FINANCIAL AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016

City Of Vesta

Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks &
Investments

CITY OF VESTA, MINNESOTA
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INTRODUCTORY SECTION

CITY OF VESTA, MINNESOTA
DECEMBER 31, 2016

ELECTED AND APPOINTED OFFICIALS

Elected

Jeff Wall	Mayor
Justin Kolander	Council Member
Travis Zollner	Council Member
Ryan Paul	Council Member
Krista Remiger	Council Member

Appointed

Jacob Kolander	May 2017-present
Kimberly Kodet	January 1, 2016- March 2017
Quarnstrom & Doering, P.A.	Attorney

FINANCIAL SECTION

Kinner & Company Ltd
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Council
City of Vesta
Vesta, Minnesota 56292

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 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 opinion.

Opinion

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As described in Note 4F to the financial statements, the City has restated the previously reported Net Position. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of City's Proportionate Share of Net Pension Liability, and Schedule of City's Contributions and Notes to Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 an opinion on the financial statements that collectively comprise the City of Vesta, Minnesota's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The introductory section has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2017, 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's internal control over financial reporting and compliance.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

June 13, 2017

CITY OF VESTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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 the City for the fiscal year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016 year include the following:

- Net position in the Statement of Net Position increased $60,755 from the prior year to $1,566,804. Of this increase, most of it is related to the sale of the liquor store and positive outcomes in the water and wastewater funds this year.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of $519,557, a decrease of $26,991 from the previous year balance of $546,548. The decrease was due to a variety of factors, primarily purchases of capital outlay in the general fund.
- The General Fund fund balance decreased $2,841 to $400,929. The unassigned fund balance increased $36,693 due to the using the committed funds for capital outlay. The unassigned fund balance is approximately six months of expenditures which meets the City's fund balance goal of three to six months of operating expenditures.
- The water project is completed in 2016. The project was being funded through grants and loans from the United States Department of Agriculture and Rural Development. All the capital assets are now depreciating.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE CITY AS A WHOLE

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes therein. You can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental Activities- Most of the City's basic services are reported here, including the fire department, public works, parks and general administration. Property taxes and State and Federal grants finance most of these activities.
- Business-type Activities- The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Liquor, water, sewer and garbage funds are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Our analysis of the City's major funds begins on page 8. The fund financial statements begin on page 13 and provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and proprietary- use different accounting approaches.

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

- Proprietary Funds - When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position increased $60,755 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1

Net Position	Governmental Activities			Business-Type Activities			2016
	2016	2015		2016	2015		Total
Current and other assets	$565,795	$594,006		$292,132	$219,124		$857,927
Capital assets	452,856	432,942		1,317,880	1,300,786		1,770,736
Total assets	1,018,651	1,026,948		1,610,012	1,519,910		2,628,663
Deferred Outflows	34,771	10,181		54,268	10,672		89,039
Current liabilities	34,805	48,322		87,946	44,446		
Long-term liabilities outstanding	121,708	128,874		887,405	851,444		1,009,113
Total liabilities	156,513	177,196		975,351	895,890		1,131,864
Deferred Inflows	5,710	3,760		13,324	8,773		19,034
Net position							
Net investment in capital assets	357,962	310,082		539,971	495,226		897,933
Restricted	259,511	288,605		23,276	15,506		282,787
Unrestricted	273,726	268,080	*	112,358	128,550	*	386,084
Total Net Position	$891,199	$866,767		$675,605	$639,282		$1,566,804

* 2015 Unrestricted Restated-Refer to Page 46-47 of notes to the financials for specifics

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, for the City as a whole, the liquor store is the only fund with a deficit balance, at the end of the 2016 the liquor store was sold.

Governmental activities. Governmental activities increased the City's net position by $24,432. Key elements of this increase are as follows:

Table 2

Changes in Net Position	Governmental Activities		Business-type Activities		2016
	2016	2015	2016	2015	Total
Revenues:		Restated		Restated	
Charges for services	$9,945	$13,773	$257,823	$301,359	$267,768
Operating Grants and contributions	52,830	10,618		0	52,830
Capital grants and contributions	0	2,500	29,113	273,988	0
General Revenues					
Property taxes	170,001	169,580			170,001
Special Assessments	1,679	8,672	24,524	13,363	1,679
Intergovernmental Revenue	90,113	117,220			90,113
Gain(Loss) on Disposal of Capital Assets	0	(6,838)	14,800		0
Fines and Forfeits		0			
Grants & Contributions not restricted					
to specific programs		0	373		0
Unrestricted Investment Earnings	820	0	244		820
Miscellaneous	7,087	5,746	845	158	7,087
Total Revenues	332,475	321,271	327,722	588,868	660,197
Expenses:					
General Government	121,803	111,836			121,803
Public Safety	105,095	94,713			105,095
Public Works	61,372	137,060			61,372
Culture & Recreation	14,930	16,335			14,930
Interest	4,843	6,495			4,843
Water		0	106,380	99,844	106,380
Wastewater		0	37,156	34,324	37,156
Garbage		0	15,641	16,069	15,641
Municipal Liquor Store			132,222	133,140	
Total expenses	308,043	366,439	291,399	283,377	599,442
Transfers		7,728		(7,728)	0
Change in net position	24,432	(37,440)	36,323	297,763	60,755
Net Position, January 1 (Restated)	866,767	904,207	639,282	341,519	1,506,049
Net Position, December 31	$891,199	$866,767	$675,605	$639,282	$1,566,804

The City's total net position increased in 2016 by $60,755 and increased in 2015 by $32,535.

For the most part, increase in expenses closely paralleled inflation and growth in the demand for service.

Governmental Activities

For 2016 and 2015, revenue for the City's governmental activities increased by 3 percent and decreased by 32 percent, while total expenses decreased by 16 percent in 2016 and increased by 29 percent in 2015. The increase in revenues is attributed to additional playground grant monies. The decrease in expenses was due to less repairs and maintenance and payroll due to allocations.

Property tax levies were virtually consistent with the prior year.

Table 3 presents the cost of each of the City's programs- general government, public safety, public works and culture and recreation and interest as well as each program's net cost. (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities were generally comparable to the prior year as operations remained consistent with the prior year.

Table 3 Governmental Activities

	Total Cost of Services	
	2016	2015
General Administration	$121,803	$111,836
Public Safety	105,095	94,713
Streets & Highways	61,372	137,060
Cultural & Recreation	14,930	16,335
Interest on Long-Term Debt	4,843	6,495
Totals	$308,043	$366,439

Business-Type Activities

For 2016 and 2015, revenues of the City's business-type activities (see table 2) decreased 44 percent and increased 28 percent and the expenses increased 2 percent and increased by 7 percent. The decrease in revenues relates to the decrease in monthly improvement fees for the water and sewer fund, as well as capital grants received in 2015 for water tower improvements. The increase in expenses is attributable to additional repairs and maintenance as well as depreciation expense relating to the water tower improvements.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of $519,557 and $546,548 for 2016 and 2015. Operations of the City were generally similar to the prior year at the fund level. Decrease in fund balance relates to additional capital outlay purchased this year.

General Fund Budgetary Highlights:

The City council did not amend the original budget during the current year. General fund revenues were $23,295 and $31,297 higher than budget for 2016 and 2015. This variance mainly relates to additional fire aid and donations. Expenditures were $26,133 higher than budget in 2016 due to capital outlay purchases and $137,947 higher than budget in 2015 due to public works repairs and public safety capital expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

In 2016 and 2015, the City had $1,770,736 and $1,733,728 invested in a broad range of capital assets, including the rest of the water tower project and new equipment.

Table 4
Capital Assets - Net of Depreciation

	Governmental Activities		Business-type Activities		2016
	2016	2015	2016	2015	Total
Land	$79,045	$79,045	$54,380	$55,480	$133,425
Construction In Progress	28,146	0	0	266,088	28,146
Buildings & Improvements	143,610	127,707	1,143,267	880,472	1,286,877
Equipment	202,055	226,190	120,233	98,746	322,288
Totals	452,856	432,942	1,317,880	1,300,786	1,770,736

More detailed information about the City's capital assets is presented in Note 1 and Note 3.

Debt

As shown in Table 5, the City has $872,803 versus $909,185 in debt versus last year.

Table 5
Outstanding Debt

	Governmental Activities		Business-type Activities		2016
	2016	2015	2016	2015	Total
General Obligation Bonds	$70,000	$90,000		$0	$70,000
General Obligation Revenue Notes		7,000		0	0
Capital Lease	24,894	28,185	4,909	0	29,803
General Obligation Revenue Bonds		0	773,000	784,000	773,000
Totals	94,894	125,185	777,909	784,000	872,803

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2016.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, City of Vesta, PO Box 214, Vesta, MN 56292.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements:
  - Governmental Funds
  - Proprietary (Enterprise) Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

City of Vesta
Statement of Net Position
December 31, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 488,642	$ 212,921	$ 701,563
Taxes Receivable	15,611	252	15,863
Grant Receivable	10,663	--	10,663
Accounts Receivable	1,296	14,899	16,195
Special Assessments Receivable	1,191	2,147	3,338
Prepaid and Other Assets	18,729	4,262	22,991
*Internal Balances**	--	769	--
Total Current Assets	536,132	235,250	770,613
Noncurrent Assets			
Restricted Cash	--	23,276	23,276
Non-Depreciable	107,191	54,380	161,571
Depreciable, Net	345,665	1,263,500	1,609,165
Special Assessments Delinquent	8,161	33,606	41,767
Net Pension Asset	21,502	--	21,502
*Internal Balances**	--	--	--
Total Assets	1,018,651	1,610,012	2,627,894
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	34,771	54,268	89,039
Total Deferred Outflows of Resources	34,771	54,268	89,039
LIABILITIES			
Current Liabilities			
Accounts Payable	2,547	47,590	50,137
Accrued Wages and Benefits	2,513	3,399	5,912
Accrued Interest Payable	--	21,407	21,407
Unearned Revenue	2,201	--	2,201
Bonds Payable-due within one year	20,000	12,000	32,000
Lease Payable- due within one year	6,775	3,550	10,325
*Internal Balances**	769	--	--
Total Current Liabilities	34,805	87,946	121,982
Noncurrent Liabilities			
Bonds Payable-due beyond one year	50,000	761,000	811,000
Net Pension Liability	53,589	125,045	178,634
Capital Lease Payable	18,119	1,360	19,479
*Internal Balances**	--	--	--
Total Liabilities	156,513	975,351	1,131,095
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	5,710	13,324	19,034
Total Deferred Inflows of Resources	5,710	13,324	19,034
NET POSITION			
Net Investment in Capital Assets	357,962	539,971	897,933
Restricted	259,511	23,276	282,787
Unrestricted	273,726	112,358	386,084
Total Net Position	$ **891,199**	$ **675,605**	$ **1,566,804**

* Amounts have been eliminated in total column

City of Vesta
Statement of Activities
For the Year Ended December 31, 2016

		Program Revenues			Net (Expense) Revenue		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government and Administration	$ 121,803	$ 1,185	$ 25,000	$ --	$ (95,618)	$ --	$ (95,618)
Public safety	105,095	8,760	27,830	--	(68,505)	--	(68,505)
Public Works	61,372	--	--	--	(61,372)	--	(61,372)
Parks	9,002	--	--	--	(9,002)	--	(9,002)
Culture and Recreation	5,928	--	--	--	(5,928)	--	(5,928)
Interest Expense	4,843	--	--	--	(4,843)	--	(4,843)
Total Governmental Activities	308,043	9,945	52,830	--	(245,268)	--	(245,268)
Business-type Activities:							
Liquor	132,222	100,175	--	--	--	(32,047)	(32,047)
Garbage	15,641	14,333	--	--	--	(1,308)	(1,308)
Wastewater	37,156	42,409	--	--	--	5,253	5,253
Water	106,380	125,674	--	29,113	--	48,407	48,407
Total Business-type Activities	291,399	282,591	--	29,113	--	20,305	20,305
Total Primary Government	$ 599,442	$ 292,536	$ 52,830	$ 29,113	$ (245,268)	$ 20,305	$ (224,963)
General Purpose Revenues and Transfers:							
Revenues							
Taxes					170,001	--	170,001
Special Assessments					1,679	--	1,679
Local Government Aid					90,113	--	90,113
Interest Income					820	--	820
Gain (Loss) on Sale of Assets					--	14,800	14,800
Donations					324	--	324
Insurance Dividends					6,734	--	6,734
Refunds and Reimbursements					--	845	845
Miscellaneous Revenues					29	--	29
Other State Aid					--	373	373
Transfers					--	--	--
Total General Revenues and Transfers					269,700	16,018	285,718
Change in Net Position					**24,432**	**36,323**	**60,755**
Net Position at Beginning of Period(Restated)					866,767	639,282	1,506,049
Net Position at End of Period					**$ 891,199**	**$ 675,605**	**$ 1,566,804**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Balance Sheet
Governmental Funds
December 31, 2016

	General	Debt Service: Debt 2003	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 370,537	$ 99,737	$ 18,368	$ 488,642
Taxes Receivable	14,908	223	480	15,611
Grant Receivable	10,663	--	--	10,663
Accounts Receivable	1,296	--	--	1,296
Special Assessments Receivable	--	1,191	--	1,191
Prepaid and Other Assets	18,729	--	--	18,729
Special Assessments Delinquent	--	8,161	--	8,161
Total Assets	416,133	109,312	18,848	544,293
DEFERRED OUTFLOWS OF RESOURCES				
Aggregated deferred outflows	--	--	--	--
Total Assets and Deferred Outflows of Resources	**$ 416,133**	**$ 109,312**	**$ 18,848**	**$ 544,293**
LIABILITIES				
Accounts Payable	$ 2,547	$ --	$ --	$ 2,547
Unearned Revenue	2,201	--	--	2,201
Due to Other Funds	769	--	--	769
Total Liabilities	5,517	--	--	5,517
DEFERRED INFLOWS OF RESOURCES				
Aggregated deferred inflows	9,687	9,253	279	19,219
Total Liabilities and Deferred Inflows of Resources	15,204	9,253	279	24,736
FUND BALANCE				
Nonspendable	18,729	--	--	18,729
Committed	2,845		8,143	10,988
Restricted	143,723	100,059	10,426	254,208
Assigned	41,842			41,842
Unassigned	193,790			193,790
Total Fund Balance	400,929	100,059	18,569	519,557
Total Liabilities, Deferred Inflows of Resources and Fund Balance	**$ 416,133**	**$ 109,312**	**$ 18,848**	**$ 544,293**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
December 31, 2016

Total Fund Balance - Governmental Funds	$	519,557
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Position		(2,513)
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		452,856
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.		19,218
Long- term debt reflected on Statement of Net Assets not in governmental funds balance sheet		(94,894)
Net pension assets are not available to pay for current period expenditures and therefore are deferred in the funds.		21,502
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(53,589)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(5,710)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		34,771
Total Net Position-Governmental Funds	$	**891,199**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2016

	General	Debt Service Debt 2003	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	$ 156,814	$ --	$ 3,221	$ 160,035
Special Assessments	--	3,858	--	3,858
Local Government Aid	90,113	--	--	90,113
Other State Aid	29,656	--	--	29,656
Other Grants	12,663			12,663
Licenses, Permits, Fines, and Fees	445	--	--	445
Charges for Services	8,760	--	--	8,760
Interest Income	763	35	22	820
Donations	324	--	--	324
Miscellaneous Revenues	17	--	12	29
Insurance Dividends	6,734	--	--	6,734
Other	740	--	--	740
Total Revenues	307,029	3,893	3,255	314,177
Expenditures				
General Government and Administration	115,510	--	--	115,510
Public safety	62,970	--	--	62,970
Public Works	45,979	--	--	45,979
Parks	7,529	--	--	7,529
Culture and Recreation	3,985	--	--	3,985
Capital Outlay	70,061	--	--	70,061
Interest Expense	545	4,160	138	4,843
Debt - Principal	3,291	20,000	7,000	30,291
Total Expenditures	309,870	24,160	7,138	341,168
Excess of Revenues Over (Under) Expenditures	(2,841)	(20,267)	(3,883)	(26,991)
Other Financing Sources (Uses)				
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
Net Other Financing Sources (Uses)	--	--	--	--
Net Change in Fund Balance	**(2,841)**	**(20,267)**	**(3,883)**	**(26,991)**
Fund Balance at Beginning of Period(Restated)	403,770	120,326	22,452	546,548
Fund Balance at End of Period	**$ 400,929**	**$ 100,059**	**$ 18,569**	**$ 519,557**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2016

Total Net Change in Fund Balances - Governmental Funds	$	(26,991)
Revenue that will not be collected for several months after the City's year end are not considered available revenues in the governmental funds, and are instead considered deferred inflows.		7,786
Principal payments on long-term expensed in governmental fund statements, treated as reductions of outstanding debt in Entity wide statements		30,291
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		70,061
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements		(50,148)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.		(1,394)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.		(5,174)
Changes in Net Position-Governmental Funds	$	**24,432**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type Activities - Enterprise Funds				
	Liquor	Wastewater	Water	Other Enterprise Funds	Total Enterprise Funds
ASSETS					
Current Assets					
Cash and Cash Equivalents	$ 41,704	$ 95,967	$ 71,714	$ 3,536	$ 212,921
Taxes Receivable	--	--	252	--	252
Accounts Receivable	581	4,295	8,591	1,432	14,899
Special Assessments Receivable	--	--	2,147	--	2,147
Prepaid and Other Assets	--	2,131	2,131	--	4,262
Due from Other Funds	769	--	--	--	769
Total Current Assets	43,054	102,393	84,835	4,968	235,250
Noncurrent Assets					
Restricted Cash	--	--	23,276	--	23,276
Non-Depreciable	--	46,680	7,700	--	54,380
Depreciable, Net	6,336	120,673	1,136,491	--	1,263,500
Special Assessments Delinquent	--	--	33,606	--	33,606
Total Assets	49,390	269,746	1,285,908	4,968	1,610,012
DEFERRED OUTFLOWS OF RESOURCES					
Aggregated deferred outflows	40,315	6,977	6,976	--	54,268
Total Deferred Outflows of Resources	40,315	6,977	6,976	--	54,268
LIABILITIES					
Current Liabilities					
Accounts Payable	2,196	25,353	18,100	1,941	47,590
Accrued Wages and Benefits	505	1,447	1,447	--	3,399
Accrued Interest Payable	--	--	21,407	--	21,407
Bonds Payable-due within one year	--	--	12,000	--	12,000
Lease Payable- due within one year	3,550	--	--	--	3,550
Total Current Liabilities	6,251	26,800	52,954	1,941	87,946
Noncurrent Liabilities					
Bonds Payable-due beyond one year	--	--	761,000	--	761,000
Net Pension Liability	92,890	16,079	16,076	--	125,045
Capital Lease Payable	1,360	--	--	--	1,360
Total Liabilities	100,501	42,879	830,030	1,941	975,351
DEFERRED INFLOWS OF RESOURCES					
Aggregated deferred inflows	9,898	1,713	1,713	--	13,324
Total Deferred Inflows of Resources	9,898	1,713	1,713	--	13,324
NET POSITION					
Net Investment in Capital Assets	1,427	167,353	371,191	--	539,971
Restricted for:					
Restricted	--	--	23,276	--	23,276
Unrestricted	(22,121)	64,778	66,674	3,027	112,358
Total Net Position	$ **(20,694)**	$ **232,131**	$ **461,141**	$ **3,027**	$ **675,605**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds				
	Liquor	Wastewater	Water	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues					
Charges for Services	--	42,213	101,037	14,333	157,583
Refunds and Reimbursements	845	--	--	--	845
Gross Margins on Sales	100,175	--	--	--	100,175
Total Operating Revenues	101,020	42,213	101,037	14,333	258,668
Operating Expenses					
Salaries and Wages	62,955	12,185	12,185	--	87,325
Payroll taxes and Benefits	19,061	4,557	4,580	--	28,198
Travel	4,816	44	44	--	4,904
Bonds and Insurance	14,859	--	--	--	14,859
Professional Fees	5,535	2,370	2,460	--	10,365
Dues/Conferences/Training	500	1,163	1,098	302	3,063
Office Supplies and Expenses	245	416	416	302	1,379
Utilities	11,563	99	1,032	26	12,720
Repairs and Maintenance	4,095	3,637	2,673	--	10,405
Miscellaneous	1,586	1,375	1,175	54	4,190
Supplies	6,108	2,189	18,741	14,957	41,995
Depreciation	704	9,121	40,662	--	50,487
Total Operating Expenses	132,027	37,156	85,066	15,641	269,890
Operating Income (Loss)	(31,007)	5,057	15,971	(1,308)	(11,287)
Non-Operating Revenues (Expenses)					
Interest Revenue	--	131	19	--	150
Gain (Loss) on Sale of Assets	14,800	--	--	--	14,800
Taxes	--	--	29	--	29
Special Assessments	--	--	24,524	--	24,524
Federal Grants	--	--	29,113	--	29,113
Other State Aid	373	65	65	--	503
Interest Expense	(195)	--	(21,314)	--	(21,509)
Net Non-Operating Revenues (Expenses)	14,978	196	32,436	--	47,610
Income Before Contributions and Transfers	(16,029)	5,253	48,407	(1,308)	36,323
Transfers from Other Funds	--	--	--	--	--
Transfers to Other Funds	--	--	--	--	--
Change In Net Position	**(16,029)**	**5,253**	**48,407**	**(1,308)**	**36,323**
Net Position at Beginning of Period(Restated)	(4,665)	226,878	412,734	4,335	639,282
Net Position at End of Period	$ **(20,694)**	$ **232,131**	$ **461,141**	$ **3,027**	$ **675,605**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Statement of Cash Flows-Proprietary Funds
For the Year Ended December 31, 2016

		Business-type Activities - Enterprise Funds			
Cash Flows from Operating Activities:	**Liquor**	**Major Wastewater**	**Water**	**Nonmajor Garbage**	**Total Enterprise Funds**
Cash Received from Customers	$ 102,550	$ 41,178	$ 101,858	$ 14,307	$ 259,893
Cash Paid to Employees	(70,664)	(14,219)	(14,934)		(99,817)
Cash Paid for Goods and Services	(26,588)	13,368	(25,997)	(15,251)	(54,468)
Cash Paid for Benefits on Behalf of Employees	(5,992)	(809)	(812)		(7,613)
Net Cash Provided (Used) by Operating Activities	(694)	39,518	60,115	(944)	97,995
Cash Flows from Non-Capital Financing Activities:					
Operating Transfers Out		-	-	-	-
Due from other funds	(14,337)				(14,337)
Net Cash Provided (Used) by Noncapital Financing Activities	(14,337)	-	-	-	-
Cash Flows from Capital and Related Financing Activities:					
Sale of Liquor Store	40,515				40,515
Cash Received from grants			29,113		
Lease Payments	(2,140)	-	-	-	(2,140)
Receipts for Intergovernental Sources	373	65	123		
Principal Paid on Bond	-	-	(11,000)	-	(11,000)
Interest Paid on Bond	(905)	-	(21,467)	-	(21,467)
Purchase of Property and Equipment	-	(40,595)	(31,122)	-	(71,717)
Net Cash Provided (Used) by Capital and Related Financing Activities	37,843	(40,530)	(34,353)	-	(65,809)
Cash Flows from Investing Activities:					
Interest Income	-	131	19	-	150
Net Cash Provided (Used) by Investing Activities	-	131	19	-	150
Net Increase (Decrease) in Cash and Cash Equivalents	22,812	(881)	25,781	(944)	46,768
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	18,892	96,848	69,209	4,480	189,429
Cash and Cash Equivalents and Restricted Cash - End of Year	**$ 41,704**	**$ 95,967**	**$ 94,990**	**$ 3,536**	**$ 236,197**

Reconciliation of Operating Income/(Loss) to Net Cash Provided (Used) by Operating Activities

	Liquor	Major Wastewater	Water	Nonmajor Garbage	Total Enterprise Funds
Cash Flows From Operating Activities:					
Operating Income (Loss)	$ (30,297)	$ 5,057	$ 40,495	$ (1,308)	$ 13,947
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation	704	9,121	40,662	-	50,487
Changes in Assets and Liabilities:					-
Accounts Receivable	1,530	(677)	(1,032)	(26)	(205)
Special Assessments Receivable			(22,671)	-	(22,671)
Inventories	18,890				18,890
Prepaids	6,134	(358)	(360)		5,416
Deferred Outflow	(32,386)	(5,605)	(5,605)		(43,596)
Accounts Payable	(3,015)	24,661	2,002	390	24,038
Accrued Leave	(1,930)	449	(243)		(1,724)
Deferred Inflow	3,381	585	585		4,551
Pension Liability	36,295	6,285	6,282		48,862
Net Cash Provided (Used) by Operating Activities	**$ (694)**	**$ 39,518**	**$ 60,115**	**$ (944)**	**$ 97,995**

The notes to the financial statements are an integral part of this statement.

City of Vesta
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	**Final**	**Actual**	**Actual**
REVENUES				
Property Taxes	$ 166,500	$ 166,500	$ 156,814	$ (9,686)
Licenses and Permits	250	250	445	195
Local Government Aid	90,113	90,113	90,113	--)
State Grants	10,461	10,461	29,656	19,195
Donations	500	500	324	(176)
Interest Revenue	1,000	1,000	763	(237)
Insurance Dividends	4,000	4,000	6,734	2,734
Miscellaneous	2,150	2,150	17	(2,133)
Rent Income	--	--	740	740
User charges	8,760	8,760	8,760	--)
Other Grants	--	--	12,663	12,663
Total Revenues	283,734	283,734	307,029	23,295
Other Financing Sources				
Total Revenues and Other Financing Sources	283,734	283,734	307,029	23,295
EXPENDITURES				
General Government				
Mayor and Council Salaries	7,500	7,500	6,162	1,338
Clerk-Treasurer Salaries	39,895	39,895	26,577	13,318
Clerk-Treasurer Payroll Taxes and	--	--	8,287	(8,287)
Travel	--	--	12	(12)
Bonds and Insurance	30,600	30,600	21,321	9,279
Professional Fees	28,550	28,550	18,286	10,264
Property Taxes/Ditch Lien	11,894	11,894	8,355	3,539
Dues/Conferences/Training	4,500	4,500	7,673	(3,173)
Office Supplies	6,500	6,500	9,703	(3,203)
Telephone	--	--	646	(646)
Utilities	2,000	2,000	1,678	322
Repairs and Maintenance	300	300	4,317	(4,017)
Miscellaneous	850	850	788	65
Capital Outlay	--	--	23,360	(23,360)
Election Expenditures	2,500	2,500	1,708	792
Total General Government	135,089	135,089	138,873	(3,781)

The notes to the financial statements is an integral part of this statement.

City of Vesta
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	**Final**	**Actual**	**Actual**
Public Safety:				
Utilities	7,000	7,000	2,166	4,834
Salaries	17,500	17,500	23,220	(5,720)
Insurance	1,000	1,000	1,483	(483)
Professional Fees	2,800	2,800	435	2,365
Supplies	17,300	17,300	22,295	(4,995)
State Relief Association Aid	10,000	10,000	10,080	(80)
Capital Outlay	--	--	1,468	(1,468)
Debt Service	--	--	3,836	(3,836)
Total Public Safety	55,600	55,600	64,983	(9,383)
Public Works:				
Salaries	14,134	14,134	14,086	48
Payroll Taxes	--	--	2,125	(2,125)
Shop Supplies	3,200	3,200	2,401	799
Shop Utilities	11,750	11,750	8,694	3,056
Repairs and Maintenance	14,500	14,500	11,028	3,472
Insurance	1,200	1,200	4,147	(2,947)
Vehicle Operating Expenditures	3,200	3,200	1,989	1,211
Miscellaneous	2,000	2,000	1,509	491
Capital Outlay	9,000	9,000	14,028	(5,028)
Total Public Works	58,984	58,984	60,007	(1,023)
Salaries	4,711	4,711	3,912	799
Payroll Taxes	--	--	600	(600)
Repairs and Maintenance	1,500	1,500	334	1,166
Utilities	11,150	11,150	4,724	6,426
Supplies/Miscellaneous	1,750	1,750	1,941	(191)
Capital Outlay	9,000	9,000	31,205	(22,205)
Total Culture and Recreation	28,111	28,111	42,716	(14,605)
First Responder Expenses	5,950	5,950	3,291	2,659
Total Expenditures	***283,734***	***283,734***	***309,870***	***(26,136)***
Other Financing Uses				
Total Expenditures and Other Financing Uses	283,734	283,734	309,870	(26,136)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	--	--	(2,841)	(2,841)
Net Change in Fund Balance	**--**	**--**	**(2,841)**	**(2,841)**
Fund Balance at Beginning of Per	403,770	403,770	403,770	--)
Fund Balance at End of Perio	$ **403,770**	$ **403,770**	$ **400,929**	$ **(2,841)**

The notes to the financial statements is an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so.

The more significant accounting policies established by GAAP and used by the City are discussed below.

A. REPORTING ENTITY

The City of Vesta, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted. The City was formed and operates pursuant to applicable Minnesota laws and statutes. The City operates under an elected Mayor and four member council form of government. The council has control over all activities related to the City of Vesta. The City provides the following services: sanitation, recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the City (the primary government), which has no component units. The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* to define the reporting entity. The City includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity to comprise the primary government presentation. Currently, the City has one blended component unit, the Economic Development Authority.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)
Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Related Organization
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 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 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.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all activities of the City. For the most part, the effect of inter-fund 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. They include all funds of the reporting entity except for fiduciary funds (of which, the City has none).

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues subject to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column on the fund financial statements.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The city maintains an economic development special revenue fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Debt Service - The 2003 Bond Debt Sevrice 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.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains water, wastewater, garbage and Liquor enterprise funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

The *Debt 2003 Bond Fund* accounts for all activities of the 2003 debt bond fund.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the City's water system.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The City has elected not to follow subsequent private sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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 of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE

Deposits and Investments

For the purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Receivables and Payables

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 inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund 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”.

All trade (utility) and property tax receivables are shown at a gross amount, since both taxes and trade (utility) receivable are assessable to the property taxes and are collectible upon sale of the assessed property.

The City levies its property tax for the subsequent year during the month of October. Property taxes attach as an enforceable lien on property as of January 1. Revenues are accrued and recognized in the year collectible.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected.

These assessments are payable with interest over a period of years. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January each year. The County Treasurer mails copies of all real estate and personal property tax statements.

Real property taxes may be paid in two equal installments. The first payment is due on May 15 for both non-agricultural and agricultural property and the second payment is due on October 15 for non-agricultural property and November 15 for agricultural property. Personal property taxes may be paid on May 15 and October 15. The County is the collection agent for the levy. The County provides tax settlements to cities and other taxing districts three times a year in January, June, and December. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)
Receivables and Payables(Continued)

Portions of the tax levy paid by the state in the form of market value assistance are included in intergovernmental revenue. Only that portion collected directly from property owners is reflected in tax revenue. Delinquent property taxes are deferred and recognized when received or in the hands of the collection agency in the fund financial statements since they do not constitute "available spendable resources". In the government-wide financial statements, under the accrual basis of accounting, they are recognized as revenues since they are earned. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts.

Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of $500 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets (i.e., roads, bridges, sidewalks, drainage, and similar items), and intangible assets (i.e. internally generated computer software) are reported in the application governmental or business-type activities column of the government-wide financial statements.

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 required that the City report and depreciate new infrastructure assets effective fiscal year ending December 31, 2004. Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to December 31, 2003, were not required to be capitalized by the City. These infrastructure assets are likely to be the largest asset class of the City. Neither the historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required for cities of this size. City has elected not to record infrastructure values retroactively as allowed by accounting principles generally accepted in the United States of America.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Capital Assets (Continued)

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Capital assets of the enterprise funds are capitalized in the funds.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements and in the enterprise fund financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Infrastructure	15-65 Years
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

Long-Term Obligations

In the government-wide financial statements and 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, or proprietary fund type statement of net position.

Bond premium and discounts, as well as issuance costs, are recognized as an outflow of resources and expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and expensed in the period they are incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Long-Term Obligations (Continued)

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 withhold from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements and the proprietary fund types. In the governmental funds of the fund financial statements, vacation and sick pay are recorded as expenditures and accrued as a current liability only if they have matured, for example, as a result of employee's resignations and retirements.

Full time employees will earn vacation leave in accordance with the schedule below. Part time employees who work less than 32 hours per week on a regular basis, will not earn or accrue vacation leave.

Years of Service	Days
1-2 years	5 days
3-5 years	10 days
6-10 years	15 days
11 or more years	Additional day per year (Max of 20 days)

Full time Employees accrue vacation during a year beginning January 1 through December 31; vacation benefits are earned on the following January 1. Vacation time not used may be carried over up to 40 hours into the next year. Any remaining vacation time not used, and over 40 hours, will be paid out on the last paycheck of the year. Upon retirement or termination of employment in good standing, employees are entitled to receive pay for their unused vacation leave as severance pay. These hours will be prorated. The liability for unused vacation pay is recorded as accrued wages and benefits on the Statement of Net Position. Vacation time is paid out 100 percent.

Full time employees will be granted 48 hours of sick leave per calendar year. Part time employees will not earn sick leave. Unused sick leave has no cash value upon termination or retirement and is forfeited at the end of the calendar year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Fund Balance Classifications

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance – 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 the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

To ensure the financial strength and stability of the City, the City Council will strive to maintain a minimum unassigned General Fund balance of three to six months of operating expenditures. The city has approximately six months of unassigned fund balance as of December 31, 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Net Position Classifications

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- Net investment in capital assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- Restricted net position- Consists of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- Unrestricted net position- All other net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

Deferred Outflows/Inflows of Resources

The City of Vesta implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities for the year ended December 31, 2013. 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City of Vesta currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

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, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The City of Vesta has two types of items that qualify for reporting in this category; unearned property taxes and deferred inflows relating to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Deferred Outflows/Inflows of Resources(Continued)

As of December 31, 2016, the City has deferred outflows/inflows as follows:

	Deferred Outflow	Deferred Inflow
Unearned Property Taxes	$ -	$ 5,710
Amounts relating to Pensions	89,039	13,324

E. 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 have material accounts receivable balances that are greater than 90 days past due.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. PENSIONS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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. Pensions are allocated between governmental activities and business-type activities in accordance with the allocation of employee's wages. Approximately 30% is allocated to governmental and 70% to business-type.

For purposes of measuring the net penion asset, deferred outflows of resources, and pension expense, information about the fiduciary net position of the Vesta Volunteer Fire Relief Assocation (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.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund.

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

1. The department heads submit to the city clerk a budget of estimated expenditures for the ensuing year after which the City Clerk subsequently submits a budget of estimated expenditures and revenues to the City Council by September 15.
2. Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.
3. At least ten days prior to October 1, the budget is legally enacted through the passage of an ordinance. The City Clerk is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the City Council.
4. Budgeted amounts are as originally adopted by the City Council. All supplemental appropriations require the approval of the City Council. There were no amendments to the original appropriations. The City prepared and adopted a legal budget.
5. All budgeted appropriations lapse at the end of the year. The legal level of budgetary control is at the functional level.

All budget amounts presented reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). The General Fund utilized the same basis of accounting for both budgetary purposes and actual results.

Encumbrances

The City does not utilize encumbrance accounting.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY(CONTINUED)

B. FUND BALANCE CLASSIFICATION

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	General Fund	Debt 2003	Other Governmental Funds	Totals
Nonspendable:				
Prepaid items	$18,729	-	-	$18,729
Committed to:				
Infrastructure and Capital Assets	2,845	-		2,845
EDA			8,143	8,143
Restricted: Debt Service		100,059	10,426	110,485
Restricted : First Responders	143,723			143,723
Assigned:				
Fire Truck	6,000	-	-	6,000
Street Improvements	35,000	-	-	35,000
First Responders	842	-	-	842
Unassigned	193,790	-	-	193,790
Total Fund Balances	$400,929	$100,059	$18,569	$519,557

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following fund had excess expenditures over appropriations as of December 31, 2016:

General Fund $26,133

D. DEFICIT FUND BALANCES

The liquor store fund has a deficit fund balance of $17,632 as of December 31, 2016.

E. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Minnesota Statutes §475.53, subd. 3 limits the amount of outstanding general obligation bonded debt of the municipality. The City complies with such laws.

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

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 insured, protected by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes all treasury bills, notes, and bonds; issues of U.S. governmental agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank and certificates of deposit. Minnesota statutes also require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.

According to Minnesota Statutes, government depositors receive $250,000 FDIC coverage for their demand accounts and a separate $250,000 FDIC coverage for their time/savings accounts if the bank is located in the same state as the government entity. If the depository bank is located in a different state, there is just one $250,000 coverage available for all demand and time/savings accounts combined.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. Deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had a bank balance of $736,070 at December 31, 2016, that was fully insured by depository insurance or secured with collateral held by the City’s agent in its name. The carrying amount of these deposits at December 31, 2016 was $724,839.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy

The City has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to deposit and investment of operating funds which are managed within the City's pooled cash and investment portfolio. This policy sets for the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide to proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

a.) Direct obligations or obligations guaranteed by the United States or its agencies.
b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
c.) General obligations of the State of Minnesota or its municipalities.
d.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
e.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
f.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
g.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
h.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

The City does not have any investment policies that would further limit investment choices.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Investment Policy (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the City's investment policy the City is required to mitigate its exposure to interest rate risk as follows:

- Purchasing a combination of shorter and longer term investments.
- Timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation.
- Monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.
- Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- The average weighted maturity of the portfolio should not exceed three (3) years.
- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the City limits their investment options to those authorized by the State of Minnesota as described above.

Concentrations of Credit Risk

The risk of loss attributed to the magnitude of the City's investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer. As of December 31, 2016 the City had no investments.

Custodial Credit Risk

For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2016 the City had no investments.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

The following table represents the City's cash and cash equivalents balances as of December 31, 2016:

Cash/Investment Type	Credit Rating	Average Maturities	% of Total	Fair Value
Cash and Investments:				
Savings Accounts	N/A	N/A	62%	448,026
Restricted Cash	N/A	N/A	3%	23,276
Checking Accounts			35%	253,537
TotalCash& Imvestments			**100%**	**$724,839**

Current Assets: Cash and cash equivalents as shown on the Statement of Net Position at December 31, 2016 is $701,563.

Noncurrent Assets: Restricted cash as shown on the Statement of Net Position at December 31, 2016 is $23,276.

B. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. No allowance for uncollectible accounts is deemed necessary at year end.

Accounts receivable of the governmental activities consist almost entirely of delinquent taxes and special assessments. The balance as of December 31, 2016 is $15,611 of Delinquent taxes and $9,352 of special assessments have been offset by deferred inflows of resources for delinquent taxes and special assessments not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2016 is $19,219.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

Governmental Activities:	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital Assets Not Being Depreciated:				
Land	$79,045	$0	$0	$79,045
Construction in Progress		$28,146		$28,146
Total Capital Assets Not Being Depreciated	79,045	28,146	0	107,191
Capital Assets Being Depreciated:				
Buildings and Infrastructure	451,233	26,908	0	478,141
Furniture and Equipment	742,149	43,155	5,622	779,682
Total Capital Assets Being Depreciated	1,193,382	70,063	5,622	1,257,823
Less Accumulated Depreciation for:				
Total Accumulated Depreciation	839,485	50,149	5,622	884,012
Total Capital Assets Being Depreciated, Net	353,897	19,914	5,622	373,811
Governmental Activity Capital Assets, Net	$432,942	$48,060	$5,622	$452,856

Business-Type Activities:	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital Assets Not Being Depreciated:				
Land	$55,480	$0	$1,100	$54,380
Construction in Progress	$266,088		$266,088	$0
Total Capital Assets Not Being Depreciated	321,568	0	267,188	54,380
Capital Assets Being Depreciated:				
Buildings and Infrastructure	$2,776,509	$314,218	$100,320	$2,990,407
Furniture and Equipment	$208,498	$45,156	$50,181	$203,473
Total Capital Assets Being Depreciated	2,985,007	359,374	150,501	3,193,880
Less Accumulated Depreciation for:				
Total Accumulated Depreciation	2,005,789	50,487	125,895	1,930,381
Total Capital Assets Being Depreciated, Net	979,218	308,887	24,606	1,263,500
Business-Type Activity Capital Assets, Net	$1,300,786	$308,887	$291,794	$1,317,880

Depreciation Expense was charged to functions/programs as follows:

Governmental Activities:		**Business-Type Activities:**	
General Government	$2,520	Water	$40,662
Public Safety	30,860	Liquor	704
Street and Highways	14,501	Wastewater	9,121
Culture & Recreation	1,9441	Total Depreciation Expense- Business-Type Activities	$50,487
Depreciation-Unallocated	324		
Total Depreciation Expense- Governmental Activities	$50,149		

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

D. ACCOUNTS PAYABLE

Payables in the general, major governmental funds and enterprise funds are composed almost entirely of payables to vendors.

E. LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2016:

Issuance	Original Issuance	Maturity Date	Interest Rate	Balance 12/31/15	Issued	Retired	Balance 12/31/16	Due in One Year
Governmental Activities:								
GO Improvement Bonds of 2003	255,000	2/1/19	1.65-4.65%	90,000	0	20,000	70,000	20,000
GO Utility Revenue Notes, Series 2008	78,000	4/1/16	3.95%	7,000	0	7,000	0	-
Capital Lease Payable	34,581	2/1/20	3.87%	28,185	0	3,291	24,894	10,324
Accrued Leave				1,330	1,183		2,513	
Net Pension Liability				32,650	28,286	7,347	53,589	
Total Governmental Activities				159,165	29,469	37,638	150,996	30,324
Business Type Activities:								
GO Water Revenue Bonds, Series 2014	784,000	1/1/54	2.75%	784,000	0	11,000	773,000	12,000
Capital Lease	7,040	05/01/16			7,040	2,131	4,909	3,549
Accrued Leave				2,261	1,138		3,399	
Net Pension Liability				76,183	66,005	17,143	125,045	
Total Business Type Activities				862,444	74,183	30,274	906,353	15,549

General Obligation Bonds

The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital improvements. General obligation revenue bonds have been issued for the water fund, which is also the fund used to liquidate the debt. The bonds are direct obligations and pledge the full faith, credit and taxing power of the City.

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. Interest Paid in 2015 was $3,690.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. LONG-TERM DEBT(Continued)

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 2016 was $138.

General Obligation Revenue Bonds

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. Interest paid in 2016 was $21,446.

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 under the 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 2016 was $545.

2017	7,674
2018	7,674
2019	7,674
2020	3,837
Total Min Lease Pymts	$26,859
Less Amt Representing Interest	(1,965)
Present Value of Minimum Payments	$24,894

Capital Lease Payable

On May 1, 2016 the City financed a fryer and equipment for the liquor store 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 under the lease is $7,040; of which $8,524 was financed under this lease. This lease obligation will be repaid from the liquor fund in 2016 and then in the General Fund thereafter due to the selling of the store. Interest paid in 2016 was $710.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. LONG-TERM DEBT(Continued)

Capital Lease Payable(Continued)

2017	4,262
2018	1,421
2019	0
2020	0

Total Min Lease Pymts	$5,683
Less Amt Representing Interest	(774)
Present Value of Minimum Payments	$4,909

Annual Debt Service Requirements

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2016 are summarized as follows:

Revenue Bonds

Business-Type Activities	Principal	Interest
2017	12,000	21,316
2018	12,000	20,928
2019	12,000	20,598
2020	13,000	20,268
2021	13,000	19,965
2022-2026	72,000	93,935
2027-2031	81,000	83,591
2032-2036	94,000	71,733
2037-2041	107,000	58,171
2042-2046	123,000	42,536
2047-2051	141,000	24,654
2052-2056	93,000	5,175
Total	773,000	482,868

Capital Lease

Business-Type Activities	Principal	Interest
2017	3,550	712
2018	1,359	61
Total	4,909	773

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

E. LONG-TERM DEBT(Continued)

	GO Bonds			Capital Lease	
Governmental	Principal	Interest		Principal	Interest
2017	20,000	2,780	2017	6,775	1,611
2018	25,000	1,744	2018	7,040	695
2019	25,000	581	2019	7,314	359
Totals	70,000	5,105	2020	3,765	73
			Totals	24,894	2,737

F. INTERFUND TRANSACTIONS

Inter-fund Transfers
There were no approved transfers between funds for the year ended December 31, 2016.

Inter-fund Balances
At December 31, 2016, inter-fund balances were as follows:

Due to/From Other Funds

From (Liability)	To (Asset)	Purpose	Amount
General Fund	Liquor Fund	Repayment of payroll Taxes and pull tabs	$769

NOTE 4. OTHER INFORMATION

A. 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; and natural disasters. The City participates in the League of Minnesota Cities Intergovernmental Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating cities if a deficiency occurs. The LMCIT is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

NOTE 4. OTHER INFORMATION (Continued)

A. RISK MANAGEMENT (CONTINUED)

As of December 31, 2016, the City did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The City has not had any claims which exceeded its deductible during the past three years.

B. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of potential litigation cannot be predicted, due to the insurance coverage maintained by the City, the City feels that the settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

C. TAX ABATEMENTS

The City approved a property tax abatement on August 11, 2014, starting payable for taxes collected in 2016. The agreement is with Neil Cole, DBA CW Welding. The annual installments shall commence in the year 2016 and shall continue for a period of 10 years. In no event shall the abatement levy by the city exceed $8,600 in any year or a cumulative total of $86,000 over the abatement term. The City’s expense for 2016 is $8,000.

D. FEDERAL AIDS – SINGLE AUDIT ACT

The City expended less than $750,000 of federal financial assistance and is exempt from the audit requirements of the Uniform Guidance and all other federal audit requirements.

NOTE 4. OTHER INFORMATION (Continued)

E. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 13, 2017, which is the date of the financial statements were available to be issued. No significant, unusual, or infrequent events or transactions have occurred after the financial statement date but before the issuance of the financial statements.

F. RESTATEMENT

A prior period adjustment was made to reflect correct beginning balances in both governmental and proprietary funds for special assessments receivable and taxes receivables.

Proprietary Funds

Net Position, January 1, 2016 as previously reported	$625,919
Special Assessment Receivable balance as of 12/31/15 not reflected in financials	13,082
Taxes Receivable balance as of 12/31/15 not reflected in financials	281
Net Position, January 1, 2016, restated	**$639,282**

Governmental Funds

Net Position, January 1, 2016 as previously reported	$ 856,173
Taxes Receivable balance as of 12/31/15 not reflected in the financials in General Fund	10,231
Special Assessment balance as of 12/31/15 not reflected in the financials in 2003 Debt Fund	901
Special Assessment balance as of 12/31/15 not reflected in the financials in 2003 Debt Fund	(202)
Taxes Receivable balance as of 12/31/15 not reflected in the financials in 2003 Debt Fund	223
Taxes Receivable balance as of 12/31/15 not reflected in the financials in 2008 Debt Fund	384
Deferred Inflows as of 12/31/15 not reflected In the financials in the 2003 Debt Fund	(943)
Net Position, January 1, 2016, restated	**$866,767**

NOTE 4. OTHER INFORMATION (Continued)

F. RESTATEMENT(CONTINUED)

	Govt	Enterprise	Total
Fund Balance December 31, 2015	856,173	625,919	1,482,092
Adjustment for Taxes	9,895	281	10,176
Adjustment for Special Assessments	699	13,082	13,781
Restated Fund Balance December 31, 2015	866,767	639,282	1,506,049

Statement of Activities	As Originally Reported Govt	Effect on Revenue	2015 Restated	As Originally Reported Enterprise	Effect on Revenue	2015 Restated	Total
Revenues							
Charges for Services	13,773		13,773	301,359		301,359	315,132
Operating Grants	10,618		10,618			0	10,618
Capital Grants	2,500		2,500	273,988		273,988	276,488
Property Taxes	160,292	9,288	169,580	0		0	169,580
Interest Income	936		936	158		158	1,094
Special Assessments	7,366	1,306	8,672		13,363	13,363	22,035
Intergovnermental Rev	117,220		117,220			0	117,220
Transfers	7,728	0	7,728	(7,728)		(7,728)	0
Miscellaneous	(2,028)		(2,028)	0		0	(2,028)
	318,405	10,594	328,999	567,777	13,363	581,140	910,139
Expenses:	366,439		366,439	283,377		283,377	649,816
	366,439	0	366,439	283,377	0	283,377	649,816
Change in Net Position	(48,034)	10,594	(37,440)	284,400	13,363	297,763	260,323
Net Position-Beginning	904,207		904,207	341,519		341,519	1,245,726
Net Position - Ending 2015	856,173		866,767	625,919		639,282	1,506,049

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. 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
All full time and certain part time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to either 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.

B. Benefits Provided

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

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

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

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)
B. Benefits Provided (Continued)

General Employees Plan 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 the 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 of 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

C. Contributions

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

General Employees Plan 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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employee Fund for the years ended December 31, 2016 and 2015 were $10,131 and $10,699, respectively. The City's contributions were equal to the required contributions as set by the state statute.

D. Pension Costs

General Employees Fund Pension Costs
At December 31, 2016, the City reported a liability of $178,629 for its proportionate share of the General employees fund's net pension liability/asset. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0022%, which increased from 2015, 0.0021%.

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

D. Pension Costs (Continued)

For the year ended December 31, 2016, the City recognized pension expense of $14,736 for its proportionate share of General Employees Fund's pension expense.

At December 31, 2016, the City reported its proportionate share of General Employees Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$0	$14,337
Changes in actuarial assumptions	$34,976	0
Difference between projected and actual investment earnings	33,537	0
Changes in proportion and differences between contributions made and District's proportionate share of contributions	3,887	4,697
Contributions paid to PERA subsequent to the measurement date	5,126	0
Total	$77,526	$19,034

$5,126 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to General Employees Fund pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	$14,245
2018	14,245
2019	18,423
2020	6,452
2021	0

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.250% per year
Investment Rate of Return	7.50%

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

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:
General Employees Fund

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

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%

NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that 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.

G. Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability at Current Single Discount Rate (in thousands)

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Net Pension Liability	$	$178,629	$

H. 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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 6. PENSION PLANS

A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN

Plan Description

The Vesta 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, 2016, 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.

Benefits Provided

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

Contributions

The VFRA is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes.* The State of Minnesota contributed $10,116 in fire state aid to the plan for the year ended December 31, 2015. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2015 were $0. The City's contributions were equal to the required contributions as set by state statute, if applicable.

Pension Costs

At December 31, 2016, the City of Vesta reported a net pension asset of $21,502 for the VFRA plan. The net pension asset was measured as of December 31, 2015. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by applying an actuarial formula to specified census data certified by the fire department. The following table presents the changes in net pension liability during the year.

NOTE 6. PENSION PLANS (CONTINUED)

A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN
Pension Costs(Continued)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/ (Asset)
	(a)	(b)	(a-b)
Beginning Balance 12/31/15	$95,050	$123,427	($28,377)
Plan Changes	9,501		9,501
Service Cost	5,156		5,156
Interest on Pension Liability	2,757		2,757
Projected Investment Earnings		2,570	(2,570)
(Gains)/Losses		(2,127)	2,127
Nonemployer Contributions		10,116	(10,116)
Municipal Contributions		180	(180)
Administrative Fee		(200)	200
Total Net Changes	$17,414	$10,539	$6,875
Balance End of Year 12/31/16	$112,464	$133,966	($21,502)

For the year ended December 31, 2016, the City recognized pension expenses of $5,065.

At December 31, 2016, the City reported deferred inflow of resources and deferred outflows of resources from the following sources:

	Deferred Outflow Of Resources
Difference between projected and Actual investment earnings	$ 5,906

NOTE 6. PENSION PLAN(CONTINUED)

A. VOLUNTEER FIRE RELIEF ASSOCIATION
Pension Costs(Continued)

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
2017	$1,829
2018	$1,829
2019	$1,825
2020	$423
2021	0
Thereafter	0

Actuarial Assumptions

The total pension liability at December 31, 2015, 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 at the later of age 50 or 20 years of service
- Investment rate of return of 2.0% per year
- Inflation rate of 2.50%

There were no changes in actuarial assumptions in 2015.

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 statute. Based on that assumption and considering the funding 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.

Pension Asset 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 1% lower or 1% higher than the current discount rate:

NOTE 6. PENSION PLAN(CONTINUED)

A. VOLUNTEER FIRE RELIEF ASSOCIATION
Pension Sensitivity(Continued)

	1% Decrease in Discount Rate (1.90%)	Discount Rate (2.90%)	1% Increase in Discount Rate (3.90%)
Net Pension (Asset)/Liability	($17,690)	($21,502)	($25,219)

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 class. The asses allocation and the long term expected real rate of return is the following:

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.

Detailed information about the VFRA's fiduciary net position as of December 31, 2016, 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.

CITY OF VESTA
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0021%	$108,833	$142,659	76.29%	78.20%
June 30, 2016	0.0022%	$178,629	$135,078	132.24%	68.90%

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

CITY OF VESTA
SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
December 31, 2015	$10,699	$10,699	-	$142,659	7.50%
December 31, 2016	$10,131	$10,131	-	$135,078	7.50%

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

CITY OF VESTA
SCHEDULE OF CITY'S CONTRIBUTIONS
VOLUNTEER FIRE RELIEF ASSOCIATION

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
December 31, 2014	$ 9,618	$ 9,618	-	N/A	N/A
December 31, 2015	$ 10,116	$ 10,116	0	N/A	N/A

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions:

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

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

Schedule of Changes in Net Position (Asset) Liability and related Ratio for Defined Benefit Pension Plan
Fiscal Year 2016-Volunteer Fire Relief Association

Total Pension Liability		
Service Cost	$	5,156
Plan Changes		9,501
Interest on the Total Pension Liability		2,757
Net Change in total pension liability		17,414
Total Pension Liability Beginning	$	95,050
Total Pension Liability Ending	$	112,464
Plan Fiduciary Net Position		
Contributions	$	10,116
Contributions Local		180
Net Investment Income		443
Pension Plan Admin Expense		(200)
Net Change in Total Pension Liability	$	10,539
Plan Fiduciary Net Position- Beginning	$	123,427
Plan Fiduciary Net Position- Ending	$	133,966
Net Pension (Asset)/Liability-Ending	**$**	**(21,502)**

Note: This schedule will be build prospectively until it contains ten years of data.

City of Vesta
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

	Special Revenue	Debt Service	
	EDA	**Debt 2008**	**Total Nonmajor Governmental Funds**
ASSETS			
Cash and Cash Equivalents	$ 8,143	$ 10,225	$ 18,368
Taxes Receivable	--	480	480
Total Assets	8,143	10,705	18,848
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
Total Assets and Deferred Outflows of Resources	**$ 8,143**	**$ 10,705**	**$ 18,848**
LIABILITIES			
Total Liabilities	--	--	--
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	--	279	279
Total Liabilities and Deferred Inflows of Resources	--	279	279
FUND BALANCE			
Restricted		10,426	10,426
Committed	8,143		8,143
Total Fund Balance	8,143	10,426	18,569
Total Liabilities, Deferred Inflows of Resources and Fund Balance	**$ 8,143**	**$ 10,705**	**$ 18,848**

City of Vesta
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2016

	Special Revenue	Debt Service	
	EDA	**Debt 2008**	**Total Nonmajor Governmental Funds**
Revenues			
Taxes	$ --	$ 3,221	$ 3,221
Interest Income	12	10	22
Miscellaneous Revenues	--	12	12
Total Revenues	12	3,243	3,255
Expenditures			
Interest Expense	--	138	138
Debt - Principal	--	7,000	7,000
Total Expenditures	--	7,138	7,138
Excess of Revenues Over (Under) Expenditures	12	(3,895)	(3,883)
Other Financing Sources (Uses)			
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
Net Other Financing Sources (Uses)	--	--	--
Net Change in Fund Balance	**12**	**(3,895)**	**(3,883)**
Fund Balance at Beginning of Period	8,131	14,321	22,452
Fund Balance at End of Period	**$ 8,143**	**$ 10,426**	**$ 18,569**

Kinner & Company Ltd
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*

Honorable Mayor and Members of the Council
City of Vesta
Vesta, Minnesota 56292

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, 2016, 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 13, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, 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 financials 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 over 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 Prior and Current Findings and Responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2016-001 and 2016-002, to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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 deficiency described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2016-005 to be a significant deficiency.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City of Vesta, Minnesota's financial statements are free from 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 matters of noncompliance that are required to be reported under Minnesota Statues. These items of noncompliance are described in the accompanying schedule of findings on internal control structure and compliance as items 2016-007 and 2016-009.

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 Prior and Current Findings and Responses. City of Vesta, Minnesota response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Minnesota Legal Compliance
The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested. Our audit considered the applicable categories including: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, public indebtedness, 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 Schedule of Prior and Current Findings and Responses as items 2016-007 and 2016-009. 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 Canby's noncompliance with the above referenced provisions.

Purpose of 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.

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

June 13, 2017

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CITY OF VESTA
SCHEDULE OF PRIOR AND CURRENT FINDINGS AND RESPONSES
DECEMBER 31, 2016

STATUS OF PRIOR AUDIT FINDINGS

Finding 2015-001: A material weakness was reported due to the lack of segregation of duties within the organization. This finding continues to exist and has been restated as Finding 2016-001.

Finding 2015-002: A material weakness was reported due to the numerous adjustments that resulted in significant changes to the City's financial statements. This finding continues to exist and has been restated as Finding 2016-002.

Finding 2015-003: A significant deficiency was reported due to the lack of approval of purchases, transfers, and resolutions in minutes. This finding has not been restated.

Finding 2015-004: A significant deficiency was reported due to the lack of control over payroll transactions. This finding has not been restated.

Finding 2015-005: A significant deficiency was reported due to the lack of control of expenditures and cash. This finding continues to exist and has been restated as Finding 2016-005.

Finding 2015-006: Noncompliance was reported due to the lack of required declaration on the back of the City's checks. This finding has not been restated.

Finding 2015-007: Noncompliance was reported due to the late payment on invoices. This finding continues to exist and has been restated as Finding 2016-007.

Finding 2015-008: Noncompliance was reported due to the acceptance of grants without council approval. This finding does not exist this year.

Finding 2015-009: Noncompliance was reported relating to the disbursement of funds not for public purpose. This finding continues to exist and has been restated as Finding 2016-009.

CITY OF VESTA
SCHEDULE OF PRIOR AND CURRENT FINDINGS AND RESPONSES
DECEMBER 31, 2016

CURRENT YEAR FINDINGS

2016-001 INTERNAL ACCOUNTING CONTROLS – SEGREGATION OF DUTIES

Condition: Due to the limited number of accounting office personnel, segregation of 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 a 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.

CORRECTIVE ACTION PLAN (CAP)

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Action Planned in Response to Finding</u>
   The City will respond to this by continuing to have the Mayor or 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.

CURRENT YEAR FINDINGS(CONTINUED)

3. Official Responsible for Ensuring 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.

2016-002 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.

CURRENT YEAR FINDINGS(CONTINUED)

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.

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 Ensuring CAP
   The Mayor and the City Council are responsible for ensuring corrective action of this deficiency.

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

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

CURRENT YEAR FINDINGS(CONTINUED)

2016-005 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.

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.
-

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 Ensuring 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 2017.

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

CITY OF VESTA
SCHEDULE OF PRIOR AND CURRENT FINDINGS AND RESPONSES
DECEMBER 31, 2016

CURRENT YEAR FINDINGS(CONTINUED)

2016-007 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.

Criteria: Minnesota Statute §471.425 subd. 2 requires that a City must pay each vendor obligations 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.

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 Ensuring 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 2017.

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

CITY OF VESTA
SCHEDULE OF PRIOR AND CURRENT FINDINGS AND RESPONSES
DECEMBER 31, 2016

CURRENT YEAR FINDINGS(CONTINUED)

2016-009 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. We also noted that the City bought Minnesota Wild tickets from the general fund that should be reimbursed back to the general fund. The total amount of the expenditures were 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. The City was not aware that the Minnesota Wild tickets could not be paid for by the general fund.

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. We recommend no more professional game tickets be bought from the general fund.

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 Ensuring 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.