151)	(125,980)
Park equipment and improvements	(74,490)	(15,957)	(36,522)	(53,925)
Furniture and equipment - city hall	(59,888)	(1,713)	(52,206)	(9,395)
Equipment - public works	(101,921)	(797)	(97,140)	(5,578)
	<u>(2,701,944)</u>	<u>(579,785)</u>	<u>(530,250)</u>	<u>(2,751,479)</u>
Total capital assets being depreciated, net	<u>7,319,771</u>	<u>1,599,931</u>	<u>87,820</u>	<u>8,831,882</u>
GOVERNMENTAL ACTIVITIES, NET	<u>\$ 10,631,711</u>	<u>\$ 1,599,931</u>	<u>\$ 1,393,088</u>	<u>\$ 10,838,554</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – CAPITAL ASSETS (Continued)

	<u>Balance 12-31-17</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance 12-31-18</u>
Business-Type Activities				
Capital assets not being depreciated				
Construction in progress	\$ 13,764,527	\$ -	\$ 13,764,527	\$ -
Capital assets being depreciated				
Infrastructure	-	15,631,625	-	15,631,625
Accumulated depreciation for				
Infrastructure	-	(521,054)	-	(521,054)
Total capital assets being depreciated, net	<u>-</u>	<u>15,110,571</u>	<u>-</u>	<u>15,110,571</u>
BUSINESS-TYPE ACTIVITIES, NET	<u>\$ 13,764,527</u>	<u>\$ 15,110,571</u>	<u>\$ 13,764,527</u>	<u>\$ 15,110,571</u>

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

Governmental Activities		
General government		\$ 107,203
Administration		1,713
Public works		454,912
Culture and recreation		<u>15,957</u>
TOTAL		<u>\$ 579,785</u>
Business-Type Activities		
SEWER		<u>\$ 521,054</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 7 – LONG-TERM OBLIGATIONS

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

	<u>Balance 12-31-17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12-31-18</u>	<u>Due Within One Year</u>
Governmental Activities					
General Obligation Debt					
Bonds	\$ 8,125,000	\$ -	\$ 180,000	\$ 7,945,000	\$ 515,000
PFA notes	1,657,545	384,214	53,774	1,987,985	111,000
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 9,782,545</u>	<u>\$ 384,214</u>	<u>\$ 233,774</u>	<u>\$ 9,932,985</u>	<u>\$ 626,000</u>

Interest expense was \$227,465.

Details of bonds and notes payable are as follows:

	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 12-31-18</u>
Governmental Activities				
General Obligations				
Bonds				
2014A tax abatement refunding	\$ 2,950,000	2027	3.00%	\$ 2,465,000
2017A temporary improvement	1,980,000	2020	1.55%	1,980,000
2017B tax abatement	3,500,000	2028	2.00%	3,500,000
				<u>7,945,000</u>
PFA Notes				
2017 stormwater	1,049,815	2036	1.095%	865,493
2017 sanitary sewer	1,194,959	2036	1.094%	1,122,492
				<u>1,987,985</u>
TOTAL GOVERNMENTAL ACTIVITIES				<u>\$ 9,932,985</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

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

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

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

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

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

	Governmental Activities	
	Principal	Interest
Years Ending December 31		
2019	\$ 626,000	\$ 208,076
2020	2,627,000	178,734
2021	673,000	146,813
2022	705,000	129,277
2023	736,000	110,669
2024 - 2028	3,743,000	266,347
2029 - 2033	631,000	42,488
2034 - 2036	191,985	6,642
TOTAL	\$ 9,932,985	\$ 1,089,046

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 8 – NET POSITION AND FUND BALANCES

Governmental Activities' Net Position

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

Net investment in capital assets	
Land	\$ 2,006,672
Construction in progress	
Other capital assets, net of accumulated depreciation	8,831,882
Long-term debt outstanding	<u>(9,932,985)</u>

NET INVESTMENT IN CAPITAL ASSETS	<u>\$ 905,569</u>
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Restricted for	
DEBT SERVICE	<u>\$ 728,602</u>

Business-Type Activities' Net Position

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

Net investment in capital assets	
OTHER CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$ 15,110,571</u>

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 8 – NET POSITION AND FUND BALANCES (Continued)

Governmental Fund Balances

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

Restricted for		
DEBT SERVICE		<u>\$ 728,602</u>
Assigned for		
201 project expenditures	\$	1,181
Fire district expenditures		2,512
Cable and fire aid		2
City dock expenditures		65,581
Capital projects		1,383,463
General fund special activities		<u>395,558</u>
TOTAL ASSIGNED		<u>\$ 1,848,297</u>

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

General Employees Retirement Plan (General Employees Plan; accounted for in the General Employees Fund)

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested Terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

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

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

Contributions

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2018. The City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$14,057. The City's contributions were equal to the required contributions as set by state statute.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Costs

At December 31, 2018, the City reported a liability of \$149,785 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$4,933. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the City’s proportion was 0.0027% which was an increase of 0.0003% from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the City recognized pension expense of \$13,475 for its proportionate share of General Employees Plan’s pension expense. In addition, the City recognized an additional \$1,150 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,543	\$ 4,045
Changes in actuarial assumptions	13,248	15,550
Difference between projected and actual investment earnings	14,664	32,016
Changes in proportion	14,364	6,651
Contributions paid to PERA subsequent to the measurement date	6,957	-
TOTAL	\$ 52,776	\$ 58,262

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Costs (Continued)

\$6,957 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
Year Ended December 31	
2019	\$ 1,924
2020	(4,688)
2021	(6,552)
2022	(3,127)
TOTAL	\$ (12,443)

Actuarial Assumptions

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

Inflation	2.50% per year
Salary growth	3.25% after 26 years of service
Investment rate of return	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50% for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25% after one year of service, to 3.25% after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36.00%	5.10%
International stocks	17.00%	5.30%
Bonds	20.00%	0.75%
Alternative assets	25.00%	5.90%
Cash	2.00%	0.00%
TOTAL	100.00%	

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liability Sensitivity

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

Sensitivity Analysis		
Net Pension Liability (Asset) at Different Rates		
	General Employees Fund	
1% lower	6.50%	\$ 243,420
Current discount rate	7.50%	149,785
1% higher	8.50%	72,492

Pension Plan Fiduciary Net Position

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

NOTE 10 – DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official’s employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member’s account annually.

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 10 – DEFINED CONTRIBUTION PLAN (Continued)

Total contributions made by the City during fiscal year 2018 were:

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

NOTE 11 – JOINT VENTURE

Lower St. Croix Valley Fire Protection District

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

At December 31, 2018, the District has long-term debt consisting of \$580,000 in bonds and notes payable and \$590,071 in capital leases payable. Funding is provided by assessments from the member cities and is based on a predetermined formula. During 2018, the City of Afton’s contribution was \$298,950, representing about 50% of the District’s budget. Complete financial information can be obtained from the District’s office at PO Box 234, Lakeland, Minnesota 55043.

NOTE 12 – RISK MANAGEMENT

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

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Adjustment 1

The fund balance in the buildings and land fund was overstated by \$57,745 in the prior year. This overstatement was due to the sewer utility project previously being included with this fund. The sewer utility project was changed to be its own separate fund and the sewer utility operations is now been accounted for as an enterprise fund. The result of this adjustments was to decrease beginning fund balance in the buildings and land fund by \$57,745 and to increase beginning net position in the sewer fund by \$57,745.

Adjustment 2

The fund balances in the street improvement and 2017 street improvement funds were overstated by \$505,497 and \$136,320, respectively. These overstatements were due to projects retainage that should have been recorded as a payable as of the prior year-end. The result of this adjustment was to decrease beginning fund balances by \$505,497 in the street improvement fund and \$136,320 in the 2017 street improvement funds.

NOTE 14 – SUBSEQUENT EVENT

The City is in the process of condemnation hearings regarding quick-take eminent domain acquisition of easements for the downtown improvement project. The first condemnation hearing was held, and the Commissioners made an award on May 21, 2019. While the City's appraisal reflected a value of about \$120,000, the Commissioner's award came in at \$517,800. The City authorized the award to be appealed to the District Court on July 18, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

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

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

CITY OF AFTON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance Over (Under)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 1,007,067	\$ 1,007,067	\$ 1,034,325	\$ 27,258
Fiscal disparities	55,664	55,664	54,350	(1,314)
Total Taxes	<u>1,062,731</u>	<u>1,062,731</u>	<u>1,088,675</u>	<u>25,944</u>
Licenses, Fees, and Permits				
Building permits	86,000	86,000	105,130	19,130
Building and engineer inspection fees	250	250	1,445	1,195
Impound and dog licenses	300	300	230	(70)
Liquor licenses	2,600	2,600	1,750	(850)
Other licenses	350	350	1,496	1,146
Utility franchise fees	58,000	58,000	59,174	1,174
Street opening permits/utility fees	1,750	1,750	500	(1,250)
Zoning fees and permits	3,000	3,000	5,690	2,690
Total Licenses, Fees, and Permits	<u>152,250</u>	<u>152,250</u>	<u>175,415</u>	<u>23,165</u>
Intergovernmental				
Federal				
Other federal aid	-	-	420	420
State grants and aids				
Market value credit – ag.	4,000	4,000	10,635	6,635
PERA aid	634	634	634	-
County				
Gravel tax	(2,400)	(2,400)	(2,510)	(110)
Agricultural preserve credit	500	500	568	68
Recycling grant	7,090	7,090	7,210	120
Total Intergovernmental	<u>9,824</u>	<u>9,824</u>	<u>16,957</u>	<u>7,133</u>
Charges for Services				
Assessment searches	35	35	80	45
Copies	100	100	73	(27)
City garage rent	-	-	500	500
Total charges for services	<u>135</u>	<u>135</u>	<u>653</u>	<u>518</u>
Fines and Forfeitures	14,250	14,250	8,700	(5,550)
Investment Earnings	1,000	1,000	16,602	15,602
Miscellaneous				
Insurance dividend	2,000	2,000	471	(1,529)
Park rental fees	500	500	275	(225)
Cable commission	1,200	1,200	1,200	-
Other	-	-	545	545
Total Miscellaneous	<u>3,700</u>	<u>3,700</u>	<u>2,491</u>	<u>(1,209)</u>
Total Revenues	<u>1,243,890</u>	<u>1,243,890</u>	<u>1,309,493</u>	<u>65,603</u>

CITY OF AFTON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance Over (Under)
	Original	Final		
EXPENDITURES				
Current				
General Government				
Administration - wages and benefits				
Mayor and council	13,200	13,200	13,200	-
Administrator	99,700	99,700	92,150	(7,550)
Office assistant/intern	21,000	21,000	23,705	2,705
Office manager/deputy clerk	51,535	51,535	39,171	(12,364)
Maintenance personnel	25,400	25,400	27,916	2,516
Social security and medicare	16,129	16,129	18,133	2,004
PERA	16,340	16,340	13,913	(2,427)
Other financial benefits	26,400	26,400	26,400	-
Disability insurance	720	720	463	(257)
Workers compensation	3,100	3,100	2,691	(409)
Total administration - wages and benefits	273,524	273,524	257,742	(15,782)
Administration - professional services				
Assessor	22,700	22,700	23,592	892
Accounting fees	16,850	16,850	17,637	787
Audit fees	8,900	8,900	10,875	1,975
Building inspection	34,400	34,400	47,634	13,234
Engineering	20,000	20,000	34,079	14,079
Legal fees - prosecution	28,000	28,000	26,374	(1,626)
Legal fees - general	22,000	22,000	27,469	5,469
Videographer/recording	3,100	3,100	4,243	1,143
Planning/other services	5,500	5,500	5,368	(132)
Well monitoring program	1,200	1,200	1,075	(125)
Watershed management	600	600	596	(4)
Total administration - professional services	163,250	163,250	198,942	35,692
Administration - other				
Office equipment	700	700	-	(700)
Bank fees	400	400	873	473
Computer service and software	9,500	9,500	16,830	7,330
Copier lease	7,000	7,000	2,521	(4,479)
Equipment maintenance	1,000	1,000	-	(1,000)
General liability insurance	21,000	21,000	21,705	705
Office supplies	4,000	4,000	3,230	(770)
Other administration	500	500	420	(80)
Postage	3,500	3,500	4,266	766
Publishing and printing	2,800	2,800	1,143	(1,657)
Newsletter	6,000	6,000	4,144	(1,856)
Telephone	3,500	3,500	3,595	95
Travel and mileage	500	500	162	(338)
Memberships and dues	3,000	3,000	3,384	384
Seminars and education	2,500	2,500	2,576	76
Miscellaneous	2,000	2,000	111	(1,889)
Elections	-	-	24,591	24,591
Total administration - other	67,900	67,900	89,551	21,651
Grounds and buildings				
Gas (heat)	2,200	2,200	-	(2,200)
Electricity	2,000	2,000	2,750	750
Repairs and maintenance	4,000	4,000	2,796	(1,204)
Supplies	500	500	1,519	1,019
City garage	2,500	2,500	4,588	2,088
Public works garage/deputy facility	1,000	1,000	-	(1,000)
Miscellaneous	800	800	229	(571)
Total grounds and buildings	13,000	13,000	11,882	(1,118)
Total General Government	517,674	517,674	558,117	40,443

CITY OF AFTON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance Over (Under)
	Original	Final		
Public Safety				
Police service	185,000	185,000	188,390	3,390
Fire and ambulance services	249,166	249,166	249,166	-
Animal control	4,000	4,000	2,884	(1,116)
Total Public Safety	438,166	438,166	440,440	2,274
Public Works				
Streets				
Gravel road maintenance	4,000	4,000	10,348	6,348
Crackseal, seal coat, gravel shouldering	75,000	75,000	50,469	(24,531)
Snow and ice control	110,000	110,000	132,082	22,082
Surface maintenance, repair, sweeping	10,000	10,000	2,262	(7,738)
Brush, tree, mow, bridge, culvert, guardrail	50,000	50,000	45,273	(4,727)
Street lighting	12,000	12,000	4,790	(7,210)
Signs and signals	4,000	4,000	1,879	(2,121)
Other road maintenance	2,000	2,000	1,608	(392)
Total streets	267,000	267,000	248,711	(18,289)
Other public works				
Flood control (operating pump, dike maintenance)	1,600	1,600	-	(1,600)
Equipment repairs and maintenance	1,500	1,500	2,481	981
Fuel and lubricants	1,000	1,000	361	(639)
Tools and minor equipment	950	950	375	(575)
Total other public works	5,050	5,050	3,217	(1,833)
Total Public Works	272,050	272,050	251,928	(20,122)
Public Health				
Recycling	500	500	(304)	(804)
Refuse collection and disposal	1,500	1,500	945	(555)
Total Public Health	2,000	2,000	641	(1,359)
Culture and Recreation				
4th of July celebration	3,500	3,500	3,500	-
Park maintenance	1,200	1,200	3,380	2,180
Cemetery maintenance	9,000	9,000	9,000	-
Miscellaneous	300	300	238	(62)
Total Culture and Recreation	14,000	14,000	16,118	2,118
Miscellaneous				
Comprehensive plan	-	-	5,049	5,049
Council contingency	-	-	13,377	13,377
Total Miscellaneous	-	-	18,426	18,426
Capital Outlay				
General government	-	-	1,319	1,319
Total Expenditures	1,243,890	1,243,890	1,286,989	43,099
EXCESS OF REVENUES OVER EXPENDITURES	-	-	22,504	22,504
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	15,000	15,000
Transfers out	-	-	(30,000)	(30,000)
Net Other Financing Sources (Uses)	-	-	(15,000)	(15,000)
NET CHANGE IN FUND BALANCES	-	-	7,504	7,504
FUND BALANCES – BEGINNING	724,393	724,393	724,393	-
FUND BALANCES – ENDING	\$ 724,393	\$ 724,393	\$ 731,897	\$ 7,504

CITY OF AFTON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018

NOTE 1 – BUDGETARY INFORMATION

Budgetary Data

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

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

Compliance

The general fund disbursements exceeded budgeted appropriations by \$43,099 for the year ended December 31, 2018. The overage, considered by City management to be a result of necessary disbursements critical to operation, was approved by the City Council.

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

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017 Changes

Changes in Actuarial Assumptions:

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

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

CITY OF AFTON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018

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

General Employees Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

SUPPLEMENTARY INFORMATION

CITY OF AFTON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2018

	<u>Special Revenue Funds</u>	<u>Road Paving Debt Service</u>	<u>Capital Projects Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 69,276	\$ 339,215	\$ 567,463	\$ 975,954
Due from other funds	-	-	816,000	816,000
TOTAL ASSETS	<u>\$ 69,276</u>	<u>\$ 339,215</u>	<u>\$ 1,383,463</u>	<u>\$ 1,791,954</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Fund Balances				
Restricted	-	339,215	-	339,215
Unrestricted				
Assigned	69,276	-	1,383,463	1,452,739
Total Fund Balances	<u>69,276</u>	<u>339,215</u>	<u>1,383,463</u>	<u>1,791,954</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 69,276</u>	<u>\$ 339,215</u>	<u>\$ 1,383,463</u>	<u>\$ 1,791,954</u>

CITY OF AFTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2018

	<u>Special Revenue Funds</u>	<u>Road Paving Debt Service</u>	<u>Capital Projects Funds</u>	<u>Total</u>
REVENUES				
Taxes				
Property taxes	\$ 49,784	\$ 170,000	\$ 130,671	\$ 350,455
Licenses and permits	4,320	-	30,000	34,320
Intergovernmental	62,805	-	39,716	102,521
Charges for services	-	-	104,850	104,850
Investment earnings	1,399	7,169	19,388	27,956
Contributions and donations	-	-	2,400	2,400
Total Revenues	<u>118,308</u>	<u>177,169</u>	<u>327,025</u>	<u>622,502</u>
EXPENDITURES				
Current				
General government	24,475	-	9,971	34,446
Public safety	100,198	-	-	100,198
Public works	1,069	-	-	1,069
Debt service				
Principal	-	180,000	-	180,000
Interest	-	91,132	-	91,132
Capital outlay	3,921	-	328,524	332,445
Total Expenditures	<u>129,663</u>	<u>271,132</u>	<u>338,495</u>	<u>739,290</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(11,355)	(93,963)	(11,470)	(116,788)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	405,258	405,258
Transfers out	-	-	(284,513)	(284,513)
Net Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>120,745</u>	<u>120,745</u>
NET CHANGE IN FUND BALANCES	(11,355)	(93,963)	109,275	3,957
FUND BALANCES – BEGINNING, AS PREVIOUSLY STATED	80,631	433,178	1,973,750	2,487,559
Prior period adjustment	-	-	(699,562)	(699,562)
FUND BALANCES - BEGINNING, AS RESTATED	<u>80,631</u>	<u>433,178</u>	<u>1,274,188</u>	<u>1,787,997</u>
FUND BALANCES – ENDING	<u>\$ 69,276</u>	<u>\$ 339,215</u>	<u>\$ 1,383,463</u>	<u>\$ 1,791,954</u>

**CITY OF AFTON, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 December 31, 2018**

	<u>201 Project</u>	<u>Fire District</u>	<u>Cable & Fire Aid</u>	<u>City Dock</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,181	\$ 2,512	\$ 2	\$ 65,581	\$ 69,276
TOTAL ASSETS	<u><u>\$ 1,181</u></u>	<u><u>\$ 2,512</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ 65,581</u></u>	<u><u>\$ 69,276</u></u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances					
Unrestricted					
Assigned	<u>1,181</u>	<u>2,512</u>	<u>2</u>	<u>65,581</u>	<u>69,276</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,181</u></u>	<u><u>\$ 2,512</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ 65,581</u></u>	<u><u>\$ 69,276</u></u>

CITY OF AFTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
Year Ended December 31, 2018

	<u>201 Project</u>	<u>Fire District</u>	<u>Cable & Fire Aid</u>	<u>City Dock</u>	<u>Total</u>
REVENUES					
Property taxes	\$ -	\$ 49,784	\$ -	\$ -	\$ 49,784
Licenses and permits	470	-	-	3,850	4,320
Intergovernmental	-	-	62,805	-	62,805
Investment earnings	28	236	2	1,133	1,399
Total Revenues	<u>498</u>	<u>50,020</u>	<u>62,807</u>	<u>4,983</u>	<u>118,308</u>
EXPENDITURES					
Current					
General government	-	-	24,475	-	24,475
Public safety	-	49,784	50,414	-	100,198
Public works	1,069	-	-	-	1,069
Capital outlay	-	-	-	3,921	3,921
Total Expenditures	<u>1,069</u>	<u>49,784</u>	<u>74,889</u>	<u>3,921</u>	<u>129,663</u>
NET CHANGE IN FUND BALANCES	(571)	236	(12,082)	1,062	(11,355)
FUND BALANCES – BEGINNING	<u>1,752</u>	<u>2,276</u>	<u>12,084</u>	<u>64,519</u>	<u>80,631</u>
FUND BALANCES – ENDING	<u><u>\$ 1,181</u></u>	<u><u>\$ 2,512</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ 65,581</u></u>	<u><u>\$ 69,276</u></u>

CITY OF AFTON, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
December 31, 2018

	Buildings & Land	Street Improvement	2017 Street Improvement	Special Reserve	Park Reserve	Bridge Replacement	Total
ASSETS							
Cash and cash equivalents	\$ 10,912	\$ 276	\$ -	\$ 439,535	\$ 76,514	\$ 40,226	\$ 567,463
Due from other funds	-	783,000	-	33,000	-	-	816,000
TOTAL ASSETS	<u>\$ 10,912</u>	<u>\$ 783,276</u>	<u>\$ -</u>	<u>\$ 472,535</u>	<u>\$ 76,514</u>	<u>\$ 40,226</u>	<u>\$ 1,383,463</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances							
Unrestricted							
Assigned	10,912	783,276	-	472,535	76,514	40,226	1,383,463
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,912</u>	<u>\$ 783,276</u>	<u>\$ -</u>	<u>\$ 472,535</u>	<u>\$ 76,514</u>	<u>\$ 40,226</u>	<u>\$ 1,383,463</u>

CITY OF AFTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS
Year Ended December 31, 2018

	Buildings & Land	Street Improvement	2017 Street Improvement	Special Reserve	Park Reserve	Bridge Replacement	Total
REVENUES							
Property taxes	\$ 6,000	\$ 70,000	\$ -	\$ 5,000	\$ -	\$ 49,671	\$ 130,671
Licenses and permits	-	-	-	-	30,000	-	30,000
Intergovernmental	-	39,716	-	-	-	-	39,716
Charges for services	104,850	-	-	-	-	-	104,850
Investment earnings	561	10,416	-	7,249	1,160	2	19,388
Contributions and donations	-	-	-	-	2,400	-	2,400
Total Revenues	<u>111,411</u>	<u>120,132</u>	<u>-</u>	<u>12,249</u>	<u>33,560</u>	<u>49,673</u>	<u>327,025</u>
EXPENDITURES							
Current							
General government	9,971	-	-	-	-	-	9,971
Capital outlay	<u>73,367</u>	<u>232,844</u>	<u>-</u>	<u>-</u>	<u>12,866</u>	<u>9,447</u>	<u>328,524</u>
Total Expenditures	<u>83,338</u>	<u>232,844</u>	<u>-</u>	<u>-</u>	<u>12,866</u>	<u>9,447</u>	<u>338,495</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	28,073	(112,712)	-	12,249	20,694	40,226	(11,470)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	405,258	-	-	-	-	405,258
Transfers out	<u>-</u>	<u>-</u>	<u>(284,513)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(284,513)</u>
Net Other Financing Sources (Uses)	<u>-</u>	<u>405,258</u>	<u>(284,513)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,745</u>
NET CHANGE IN FUND BALANCES	28,073	292,546	(284,513)	12,249	20,694	40,226	109,275
FUND BALANCES – BEGINNING, AS PREVIOUSLY STATED	40,584	996,227	420,833	460,286	55,820	-	1,973,750
Prior period adjustment	<u>(57,745)</u>	<u>(505,497)</u>	<u>(136,320)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(699,562)</u>
FUND BALANCE - BEGINNING, AS RESTATED	<u>(17,161)</u>	<u>490,730</u>	<u>284,513</u>	<u>460,286</u>	<u>55,820</u>	<u>-</u>	<u>1,274,188</u>
FUND BALANCES – ENDING	<u>\$ 10,912</u>	<u>\$ 783,276</u>	<u>\$ -</u>	<u>\$ 472,535</u>	<u>\$ 76,514</u>	<u>\$ 40,226</u>	<u>\$ 1,383,463</u>

OTHER REPORTS



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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Afton, Minnesota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated July 15, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies, described in the accompanying schedule of current year findings and responses, as item 2018-001.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The City's Response to Findings

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

Purpose of this Report

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



Golden Valley, Minnesota
July 15, 2019

CITY OF AFTON, MINNESOTA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
December 31, 2018

CURRENT YEAR FINDINGS

The current year audit contains one finding:

2018-001. Segregation of Duties

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

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

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

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

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

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

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