

**CITY OF VESTA
VESTA, MINNESOTA**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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INTRODUCTORY SECTION

**CITY OF VESTA, MINNESOTA
SCHEDULE OF CITY COUNCIL MEMBERS AND OFFICIALS
DECEMBER 31, 2015**

CITY COUNCIL MEMBERS

<u>Member</u>	<u>Position</u>	<u>Term Expires</u>
Corey Jenniges	Mayor	12-31-16
Ryan Paul	Councilperson	12-31-18
Jason Kramer	Councilperson	12-31-18
Tiffany Hansen	Councilperson	12-31-16
Brian Nordby (Appointed April 14, 2015)	Councilperson	12-31-16

ADMINISTRATION

Kimberly Alonzo	Clerk – Treasurer	Appointed
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PLLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Vesta, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Vesta, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Vesta, Minnesota'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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.

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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, and each major fund of the City of Vesta, Minnesota, as of December 31, 2015, 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.

Emphasis of Matter - Change in Accounting Principle

As described in Note 11 to the financial statements, in 2015 the City of Vesta adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which represents a change in accounting principle. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vesta, Minnesota's basic financial statements. The introductory section and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and the other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the City's 2014 financial statements, and our report, dated June 2, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016 on our consideration of the City of Vesta, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Vesta, Minnesota's internal control over financial reporting and compliance.

Hoffman + Brobst, PLLP

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

June 24, 2016

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF VESTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

As management of City of Vesta, Minnesota, we offer readers of City of Vesta, Minnesota's financial statements this narrative overview and analysis of the financial activities of City of Vesta, Minnesota for the fiscal year ended December 31, 2015.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015 year include the following:

- Net Position in the Statement of Net Position increased \$158,263 from the prior year to \$1,482,092. Of this increase, \$266,088 is due to the addition of assets for the water tower project which are partially offset by negative operations in the governmental activities and a decrease of \$78,103 related to a prior period adjustment for the implementation of GASB Statements No. 68 and No. 71.
- The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which records the City's proportionate share of the collective net pension (asset)/liability, deferred inflows of resources, deferred outflows of resources, and pension expense on the City's government-wide statements. This change in accounting principle is discussed in Note 11 to the financial statements.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$536,166, a decrease of \$90,563 from the previous year balance of \$626,729. The decrease was due to a variety of factors, primarily purchases of public safety equipment and street repairs for resurfacing and crack filling, and a budgeted use of excess fund balance.
- The General Fund fund balance decreased \$74,002 to \$393,750. The unassigned fund balance increased \$53,289 due to the City Council changing committed and assigned funds for various purposes, along with using some funds from the restricted first responders donation. The unassigned fund balance is approximately four months of expenditures which meets the City's fund balance goal of three to six months of operating expenditures.
- The water project is in still in process and is expected to be completed in September of 2016. The water meter and water main valve/fire hydrant portions of this project were completed in 2014 and the water tower portion is expected to be completed in 2016. This project is being funded through grants and loans from United States Department of Agriculture Rural Development.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts. They are:

- Independent Auditor's Report,
- Required Supplementary Information which includes the Management's Discussion and Analysis (this section),
- Basic financial statements, notes to financial statements, and
- Other supplementary information, and other required reports and information.

The basic financial statements include two kinds of statements that present different views of the City:

- The government-wide financial statements, including the Statement of Net Position and the Statement of Activities, provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements. The governmental funds statements tell how basic services such as general government, public safety, street maintenance and debt service were financed in the short term as well as what remains for future spending. The proprietary fund statements provide information about the financial services in which the City charges a fee for services.

**CITY OF VESTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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. There are two government-wide statements:

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

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, and culture and recreation. The business-type activities of the City include water and wastewater utilities, garbage collection, and liquor store operations.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's funds – focusing on its most significant or “major” funds – rather than the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The City has two kinds of funds:

- **Governmental funds** – The City's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) follows the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.
- **Proprietary funds** – Services for which the City charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as government-wide statements, only in more detail. 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 water and wastewater utilities, garbage collection, and liquor store operations.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**CITY OF VESTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS)
NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of City of Vesta, Minnesota, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,482,092 at the close of the most recent fiscal year. A large portion of the City's net position (\$805,308 or 54.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A summary of the City's net position as of December 31, 2015 and 2014 is as follows:

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 594,006	\$ 648,269	\$ 219,124	\$ 154,708	\$ 813,130	\$ 802,977
Capital Assets	<u>432,942</u>	<u>398,413</u>	<u>1,300,786</u>	<u>1,070,308</u>	<u>1,733,728</u>	<u>1,468,721</u>
Total Assets	<u>1,026,948</u>	<u>1,046,682</u>	<u>1,519,910</u>	<u>1,225,016</u>	<u>2,546,858</u>	<u>2,271,698</u>
Related to Pensions	<u>10,181</u>	-	<u>10,672</u>	-	<u>20,853</u>	-
Total Deferred Outflows of Resources	<u>10,181</u>	-	<u>10,672</u>	-	<u>20,853</u>	-
Current Liabilities	48,322	38,859	44,446	36,215	92,768	75,074
Noncurrent Liabilities	<u>128,874</u>	<u>98,314</u>	<u>851,444</u>	<u>774,481</u>	<u>980,318</u>	<u>872,795</u>
Total Liabilities	<u>177,196</u>	<u>137,173</u>	<u>895,890</u>	<u>810,696</u>	<u>1,073,086</u>	<u>947,869</u>
Related to Pensions	<u>3,760</u>	-	<u>8,773</u>	-	<u>12,533</u>	-
Total Deferred Inflows of Resources	<u>3,760</u>	-	<u>8,773</u>	-	<u>12,533</u>	-
Net Position						
Net Investment in Capital Assets	310,082	272,255	495,226	298,382	805,308	570,637
Restricted	288,605	342,312	15,506	7,750	304,111	350,062
Unrestricted	<u>257,486</u>	<u>294,942</u>	<u>115,187</u>	<u>108,188</u>	<u>372,673</u>	<u>403,130</u>
Total Net Position	<u>\$ 856,173</u>	<u>\$ 909,509</u>	<u>\$ 625,919</u>	<u>\$ 414,320</u>	<u>\$ 1,482,092</u>	<u>\$ 1,323,829</u>

A portion of the City's net position (\$304,111 or 20.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$372,673 or 25.1 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position.

CHANGE IN NET POSITION

Governmental Activities

The City's total revenues consisted of program revenues of \$26,891, property taxes of \$167,658, unallocated federal and state aid of \$117,220, and minor amounts from miscellaneous other sources. Expenses totaling \$366,439 consisted primarily of general government costs of \$111,836, public safety of \$94,713, public works of \$137,060, culture and recreation of \$16,335, and minor other amounts.

Governmental activities decreased the City's net position by \$48,034. The change is due primarily to street repairs.

Business-Type Activities

The City's total revenues consisted of program revenues of \$575,347 and a small amount from miscellaneous other sources. Expenditures totaling \$283,377 consisted of water costs of \$99,844, wastewater costs of \$34,324, garbage costs of \$16,069, and municipal liquor store costs of \$133,140.

Business-type activities increased the City's net position by \$284,400. The most significant change in business-type net position is due to the grant received in the Water Fund and donation of an asset received in the liquor store.

**CITY OF VESTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS) (Cont'd)
CHANGE IN NET POSITION (Cont'd)**

The cost of all activities this year was \$649,816.

- The users of the City's programs paid for 48.5 percent, or \$315,132, of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$287,106, or 44.2 percent of the total costs.
- The balance of the City's net cost of services, \$47,578, was paid for by City taxpayers and unallocated government aid.

The change in net position occurs as a result of the City implementing GASB Statements No. 68 and No. 71 (prior period adjustment) and revenues being greater than expenses for the year ended December 31, 2015. A summary of the City's change in net position for the years ended December 31, 2015 and 2014 is as follows:

	CHANGE IN NET POSITION					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program Revenues						
Charges for Service	\$ 13,773	\$ 10,775	\$ 301,359	\$ 295,730	\$ 315,132	\$ 306,505
Operating Grants and Contributions	10,618	181,713	-	3,540	10,618	185,253
Capital Grants and Contributions	2,500	1,000	273,988	161,233	276,488	162,233
General Revenues						
Property Taxes and Special Assessments- General	160,292	177,046	-	-	160,292	177,046
Property Taxes and Special Assessments - Debt Service	7,366	5,639	-	-	7,366	5,639
Unallocated Federal and State Aid	117,220	89,742	-	-	117,220	89,742
Gain (Loss) on Disposal of Capital Assets	(6,838)	-	-	1,057	(6,838)	1,057
Other	5,746	5,439	158	156	5,904	5,595
Total Revenues	<u>310,677</u>	<u>471,354</u>	<u>575,505</u>	<u>461,716</u>	<u>886,182</u>	<u>933,070</u>
Expenses						
General Government	111,836	112,960	-	-	111,836	112,960
Public Safety	94,713	70,300	-	-	94,713	70,300
Public Works	137,060	75,984	-	-	137,060	75,984
Culture and Recreation	16,335	18,338	-	-	16,335	18,338
Interest on Long-Term Debt	6,495	6,571	-	-	6,495	6,571
Water	-	-	99,844	109,975	99,844	109,975
Wastewater	-	-	34,324	29,319	34,324	29,319
Garbage	-	-	16,069	17,376	16,069	17,376
Municipal Liquor Store	-	-	133,140	109,278	133,140	109,278
Total Expenses	<u>366,439</u>	<u>284,153</u>	<u>283,377</u>	<u>265,948</u>	<u>649,816</u>	<u>550,101</u>
Increase (Decrease) in Net Position before Transfers	<u>(55,762)</u>	<u>187,201</u>	<u>292,128</u>	<u>195,768</u>	<u>236,366</u>	<u>382,969</u>
Transfers	<u>7,728</u>	<u>654</u>	<u>(7,728)</u>	<u>(654)</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(48,034)</u>	<u>187,855</u>	<u>284,400</u>	<u>195,114</u>	<u>236,366</u>	<u>382,969</u>
Net Position - Beginning of Year As Originally Stated	909,509	721,654	414,320	219,206	1,323,829	940,860
Prior Period Adjustment (GASB Statements No. 68 and No. 71)	<u>(5,302)</u>	<u>-</u>	<u>(72,801)</u>	<u>-</u>	<u>(78,103)</u>	<u>-</u>
Net Position - Beginning of Year As Restated	<u>904,207</u>	<u>721,654</u>	<u>341,519</u>	<u>219,206</u>	<u>1,245,726</u>	<u>940,860</u>
Net Position - Ending	<u>\$ 856,173</u>	<u>\$ 909,509</u>	<u>\$ 625,919</u>	<u>\$ 414,320</u>	<u>\$ 1,482,092</u>	<u>\$ 1,323,829</u>

**CITY OF VESTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'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 balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$536,166, a decrease of \$90,563, in comparison with the prior year. Of this balance, \$157,097 is unassigned, which indicates that it is available for spending. The remaining balance is nonspendable, restricted, committed, or assigned for specific purposes according to the City's fund balance policy.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$393,750, of which \$14,438 was nonspendable, \$142,889 was restricted, \$37,808 was committed, \$41,518 was assigned, and \$157,097 was unassigned. As a measure of the General Fund's liquidity, it is useful to compare the total fund balance to the total fund expenditures for the year. The total General Fund expenditures represent 105.9 percent of the General Fund fund balance.

The fund balance of the City's General Fund decreased by \$74,002 during the current fiscal year due to an increase in street repairs and public safety capital outlay.

The Economic Development Authority Fund has a fund balance of \$8,132, which is an increase of \$13 over the prior year.

The 2003 Bond Debt Service Fund has a total fund balance of \$120,345, which is a decrease of \$20,852 from the prior year due to the planned use of excess fund balance.

The 2008 Microloan Debt Service Fund has a total fund balance of \$13,939, which is an increase of \$4,278 over the prior year.

PROPRIETARY FUNDS

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

The total net position in the proprietary funds is \$625,919. The proprietary funds had an overall increase in total net position for the year of \$211,599, primarily due to grants received from United States Department of Agriculture Rural Development and a donation of an asset, partially offset by the implementation of GASB Statements No. 68 and No. 71.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the 2015 General Fund budget anticipating an increase of \$57 in the General Fund reserves. The City did not revise its operating budget in 2015.

The actual results for the year showed a deficit of \$74,002.

- Actual revenues were \$31,297, or 10.08 percent, more than budget, due primarily to receiving a volunteer retention stipend, small cities assistance, DNR grant, and fire training reimbursement that were not budgeted.
- Actual expenditures were \$137,947, or 49.43 percent, more than budget. This overall unfavorable variance was a combination of negative variances in public works, public safety, and capital outlay. Several other smaller variances contributed to this overall unfavorable variance.

**CITY OF VESTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2015 is \$1,733,728 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment. The net increase in the City's investment in capital assets for the current fiscal year was \$265,007 or 18.2 percent. The increase in both governmental and business-type activities is due to the cost of new assets exceeding depreciation during the current fiscal year. More detailed information about the City's capital assets is presented in Note 3 to the financial statements.

The City's governmental and business-type activities have a significant level of outstanding indebtedness for capital expenditures. This indebtedness is detailed in the notes to the financial statements.

CAPITAL ASSETS – NET OF DEPRECIATION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 79,045	\$ 79,045	\$ 55,480	\$ 55,480	\$ 134,525	\$ 134,525
Construction in Progress	-	-	266,088	2,773	266,088	2,773
Buildings and Improvements	127,707	137,816	880,472	915,469	1,008,179	1,053,285
Furniture and Equipment	226,190	181,552	98,746	96,586	324,936	278,138
Total	\$ 432,942	\$ 398,413	\$ 1,300,786	\$ 1,070,308	\$ 1,733,728	\$ 1,468,721

DEBT ADMINISTRATION

At year-end, the City had \$909,185 in total outstanding debt, which was backed by the full faith and credit of the government. The City also had various other long-term liabilities as detailed in Note 4 to the financial statements.

OUTSTANDING DEBT

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General Obligation Bonds	\$ 90,000	\$ 110,000			\$ 90,000	\$ 110,000
General Obligation Revenue Notes	7,000	19,000			7,000	19,000
Capital Lease	28,185	-			28,185	-
General Obligation Revenue Bonds	-	-	\$ 784,000	\$ 771,926	784,000	771,926
Total	\$ 125,185	\$ 129,000	\$ 784,000	\$ 771,926	\$ 909,185	\$ 900,926

FACTORS BEARING ON THE CITY'S FUTURE

- The City's reliance on state funding and property taxes continually challenge its financial viability as populations in greater Minnesota continue to decline. While personnel costs and infrastructure maintenance costs continue to rise, the City's revenue sources will have difficulty funding these increasing costs.
- The water tower portion of the City's water project is scheduled to be completed in September 2016. These improvements are being funded with the remaining grant from the United States Department of Agriculture Rural Development.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If one has questions about this report or needs additional financial information, contact the City Clerk, City of Vesta, P.O. Box 214, Vesta, MN 56292 or call (507) 762-3140.

BASIC FINANCIAL STATEMENTS

**CITY OF VESTA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

(with Partial Comparative Information as of December 31, 2014)

	Governmental Activities	Business-Type Activities	2015 Total	2014 Total
ASSETS				
Current Assets:				
Cash and Investments	\$ 508,471	\$ 173,924	\$ 682,395	\$ 688,937
Taxes and Assessments Receivable	3,150	-	3,150	8,770
Accounts Receivable	12,070	14,694	26,764	15,631
Grant Receivable	2,500	-	2,500	29,515
Internal Balances	13,568	(13,568)	-	-
Inventories	-	18,890	18,890	18,131
Prepaid Expense	14,438	9,678	24,116	19,562
Total Current Assets	554,197	203,618	757,815	780,546
Noncurrent Assets:				
Taxes and Assessments Receivable	11,432	-	11,432	14,681
Restricted Cash	-	15,506	15,506	7,750
Capital Assets, Net of Depreciation:				
Land	79,045	55,480	134,525	134,525
Construction in Progress	-	266,088	266,088	2,773
Buildings and Infrastructure	127,707	880,472	1,008,179	1,053,285
Furniture and Equipment	226,190	98,746	324,936	278,138
Net Pension Asset	28,377	-	28,377	-
Total Noncurrent Assets	472,751	1,316,292	1,789,043	1,491,152
TOTAL ASSETS	1,026,948	1,519,910	2,546,858	2,271,698
DEFERRED OUTFLOWS OF RESOURCES				
Related to Pensions	10,181	10,672	20,853	-
LIABILITIES				
Current Liabilities:				
Salaries and Related Taxes Payable	1,933	3,554	5,487	2,537
Accounts Payable	12,897	4,016	16,913	34,377
Sales Tax Payable	-	4,316	4,316	3,131
Accrued Interest	-	21,560	21,560	-
Unearned Revenue	3,201	-	3,201	3,029
Current Portion of Long-Term Liabilities	30,291	11,000	41,291	32,000
Total Current Liabilities	48,322	44,446	92,768	75,074
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Liabilities	128,874	851,444	980,318	872,795
TOTAL LIABILITIES	177,196	895,890	1,073,086	947,869
DEFERRED INFLOWS OF RESOURCES				
Related to Pensions	3,760	8,773	12,533	-
NET POSITION				
Net Investment in Capital Assets	310,082	495,226	805,308	570,637
Restricted For:				
Debt Service	145,716	15,506	161,222	173,289
Other Purposes	142,889	-	142,889	176,773
Unrestricted	257,486	115,187	372,673	403,130
TOTAL NET POSITION	\$ 856,173	\$ 625,919	\$ 1,482,092	\$ 1,323,829

The accompanying notes are an integral part of these statements.

CITY OF VESTA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Partial Comparative Information for the Year Ended December 31, 2014)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	2014 Total
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 111,836	\$ 148	\$ -	\$ -	(111,688)	\$ -	(111,805)
Public Safety	94,713	12,720	9,618	2,500	(69,875)	-	119,767
Public Works	137,060	-	-	-	(137,060)	-	(74,961)
Culture and Recreation	16,335	905	1,000	-	(14,430)	(14,430)	(17,095)
Interest on Long-Term Debt	6,495	-	-	-	(6,495)	-	(6,571)
Total Governmental Activities	366,439	13,773	10,618	2,500	(339,548)	-	(90,665)
BUSINESS-TYPE ACTIVITIES:							
Water	99,844	105,959	-	266,088	272,203	272,203	151,145
Wastewater	34,324	49,558	-	-	15,234	15,234	24,439
Garbage	16,069	14,847	-	-	(1,222)	(1,222)	(1,555)
Municipal Liquor Store	133,140	130,995	-	7,900	5,755	5,755	20,526
Total Business-Type Activities	283,377	301,359	-	273,988	-	291,970	194,555
TOTAL GOVERNMENT	649,816	315,132	10,618	276,488	(339,548)	291,970	103,890
GENERAL REVENUES:							
Property Taxes and Special Assessments - General					160,292	-	177,046
Property Taxes and Special Assessments - Debt Service					7,366	-	5,639
Unallocated Federal and State Aid					117,220	-	89,742
Interest Income					936	158	1,149
Miscellaneous Revenues					4,810	-	4,446
Gain (Loss) on Disposal of Capital Assets					(6,838)	-	1,057
Transfers					7,728	(7,728)	-
Total General Revenues and Transfers					291,514	(7,570)	279,079
Change in Net Position					(48,034)	284,400	382,969
Net Position - Beginning of Year, As Originally Stated					909,509	414,320	940,860
Prior Period Adjustment (GASB Statements No. 68 and No. 71)					(5,302)	(72,801)	-
Net Position - Beginning of Year, As Restated					904,207	341,519	940,860
Net Position- Ending					\$ 856,173	\$ 625,919	\$ 1,323,829

The accompanying notes are an integral part of these statements.

CITY OF VESTA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015
(with Partial Comparative Information as of December 31, 2014)

	Special Revenue Fund		Debt Service Funds		Total Governmental Funds	
	General Fund	Economic Development Authority Fund	2003 Bond Debt Service Fund	2008 Microloan Debt Service Fund	2015	2014
ASSETS						
Cash and Investments	\$ 366,332	\$ 8,132	\$ 120,141	\$ 13,866	\$ 508,471	\$ 609,730
Property Taxes Receivable	2,873	-	2	73	2,948	8,249
Special Assessments Receivable	-	-	11,634	-	11,634	15,202
Accounts Receivable	12,070	-	-	-	12,070	-
Grant Receivable	2,500	-	-	-	2,500	-
Due from Other Funds	14,144	-	-	-	14,144	1,300
Prepaid Expenditures	14,438	-	-	-	14,438	13,892
TOTAL ASSETS	\$ 412,357	\$ 8,132	\$ 131,777	\$ 13,939	\$ 566,205	\$ 648,373
LIABILITIES						
Salaries and Related Taxes Payable	\$ 1,933	-	-	-	\$ 1,933	\$ 1,817
Accounts Payable	12,897	-	-	-	12,897	2,013
Due to Other Funds	576	-	-	-	576	104
Unearned Revenue	3,201	-	-	-	3,201	3,029
TOTAL LIABILITIES	18,607	\$ -	\$ -	\$ -	18,607	6,963
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue - Special Assessments	-	-	11,432	-	11,432	14,681
FUND BALANCES						
Nonspendable Fund Balances	14,438	-	-	-	14,438	13,892
Restricted Fund Balances	142,889	-	120,345	13,939	277,173	327,631
Committed Fund Balances	37,808	8,132	-	-	45,940	130,398
Assigned Fund Balances	41,518	-	-	-	41,518	51,000
Unassigned Fund Balances	157,097	-	-	-	157,097	103,808
TOTAL FUND BALANCES	393,750	8,132	120,345	13,939	536,166	626,729
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 412,357	\$ 8,132	\$ 131,777	\$ 13,939	\$ 566,205	\$ 648,373

The accompanying notes are an integral part of these statements.

CITY OF VESTA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015
(with Partial Comparative Information as of December 31, 2014)

	<u>2015</u>	<u>2014</u>
Total Fund Balances for Governmental Funds	\$ 536,166	\$ 626,729
 Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Those assets consist of:		
Land	79,045	79,045
Other Capital Assets, Net of \$839,485 Accumulated Depreciation	353,897	319,368
 Long-term assets are not available to pay current- period expenditures, and therefore are reported as unavailable revenue - special assessments or are not reported in the funds		
Special Assessments	11,432	14,681
Net Pension Asset	28,377	-
 Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	10,181	-
Deferred Inflows of Resources Related to Pensions	(3,760)	-
 Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	(97,000)	(129,000)
Capital Lease Payable	(28,185)	-
Vacation and Sick Payable	(1,330)	(1,314)
Net Pension Liability	(32,650)	-
 Total Net Position of Governmental Activities	 \$ <u>856,173</u>	 \$ <u>909,509</u>

The accompanying notes are an integral part of these statements.

CITY OF VESTA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Partial Comparative Information for the Year Ended December 31, 2014)

	General Fund	Special Revenue Fund	Debt Service Funds		Total Governmental Funds	
		Economic Development Authority Fund	2003 Bond Debt Service Fund	2008 Microloan Debt Service Fund	2015	2014
REVENUES						
Property Taxes	\$ 160,292		\$ 2	\$ 6,432	\$ 166,726	\$ 181,507
Special Assessments	-		4,181	-	4,181	4,847
Licenses and Permits	190		-	-	190	250
Intergovernmental	130,656		-	-	130,656	105,300
Charges for Services	13,773		-	-	13,773	10,775
Interest and Dividend Income	923	\$ 13	-	-	936	993
Miscellaneous	4,620	-	-	-	4,620	180,969
TOTAL REVENUES	310,454	13	4,183	6,432	321,082	484,641
EXPENDITURES						
Current						
General Government	111,055	-	-	-	111,055	112,488
Public Safety	63,958	-	-	-	63,958	45,960
Public Works	123,158	-	-	-	123,158	57,734
Culture and Recreation	12,558	-	-	-	12,558	14,691
Debt Service	7,674	-	25,035	12,632	45,341	38,581
Capital Outlay	98,644	-	-	-	98,644	11,050
TOTAL EXPENDITURES	417,047	-	25,035	12,632	454,714	280,504
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(106,593)	13	(20,852)	(6,200)	(133,632)	204,137
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Assets	760	-	-	-	760	-
Capital Lease Financing	34,581	-	-	-	34,581	-
Operating Transfers In	5,000	-	-	10,478	15,478	10,654
Operating Transfers Out	(7,750)	-	-	-	(7,750)	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	32,591	-	-	10,478	43,069	654
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(74,002)	13	(20,852)	4,278	(90,563)	204,791
FUND BALANCE - BEGINNING	467,752	8,119	141,197	9,661	626,729	421,938
FUND BALANCE - ENDING	\$ 393,750	\$ 8,132	\$ 120,345	\$ 13,939	\$ 536,166	\$ 626,729

The accompanying notes are an integral part of these statements.

CITY OF VESTA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Partial Comparative Information as of December 31, 2014)

	<u>2015</u>	<u>2014</u>
Total Net Change in Fund Balances - Governmental Funds	\$ (90,563)	\$ 204,791
 Amounts reported for governmental activities in the statement of activities are different because:		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation expense in the period.		
Capital Outlays	154,394	11,050
Depreciation Expense	(56,517)	(55,431)
 Proceeds from the sale/trade of capital assets are reported in governmental funds as other financing sources without regard to any cost basis adjustment. However, for governmental activities those proceeds are adjusted for any remaining cost basis of the assets that were disposed. This is the amount of unrecovered cost on the assets sold or disposed of.		
	(63,348)	-
 Revenues that will not be collected for several months after the City's year end are not considered available revenues in the governmental funds. They are, however, recorded as revenues in the statement of activities.		
	(3,249)	(3,669)
 The amount of long-term debt proceeds used to finance the acquisition of capital assets is reported in the governmental funds as a source of financing. Long-term debt proceeds are not revenues in the statement of activities, but rather constitute liabilities. In the current period these amounts consist of:		
Capital Lease Proceeds	(34,581)	-
 Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net position. In the current period these amounts consist of:		
Repayment of Bonds Payable	32,000	32,000
Repayment of Capital Lease Payable	6,396	-
 In the statement of activities, pension benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).		
	7,450	-
 In the Statement of Activities, accrued vacation is measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).		
	<u>(16)</u>	<u>(886)</u>
Change in Net Position of Governmental Activities	\$ <u>(48,034)</u>	\$ <u>187,855</u>

The accompanying notes are an integral part of these statements.

**CITY OF VESTA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

(with Partial Comparative Information as of December 31, 2014)

	<u>Business-Type Activities</u>		
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Garbage Fund</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 53,703	\$ 96,848	\$ 4,481
Accounts Receivable	7,559	3,618	1,406
Due from Other Funds	-	-	-
Grant Receivable	-	-	-
Inventories	-	-	-
Prepaid Expense	1,771	1,773	-
Total Current Assets	63,033	102,239	5,887
Noncurrent Assets:			
Restricted Cash	15,506	-	-
Capital Assets:			
Land	7,700	46,680	-
Construction in Progress	266,088	-	-
Buildings and Infrastructure	987,711	1,688,478	-
Furniture and Equipment	124,975	33,342	-
Total Capital Assets	1,386,474	1,768,500	-
Less: Accumulated Depreciation	247,276	1,632,617	-
Net Capital Assets	1,139,198	135,883	-
Total Noncurrent Assets	1,154,704	135,883	-
TOTAL ASSETS	1,217,737	238,122	5,887
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	1,371	1,372	-
LIABILITIES			
Current Liabilities:			
Salaries and Related Taxes Payable	692	692	-
Accounts Payable	-	-	1,241
Checks Written in Excess of Bank Balance	-	-	-
Due to Other Funds	-	-	-
Sales Tax Payable	1,570	-	310
Accrued Interest	21,560	-	-
Current Portion of Long-Term Liabilities	11,000	-	-
Total Current Liabilities	34,822	692	1,551
Noncurrent Liabilities:			
Noncurrent Portion of Long-Term Liabilities	783,792	10,792	-
TOTAL LIABILITIES	818,614	11,484	1,551
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	1,128	1,128	-
NET POSITION			
Net Investment in Capital Assets	333,638	135,883	-
Restricted for:			
Debt Service	15,506	-	-
Unrestricted	50,222	90,999	4,336
TOTAL NET POSITION	\$ 399,366	\$ 226,882	\$ 4,336

The accompanying notes are an integral part of these statements.

Enterprise Funds

Liquor Fund	2015 Total	2014 Total
\$ 18,892	\$ 173,924	\$ 102,933
2,111	14,694	15,631
576	576	104
-	-	29,515
18,890	18,890	18,131
6,134	9,678	5,670
<u>46,603</u>	<u>217,762</u>	<u>171,984</u>
-	15,506	7,750
1,100	55,480	55,480
-	266,088	2,773
100,320	2,776,509	2,776,509
50,181	208,498	198,117
151,601	3,306,575	3,032,879
125,896	2,005,789	1,962,571
25,705	1,300,786	1,070,308
<u>25,705</u>	<u>1,316,292</u>	<u>1,078,058</u>
<u>72,308</u>	<u>1,534,054</u>	<u>1,250,042</u>
<u>7,929</u>	<u>10,672</u>	<u>-</u>
2,170	3,554	720
2,775	4,016	32,364
-	-	23,726
14,144	14,144	1,300
2,436	4,316	3,131
-	21,560	-
-	11,000	-
<u>21,525</u>	<u>58,590</u>	<u>61,241</u>
<u>56,860</u>	<u>851,444</u>	<u>774,481</u>
<u>78,385</u>	<u>910,034</u>	<u>835,722</u>
<u>6,517</u>	<u>8,773</u>	<u>-</u>
25,705	495,226	298,382
-	15,506	7,750
(30,370)	115,187	108,188
<u>\$ (4,665)</u>	<u>\$ 625,919</u>	<u>\$ 414,320</u>

CITY OF VESTA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Partial Comparative Information for the Year Ended December 31, 2014)

	<u>Business-Type Activities</u>		
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Garbage Fund</u>
OPERATING REVENUES			
Gross Margins on Sales			
Utility Charges	\$ 105,959	\$ 49,558	\$ 14,847
Total Operating Revenues	<u>105,959</u>	<u>49,558</u>	<u>14,847</u>
OPERATING EXPENSES			
Personal Services	16,211	16,211	-
Supplies	1,576	2,840	306
Professional Fees	-	-	-
Repairs and Maintenance	1,050	4,548	-
Utilities	493	616	-
Insurance	1,294	1,294	-
Other Services and Charges	4,192	1,430	-
Service Contract	17,975	-	15,763
Depreciation	35,302	7,195	-
Total Operating Expenses	<u>78,093</u>	<u>34,134</u>	<u>16,069</u>
OPERATING INCOME (LOSS)	<u>27,866</u>	<u>15,424</u>	<u>(1,222)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and Dividend Income	6	152	-
Federal Grant - Rural Development Grant	266,088	-	-
Federal Grant - FEMA Grant	-	-	-
State Grant - FEMA Grant	-	-	-
Donations	-	-	-
Interest Expense	(21,560)	-	-
Gain on Sale of Assets	-	-	-
Nonoperating Pension Expense	(191)	(190)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>244,343</u>	<u>(38)</u>	<u>-</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>272,209</u>	<u>15,386</u>	<u>(1,222)</u>
OPERATING TRANSFERS			
Operating Transfers In	7,750	-	-
Operating Transfers Out	-	(10,478)	-
TOTAL OPERATING TRANSFERS	<u>7,750</u>	<u>(10,478)</u>	<u>-</u>
CHANGE IN NET POSITION	<u>279,959</u>	<u>4,908</u>	<u>(1,222)</u>
NET POSITION - BEGINNING AS ORIGINALLY STATED	<u>128,767</u>	<u>231,334</u>	<u>5,558</u>
PRIOR PERIOD ADJUSTMENT (GASB Statements No. 68 and No. 71)	<u>(9,360)</u>	<u>(9,360)</u>	<u>-</u>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>119,407</u>	<u>221,974</u>	<u>5,558</u>
NET POSITION - ENDING	<u>\$ 399,366</u>	<u>\$ 226,882</u>	<u>\$ 4,336</u>

The accompanying notes are an integral part of these statements.

Enterprise Funds

<u>Liquor Fund</u>	<u>2015 Total</u>	<u>2014 Total</u>
\$ 130,995	\$ 130,995	\$ 129,804
-	170,364	165,926
<u>130,995</u>	<u>301,359</u>	<u>295,730</u>
92,959	125,381	97,557
7,517	12,239	13,926
1,075	1,075	1,541
3,301	8,899	24,898
12,363	13,472	15,033
7,241	9,829	7,027
5,248	10,870	11,201
-	33,738	40,517
2,334	44,831	34,765
<u>132,038</u>	<u>260,334</u>	<u>246,465</u>
<u>(1,043)</u>	<u>41,025</u>	<u>49,265</u>
-	158	156
-	266,088	161,233
-	-	2,655
-	-	885
7,900	7,900	-
-	(21,560)	(19,483)
-	-	1,057
<u>(1,102)</u>	<u>(1,483)</u>	<u>-</u>
<u>6,798</u>	<u>251,103</u>	<u>146,503</u>
<u>5,755</u>	<u>292,128</u>	<u>195,768</u>
-	7,750	10,000
<u>(5,000)</u>	<u>(15,478)</u>	<u>(10,654)</u>
<u>(5,000)</u>	<u>(7,728)</u>	<u>(654)</u>
<u>755</u>	<u>284,400</u>	<u>195,114</u>
48,661	414,320	219,206
<u>(54,081)</u>	<u>(72,801)</u>	<u>-</u>
<u>(5,420)</u>	<u>341,519</u>	<u>-</u>
<u>\$ (4,665)</u>	<u>\$ 625,919</u>	<u>\$ 414,320</u>

CITY OF VESTA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Partial Comparative Information for the Year Ended December 31, 2014)

	Business-Type Activities		
	Water Fund	Wastewater Fund	Garbage Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 107,940	\$ 50,485	\$ 14,987
Cash Paid to Suppliers	(50,948)	(11,649)	(16,189)
Cash Paid for Payroll	(15,363)	(15,363)	-
Net Cash Flows Provided by (Used in)			
Operating Activities	<u>41,629</u>	<u>23,473</u>	<u>(1,202)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Received from Interest and Dividends	-	152	-
Cash Paid for Bond Restriction	(7,750)	-	-
Net Cash Flows Provided by (Used in)			
Investing Activities	<u>(7,750)</u>	<u>152</u>	<u>-</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Cash Received for Transfer from Other Fund	7,750	-	-
Cash Paid for Transfer to Other Fund	-	(10,478)	-
Net Cash Flows Provided by (Used in)			
Non-Capital Financing Activities	<u>7,750</u>	<u>(10,478)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash Received from Bond Proceeds	12,074	-	-
Cash Received from Grants	295,603	-	-
Cash Received from Sale of Capital Assets	-	-	-
Cash Paid for Debt Principal	-	-	-
Cash Paid for Interest on Debt	-	-	-
Cash Paid for Acquisition of Capital Assets	(295,603)	(1,321)	-
Net Cash Flows Provided by (Used in)			
Capital and Related Financing Activities	<u>12,074</u>	<u>(1,321)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>53,703</u>	<u>11,826</u>	<u>(1,202)</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>-</u>	<u>85,022</u>	<u>5,683</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 53,703</u>	<u>\$ 96,848</u>	<u>\$ 4,481</u>
SCHEDULE RECONCILING OPERATING INCOME (LOSS) TO NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 27,866	\$ 15,424	\$ (1,222)
Non-Cash Items Included in Net Income (Loss)			
Depreciation	35,302	7,195	-
(Increase) Decrease in:			
Accounts Receivable	1,981	927	140
Inventories	-	-	-
Prepaid Expense	(833)	(834)	-
Increase (Decrease) in:			
Salaries Payable and Related Accruals	590	590	-
Vacation Payable	258	258	-
Accounts Payable and Other Accruals	(23,535)	(87)	(120)
Net Cash Flows Provided by (Used In)			
Operating Activities	<u>\$ 41,629</u>	<u>\$ 23,473</u>	<u>\$ (1,202)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Donation of Capital Asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Purchase of Asset Accrued at Year-End	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

Enterprise Funds		
Liquor Fund	2015 Total	2014 Total
\$ 128,412	\$ 301,824	\$ 290,966
(24,633)	(103,419)	(130,375)
(92,115)	(122,841)	(95,237)
<u>11,664</u>	<u>75,564</u>	<u>65,354</u>
-	152	156
-	(7,750)	(7,750)
-	(7,598)	(7,594)
-	7,750	10,000
(5,000)	(15,478)	(10,654)
<u>(5,000)</u>	<u>(7,728)</u>	<u>(654)</u>
-	12,074	771,926
-	295,603	135,258
-	-	1,057
-	-	(511,610)
-	-	(19,483)
-	(296,924)	(414,964)
-	10,753	(37,816)
6,664	70,991	19,290
<u>12,228</u>	<u>102,933</u>	<u>83,643</u>
<u>\$ 18,892</u>	<u>\$ 173,924</u>	<u>\$ 102,933</u>
\$ (1,043)	\$ 41,025	\$ 49,265
2,334	44,831	34,765
(2,583)	465	(4,764)
(759)	(759)	2,578
(2,341)	(4,008)	(2,354)
1,654	2,834	365
(810)	(294)	1,955
<u>15,212</u>	<u>(8,530)</u>	<u>(16,456)</u>
<u>\$ 11,664</u>	<u>\$ 75,564</u>	<u>\$ 65,354</u>
<u>\$ 7,900</u>	<u>\$ 7,900</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,515</u>

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements of City of Vesta, Minnesota have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

B. FINANCIAL REPORTING ENTITY

City of Vesta, Minnesota (the City) is a municipal corporation formed under state statute and operates under a Council-Manager form of government. The four-member council and Mayor are elected on rotating terms in each even-numbered year. The Clerk-Treasurer is appointed by the Council and is responsible for administrative control of the City.

Component Units

U.S. Generally Accepted Accounting Principles (GAAP) require that the City's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the City. In addition, the City's financial statements are to include all component units – entities for which the City is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the City. There are no other entities for which the City is financially accountable.

Related Organizations

A related organization is included in the financial reporting entity in accordance with GASB Statement No. 68. The City's accountability does not extend beyond the Mayor, Clerk-Treasurer and Fire Chief being ex officio members of the board. The related organization is described as follows:

Vesta Volunteer Fire Relief Association – The Association is organized as a non-profit organization by its members to provide pension and other benefits to such members in accordance with Minnesota statutes. The Association's Board of Directors consists of seven members elected by the membership of the Association and three ex officio members, the Mayor, Clerk-Treasurer and Fire Chief. All funding is obtained in accordance with Minnesota statutes whereby state aids and tax levies, which are determined by the Association, flow through the City to the Association. The Association pays benefits directly to its members.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants 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 properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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 revenue of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unearned revenue arises when assets are recognized before recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as unavailable revenue in the fund financial statements.

The City applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. FUND TYPES AND MAJOR FUNDS

A description of the major governmental funds included in this report is as follows:

General

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

Special Revenue

The Economic Development Authority Fund accounts for all financial resources of the City's Economic Development Authority.

Debt Service

The 2003 Bond Debt Service Fund accounts for the accumulation of the special assessments which are restricted for the retirement of the general obligation debt.

The 2008 Microloan Debt Service Fund accounts for the accumulation of the ad valorem taxes the City annually levies which are restricted for the retirement of the general obligation debt.

A description of the major proprietary funds included in this report are as follows:

Enterprise

The Water Fund accounts for the activities related to the operation of the water distribution system.

The Wastewater Fund accounts for the activities related to the operation of the sanitary collection and treatment system.

The Garbage Fund accounts for the activities related to the operation of the garbage collection system.

The Liquor Fund accounts for resources and payments related to the operation of the municipal liquor store.

GASB Statement No. 34 specifies that the accounts and activities of each of the City's most significant funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. Although only the General Fund and 2003 Bond Debt Service Fund are major funds by definition, the City has elected to report all funds as major funds and therefore presents all funds in separate columns on the fund financial statements – an option permitted by GASB Statement No. 34.

GASB Statement No. 34 also requires that budget vs. actual information be presented for the General Fund and all major special revenue funds.

F. BUDGETING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the governmental funds classified as the General Fund, Economic Development Authority Fund, 2003 Bond Debt Service Fund, and 2008 Microloan Debt Service Fund and the proprietary funds classified as Water Fund, Wastewater Fund, Garbage Fund and Liquor Fund. All annual appropriations lapse at fiscal year-end.

Before September 15, a proposed budget is prepared and approved by the City Council. By September 15, the proposed budget and tax levy must be submitted to the county auditor. The City Council holds public hearings and a final budget and tax levy must be prepared, adopted and submitted to the county auditor, no later than December 28. The budgets were not amended during the fiscal year.

The City does not employ encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable fund balance.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

G. CASH AND INVESTMENTS

Cash balances are invested to the extent available in demand deposit accounts and money market accounts. Earnings from investments are recorded in the respective funds. For purposes of the Statement of Cash Flows, all highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

The City has formal policies in place as of December 31, 2015 to address custodial credit risk for deposits. The City does not have formal policies in place to address credit risk, concentration of credit risk and interest rate risk for investments.

H. RESTRICTED CASH

Certain resources set aside for water tower maintenance and inspection are classified as restricted cash on the balance sheet because their use is limited by applicable bond covenants.

I. RECEIVABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Property taxes are collected and remitted to the City by Redwood County. The County spreads all levies over taxable property. Property taxes are generally paid by taxpayers in two equal installments, on May 15 and October 15. The County provides tax settlements to cities three times a year. Generally, the settlements are received in January, July and December.

In the governmental fund financial statements, taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. Revenue from these delinquent taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements, because it is not known to be available to finance current expenditures.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collectible.

Special assessments receivable represent amounts due from city residents for services provided and for public works improvements made adjacent to their property. In the governmental fund financial statements, special assessments receivable could include the following components:

1. Delinquent installments including interest remaining unpaid as of year-end.
2. Current installments that will be billed in the following year.
3. Deferred installments that will be billed to property owners in the future.

If the delinquent assessments are not paid within 60 days of year-end, they are recorded as deferred inflow of resources because they are not available to finance current expenditures. Current and unearned assessments receivable are fully offset by deferred inflows of resources.

In the government-wide financial statements, special assessments receivable and related revenue include all amounts due the City regardless of when cash is received.

J. UTILITY RECEIVABLES

The City extends credit, in the normal course of business, to utility customers. The City generally extends credit on an unsecured basis. An account is considered impaired when, based on current information and events, it is probable that the City will be unable to collect the balance due. The City does not have any material accounts receivable balances that are greater than 90 days past due.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. UTILITY RECEIVABLES (Cont'd)

Delinquent accounts are reviewed monthly. No allowance for bad debts is computed because it is reasonably expected that all accounts receivable will be collectible. In the event that the receivable becomes uncollectible as determined by management, it is the City's policy to use the direct write-off method to record the bad debt.

K. INVENTORIES

Inventories of the Liquor Fund are priced at cost. Since the City does not operate a central store, supplies and other consumable items are expensed in the respective funds when they are purchased.

L. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$500 or more and over three years of useful life for capitalizing capital assets. Infrastructure assets capitalized have an original cost of \$5,000 or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 15 to 50 years for buildings, 20 to 50 years for water and wastewater systems, 15 to 50 years for infrastructure, 3 to 20 years for furniture and equipment, and 10 to 30 years for improvements. Capital assets not being depreciated include land and construction in progress, if any.

M. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund type Statement of Net Position. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued, bond premiums and discounts, as well as insurance costs, are delayed and amortized over the life of the bonds using the straight-line method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

O. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the Statement of Net 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

P. DEFINED BENEFIT PENSION PLANS

Public Employees Retirement Association

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. 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.

Vesta Volunteer Fire Relief Association

For purposes of measuring the net pension asset, deferred outflows of resources, and pension expense, information about the fiduciary net position of the Vesta Volunteer Fire Relief Association (VFRA) and additions to/deductions from the VFRA's fiduciary net position have been determined on the same basis as they are reported by the VFRA.

Q. COMPENSATED ABSENCES

Eligible employees of the City earn vacation time at various rates based on years of service. At year-end, vacation leave earned cannot be accrued beyond 5 days. Employees leaving in good standing will be compensated for vacation leave earned but not used. Therefore, a liability is recorded for accumulated vacation at December 31, 2015. A contingent liability for sick leave is not reflected in the financial statements as it is at the City Council's discretion as to payment of unused sick leave at the time of separation of employment.

R. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The City purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the City's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

S. FUND BALANCE

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable – consists of amounts that cannot be spent because it is not in spendable form, such as prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributions; or constraints imposed by state statutory provisions.

Committed – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit these amounts.

Assigned – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the City Council delegates the authority. Pursuant to the City Council resolution, the City Clerk is authorized to establish assignments of fund balance.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

S. FUND BALANCE (Cont'd)

Unassigned – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

If resources from more than one fund balance classification could be spent, the City will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned as determined by the City Council.

To ensure the financial strength and stability of the City, the City Council will strive to maintain a minimum unassigned General Fund fund balance of three to six months of operating expenditures.

T. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. All other net position items that do not meet the definition of “net investment in capital assets” or “restricted” are reported as unrestricted.

U. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 expenses during the reporting period. Actual results could differ from those estimates.

V. RECLASSIFICATIONS

Certain amounts in the prior year data have been reclassified in order to be consistent with the current year's presentation. The total amount of the City's prior year fund balance did not change due to these reclassifications.

2. DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be secured by a bank guaranty bond or 110% of collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by a bank guaranty bond or 110 percent of collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. Guaranty bond and collateral agreements must be approved prior to deposit of funds as provided by law. The City Council approves and designates an authorized depository institution.

As of December 31, 2015, the City's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. DEPOSITS AND INVESTMENTS (Cont'd)

B. INVESTMENTS

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investments were not exposed to interest rate risk at December 31, 2015.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investments were not exposed to credit risk at December 31, 2015.

Concentration of Credit Risk: Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City has no formal investment policy that places limits on the amount the City may invest in any one issuer.

Custodial Credit Risk: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments were not exposed to custodial credit risk at December 31, 2015.

<u>Cash/Investment Type</u>	<u>Credit Rating</u>	<u>Average Maturities</u>	<u>Percentage of Total</u>	<u>Value</u>
Cash and Investments:				
Checking Accounts	N/A	N/A	35.0%	\$ 244,550
Savings Accounts	N/A	N/A	64.8%	452,104
Petty Cash Account	N/A	N/A	0.2%	<u>1,247</u>
Total Cash and Investments			100.0%	<u>\$ 697,901</u>

Cash and Investments are presented in the December 31, 2015 basic financial statements as follows:

Statement of Net Position:

Current Assets:	
Cash and Investments	\$ 682,395
Noncurrent Assets:	
Restricted Cash	<u>15,506</u>
Total Cash and Investments	<u>\$ 697,901</u>

3. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ <u>79,045</u>	\$ -	\$ -	\$ <u>79,045</u>
Capital Assets, Being Depreciated				
Buildings and Infrastructure	451,233	-	-	451,233
Furniture and Equipment	669,551	154,394	81,796	742,149
Total Capital Assets, Being Depreciated	<u>1,120,784</u>	<u>154,394</u>	<u>81,796</u>	<u>1,193,382</u>
Accumulated Depreciation for:				
Buildings and Infrastructure	313,417	10,109	-	323,526
Furniture and Equipment	487,999	46,408	18,448	515,959
Total Accumulated Depreciation	<u>801,416</u>	<u>56,517</u>	<u>18,448</u>	<u>839,485</u>
Total Capital Assets, Being Depreciated, Net	<u>319,368</u>	<u>97,877</u>	<u>63,348</u>	<u>353,897</u>
Governmental Activities Capital Assets, Net	<u>\$ 398,413</u>	<u>\$ 97,877</u>	<u>\$ 63,348</u>	<u>\$ 432,942</u>

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

3. CAPITAL ASSETS (Cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 55,480	\$ -	\$ -	\$ 55,480
Construction in Progress	<u>2,773</u>	<u>266,088</u>	<u>2,773</u>	<u>266,088</u>
Total Capital Assets, Not Being Depreciated	<u>58,253</u>	<u>266,088</u>	<u>2,773</u>	<u>321,568</u>
Capital Assets, Being Depreciated				
Buildings and Infrastructure	2,776,509	-	-	2,776,509
Furniture and Equipment	<u>198,117</u>	<u>11,994</u>	<u>1,613</u>	<u>208,498</u>
Total Capital Assets, Being Depreciated	<u>2,974,626</u>	<u>11,994</u>	<u>1,613</u>	<u>2,985,007</u>
Accumulated Depreciation for:				
Buildings and Infrastructure	1,861,040	34,997	-	1,896,037
Furniture and Equipment	<u>101,531</u>	<u>9,834</u>	<u>1,613</u>	<u>109,752</u>
Total Accumulated Depreciation	<u>1,962,571</u>	<u>44,831</u>	<u>1,613</u>	<u>2,005,789</u>
Total Capital Assets, Being Depreciated, Net	<u>1,012,055</u>	<u>(32,837)</u>	<u>-</u>	<u>979,218</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,070,308</u>	<u>\$ 233,251</u>	<u>\$ 2,773</u>	<u>\$ 1,300,786</u>

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

Governmental Activities:

General Government	\$ 277
Public Safety	39,159
Public Works	13,453
Culture and Recreation	<u>3,628</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 56,517</u>

Business-Type Activities:

Water	\$ 35,302
Wastewater	7,195
Liquor	<u>2,334</u>
Total Depreciation Expense – Business-Type Activities	<u>\$ 44,831</u>

4. LONG-TERM LIABILITIES

A. DESCRIPTION OF LONG-TERM DEBT

Long-term debt is comprised of the following individual issues as of December 31, 2015:

<u>Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Governmental Activities				
GO Improvement Bonds of 2003	1.65-4.65%	\$ 255,000	02/01/19	\$ 90,000
GO Utility Revenue Notes, Series 2008	3.95%	\$ 78,000	04/01/16	7,000
Capital Lease Payable	3.87%	\$ 34,581	02/01/20	<u>28,185</u>
Total Governmental Activities				<u>125,185</u>
Business-Type Activities				
GO Water Revenue Bonds, Series 2014	2.75%	\$ 784,000	01/01/54	<u>784,000</u>
Total Outstanding Long-Term Debt				<u>\$ 909,185</u>

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

4. LONG-TERM LIABILITIES (Cont'd)

A. DESCRIPTION OF LONG-TERM DEBT (Cont'd)

General Obligation Bonds

The General Obligation Improvement Bonds of 2003 were issued to finance street improvements. These bonds will be repaid with tax revenues and special assessments levied for this purpose in the 2003 Bond Debt Service Fund. Interest paid in 2015 was \$4,585.

The General Obligation Utility Revenue Notes, Series 2008 were issued to finance a portion of the cost of capital improvements to the storm sewer system. These bonds will be repaid with tax revenues levied for this purpose in the 2008 Microloan Debt Service Fund and wastewater charges received specifically for the purpose of paying the debt. Interest paid in 2015 was \$632.

The General Obligation Water Revenue Bonds of 2014 were issued to finance the cost of capital improvements to the water system. These bonds will be repaid with revenues received in the Water Fund. The final advance of \$12,074 was issued in April 2015. Interest paid in 2015 was \$-0-.

Capital Lease Payable

On February 1, 2015 the City financed masks and air bottles for the fire department by entering into a lease agreement. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date. The total cost of the equipment purchased under this lease is \$34,581; of which \$34,581 was financed under this lease. This lease obligation will be repaid from the General Fund. Interest paid in 2015 was \$1,277.

B. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments to retire general obligation bonds payable are as follows:

Year Ending December 31	General Obligation Improvement Bond of 2003		General Obligation Utility Revenue Notes, Series 2008	
	Principal	Interest	Principal	Interest
	2016	\$ 20,000	\$ 3,690	\$ 7,000
2017	20,000	2,780	-	-
2018	25,000	1,744	-	-
2019	25,000	581	-	-
2020	-	-	-	-
	<u>\$ 90,000</u>	<u>\$ 8,795</u>	<u>\$ 7,000</u>	<u>\$ 138</u>

Year Ending December 31	General Obligation Water Revenue Bond of 2014	
	Principal	Interest
2016	\$ 11,000	\$ 21,560
2017	12,000	21,316
2018	12,000	20,928
2019	12,000	20,598
2020	13,000	20,267
2021 - 2025	70,000	95,915
2026 - 2030	79,000	85,763
2031 - 2035	91,000	74,236
2036 - 2040	104,000	61,002
2041 - 2045	120,000	45,865
2046 - 2050	137,000	28,421
2051 - 2054	<u>123,000</u>	<u>8,557</u>
	<u>\$ 784,000</u>	<u>\$ 504,428</u>

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

4. LONG-TERM LIABILITIES (Cont'd)

B. MINIMUM DEBT PAYMENTS (Cont'd)

The future minimum lease obligations and the net present value of the minimum lease payments of the capital lease as of December 31, 2015 are as follows:

Year Ending December 31	Amount
2016	\$ 3,837
2017	7,674
2018	7,674
2019	7,674
2020	<u>3,837</u>
Total Minimum Lease Payments	30,696
Less Amount Representing Interest	<u>(2,511)</u>
Present Value of Minimum Lease Payments	<u>\$ 28,185</u>

C. CHANGES IN LONG-TERM LIABILITIES

Long-term liability balances and activity for the year ended December 31, 2015 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
GO Improvement Bonds of 2003	\$ 110,000	\$ -	\$ 20,000	\$ 90,000	\$ 20,000
GO Utility Revenue Notes, Series 2008	19,000	-	12,000	7,000	7,000
Capital Lease Payable	-	34,581	6,396	28,185	3,291
Accrued Vacation Leave	1,314	16	-	1,330	-
Net Pension Liability	-	40,404*	7,754	32,650	-
Total Governmental Activities	<u>130,314</u>	<u>75,001</u>	<u>46,150</u>	<u>159,165</u>	<u>30,291</u>
Business-Type Activities					
GO Water Revenue Bonds, Series 2014	771,926	12,074	-	784,000	11,000
Accrued Vacation Leave	2,555	-	294	2,261	-
Net Pension Liability	-	94,277*	18,094	76,183	-
Total Business-Type Activities	<u>774,481</u>	<u>106,351</u>	<u>18,388</u>	<u>862,444</u>	<u>11,000</u>
	<u>\$ 904,795</u>	<u>\$ 181,352</u>	<u>\$ 64,538</u>	<u>\$ 1,021,609</u>	<u>\$ 41,291</u>

* Includes January 1, 2015 pension liability balance related to GASB Statements No. 68 and No. 71 implementation. See Note 9 for further details.

5. TRANSFERS

During 2015, the following transfers were made:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Water Fund	Water Bond Reserve	\$ 7,750
Liquor Fund	General Fund	Operations	\$ 5,000
Wastewater Fund	2008 Microloan Debt Service Fund	Debt Payment	\$ 10,478

6. INTERFUND BALANCES

At December 31, 2015 interfund balances were as follows:

Due To/From Other Funds

<u>From (Liability)</u>	<u>To (Asset)</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Liquor Fund	Repayment of payroll tax and pull tabs	\$ 576
Liquor Fund	General Fund	Repayment of salary, payroll tax, and liability insurance	\$ 14,144

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

7. FUND BALANCE CLASSIFICATION

At December 31, 2015, a summary of the governmental fund balance classifications is as follows:

	<u>General Fund</u>	<u>Economic Development Authority Fund</u>	<u>2003 Bond Debt Service Fund</u>	<u>2008 Microloan Debt Service Fund</u>	<u>Total</u>
Nonspendable:					
Prepaid Expenditures	\$ <u>14,438</u>	\$ _____	\$ _____	\$ _____	\$ <u>14,438</u>
Restricted for:					
Debt Service	-	-	120,345	13,939	134,284
First Responders	<u>142,889</u>	-	-	-	<u>142,889</u>
	<u>142,889</u>	-	<u>120,345</u>	<u>13,939</u>	<u>277,173</u>
Committed for:					
Capital Purchases	25,854	-	-	-	25,854
Infrastructure	11,954	-	-	-	11,954
Economic Development	-	<u>8,132</u>	-	-	<u>8,132</u>
	<u>37,808</u>	<u>8,132</u>	-	-	<u>45,940</u>
Assigned for:					
First Responders	518	-	-	-	518
Street Improvements	35,000	-	-	-	35,000
Fire Department Truck	4,000	-	-	-	4,000
Park	<u>2,000</u>	-	-	-	<u>2,000</u>
	<u>41,518</u>	-	-	-	<u>41,518</u>
Unassigned:	<u>157,097</u>	-	-	-	<u>157,097</u>
Total Fund Balance:	<u>\$ 393,750</u>	<u>\$ 8,132</u>	<u>\$ 120,345</u>	<u>\$ 13,939</u>	<u>\$ 536,166</u>

8. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. DEFICIT FUND EQUITY

The Liquor Fund had deficit net position of \$4,665 at December 31, 2015.

9. PENSION PLANS

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

1. Plan Description

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

General Employees Retirement Plan (GERF)

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

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. PENSION PLANS (Cont'd)

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

2. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF Benefits

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

3. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$10,699. The City's contributions were equal to the required contributions for each year as set by State Statute.

4. Pension Costs

GERF Pension Costs

In order to be compliant with GASB Statements No. 68 and No. 71, the City reported a liability of \$108,833 at December 31, 2015, for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0021% which was a decrease of 9.52% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$12,158 for its proportionate share of GERF's pension expense.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. PENSION PLANS (Cont'd)

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

4. Pension Costs (Cont'd)

At December 31, 2015, the City reported its proportionate share of GERF'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 experience		\$ 5,487
Net pension liability change in proportion		\$ 7,046
Difference between projected and actual investment earnings	\$ 10,303	
Contributions paid to PERA subsequent to the measurement date	\$ 4,942	
Total	\$ 15,245	\$ 12,533

\$4,942 reported as deferred outflows of resources related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2016	\$ (1,602)
2017	\$ (1,602)
2018	\$ (1,602)
2019	\$ 2,576
2020	\$ -
Thereafter	\$ -

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, as provided by PERA's actuary, Gabriel Roeder Smith & Company:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for all retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2009.

There were no changes in actuarial assumptions in 2015.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. PENSION PLANS (Cont'd)

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

5. Actuarial Assumptions (Cont'd)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

6. Discount Rate

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

7. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for the GERP, 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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERP net pension liability:	\$ 171,124	\$ 108,833	\$ 57,390

8. Pension Plan Fiduciary Net Position

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

B. VOLUNTEER FIRE RELIEF ASSOCIATION

1. Plan Description

The Vesta Volunteer Fire Relief Association (VFRA) is the administrator of a single-employer defined benefit pension plan available to firefighters, retired and active, of the City. As of December 31, 2014, the plan covered seventeen active firefighters and one vested terminated firefighter whose pension benefits are deferred. The plan operates under the provisions of Minnesota Statutes 69.80, 424A, and 424B.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. PENSION PLANS (Cont'd)

B. VOLUNTEER FIRE RELIEF ASSOCIATION (Cont'd)

2. Benefits Provided

The VFRA provides lump-sum retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on years of service multiplied by the benefit level per year of service approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with twenty years of service. Plan provisions include a pro-rated vesting that increases from 10 years at 60 percent through 20 years at 100 percent.

3. Contributions

The VFRA is funded by fire state aid, investment earnings, local county levy and, if necessary, City contributions. The State of Minnesota contributed \$9,618 in fire state aid to the plan for the year ended December 31, 2014, which was recorded as revenue. The City's statutory-required contributions to the VFRA for the year ended December 31, 2014, were \$-0-, which were equal to the required contributions as set by state statute.

4. Pension Costs

At December 31, 2015, the City reported a net pension asset of \$28,377 for the VFRA plan. The net pension asset was measured as of December 31, 2014. The total pension liability used to calculate the net pension assets in accordance with GASB Statement No. 68 was determined by applying an actuarial formula to specified census data certified by the fire department as of December 31, 2014. The following table presents the changes in net pension (asset)/liability during the year:

	(a) Total Pension <u>Liability</u>	(b) Plan Fiduciary <u>Net Position</u>	(a)-(b) Net Pension (Asset)/ <u>Liability</u>
Beginning Balance	\$ 87,550	\$ 113,449	\$ (25,899)
Changes for the Year			
Service Cost	4,889	-	4,889
Interest on Pension Liability	2,611	-	2,611
Contributions State and Local	-	9,798	(9,798)
Net Investment Income	-	380	(380)
Administrative Expenses	-	(200)	200
Balance End of Year 12/31/15	<u>\$ 95,050</u>	<u>\$ 123,427</u>	<u>\$ (28,377)</u>

For the year ended December 31, 2015, the City recognized pension expense of \$1,712.

At December 31, 2015, the City reported deferred inflows of resources and deferred outflows of resources from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual investment earnings	\$ 5,608
Total	\$ 5,608

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. PENSION PLANS (Cont'd)

B. VOLUNTEER FIRE RELIEF ASSOCIATION (Cont'd)

4. Pension Costs (Cont'd)

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

Year ended December 31	Pension Expense Amount
2016	\$ 1,403
2017	\$ 1,403
2018	\$ 1,403
2019	\$ 1,399
2020	\$ -
Thereafter	-

5. Actuarial Assumptions

The total pension liability at December 31, 2014, was determined using the entry age normal actuarial cost method and the following actuarial assumptions, as provided by the VFRA's actuary, Hildi Incorporated:

Retirement Eligibility	Age 50
Investment Rate of return	2.00% per year
Inflation Rate	2.50%

There were no changes in actuarial assumptions in 2014.

6. Discount Rate

The discount rate used to measure the total pension liability was 2.90%. The projection of cash flows used to determine the discount rate assumed that contributions to the Association's plan will be made as specified in the statute. Based on that assumption and considering the funded ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following presents the City's net pension (asset)/liability for the VFRA plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension (asset)/liability would be if it were calculated using a discount rate of percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (1.90%)	Discount Rate (2.90%)	1% Increase in Discount Rate (3.90%)
City's Net Pension (Asset)/Liability	\$ (24,617)	\$ (28,377)	\$ (32,030)

8. Plan Investments

The types of securities available to the VFRA for investment are authorized and defined by Minnesota Statute 356A.06. In accordance with Minnesota Statutes and other applicable law, the VFRA's investment policy permits investments in asset classes including equity investments, fixed income investments, alternative investments, and cash and cash equivalents. The policy limits allocations to each asset class. The asset allocation and the long-term expected real rate of return is the following:

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

9. PENSION PLANS (Cont'd)
B. VOLUNTEER FIRE RELIEF ASSOCIATION (Cont'd)
8. Plan Investments (Cont'd)

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return
Cash and Equivalents	100.00%	2.00%

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

9. Pension Plan Fiduciary Net Position

Detailed information about the VFRA plan's fiduciary net position as of December 31, 2015, is available in a separately-issued actuarial report provided by Hildi Corporation. That report may be obtained by contacting the City Clerk, City of Vesta, P.O. Box 214, Vesta, MN 56292 or call (507) 762-3140.

C. FINANCIAL STATEMENT PRESENTATION

Deferred Inflows/Outflows of Resources related to pension plans are presented in the December 31, 2015 basic financial statements as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Governmental Activities		
PERA	\$ 4,573	\$ 3,760
VFRA	<u>5,608</u>	<u>-</u>
Total Governmental Activities	<u>10,181</u>	<u>3,760</u>
Business-Type Activities		
Liquor Fund - PERA	7,929	6,517
Water Fund - PERA	1,371	1,128
Waste Water Fund - PERA	<u>1,372</u>	<u>1,128</u>
Total Business-Type Activities	<u>10,672</u>	<u>8,773</u>
Total	<u>\$ 20,853</u>	<u>\$ 12,533</u>

10. OPERATING LEASE

The City has entered into an operating lease agreement for a copier. This lease calls for monthly payments of \$181 and ends on October 31, 2018. Expenditures under this lease were \$3,391 for the year ended December 31, 2015.

Future minimum lease obligations under this agreement are as follows:

2016	\$ 2,172
2017	2,172
2018	1,810
2019	-
2020	-

11. CHANGE IN ACCOUNTING PRINCIPLE

The beginning net position has been decreased to reflect a change in accounting principle. As mentioned in Note 9, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which records the City's proportionate share of collective net pension (asset)/liability, deferred inflows of resources, deferred outflows of resources, and pension expense on the City's financial statements. Beginning net position has been restated from \$1,323,829 to \$1,245,726 (a decrease of \$78,103). Prior year comparative information does not reflect these changes in accounting principles because the defined benefit pension plans in which the City participates have not made this information available.

**CITY OF VESTA, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

12. EVALUATION OF SUBSEQUENT EVENTS

The water tower portion of the water project is scheduled to be completed by September 2016. The remaining cost of this project is expected to be covered by the remaining grant from the United States Department of Agriculture Rural Development.

The City approved the purchase of a new generator for the lift station at approximately \$22,000. The existing generator will be moved to the fire hall.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF VESTA, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CITY'S SHARE OF NET PENSION (ASSET)/LIABILITY AND
 CITY'S CONTRIBUTIONS
 FOR DEFINED BENEFIT PENSION PLAN
 DECEMBER 31, 2015**

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

**SCHEDULE OF CITY'S PROPORTIONATE
 SHARE OF NET PENSION (ASSET)/LIABILITY
 PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
 REQUIRED SUPPLEMENTARY INFORMATION (LAST TEN YEARS*)**

Fiscal Year Ending	City's Proportion (Percentage) of the Net Pension (Asset)/Liability	City's Proportionate Share (Amount) of the Net Pension (Asset)/Liability (a)	City's Covered- Employee Payroll** (b)	City's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	0.0021%	\$ 108,833	\$ 142,659	76.3%	78.2%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 ** For purposes of this schedule, covered payroll is defined as "pensionable wages".

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

**SCHEDULE OF CITY'S CONTRIBUTIONS
 PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT PLAN
 REQUIRED SUPPLEMENTARY INFORMATION (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)
12/31/2015	\$ 10,699	\$ 10,699	\$ -	\$ 142,659	7.5%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 ** For purposes of this schedule, covered payroll is defined as "pensionable wages".

**CITY OF VESTA, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION (ASSET)/LIABILITY AND RELATED RATIO
 FOR DEFINED BENEFIT PENSION PLAN
 DECEMBER 31, 2015**

VOLUNTEER FIRE RELIEF ASSOCIATION

Fiscal Year	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 4,889
Interest on the Total Pension Liability	<u>2,611</u>
Net change in total pension liability	7,500
Total Pension Liability - Beginning	<u>87,550</u>
Total Pension Liability - Ending (a)	<u><u>\$ 95,050</u></u>
 Plan Fiduciary Net Position	
Contributions State	\$ 9,618
Contributions Local	180
Net Investment Income	380
Pension Plan Administrative Expense	<u>(200)</u>
Net Change in Total Pension Liability	9,978
Plan Fiduciary Net Position - Beginning	<u>113,449</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 123,427</u></u>
 Net Pension (Asset)/Liability - Ending (a) - (b)	<u><u>\$ (28,377)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 129.85%

Note:

This schedule will be built prospectively until it contains ten years of data.

**CITY OF VESTA, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FIRE RELIEF ASSOCIATION CONTRIBUTIONS
 FOR DEFINED BENEFIT PENSION PLAN
 DECEMBER 31, 2015**

VOLUNTEER FIRE RELIEF ASSOCIATION

**SCHEDULE OF CITY'S CONTRIBUTIONS
 VOLUNTEER FIRE RELIEF ASSOCIATION
 REQUIRED SUPPLEMENTARY INFORMATION (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)
12/31/14	\$ 9,618	\$ 9,618	\$ -	N/A	N/A

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

CITY OF VESTA, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
REVENUES					
Taxes:					
Property Taxes	\$ 161,000	\$ 161,000	\$ 160,292	\$ (708)	\$ 177,046
Special Assessments:					
Special Assessments	75	75	-	(75)	-
Licenses and Permits:					
Licenses and Permits	580	580	190	(390)	250
Intergovernmental:					
Federal					
FEMA Grant	-	-	-	-	2,933
Community Facilities Grant	-	-	-	-	1,718
State					
Local Government Aid	89,281	89,281	90,074	793	89,281
PERA Rate Increase Aid	461	461	461	-	461
State Fire Relief Aid	10,000	10,000	10,116	116	9,618
Volunteer Retention Stipend	-	-	12,500	12,500	-
Disaster Grant	-	-	-	-	289
Small Cities Assistance	-	-	11,068	11,068	-
Other State Aid	-	-	5,437	5,437	-
Local					
Other Local Grants	-	-	1,000	1,000	1,000
	<u>99,742</u>	<u>99,742</u>	<u>130,656</u>	<u>30,914</u>	<u>105,300</u>
Charges for Services:					
Rent	1,000	1,000	1,865	865	1,210
Fire Calls	1,500	1,500	3,000	1,500	750
Fire Protection Contracts	8,760	8,760	8,760	-	8,760
Other	500	500	148	(352)	55
	<u>11,760</u>	<u>11,760</u>	<u>13,773</u>	<u>2,013</u>	<u>10,775</u>
Miscellaneous:					
Interest and Dividend Income	1,000	1,000	923	(77)	981
Donations	500	500	-	(500)	177,873
Insurance Dividends	4,000	4,000	4,421	421	3,076
Miscellaneous	500	500	199	(301)	20
	<u>6,000</u>	<u>6,000</u>	<u>5,543</u>	<u>(457)</u>	<u>181,950</u>
TOTAL REVENUES	<u>279,157</u>	<u>279,157</u>	<u>310,454</u>	<u>31,297</u>	<u>475,321</u>
EXPENDITURES					
Current:					
General Government:					
Council and Mayor:					
Salaries and Related Payroll Expenditures	7,500	7,500	6,885	615	6,500
Miscellaneous	1,000	1,000	992	8	276
City Clerk/Treasurer:					
Salaries and Related Payroll Expenditures	44,700	44,700	29,000	15,700	41,622
Office Supplies	2,300	2,300	2,306	(6)	3,498
Utilities	2,700	2,700	1,949	751	1,234
Repairs and Maintenance	300	300	683	(383)	310
Licenses and Dues	2,500	2,500	2,934	(434)	3,073
Printing and Publishing	3,500	3,500	4,825	(1,325)	4,557
Training and Expenses	2,000	2,000	1,792	208	1,975
Miscellaneous	-	-	1,233	(1,233)	1,590

CITY OF VESTA MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
EXPENDITURES (Cont'd)					
Current: (Cont'd)					
General Government: (Cont'd)					
Financial Administration:					
Professional Fees	\$ 15,000	\$ 15,000	\$ 21,826	\$ (6,826)	\$ 22,003
Assessing Fees	2,200	2,200	2,559	(359)	2,166
Election and Voter Registration:					
Election Expense	-	-	-	-	1,141
Other:					
Demolition	13,000	13,000	19,925	(6,925)	7,895
Insurance	14,800	14,800	14,146	654	14,648
	<u>111,500</u>	<u>111,500</u>	<u>111,055</u>	<u>445</u>	<u>112,488</u>
Public Safety:					
Fire Protection:					
Salaries and Related Payroll Expenditures	5,200	5,200	20,685	(15,485)	5,845
Supplies	2,500	2,500	4,353	(1,853)	3,282
Gas and Oil	1,000	1,000	868	132	1,047
Repairs and Maintenance	19,500	19,500	9,004	10,496	9,128
Utilities	5,000	5,000	3,775	1,225	6,237
Licenses and Dues	2,500	2,500	381	2,119	353
Insurance	750	750	1,107	(357)	920
Training and Expenses	4,000	4,000	6,590	(2,590)	3,748
Miscellaneous	50	50	180	(130)	205
Firemen's Relief Association	8,000	8,000	10,116	(2,116)	9,618
First Responders:					
Supplies	2,000	2,000	1,999	1	2,690
Repairs and Maintenance	2,000	2,000	1,893	107	2,154
Insurance	-	-	107	(107)	44
Training and Expenses	1,500	1,500	1,913	(413)	689
Miscellaneous	-	-	987	(987)	-
	<u>54,000</u>	<u>54,000</u>	<u>63,958</u>	<u>(9,958)</u>	<u>45,960</u>
Public Works:					
Streets Operations:					
Salaries and Related Payroll Expenditures	21,100	21,100	16,982	4,118	17,521
Supplies	8,000	8,000	5,075	2,925	9,913
Gas and Oil	7,000	7,000	3,070	3,930	3,017
Repairs and Maintenance	14,500	14,500	86,422	(71,922)	12,028
Insurance	1,200	1,200	1,518	(318)	1,397
Miscellaneous	2,000	2,000	2,195	(195)	3,100
Street Lighting	6,500	6,500	5,441	1,059	5,584
Utilities	6,000	6,000	2,455	3,545	5,174
	<u>66,300</u>	<u>66,300</u>	<u>123,158</u>	<u>(56,858)</u>	<u>57,734</u>
Culture and Recreation:					
Community Hall:					
Supplies	450	450	453	(3)	219
Utilities	4,500	4,500	3,837	663	6,726
Repairs and Maintenance	5,000	5,000	608	4,392	763
Recreation and Parks:					
Salaries and Related Payroll Expenditures	5,750	5,750	5,318	432	5,135
Supplies	1,000	1,000	136	864	604
Utilities	600	600	839	(239)	669
Repairs and Maintenance	1,500	1,500	1,046	454	376
Insurance	-	-	321	(321)	199
Miscellaneous	1,000	1,000	-	1,000	-
	<u>19,800</u>	<u>19,800</u>	<u>12,558</u>	<u>7,242</u>	<u>14,691</u>

CITY OF VESTA MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
EXPENDITURES (Cont'd)					
Capital Outlay:					
General Government	\$ -	\$ -	\$ -	\$ -	2,300
Public Safety	-	-	84,452	(84,452)	-
Public Works	23,500	23,500	14,192	9,308	8,750
Culture and Recreation	4,000	4,000	-	4,000	-
	<u>27,500</u>	<u>27,500</u>	<u>98,644</u>	<u>(71,144)</u>	<u>11,050</u>
Debt Service:					
Principal	-	-	6,396	(6,396)	-
Interst	-	-	1,278	(1,278)	-
	<u>-</u>	<u>-</u>	<u>7,674</u>	<u>(7,674)</u>	<u>-</u>
TOTAL EXPENDITURES	<u>279,100</u>	<u>279,100</u>	<u>417,047</u>	<u>(137,947)</u>	<u>241,923</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>57</u>	<u>57</u>	<u>(106,593)</u>	<u>(106,650)</u>	<u>233,398</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Assets	-	-	760	760	-
Capital Lease Financing	-	-	34,581	34,581	-
Operating Transfers In	-	-	5,000	5,000	-
Operating Transfers Out	-	-	(7,750)	(7,750)	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>32,591</u>	<u>32,591</u>	<u>(10,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>57</u>	<u>57</u>	<u>(74,002)</u>	<u>(74,059)</u>	<u>223,398</u>
FUND BALANCE - BEGINNING	<u>467,752</u>	<u>467,752</u>	<u>467,752</u>	<u>-</u>	<u>244,354</u>
FUND BALANCE - ENDING	<u>\$ 467,809</u>	<u>\$ 467,809</u>	<u>\$ 393,750</u>	<u>\$ (74,059)</u>	<u>\$ 467,752</u>
FUND BALANCE ANALYSIS					
NONSPENDABLE FUND BALANCE			\$ 14,438		\$ 13,892
Prepaid Expenditures					
RESTRICTED FUND BALANCE			142,889		176,773
First Responders					
COMMITTED FUND BALANCE			11,954		91,000
Infrastructure			25,854		31,279
Capital Purchases			37,808		122,279
TOTAL COMMITTED FUND BALANCE					
ASSIGNED FUND BALANCE			518		-
First Responders			35,000		35,000
Street Improvements			-		5,000
Sidewalk Improvements			4,000		2,000
Fire Department Truck			-		2,000
Fire Department Pagers			2,000		7,000
Park			41,518		51,000
TOTAL ASSIGNED FUND BALANCE			157,097		103,808
UNASSIGNED FUND BALANCE					
TOTAL FUND BALANCE			\$ 393,750		\$ 467,752

CITY OF VESTA, MINNESOTA
 SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT AUTHORITY FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (with Comparative Actual Amounts for the Year Ended December 31, 2014)

	<u>2015 Budgeted Amounts</u>		<u>2015 Actual</u>	<u>Variance</u>	<u>2014 Actual</u>
	<u>Original</u>	<u>Final</u>			
REVENUES					
Miscellaneous:					
Interest and Dividend Income	\$ 10	\$ 10	\$ 13	\$ 3	\$ 12
EXPENDITURES					
Current:					
Other:					
None	-	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	10	10	13	3	12
FUND BALANCE - BEGINNING	<u>8,119</u>	<u>8,119</u>	<u>8,119</u>	<u>-</u>	<u>8,107</u>
FUND BALANCE - ENDING	<u>\$ 8,129</u>	<u>\$ 8,129</u>	<u>\$ 8,132</u>	<u>\$ 3</u>	<u>\$ 8,119</u>
FUND BALANCE ANALYSIS					
COMMITTED FUND BALANCES					
Economic Development			<u>\$ 8,132</u>		<u>\$ 8,119</u>

**CITY OF VESTA, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED DECEMBER 31, 2015**

1. DEFINED BENEFIT PENSION PLANS

Public Employees Retirement Association

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in the notes.

Volunteer Fire Relief Association

The total pension liability at December 31, 2014, was determined using the entry age normal actuarial cost method and the following actuarial assumptions, as provided by the VFRA's actuary, Hildi Incorporated:

Retirement Eligibility	50 years of age
Investment Rate of return	2.00% per year
Inflation Rate	2.50%

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in the notes.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following major funds of the City had expenditures exceeding the budget during the year ended December 31, 2015:

	Approved Budget	Actual Expenditures	Excess Expenditures
General Fund	\$ 279,100	\$ 417,047	\$137,947

The above overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the City Council upon acceptance of this report.

B. DEFICIT SPENDING

The City's 2015 budget did not project deficit spending in any of the major funds.

OTHER SUPPLEMENTARY INFORMATION

CITY OF VESTA, MINNESOTA
DEBT SERVICE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - 2003 BOND DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
REVENUES					
Taxes:					
Property Taxes	\$ -	\$ -	\$ 2	\$ 2	\$ 405
Special Assessments:					
Special Assessments	4,500	4,500	4,181	(319)	4,847
Miscellaneous:					
Interest and Dividend Income	150	150	-	(150)	-
TOTAL REVENUES	4,650	4,650	4,183	(467)	5,252
EXPENDITURES					
Debt Service:					
Principal	20,000	20,000	20,000	-	20,000
Interest	4,585	4,585	4,585	-	5,465
Fiscal Agent Fees	-	-	450	(450)	-
Miscellaneous	-	-	-	-	10
	<u>24,585</u>	<u>24,585</u>	<u>25,035</u>	<u>(450)</u>	<u>25,475</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,935)	(19,935)	(20,852)	(917)	(20,223)
FUND BALANCE - BEGINNING	141,197	141,197	141,197	-	161,420
FUND BALANCE - ENDING	\$ 121,262	\$ 121,262	\$ 120,345	\$ (917)	\$ 141,197
FUND BALANCE ANALYSIS					
RESTRICTED FUND BALANCES					
Debt Service			\$ 120,345		\$ 141,197

CITY OF VESTA, MINNESOTA
DEBT SERVICE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - 2008 MICROLOAN DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
REVENUES					
Taxes:					
Property Taxes	\$ 6,600	\$ 6,600	\$ 6,432	\$ (168)	\$ 4,056
Miscellaneous:					
Interest and Dividend Income	30	30	-	(30)	-
TOTAL REVENUES	6,630	6,630	6,432	(198)	4,056
EXPENDITURES					
Debt Service:					
Principal	12,000	12,000	12,000	-	12,000
Interest	632	632	632	-	1,106
	<u>12,632</u>	<u>12,632</u>	<u>12,632</u>	<u>-</u>	<u>13,106</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,002)	(6,002)	(6,200)	(198)	(9,050)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	-	-	10,478	10,478	10,654
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(6,002)	(6,002)	4,278	10,280	1,604
FUND BALANCE - BEGINNING	9,661	9,661	9,661	-	8,057
FUND BALANCE - ENDING	\$ 3,659	\$ 3,659	\$ 13,939	\$ 10,280	\$ 9,661
FUND BALANCE ANALYSIS					
RESTRICTED FUND BALANCES					
Debt Service			\$ 13,939		\$ 9,661

CITY OF VESTA, MINNESOTA
PROPRIETARY FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - WATER FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
OPERATING REVENUES					
Water Sales	\$ 125,000	\$ 125,000	\$ 105,959	\$ (19,041)	\$ 99,887
OPERATING EXPENSES					
Salaries and Related Payroll Expenditures	16,600	16,600	16,211	389	15,844
Service Contract	23,000	23,000	17,975	5,025	23,458
Testing Fees	-	-	20	(20)	1,278
Depreciation Expense	19,921	19,921	35,302	(15,381)	25,259
Dues and Licenses	1,000	1,000	3,695	(2,695)	788
Insurance	500	500	1,294	(794)	563
Utilities	1,060	1,060	493	567	783
Supplies	750	750	1,576	(826)	3,557
Professional Fees	7,500	7,500	-	7,500	1,541
Repairs and Maintenance	1,000	1,000	1,050	(50)	16,837
Miscellaneous	750	750	477	273	584
TOTAL OPERATING EXPENSES	72,081	72,081	78,093	(6,012)	90,492
OPERATING INCOME	52,919	52,919	27,866	(25,053)	9,395
NONOPERATING REVENUES (EXPENSES)					
Interest and Dividend Income	-	-	6	6	-
Interest Expense	(25,500)	(25,500)	(21,560)	3,940	(19,483)
Federal Grant - Rural Development Grant	-	-	266,088	266,088	161,233
Gain on Sale of Assets	-	-	-	-	1,057
Nonoperating Pension Expense	-	-	(191)	(191)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(25,500)	(25,500)	244,343	269,843	142,807
INCOME BEFORE TRANSFERS	27,419	27,419	272,209	244,790	152,202
OPERATING TRANSFERS					
Operating Transfers In	-	-	7,750	7,750	-
CHANGE IN NET POSITION	27,419	27,419	279,959	252,540	152,202
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY STATED	128,767	128,767	128,767	-	(23,435)
PRIOR PERIOD ADJUSTMENT (GASB Statements No. 68 and No. 71)	-	-	(9,360)	(9,360)	-
NET POSITION - BEGINNING OF YEAR, AS RESTATED	128,767	128,767	119,407	(9,360)	(23,435)
NET POSITION - ENDING	\$ 156,186	\$ 156,186	\$ 399,366	\$ 243,180	\$ 128,767

CITY OF VESTA, MINNESOTA
 PROPRIETARY FUND
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 BUDGET AND ACTUAL - WASTEWATER FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
OPERATING REVENUES					
Wastewater Charges	\$ 48,000	\$ 48,000	\$ 49,558	\$ 1,558	\$ 50,218
OPERATING EXPENSES					
Salaries and Related Payroll Expenses	16,600	16,600	16,211	389	15,844
Testing	1,200	1,200	855	345	944
Depreciation Expense	7,567	7,567	7,195	372	7,778
Dues and Licenses	370	370	394	(24)	124
Insurance	250	250	1,294	(1,044)	419
Utilities	1,500	1,500	616	884	972
Supplies	750	750	2,840	(2,090)	1,009
Repairs and Maintenance	3,000	3,000	4,548	(1,548)	2,145
Miscellaneous	500	500	181	319	84
TOTAL OPERATING EXPENSES	<u>31,737</u>	<u>31,737</u>	<u>34,134</u>	<u>(2,397)</u>	<u>29,319</u>
OPERATING INCOME	<u>16,263</u>	<u>16,263</u>	<u>15,424</u>	<u>(839)</u>	<u>20,899</u>
NONOPERATING REVENUES (EXPENSES)					
Interest and Dividend Income	250	250	152	(98)	156
Federal Grant - FEMA Grant	-	-	-	-	2,655
State Grant - FEMA Grant	-	-	-	-	885
Nonoperating Pension Expense	-	-	(190)	(190)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>250</u>	<u>250</u>	<u>(38)</u>	<u>(288)</u>	<u>3,696</u>
INCOME BEFORE TRANSFERS	<u>16,513</u>	<u>16,513</u>	<u>15,386</u>	<u>(1,127)</u>	<u>24,595</u>
OPERATING TRANSFERS					
Operating Transfers Out	<u>(10,750)</u>	<u>(10,750)</u>	<u>(10,478)</u>	<u>272</u>	<u>(10,654)</u>
CHANGE IN NET POSITION	<u>5,763</u>	<u>5,763</u>	<u>4,908</u>	<u>(855)</u>	<u>13,941</u>
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY STATED	231,334	231,334	231,334	-	217,393
PRIOR PERIOD ADJUSTMENT (GASB Statements No. 68 and No. 71)	-	-	(9,360)	(9,360)	-
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>231,334</u>	<u>231,334</u>	<u>221,974</u>	<u>(9,360)</u>	<u>217,393</u>
NET POSITION - ENDING	<u>\$ 237,097</u>	<u>\$ 237,097</u>	<u>\$ 226,882</u>	<u>\$ (10,215)</u>	<u>\$ 231,334</u>

CITY OF VESTA, MINNESOTA
 PROPRIETARY FUND
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 BUDGET AND ACTUAL - GARBAGE FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015	Variance	2014
	Original	Final	Actual		Actual
OPERATING REVENUES					
Garbage Fees	\$ 15,500	\$ 15,500	\$ 14,847	\$ (653)	\$ 15,821
OPERATING EXPENSES					
Service Contract	15,000	15,000	15,763	(763)	17,059
Supplies	-	-	306	(306)	317
TOTAL OPERATING EXPENSES	<u>15,000</u>	<u>15,000</u>	<u>16,069</u>	<u>(1,069)</u>	<u>17,376</u>
CHANGE IN NET POSITION	500	500	(1,222)	(1,722)	(1,555)
NET POSITION - BEGINNING	<u>5,558</u>	<u>5,558</u>	<u>5,558</u>	-	<u>7,113</u>
NET POSITION - ENDING	<u>\$ 6,058</u>	<u>\$ 6,058</u>	<u>\$ 4,336</u>	<u>\$ (1,722)</u>	<u>\$ 5,558</u>

CITY OF VESTA, MINNESOTA
 PROPRIETARY FUND
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 BUDGET AND ACTUAL - LIQUOR FUND
 FOR THE YEAR ENDED DECEMBER 31, 2015
 (with Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015 Budgeted Amounts		2015 Actual	Variance	2014 Actual
	Original	Final			
SALES					
Liquor - On	\$ 62,000	\$ 62,000	\$ 75,091	\$ 13,091	\$ 65,555
Liquor - Off	15,000	15,000	16,734	1,734	13,933
Beer - On	72,000	72,000	85,498	13,498	76,782
Beer - Off	65,000	65,000	73,817	8,817	68,621
Merchandise	42,000	42,000	62,712	20,712	44,243
Miscellaneous Income	45,000	45,000	51,558	6,558	40,573
Less: Sales Tax	(21,000)	(21,000)	(26,700)	(5,700)	(22,472)
TOTAL SALES	280,000	280,000	338,710	58,710	287,235
COST OF SALES	150,000	150,000	207,715	(57,715)	157,431
GROSS PROFIT	130,000	130,000	130,995	995	129,804
GROSS PROFIT PERCENTAGE			38.67		45.19
OPERATING EXPENSES					
Salaries and Related Payroll Expenses	71,811	71,811	92,959	(21,148)	65,869
Depreciation Expense	1,523	1,523	2,334	(811)	1,728
Advertising	2,000	2,000	513	1,487	234
Insurance	11,000	11,000	7,241	3,759	6,045
Dues and Licenses	1,300	1,300	800	500	1,234
Utilities	13,000	13,000	12,363	637	13,278
Laundry	1,500	1,500	1,406	94	1,299
Penalties	-	-	-	-	14
Supplies	7,200	7,200	7,517	(317)	9,043
Professional Fees	500	500	1,075	(575)	-
Repairs and Maintenance	9,500	9,500	3,301	6,199	5,916
Miscellaneous	6,580	6,580	2,529	4,051	4,618
TOTAL OPERATING EXPENSES	125,914	125,914	132,038	(6,124)	109,278
OPERATING INCOME (LOSS)	4,086	4,086	(1,043)	(5,129)	20,526
NONOPERATING REVENUES (EXPENSES)					
Donations	-	-	7,900	7,900	-
Nonoperating Pension Expense	-	-	(1,102)	(1,102)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	-	-	6,798	6,798	-
INCOME (LOSS) BEFORE TRANSFERS	4,086	4,086	5,755	1,669	20,526
OPERATING TRANSFERS					
Operating Transfers In	-	-	-	-	10,000
Operating Transfers Out	-	-	(5,000)	(5,000)	-
TOTAL OPERATING TRANSFERS	-	-	(5,000)	(5,000)	10,000
CHANGE IN NET POSITION	4,086	4,086	755	(10,129)	30,526
NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY STATED	48,661	48,661	48,661	-	18,135
PRIOR PERIOD ADJUSTMENT (GASB Statements No. 68 and 71)	-	-	(54,081)	(54,081)	-
NET POSITION - BEGINNING OF YEAR, AS RESTATED	48,661	48,661	(5,420)	(64,210)	18,135
NET POSITION - ENDING	\$ 52,747	\$ 52,747	\$ (4,665)	\$ (74,339)	\$ 48,661

OTHER REQUIRED REPORTS AND SCHEDULES

CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE
DECEMBER 31, 2015

2015-001 INTERNAL ACCOUNTING CONTROLS - SEGREGATION OF DUTIES

Condition: Due to the limited number of accounting office personnel, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. The City does not segregate the duties of cash receipting and disbursing from one employee. Also, the same person maintains the general ledger and prepares the bank reconciliations. Management is aware of the risks associated with the lack of segregation of duties and has implemented various oversight procedures involving members of the City Council; however, no further segregation is possible without the hiring of additional staff and current budgetary considerations do not allow for this. This finding was reported during the prior fiscal year as well.

Effect: This could affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause: The City has limited staff in the accounting department. The same employee is performing multiple accounting functions.

Criteria: One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and maintain responsibility for custody of the asset resulting from the transaction.

Recommendation: Since we acknowledge that it is not economically feasible for the City to hire additional staff, we recommend the Mayor and City Council continue to monitor financial activity, review and approve invoices, and review and approve the deposit and check detail reports each month. We also recommend that the Mayor or a designated City Council member continue to monitor and approve bank reconciliations. This review and approval should be evidenced by a signature on the bank reconciliation.

2015-002 AUDIT ADJUSTMENTS

Condition: During our audit, we proposed numerous adjustments that resulted in significant changes to the City's financial statements. The adjustments resulted from the general ledger being maintained on the cash basis of accounting rather than the accrual basis. Various accounts receivable and accounts payable were not properly reflected in the general ledger. Adjustments were also proposed for various revenue and expenditure reclassifications. This finding was reported during the prior fiscal year as well.

Effect: A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls. This could affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause: As is the case with many small entities, the City has relied on its independent external auditors to assist in the preparation of the journal entries necessary to recommend account coding corrections and to convert the general ledger to the accrual basis of accounting. Accordingly, the City's ability to produce an accrual basis general ledger is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal control. This condition was caused by the City's decision that it is more cost effective to have its auditors assist in reclassifications and preparing an accrual basis general ledger than to incur the time and expense or training required to maintain an accrual basis general ledger.

Criteria: The City's accounting staff should prepare journal entries during the year, or at a minimum, at year end to convert the cash basis general ledger to a modified accrual basis general ledger. The external auditor's staff cannot be considered to be part of the City's internal control and should not be relied upon to propose a significant number of material audit adjustments.

CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE
DECEMBER 31, 2015

2015-002 AUDIT ADJUSTMENTS (Cont'd)

Recommendation: We recommend that the City Clerk prepare the necessary journal entries at year end to convert the general ledger to an accrual basis. We also recommend that the various revenue and expenditure accounts in the general ledger be reviewed to ensure proper coding of transactions. If the City still intends to have the external auditor's staff assist in the preparation of accrual basis journal entries, then at a minimum, they must identify and train individuals to obtain the expertise so that they can sufficiently review, understand and approve the journal entries.

2015-003 APPROVAL OF PURCHASES, TRANSFERS, AND RESOLUTIONS IN MINUTES

Condition: The City Council minutes did not reflect the approval of permission to purchase capital asset items, transfer funds, and a resolution to commit funds.

Effect: The City was unable to support the above mentioned items that occurred.

Cause: The City Council overlooked the fact that these items were not documented in the official minutes.

Criteria: The City Council should document approval of all capital asset purchases, transfers of funds, and resolutions in the official minutes.

Recommendation: We recommend that the City Council take steps to ensure that there is proper documentation of the approval of all purchases, transfers, and resolutions in the official minutes.

2015-004 LACK OF CONTROL OVER PAYROLL TRANSACTIONS

Condition: During our audit, we noted several instances of inadequate control over the payroll process.

- Fire Department employees that chose to participate in a deferred compensation plan had FICA taxes withheld. If the employee contributes at least 7.5% to the deferred compensation plan, he/she is not subject to FICA. The W-2 should only have an amount in Box 1 for these wages.
- We noted that some City Council members did not have FICA taxes withheld on their council wages. Council wages are subject to FICA.
- The City documented in the minutes that a salary decrease was associated to health insurance that is now being covered by the City. A salary change cannot be associated to health insurance costs according to the Affordable Care Act.
- Coding of employee salary accounts should be reviewed. Wages should be allocated and recorded as expense in the correct class according to the budget and in the correct wage account.
- The following issues with W-2's were noted:
 - Liquor store W-2's and W-2's for the City Clerk, maintenance employee, and council members (those subject to PERA) included the PERA in box 12 of the W-2 and this should be included in box 14 instead.
 - Fire Department employees' W-2's included the deferred compensation amount in box 12 with a code E and it should be in box 12 with a code G.
- The City has a separate accounting file for the Liquor Fund and a separate file for all funds but the Liquor Fund. A W-3 and the W-2's are produced from each file and need to be combined when issuing W-2's and submitting to the proper tax authorities. A combined W-3 and W-2's were not available for review.

Effect: A control deficiency 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 wage misstatements or payroll noncompliance on a timely basis. This could affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. This could also lead to increased costs for the City in the form of significant penalties and interest.

Cause: There was a lack of understanding on proper payroll procedures.

Criteria: The City should have a review process in place for all payroll calculations. The City's accounting software should be set up to properly record payroll expense and the forms should be reviewed to ensure proper documentation of amounts. Employee policies should be reviewed to ensure they are following applicable laws.

CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE
DECEMBER 31, 2015

2015-004 LACK OF CONTROL OVER PAYROLL TRANSACTIONS (Cont'd)

Recommendation: We recommend that the City implement the following procedures:

- We recommend that payroll is monitored so the proper payroll taxes are withheld.
- Wage changes should not be associated to benefits provided.
- Care needs to be taken to ensure that salaries, withholding and payment are recorded in the same and proper fund and correct account.
- The City's accounting software should be reviewed for proper setup and year end processes should be monitored to ensure correct W-3 and W-2 reporting.

2015-005 LACK OF CONTROL OVER EXPENDITURES AND CASH

Condition: During our audit, we noted the following instances of lack of controls over expenditures.

- Invoices were occasionally paid twice.
- Support was not provided for cell phone reimbursements to employees.
- At the end of the year there were breaks in the check sequence and checks were dated incorrectly.

Effect: A control deficiency 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 expenditure and cash misstatements on a timely basis. This could affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause: There was a lack of understanding on proper expenditure and cash procedures.

Criteria: The City should be using the accounting software to the full potential. Support, dates, and check numbers should be reviewed for all expenditures.

Recommendation: We recommend that the City implement the following procedures:

- Care needs to be taken to ensure that an invoice has not previously been paid.
- Adequate support should be obtained for all disbursements.
- Checks need to be monitored to ensure they are being written sequentially and on the correct dates.

2015-006 STATEMENT OF JUST CLAIM

Condition: The City's check stock does not include the required declaration on the back of the check. This finding was reported during the prior fiscal year as well

Effect: The City is not in compliance with Minnesota Statute §471.391 subd. 1.

Cause: The City overlooked the requirement for Minnesota Statute §471.391 subd. 1.

Criteria: Minnesota Statute §471.391 subd. 1 requires that each declaration for payment be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid. The statute is satisfied if on the back of City's checks is a declaration as defined in Minnesota's statute §471.391 reading "I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid."

Recommendation: We recommend that the City follow Minnesota Statute §471.391 subd. 1 and stamp the declaration on the back of the remaining checks. We also recommend that the next time checks are ordered they have the declaration pre-printed on the back.

2015-007 LATE PAYMENT OF INVOICES

Condition: Finance charges were noted in the City's general ledger for late payment of invoices. This finding was reported during the prior fiscal year as well.

Effect: This is a violation of Minnesota Statute §471.425 subd 2.

Cause: The City did not make timely payments on invoices resulting in the City being assessed finance charges for late payments.

CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE
DECEMBER 31, 2015

2015-007 LATE PAYMENT OF INVOICES (Cont'd)

Criteria: Minnesota Statute §471.425 subd. 2 requires that a City must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the City in good faith disputes the obligation.

Recommendation: We recommend that the City follow Minnesota Statute §471.425 subd. 2 going forward.

2015-008 ACCEPTANCE OF GRANTS

Condition: During our audit, we noted that the City accepted a grant without council approval. Minnesota Statute §465.03 requires acceptance of every grant by the City Council through a resolution.

Effect: The City is not in compliance with Minnesota Statute §465.03.

Cause: The City Council overlooked the approval for all grants received.

Criteria: To be in compliance with Minnesota Statute §465.03, all grants received should be approved by the City Council through a resolution.

Recommendation: We recommend that the City follow Minnesota Statute §465.03 going forward.

2015-009 DISBURSEMENT OF FUNDS NOT FOR PUBLIC PURPOSE

Condition: During our audit, we noted that the City donated funds to an organization that did not qualify as a valid City expenditure. The total amount of the expenditure was immaterial to the financial statements as a whole.

Effect: The City is not in compliance with the public purpose doctrine of the State of Minnesota.

Cause: The City was not aware that this type of donation was not allowed.

Criteria: The public purpose doctrine of the State of Minnesota states that expenditures must be for a public purpose. Case law has set precedents that construe "public purpose" to mean "such activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of the governments. This includes refraining from donating money to people, nonprofit organizations, and charities.

Recommendation: We recommend that the City refrain from donating to people, nonprofit organizations, and charities.

**CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE CORRECTIVE ACTION PLAN
DECEMBER 31, 2015**

2015-001 INTERNAL ACCOUNTING CONTROLS - SEGREGATION OF DUTIES

Auditor Recommendation

Since we acknowledge that it is not economically feasible for the City to hire additional staff, we recommend the Mayor and City Council continue to monitor financial activity, review and approve invoices, and review and approve the deposit and check detail reports each month. We also recommend that the Mayor or a designated City Council member continue to monitor and approve bank reconciliations. This review and approval should be evidenced by a signature on the bank reconciliation.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City will respond to this by continuing to have the Mayor or a designated City Council Member review, approve and initial all invoices, deposit detail reports, and check detail reports. The Mayor or a designated City Council member will also continue to review the bank statements and the monthly bank reconciliations and initial that review process on the reconciliation.
3. Official Responsible for Insuring CAP
The Mayor and the City Council are responsible for ensuring corrective action of this deficiency.
4. Planned Completion Date for CAP
Alternate control procedures have been and will continue to be performed by the Mayor and the City Council. This plan will be reviewed on a continuing basis to ensure compliance.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this corrective action plan.

2015-002 AUDIT ADJUSTMENTS

Auditor Recommendation

We recommend that the City Clerk prepare the necessary journal entries at year end to convert the general ledger to an accrual basis. We also recommend that the various revenue and expenditure accounts in the general ledger be reviewed to ensure proper coding of transactions. If the City still intends to have the external auditor's staff assist in the preparation of accrual basis journal entries, then at a minimum, they must identify and train individuals to obtain the expertise so that they can sufficiently review, understand and approve the journal entries

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City will continue to rely on the external auditor to recommend adjustments. The City Clerk will review and approve any proposed audit adjustments.
3. Official Responsible for Insuring CAP
The Mayor and the City Council are responsible for ensuring corrective action of this deficiency.
4. Planned Completion Date for CAP
This plan has been and will continue to be implemented.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

**CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE CORRECTIVE ACTION PLAN
DECEMBER 31, 2015**

2015-003 APPROVAL OF PURCHASES, TRANSFERS, AND RESOLUTIONS IN MINUTES

Auditor Recommendation

We recommend that the City Council take steps to ensure that there is proper documentation of the approval of all purchases, transfers, and resolutions in the official minutes.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
Approved permission for purchase, transfers, and resolutions will be documented in the official minutes.
3. Official Responsible for Insuring CAP
The Mayor and the City Council are the officials responsible for ensuring corrective action of this deficiency.
4. Planned Completion Date for CAP
This plan will be implemented during 2016.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

2015-004 LACK OF CONTROL OVER PAYROLL TRANSACTIONS

Auditor Recommendation

We recommend that the City implement the following procedures:

- We recommend that payroll is monitored so the proper payroll taxes are withheld.
- Wage changes should not be associated to benefits provided.
- Care needs to be taken to ensure that salaries, withholding and payment are recorded in the same and proper fund and correct account.
- The City's accounting software should be reviewed for proper setup and year end processes should be monitored to ensure correct W-3 and W-2 reporting.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City Council and City Clerk will implement additional controls over payroll transactions.
3. Official Responsible for Insuring CAP
The Mayor and City Council are the officials responsible for insuring corrective action of the deficiency.
4. Planned Completion Date for CAP
This plan will be implemented during 2016.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

**CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE CORRECTIVE ACTION PLAN
DECEMBER 31, 2015**

2015-005 LACK OF CONTROL OVER EXPENDITURES

Auditor Recommendation

We recommend that the City implement the following procedures:

- Care needs to be taken to ensure that an invoice has not previously been paid.
- Adequate support should be obtained for all disbursements.
- Checks need to be monitored to ensure they are being written sequentially and on the correct dates.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City Council and City Clerk will implement additional controls over expenditures.
3. Official Responsible for Insuring CAP
The Mayor and City Council are the officials responsible for insuring corrective action of the deficiency.
4. Planned Completion Date for CAP
This plan will be implemented during 2016.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

2015-006 STATEMENT OF JUST CLAIM

Auditor Recommendation

We recommend that the City follow Minnesota Statute §471.391 subd. 1 and stamp the declaration on the back of the remaining checks. We also recommend that the next time checks are ordered they have the declaration pre-printed on the back.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City will use the existing statement of just claims stamp until new checks are ordered.
3. Official Responsible for Insuring CAP
The Mayor and the City Council are the officials responsible for ensuring corrective action of this deficiency.
4. Planned Completion Date for CAP
This plan will be implemented during 2016.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

**CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE CORRECTIVE ACTION PLAN
DECEMBER 31, 2015**

2015-007 LATE PAYMENT OF INVOICES

Auditor Recommendation

We recommend that the City follow Minnesota Statute §471.425 subd. 2 going forward.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City will continue to monitor the various due dates in order to better ensure they are paid in a timely manner.
3. Official Responsible for Insuring CAP
The Mayor and City Council are the officials responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
This plan will be implemented during 2016.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

2015-008 ACCEPTANCE OF GRANTS

Auditor Recommendation

Recommendation: We recommend that the City follow Minnesota Statute §465.03 going forward.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The City will follow Minnesota Statute §465.03.
3. Official Responsible for Insuring CAP
The Mayor and City Council are the officials responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
This plan will be implemented immediately.
5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this plan.

**CITY OF VESTA, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE
AND COMPLIANCE CORRECTIVE ACTION PLAN
DECEMBER 31, 2015**

2015-009 DISBURSEMENT OF FUNDS NOT FOR PUBLIC PURPOSE

Auditor Recommendation

We recommend that the City refrain from donating to people, nonprofit organizations, and charities.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

2. Action Planned in Response to Finding
The City will follow the public purpose doctrine of the State of Minnesota.

3. Official Responsible for Insuring CAP
The Mayor and City Council are the officials responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
This plan will be implemented immediately.

5. Plan to Monitor Completion of CAP
The Mayor and City Council will be monitoring this corrective action plan.



PLLP

CERTIFIED PUBLIC ACCOUNTANTS

**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 City Council
City of Vesta, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Vesta, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Vesta, Minnesota's basic financial statements, and have issued our report thereon dated June 24, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings on internal control structure and compliance, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings on internal control structure and compliance as items 2015-001 and 2015-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings on internal control structure and compliance as items 2015-003 through 2015-005 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vesta, Minnesota'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*; however, we noted certain matters of noncompliance that are required to be reported under Minnesota Statutes. These items of noncompliance are described in the accompanying schedule of findings on internal control structure and compliance as items 2015-006 through 2015-009.

City of Vesta, Minnesota's Response to Findings

City of Vesta, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings on internal control structure and compliance corrective action plan. City of Vesta, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoffman + Brobst, PLLP

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

June 24, 2016



PLLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

To the City Council
City of Vesta, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Vesta, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2016.

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 except that we did not test for compliance with the provisions for tax increment financing because this provision does not apply to the City of Vesta, Minnesota.

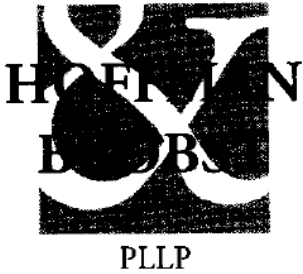
In connection with our audit, nothing came to our attention that caused us to believe that the City of Vesta, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the accompanying schedule of findings on internal control structure and compliance as items 2015-006 through 2015-009. 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 of Vesta, Minnesota's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Hoffman + Brobst, PLLP

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

June 24, 2016



CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

To the City Council
City of Vesta, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Vesta, Minnesota for the year ended December 31, 2015, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of the following opportunities for strengthening internal controls and operating efficiency. We previously reported on the City's internal control and any related significant deficiencies and material weaknesses in our report dated June 24, 2016. This letter does not affect our report dated June 24, 2016, on the financial statements of City of Vesta, Minnesota.

COMMENTS AND SUGGESTIONS

- Liquor store employees are required to have the receipts match the till tape at the end of the day. If the till is short, it is the employee's responsibility to make up the difference. When the till is long, the extra is to go into the petty cash. We recommend that the City review the till short and long policy and record short and long's in the general ledger in order to track the shortages and excesses.
- The reserve requirement amount for the Rural Development loan for the water project is \$7,750 per year. We recommend this amount be transferred to the savings account for 2015 and each year until the requirement is fulfilled.
- We noted that a transfer out was budgeted in the Wastewater Fund, but no balancing transfer in was budgeted for in any other fund. Transfers in and out should balance among funds.
- The City Clerk should obtain a copy of the grant agreements and all supporting documentation for each grant the City Council approves. Since the grants commit the City to compliance and financial reporting requirements, the documents should be included as part of the official City records.
- We noted in the minutes that there was a motion to increase the Volunteer Fire Relief retirement and it was seconded by a member of the fire department. Fire department employees and spouses should abstain from voting on items that could personally benefit them (e.g. wage and pension items) and it should be noted in the minutes that they abstained.

All other comments and suggestions are included in the schedule of findings on internal control structure and compliance on pages 49 through 52.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City Clerk, and we will be pleased to discuss them in further detail at your convenience.

Sincerely,

Hoffman + Brobst, PLLP

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

June 24, 2016