

**Kinner & Company Ltd**  
**Certified Public Accountants**  
**MANAGEMENT LETTER**

To the Council and Mayor  
of the City of Vesta

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vesta, Minnesota for the year ended December 31, 2019, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of the following opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated July 14, 2020, on the financial statements of the City of Vesta, Minnesota.

**COMMENTS AND SUGGESTIONS**

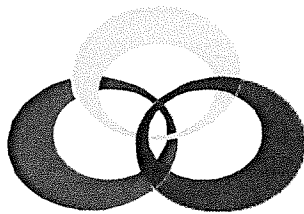
- The city incorrectly filed the Form 1099's. The information was in the other income box. They should have been reported in the Non-employee compensation box.
- The public works and fire department should approve the invoices to be paid before writing checks to help the City properly code transactions. This information should be included on the invoice or statement for the clerk to verify.
- Bank statements had not been reconciled to the general ledger until May 2020 after Jacob did his accounts payable clean up work. The clerk prepared a reconciliation for the year but did not check to make sure it agreed by fund and account balance per fund.
- There were a large amount of delinquent customer utility bills at year end. Please follow the correct procedures for the delinquent bills.
- There was a work comp claim submitted that increased 2019 work comp expense by \$2,000 from 2018 due to an employee getting hurt.
- Accounts payable needs to be reviewed monthly to ensure expenses and invoices are recorded properly so at year end there is less clean up work to do.
- The transfer that was approved in the minutes in 2019 for \$7,750 to the restricted savings account for debt compliance in the water fund was not transferred before year end.

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

Sincerely,

*Kinner & Company Ltd.*

Kinner & Company Ltd  
Tracy, Minnesota



**Kinner & Company Ltd**  
Certified Public Accountants

City of Vesta  
Attn: Jacob Kolander  
150 W Front St., PO Box 7  
Vesta, MN 56292

Dear Jacob:

Enclosed is a draft of your audit report and a representation letter from you to our firm. Please complete the lower portion of this page, read and sign the representation letter, and return both of them to our office. We will prepare and forward bound copies of your audit report when we receive your approval and payment.

If you have any questions, please call us at 507-629-3662.

It was a pleasure working with you and we look forward to working with you again in the future.

Sincerely,

Kinner & Company Ltd  
Certified Public Accountants

Enclosures

**Approval or Changes needed:**

\_\_\_\_ I have read the draft of the Audit Report and approve it for binding. We will require \_\_\_\_ copies of the Audit Report.

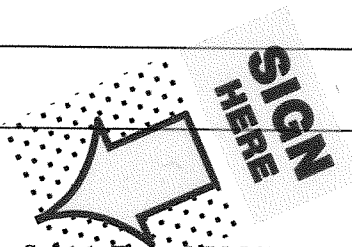
\_\_\_\_ I have enclosed payment in the form of \_\_\_\_ for the amount of \_\_\_\_.

\_\_\_\_ I would like to have an exit interview with the accountants to discuss the financial statements in greater detail.

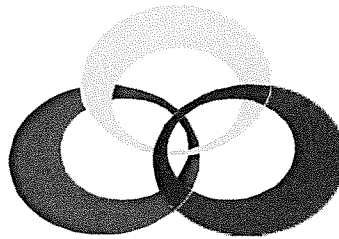
\_\_\_\_ I have comments or concerns regarding the presentation of the following items in the Audit Report as described below (attach additional sheets if necessary):

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Jacob Kolander



212 3<sup>rd</sup> Street, Suite 1, Tracy, MN 56175  
507-629-3662 or 800-838-5410, fax 507-629-3446  
Visit our website at [www.kinner.co](http://www.kinner.co)



**Kinner & Company Ltd**  
Certified Public Accountants

Honorable Mayor and Members of the Council  
City of Vesta

At the conclusion of our audit we communicated to you our significant findings and other communication required with those charged with governance.

We have also supplied to you our recommended year-end adjusting journal entries. These are the adjustments that must be made in order for your accounting system to be in agreement with the year-end audit. Please review the adjustments and if they meet with your approval, post them to your accounting system for the year ended December 31, 2019. After posting the adjustments, please send us an updated balance sheet.

Please review all enclosed documents, sign below and return this form to us.

Thank you,

*Kinner & Company Ltd.*

Kinner & Company Ltd  
Certified Public Accountants

enclosures

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We have reviewed and approved the preceding items.

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Jacob Kolander  
City Clerk/Treasurer



212 3<sup>rd</sup> Street, Suite 1, Tracy, MN 56175  
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Visit our website at [www.kinner.co](http://www.kinner.co)

**CITY OF VESTA  
150 FRONT ST WEST, PO BOX 7  
VESTA, MN 56292**

July 14, 2020

Kinner & Company Ltd  
Certified Public Accountants  
212 3<sup>rd</sup> Street, Suite 1  
Tracy, MN 56175

This representation letter is provided in connection with your audit of the financial statements of the City of Vesta, which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of July 14, 2020, the following representations made to you during your audit.

**Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 22, 2019, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.

- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financials that would require adjustment to or disclosure in the financial statements (or in the schedule of prior and current findings and responses).
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter, if any.
- 9) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims or assessments.
- 10) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

### **Information Provided**

- 11) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters (and all audit or relevant monitoring reports, if any, received from funding sources).
  - b) Additional information that you have requested from us for the purpose of the audit.

- c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of that risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
- a) Management
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 18) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

**Government-specific**

19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

20) We have a process to track the status of audit findings and recommendations.

21) We have identified to you any previous audits, attestation engagements, or other studies related to the audit objectives and whether related recommendations have been implemented.

22) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

23) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

24) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.

25) There are no violations, or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording loss contingency, or for reporting on noncompliance.

26) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those non audit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

- 27) The City has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.
- 30) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 31) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
- 32) Provisions for uncollectible receivables have been properly identified and recorded.
- 33) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 34) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 35) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 36) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 37) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 38) We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.



39) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that the net position was properly recognized under the policy.

40) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

41) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

42) With respect to the non-major governmental combining statements:

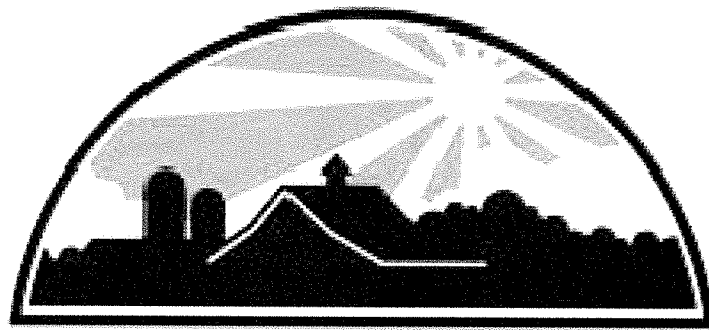
- a. We acknowledge our responsibility for presenting the non-major governmental combining statements in accordance with accounting principles generally accepted in the United States of America, and we believe the non-major governmental combining statements, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the management's discussion and analysis have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

\_\_\_\_\_  
Jacob Kolander

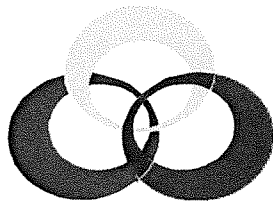
\_\_\_\_\_  
Title



FINANCIAL AUDIT REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2019



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, 2019**

ELECTED AND APPOINTED OFFICIALS

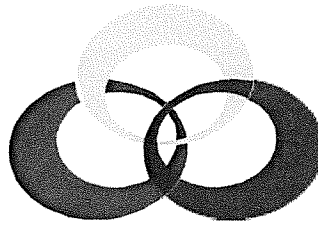
Elected

Jeff Wall	Mayor
Justin Kolander	Council Member
Travis Zollner	Council Member
Ashley Penske	Council Member
Adam Krause	Council Member

Appointed

Jacob Kolander	Clerk/Treasurer
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, each major fund and the aggregate remaining non-major funds of the City of Vesta, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express 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, each major fund and the aggregate remaining non-major funds of the City of Vesta, Minnesota as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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 July 14, 2020, 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

July 14, 2020



**CITY OF VESTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019**

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, 2019.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2019 year include the following:

- Net position decreased \$10,313 from the prior year to \$1,718,354. Of this decrease, most is related to the expenses in the water and wastewater funds.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$507,422, a increase of \$47,872 from the previous year balance of \$459,550. The increase was due to a variety of factors, primarily less capital outlay spending in the General Fund.
- The General Fund's fund balance increased \$72,999 to \$433,510. The unassigned fund balance increased \$68,888 due to less spending 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.

**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.

# **CITY OF VESTA MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2019**

## **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 deferred outflows of resources, as well as liabilities and deferred inflows of resources, 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.

**CITY OF VESTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2019**

- **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 decreased \$16,352 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**

<b>Net Position</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>2019</b>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>Total</u>
Current and other assets	\$586,600	\$548,375	\$262,913	\$314,181	\$849,513
Capital assets	424,792	473,979	1,338,877	1,381,538	1,763,669
Total assets	1,011,392	1,022,354	1,601,790	1,695,719	2,613,182
Deferred Outflows	6,969	26,344	2,451	4,755	9,420
Current liabilities	12,722	51,626	48,879	94,592	61,601
Long-term liabilities outstanding	49,096	100,746	741,250	847,458	790,346
Total liabilities	61,818	152,372	790,129	942,050	851,947
Deferred Inflows	49,096	55,266	10,796	17,035	58,340
Net position					
Net investment in capital assets	420,829	437,701	601,877	563,238	1,022,706
Restricted	245,688	249,735	71,419	71,419	317,107
Unrestricted	242,482	205,250	130,020	201,324	372,502
Total Net Position	\$908,999	\$892,686	\$803,316	\$835,981	\$1,712,315

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. There are no funds with deficit balances at the end of the 2019.

**CITY OF VESTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2019**

**Governmental activities.** Governmental activities increased the City's net position by \$16,313. Key elements of this increase are as follows:

**Table 2**

<b>Changes in Net Position</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>2019</b>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>Total</u>
Revenues:					
Charges for services	\$22,294	\$19,856	\$166,937	\$163,497	\$189,231
Operating Grants and contributions	228,444	124,241	2,550	-	230,994
Capital grants and contributions	-	24,430	-	129,566	-
General Revenues					
Property taxes	176,306	171,041	(42)	-	176,264
Special Assessments	262	629	(9,824)	(2,416)	(9,562)
Intergovernmental Revenue	-	88,200	-	-	-
Gain(Loss) on Disposal of Capital Assets	600	-	-	(5,277)	600
Unrestricted Investment Earnings	2,310	1,490			2,310
Miscellaneous	2,790	4,236			2,790
<b>Total Revenues</b>	<u>433,006</u>	<u>434,123</u>	<u>159,621</u>	<u>285,370</u>	<u>592,627</u>
Expenses:					
General Government	249,033	243,212			249,033
Public Safety	49,308	52,216			49,308
Public Works	80,026	77,043			80,026
Culture & Recreation	26,711	24,547			26,711
Interest	942	2,578			942
Water			128,832	109,657	128,832
Wastewater			57,495	40,156	57,495
Garbage			16,632	18,376	16,632
Municipal Liquor Store			-	60	-
<b>Total expenses</b>	<u>406,020</u>	<u>399,596</u>	<u>202,959</u>	<u>168,249</u>	<u>608,979</u>
Transfers	(10,673)	(7,750)	10,673	7,750	-
Change in net position	16,313	26,777	(32,665)	124,871	(16,352)
Net Position, January 1	892,686	865,909	835,981	711,110	1,728,667
Net Position, December 31	<u>\$908,999</u>	<u>\$892,686</u>	<u>\$803,316</u>	<u>\$835,981</u>	<u>\$1,712,315</u>

The City's total net position decreased in 2019 by \$16,352 and increased in 2018 by \$151,648.

**CITY OF VESTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019**

**Governmental Activities**

For 2019 and 2018, revenue for the City's governmental activities were nearly flat and increased by 45 percent, respectively, while total expenses were nearly flat in 2019 and increased by 30 percent in 2018.

Table 3 presents the cost of each of the City's programs- general government, public safety, public works and culture and recreation and interest. Governmental expenses in total were generally flat from 2019 other than the DEED grant expense

**Table 3 Governmental Activities**

	Total Cost of Services	
	<u>2019</u>	<u>2018</u>
General Administration	\$249,033	\$243,212
Public Safety	49,308	52,216
Public Works	80,026	77,043
Culture & Recreation	26,711	24,547
Interest on Long-Term Debt	<u>942</u>	<u>2,578</u>
Totals	<u>\$406,020</u>	<u>\$399,596</u>

**Business-Type Activities**

For 2019 and 2018, revenues of the City's business-type activities (see table 2) decreased 44 percent and increased 48 percent and the expenses increased 21 percent and decreased by 4 percent. Water, wastewater and garbage revenues and expenses were generally consistent with prior years, except for the water project grants in 2018 and project expenses in 2019.

**CITY OF VESTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019**

**THE CITY'S FUNDS**

As the City completed the year, its governmental funds reported a combined fund balance of \$507,422 and \$459,550 for 2019 and 2018. Operations of the City were generally similar to the prior year at the fund level. Increase in fund balance relates to less capital outlay purchased this year and all the levy going into the general fund.

**General Fund Budgetary Highlights:**

The City Council did not amend the original budget during the current year. General Fund revenues were \$120,906 higher than budget in 2019 and \$102,163 higher than budget for 2018. This variance relates to the DEED grant income. Expenditures were \$37,434 higher than budget in 2019 due to DEED grant expenses and \$132,564 higher than budget in 2018 due DEED grant expenses. There were also numerous smaller increases and decreases in the operating budgets of the remaining funds.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

In 2019 and 2018, the City had \$1,763,669 and \$1,819,517 invested in a broad range of capital assets. Additions during 2019 improvements and equipment purchases.

**Table 4  
Capital Assets - Net of  
Depreciation**

	Governmental Activities		Business-type Activities		2019
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>Total</u>
Land	\$79,045	\$79,045	\$54,380	\$54,380	\$133,425
Buildings & Improvements	162,442	160,042	1,121,146	1,121,146	1,283,588
Equipment	183,305	198,892	163,351	206,012	346,656
Totals	<u>424,792</u>	<u>437,979</u>	<u>1,338,877</u>	<u>1,381,538</u>	<u>1,763,669</u>

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

**CITY OF VESTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019**

**Debt**

As shown in Table 5, the City has \$740,963 and \$785,278 in debt at the end of 2019 and 2018, respectively.

**Table 5**

**Debt**

	Governmental Activities		Business-type Activities		2019
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>Total</u>
General Obligation Bonds	-	\$25,000			\$0
Capital Lease	3,963	11,278			3,963
General Obligation Revenue Bonds			737,000	749,000	737,000
Totals	<u>3,963</u>	<u>36,278</u>	<u>737,000</u>	<u>749,000</u>	<u>740,963</u>

The long term debt has decreased from 2018.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2020 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2019.

**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 7, 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, 2019**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 462,101	\$ 157,048	\$ 619,149
Taxes Receivable	46,112	173	46,285
Accounts Receivable	1,507	19,863	21,370
Special Assessments Receivable	523	--	523
Prepaid and Other Assets	14,482	2,378	16,860
<b>Total Current Assets</b>	<b>524,725</b>	<b>179,462</b>	<b>704,187</b>
<i>Noncurrent Assets</i>			
Restricted Cash	--	71,741	71,741
Non-Depreciable	79,045	54,380	133,425
Depreciable, Net	345,747	1,284,497	1,630,244
Special Assessments Delinquent	1,016	11,710	12,726
Net Pension Asset	60,859	--	60,859
<b>Total Assets</b>	<b>1,011,392</b>	<b>1,601,790</b>	<b>2,613,182</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pension Resources	6,969	2,451	9,420
<b>Total Deferred Outflows of Resources</b>	<b>6,969</b>	<b>2,451</b>	<b>9,420</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	5,026	11,188	16,214
Compensated Absences	1,532	2,298	3,830
Accrued Interest Payable	--	20,212	20,212
Deposits	--	450	450
Unearned Revenue	2,201	1,731	3,932
Bonds Payable-due within one year	--	13,000	13,000
Lease Payable- due within one year	3,963	--	3,963
<b>Total Current Liabilities</b>	<b>12,722</b>	<b>48,879</b>	<b>61,601</b>
<i>Noncurrent Liabilities</i>			
Bonds Payable-due beyond one year	--	724,000	724,000
Net Pension Liability	49,096	17,250	66,346
<b>Total Liabilities</b>	<b>61,818</b>	<b>790,129</b>	<b>851,947</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Pension Resources	47,544	10,796	58,340
<b>Total Deferred Inflows of Resources</b>	<b>47,544</b>	<b>10,796</b>	<b>58,340</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	420,829	601,877	1,022,706
Restricted	245,688	71,419	317,107
Unrestricted	242,482	130,020	372,502
<b>Total Net Position</b>	<b>\$ 908,999</b>	<b>\$ 803,316</b>	<b>\$ 1,712,315</b>

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

**City of Vesta**  
**Statement of Activities**  
**For the Year Ended December 31, 2019**

Functions/Programs	Program Revenues			Net (Expense) Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General Government and Administration	\$ 249,033	\$ 4,833	\$ 216,765	\$ (27,435)	\$ --	\$ (27,435)
Public Safety	49,308	17,461	11,679	(20,168)	--	(20,168)
Public Works	80,026	--	--	(80,026)	--	(80,026)
Parks	9,411	--	--	(9,411)	--	(9,411)
Culture and Recreation	13,897	--	--	(13,897)	--	(13,897)
Unallocated	3,403	--	--	(3,403)	--	(3,403)
Interest Expense	942	--	--	(942)	--	(942)
<b>Total Governmental Activities</b>	<b>406,020</b>	<b>22,294</b>	<b>228,444</b>	<b>(155,282)</b>	<b>--</b>	<b>(155,282)</b>
<b>Business-type Activities:</b>						
Liquor	--	--	--	--	--	--
Garbage	16,632	19,384	--	--	2,752	2,752
Wastewater	57,495	35,455	1,275	--	(20,765)	(20,765)
Water	128,832	112,098	1,275	--	(15,459)	(15,459)
<b>Total Business-type Activities</b>	<b>202,959</b>	<b>166,937</b>	<b>2,550</b>	<b>--</b>	<b>(33,472)</b>	<b>(33,472)</b>
<b>Total Primary Government</b>	<b>\$ 602,940</b>	<b>\$ 189,231</b>	<b>\$ 230,994</b>	<b>\$ (155,282)</b>	<b>\$ (33,472)</b>	<b>\$ (188,754)</b>
<b>General Purpose Revenues and Transfers:</b>						
<b>Revenues</b>						
Taxes (Abated)				176,306	(42)	176,264
Interest Revenue				2,310	--	2,310
Donations				1,075	--	1,075
Insurance Dividends				840	--	840
Sale of Equipment				600	--	600
Refunds and Reimbursements				1	--	1
Miscellaneous Revenues				874	--	874
Special Assessments (Abated)				262	(9,824)	(9,562)
<b>Transfers</b>				(10,673)	10,673	--
<b>Total General Revenues and Transfers</b>				<b>171,595</b>	<b>807</b>	<b>172,402</b>
<b>Change in Net Position</b>				<b>16,313</b>	<b>(32,665)</b>	<b>(16,352)</b>
<i>Net Position at Beginning of Period</i>				892,686	835,981	1,728,667
<b>Net Position at End of Period</b>				<b>\$ 908,999</b>	<b>\$ 803,316</b>	<b>\$ 1,712,315</b>

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

**City of Vesta  
Balance Sheet  
Governmental Funds  
December 31, 2019**

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 388,287	\$ 73,814	\$ 462,101
Taxes Receivable	45,698	414	46,112
Accounts Receivable	1,507	--	1,507
Special Assessments Receivable	--	523	523
Prepaid and Other Assets	14,482	--	14,482
Special Assessments Delinquent	--	1,016	1,016
<i>Total Assets</i>	449,974	75,767	525,741
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 449,974</u>	<u>\$ 75,767</u>	<u>\$ 525,741</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 5,026	\$ --	\$ 5,026
Unearned Revenue	2,201	--	2,201
<i>Total Liabilities</i>	7,227	--	7,227
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	9,237	1,855	11,092
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>16,464</u>	<u>1,855</u>	<u>18,319</u>
<b>FUND BALANCE</b>			
Nonspendable	14,482	--	14,482
Restricted	144,457	65,712	210,169
Committed	11,954	8,200	20,154
Assigned	41,842	--	41,842
Unassigned	220,775	--	220,775
<i>Total Fund Balance</i>	<u>433,510</u>	<u>73,912</u>	<u>507,422</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 449,974</u>	<u>\$ 75,767</u>	<u>\$ 525,741</u>

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, 2019**

Total Fund Balance - Governmental Funds	\$ 507,422
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	(1,532)
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.	424,792
Receivables to be collected, but not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows.	11,093
Long- term debt reflected on Statement of Net Assets not in governmental funds balance sheet	(3,963)
Net pension assets are not available to pay for current period expenditures and therefore are deferred in the funds.	60,859
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.	(49,096)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.	( 47,544 )
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.	6,969
<b>Total Net Position-Governmental Funds</b>	<b>\$ <u>908,998</u></b>

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, 2019**

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 193,035	\$ (1)	\$ 193,034
Local Government Aid	87,617	--	87,617
Other State Aid	3,211	--	3,211
Licenses, Permits, Fines, and Fees	3,325	--	3,325
Charges for Services	17,461	--	17,461
Refunds and Reimbursements	258	1	259
Donations	1,075	--	1,075
Miscellaneous Revenues	874	--	874
Insurance Dividends	840	--	840
Other	1,250	--	1,250
Interest Revenue	2,116	194	2,310
Special Assessments	--	262	262
Deed Grant	125,937	--	125,937
<b>Total Revenues</b>	<u>436,999</u>	<u>456</u>	<u>437,455</u>
<b>Expenditures</b>			
General Government and Administration	237,176	--	237,176
Public safety	29,513	--	29,513
Public Works	58,520	--	58,520
Parks	9,412	--	9,412
Culture and Recreation	7,762	--	7,762
Capital Outlay	3,870	--	3,870
Interest Expense	359	583	942
Debt - Principal	7,315	25,000	32,315
<b>Total Expenditures</b>	<u>353,927</u>	<u>25,583</u>	<u>379,510</u>
<b>Excess of Revenues Over</b>			
<b>(Under) Expenditures</b>	<u>83,072</u>	<u>(25,127)</u>	<u>57,945</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Equipment	600	--	600
Transfers from Other Funds	--	--	--
Transfers to Other Funds	(10,673)	--	(10,673)
<b>Net Other Financing Sources (Uses)</b>	<u>(10,073)</u>	<u>--</u>	<u>(10,073)</u>
<b>Net Change in Fund Balance</b>	<b>72,999</b>	<b>(25,127)</b>	<b>47,872</b>
<b>Fund Balance at Beginning of Period</b>	<u>360,511</u>	<u>99,039</u>	<u>459,550</u>
<b>Fund Balance at End of Period</b>	<u><b>\$ 433,510</b></u>	<u><b>\$ 73,912</b></u>	<u><b>\$ 507,422</b></u>

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

**City of Vesta**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended December 31, 2019**

Total Net Change in Fund Balances - Governmental Funds	\$	47,872
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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.	(16,728)
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Principal payments on long-term expensed in governmental fund statements, treated as reductions of outstanding debt in Entity wide statements	32,315
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Capital assets expensed as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Position.	3,870
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Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements	(53,057)
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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.	300
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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.	1,741.0
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<b>Changes in Net Position-Governmental Funds</b>	<b>\$</b>	<b>16,313</b>
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The notes to the financial statements are an integral part of this statement.

**City of Vesta**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2019**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Wastewater</b>	<b>Water</b>	<b>Non Major - Garbage &amp; Liquor</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 53,438	\$ 99,035	\$ 4,575	\$ 157,048
Taxes Receivable	--	173	--	173
Accounts Receivable	5,087	12,866	1,910	19,863
Prepaid and Other Assets	1,189	1,189	--	2,378
<b>Total Current Assets</b>	<b>59,714</b>	<b>113,263</b>	<b>6,485</b>	<b>179,462</b>
<i>Noncurrent Assets</i>				
Restricted Cash - ST Asset Reserve	--	71,741	--	71,741
Non-Depreciable	46,680	7,700	--	54,380
Depreciable, Net	116,059	1,168,438	--	1,284,497
Special Assessments Delinquent	--	11,710	--	11,710
<b>Total Assets</b>	<b>222,453</b>	<b>1,372,852</b>	<b>6,485</b>	<b>1,601,790</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Pension Resources	1,226	1,225	--	2,451
<b>Total Deferred Outflows of Resources</b>	<b>1,226</b>	<b>1,225</b>	<b>--</b>	<b>2,451</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	4,638	4,702	1,848	11,188
Compensated Absences	1,149	1,149	--	2,298
Accrued Interest Payable	--	20,212	--	20,212
Deposits	--	450	--	450
Unearned Revenue	--	1,731	--	1,731
Bonds Payable-due within one year	--	13,000	--	13,000
<b>Total Current Liabilities</b>	<b>5,787</b>	<b>41,244</b>	<b>1,848</b>	<b>48,879</b>
<i>Noncurrent Liabilities</i>				
Bonds Payable-due beyond one year	--	724,000	--	724,000
Net Pension Liability	8,625	8,625	--	17,250
<b>Total Liabilities</b>	<b>14,412</b>	<b>773,869</b>	<b>1,848</b>	<b>790,129</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Pension Resources	5,398	5,398	--	10,796
<b>Total Deferred Inflows of Resources</b>	<b>5,398</b>	<b>5,398</b>	<b>--</b>	<b>10,796</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	162,739	439,138	--	601,877
Restricted for asset replacement	--	71,419	--	71,419
Unrestricted	41,130	84,253	4,637	130,020
<b>Total Net Position</b>	<b>\$ 203,869</b>	<b>\$ 594,810</b>	<b>\$ 4,637</b>	<b>\$ 803,316</b>

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, 2019**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Wastewater</b>	<b>Water</b>	<b>Non Major - Garbage &amp; Liquor</b>	<b>Total Enterprise Funds</b>
<b>Operating Revenues</b>				
Charges for Services	\$ 35,151	\$ 111,749	\$ 19,384	\$ 166,284
<b>Total Operating Revenues</b>	<b>35,151</b>	<b>111,749</b>	<b>19,384</b>	<b>166,284</b>
<b>Operating Expenses</b>				
Salaries and Wages	17,339	17,404	--	34,743
Payroll taxes and Benefits	4,206	4,214	--	8,420
Travel	1,390	535	--	1,925
Bonds and Insurance	2,629	2,629	--	5,258
Professional Fees	--	732	--	732
Dues/Conferences/Training	2,054	3,622	--	5,676
Office Supplies and Expenses	335	809	--	1,144
Utilities	2,619	1,426	--	4,045
Repairs and Maintenance	8,826	5,729	--	14,555
Miscellaneous	2,049	283	--	2,332
Supplies	3,422	20,829	16,632	40,883
Depreciation Expense	12,626	50,351	--	62,977
<b>Total Operating Expenses</b>	<b>57,495</b>	<b>108,563</b>	<b>16,632</b>	<b>182,690</b>
<b>Operating Income (Loss)</b>	<b>(22,344)</b>	<b>3,186</b>	<b>2,752</b>	<b>(16,406)</b>
<b>Non-Operating Revenues (Expenses)</b>				
Taxes (Abated)	--	(42)	--	(42)
Interest Revenue	304	349	--	653
Special Assessments (Abated)	--	(9,824)	--	(9,824)
Other State Aid	1,275	1,275	--	2,550
Interest Expense	--	(20,269)	--	(20,269)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>1,579</b>	<b>(28,511)</b>	<b>--</b>	<b>(26,932)</b>
<b>Income Before Contributions and Transfers</b>	<b>(20,765)</b>	<b>(25,325)</b>	<b>2,752</b>	<b>(43,338)</b>
Transfers from Other Funds	--	--	10,673	10,673
Transfers to Other Funds	--	--	--	--
<b>Change In Net Position</b>	<b>(20,765)</b>	<b>(25,325)</b>	<b>13,425</b>	<b>(32,665)</b>
<b>Net Position at Beginning of Period</b>	<b>224,634</b>	<b>620,135</b>	<b>(8,788)</b>	<b>835,981</b>
<b>Net Position at End of Period</b>	<b>\$ 203,869</b>	<b>\$ 594,810</b>	<b>\$ 4,637</b>	<b>\$ 803,316</b>

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, 2019**

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Wastewater	Water	Nonmajor Garbage & Liquor	
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Customers	\$ 33,941	\$ 123,288	\$ 18,671	\$ 175,900
Cash Paid to Employees	(17,577)	(17,642)	-	(35,219)
Cash Paid for Goods and Services	(18,686)	(36,538)	(16,530)	(71,754)
Cash Paid for Benefits on Behalf of Employees	(5,482)	(5,489)	-	(10,971)
Net Cash Provided (Used) by Operating Activities	(7,804)	63,619	2,141	57,956
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Operating Transfer In (Out)			10,673	10,673
Net Cash Provided (Used) by Noncapital Financing Activities	-	-	10,673	
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Receipts for Intergovernmental Sources	1,275	(8,592)	-	(7,317)
Principal Paid	-	(12,000)	-	(12,000)
Interest Paid	-	(20,598)	-	(20,598)
Purchase of Property and Equipment	(13,507)	(60,421)	-	(73,928)
Net Cash Provided (Used) by Capital and Related Financing Activities	(12,232)	(101,611)	-	(113,843)
<b>Cash Flows from Investing Activities:</b>				
Interest Income	304	349	-	653
Net Cash Provided (Used) by Investing Activities	304	349	-	653
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(19,732)</b>	<b>(37,643)</b>	<b>12,814</b>	<b>(44,561)</b>
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	73,170	208,097	(8,239)	273,028
<b>Cash and Cash Equivalents and Restricted Cash - End of Year</b>	<b>\$ 53,438</b>	<b>\$ 170,454</b>	<b>\$ 4,575</b>	<b>\$ 228,467</b>
Cash and Cash Equivalents -Unrestricted	\$ 53,438	\$ 99,035	\$ 4,575	\$ 157,048
Restricted Cash		71,419		71,419
	<b>\$ 53,438</b>	<b>\$ 170,454</b>	<b>\$ 4,575</b>	<b>\$ 228,467</b>

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

<b>Cash Flows From Operating Activities:</b>				
Operating Income (Loss)	\$ (22,344)	\$ 3,186	\$ 2,752	\$ (16,406)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	12,626	50,351	-	62,977
Change in Pension Expense	(1,276)	(1,275)	-	(2,551)
Changes in Assets and Liabilities:				
Accounts Receivable	(805)	(3,371)	(713)	(4,889)
Special Assessments Receivable		12,729	-	12,729
Prepays	(405)	(405)	-	(810)
Accounts Payable	4,638	2,642	102	7,382
Accrued Leave	(238)	(238)	-	(476)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (7,804)</b>	<b>\$ 63,619</b>	<b>\$ 2,141</b>	<b>\$ 57,956</b>
<b>Noncash Capital and Related Financing Activities</b>				
Payment on Capital Assets through an accounts payable account		<b>\$ (53,290)</b>		<b>\$ (53,290)</b>

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

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 Service Fund accounts for the accumulation of the special assessments which are restricted for the retirement of the general obligation debt.

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

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 (closed out in 2019) 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 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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**Prepays**

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.



**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 withheld 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.

<u>Years of Service</u>	<u>Days</u>
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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 over six months of operating expenditures of unassigned fund balance as of December 31, 2019.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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, 2019, the City has deferred outflows/inflows as follows:

	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Unearned Property Taxes	\$ 0	\$ 11,092
Amounts Related to Pensions	9,420	58,340

**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 has 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 74% is allocated to governmental and 26% to business-type in 2018 and in 2019.

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

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**B. FUND BALANCE CLASSIFICATION**

At December 31, 2019, a summary of the governmental fund balance classifications are as follows:

	General Fund	Other Governmental Funds	Totals
Nonspendable:			
Prepaid items	\$14,482	-	\$14,482
Restricted:			
Debt Service		65,712	65,712
First Responders	144,457		144,457
Committed:			
Infrastructure and Capital Assets	11,954		11,954
EDA		8,200	8,200
Assigned:			
Fire Truck	6,000	-	6,000
Street Improvements	35,000	-	35,000
First Responders	842	-	842
Unassigned	220,775	-	220,775
Total Fund Balances	<u>\$433,510</u>	<u>\$73,912</u>	<u>\$507,422</u>

**C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following fund had excess expenditures over appropriations as of December 31, 2019:

General Fund    \$37,434

**D. DEFICIT FUND BALANCES**

There were no deficit fund balances as of December 31, 2019.

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 \$734,397 at December 31, 2019, 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, 2019 was \$690,890.



**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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, 2019 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, 2019 the City had no investments.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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, 2018:

<u>Cash/Cash Equivalent Type</u>	<u>Credit Rating</u>	<u>Average Maturities</u>	<u>% of Total</u>	<u>Fair Value</u>
Cash and Cash Equivalents:				
Savings Accounts	N/A	N/A	71%	492,235
Restricted Cash	N/A	N/A	10%	71,419
Checking Accounts			19%	127,236
<b>Total Cash &amp; Cash Equivalents</b>			<b>100%</b>	<b><u>\$690,890</u></b>

Current Assets: Cash and cash equivalents as shown on the Statement of Net Position at December 31, 2019 is \$619,149.

Noncurrent Assets: Restricted cash as shown on the Statement of Net Position at December 31, 2019 is \$71,419.

**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, 2019 is \$9,722 of delinquent taxes and \$1,015 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, 2019 is \$11,092.



**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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, 2019:

<u>Issuance</u>	<u>Original Issuance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/18</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/19</u>	<u>Due in One Year</u>
Governmental Activities:								
GO Improvement Bonds of 2003	255,000	2/1/19	1.65- 4.65%	25,000	-	25,000	0	0
Capital Lease Payable	34,581	2/1/20	3.87%	11,278	-	7,315	3,963	3,963
Total Governmental Activities				36,278	-	32,315	3,963	3,963
Business Type Activities:								
GO Water Revenue Bond	784,000	1/1/54	2.75%	749,000	-	12,000	737,000	13,000
Total Business Type Activities				749,000	-	12,000	737,000	13,000

**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 2019 was \$581.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**E. LONG-TERM DEBT(Continued)**

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 2019 was \$20,598.

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 2019 was \$359.

2020	<u>3,963</u>
------	--------------

Total Min Lease Pmts	\$3,963
Less Amt Representing	
Interest	<u>(73)</u>
Present Value of	
Minimum Payments	<u>\$3,890</u>

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**

**E. LONG-TERM DEBT (Continued)**

Annual Debt Service Requirements

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2019 are summarized as follows:

Business-Type Activities	<b>Revenue Bonds</b>	
	<u>Principal</u>	<u>Interest</u>
2020	13,000	20,268
2021	13,000	19,965
2022	14,000	19,553
2023	14,000	19,168
2024	14,000	18,783
2025-2029	77,000	87,931
2030-2034	89,000	76,683
2035-2039	101,000	63,780
2040-2044	117,000	49,061
2045-2049	133,000	32,100
2050-2054	152,000	12,737
Total	<u>737,000</u>	<u>420,027</u>

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)**  
**E. LONG-TERM DEBT(Continued)**

**Capital Lease**

	Capital Lease <u>Payable</u>	<u>Interest</u>
2020	\$ 3,963	\$73

**F. INTERFUND TRANSACTIONS**

**Inter-fund Transfers**

There were approved transfers between funds for the year ended December 31, 2019:

Transfer from general fund to liquor fund \$10,673 for fund close out.

**Inter-fund Balances**

There were no inter-fund balances at December 31, 2019

**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.



**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4. OTHER INFORMATION (Continued)**

**A. RISK MANAGEMENT (CONTINUED)**

As of December 31, 2019, 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 has approved property tax abatements through out the years. There are no tax abatement expenses in 2019.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4. OTHER INFORMATION (Continued)**

**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.

**E. SUBSEQUENT EVENTS**

Subsequent events were evaluated through July 14, 2020, 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.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 City are covered by the General Employees Plan. General Employees Plan members belong to either Coordinated Plan or covered by Social Security.

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

General Employees Plan Benefits

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

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**B. Benefits Provided (Continued)**

Annuities, disability benefits, and survivor benefits are increased effective January 1. Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment announced by SSA, not less than 1.0 percent and not more than 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of increase will receive a full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduce prorated increase. For retirements on or after January 1, 2024, the increase will be delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefits recipients, or survivors). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

**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

Coordinated Plan members are required to contribute 6.50% of their annual covered salary in calendar year 2019. The City was required to contribute 7.50% for Coordinated Plan members in calendar year 2019. The City's contributions to the General Employee fund for the years ended December 31, 2019, 2018 and 2017 were \$6,191, \$6,324 and \$5,685, 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, 2019, the City reported a liability of \$66,023 for its proportionate share of the General employees fund's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million into the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meet the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$2,000. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**D. Pension Costs (Continued)**

The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion was 0.0012%, which decreased from 2018, 0.0011%.

For the year ended December 31, 2019, the City recognized pension expense of \$11,303 for its proportionate share of General Employees Fund's pension expense. In addition, the City recognized an additional \$93 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2019, 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	\$2,221	\$0
Changes in actuarial assumptions	0	6,068
Net Difference between projected and actual earnings on pension plan investments	0	6,154
Changes in proportion	4,161	29,301
Employer Contributions subsequent to the measurement date	3,038	0
Total	\$9,420	\$41,524

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**D. Pension Costs (Continued)**

\$7,258 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, 2019. 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
2020	(\$20,719)
2021	(14,705)
2022	175
2023	107

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2019 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four- year experience study in the General Employees Plan was completed in 2019. The most recent four year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 5. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**  
**E. Actuarial Assumptions (Continued)**

The following changes in actuarial assumptions occurred in 2019:

**General Employees Fund**

- The mortality projection scale was changed from MP-2017 to MP-2018.
- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

**Police and Fire Fund**

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

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	35.5%	5.10%
International Equity	17.5%	5.90%
Private Markets	25%	5.90%
Fixed Income	20%	.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	
	100%	

**F. Pension Liability Sensitivity**

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**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	\$109,068	\$66,345	\$31,069

**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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651)296-7460 or (800)652-9026.



**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 6. PENSION PLANS**

**A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN**

**Plan Description**

The Vesta Fire Relief Association (VFRA) participates in the Statewide Volunteer Firefighter Retirement Plan, an agent multiple-employer lump-sum defined benefit pension plan administered by the PERA of Minnesota. The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2019, the plan covered twenty active firefighters and one vested terminated firefighter whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

**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 5 years at 40% 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 \$11,679 in fire state aid to the plan for the year ended December 31, 2019. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2019 was \$0. The City's contributions were equal to the required contributions as set by state statute, if applicable.

**Pension Costs**

At December 31, 2019, the City of Vesta reported a net pension asset of \$60,859 for the VFRA plan. The net pension asset was measured as of December 31, 2019. 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 asset during the year.

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 6. PENSION PLANS (CONTINUED)**

**A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN (Continued)**

**Pension Costs(Continued)**

	<u><b>Total Pension Liability</b></u>	<u><b>Plan Fiduciary Net Position</b></u>	<u><b>Net Pension Liability/ (Asset)</b></u>
	(a)	(b)	(a-b)
Beginning Balance 12/31/18	\$120,069	\$163,592	(\$43,523)
Service Cost	4,191		4,191
Interest on Pension Liability	7,455		7,455
Projected Investment Earnings		9,816	(9,816)
Actuarial Experience (Gains)/Losses	(2,574)		(2,574)
Contributions (State)		11,679	(11,679)
Asset( Gain) Loss		18,447	(18,447)
Benefit Payouts			
Administrative Fee		(13,533)	13,533
Total Net Changes	\$9,072	\$26,408	(\$17,336)
Balance End of Year 12/31/19	\$129,141	\$190,000	(\$60,859)

For the year ended December 31, 2019, the City recognized pension expense of \$11,159.

At December 31, 2019, the City reported deferred inflow of resources and deferred outflows of resources from the following sources:

	<b>Deferred Inflows Of Resources</b>
Difference between projected and Actual investment earnings	\$ 18,447

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 6. PENSION PLANS (CONTINUED)**

**A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN (Continued)**  
**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
2019	\$3,689
2020	\$3,689
2021	\$3,689
2022	\$3,689
2023	\$3,691
Thereafter	0

**Actuarial Assumptions**

The total pension liability at December 31, 2019, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0% per year
- Inflation rate of 3.00%

There were no changes in actuarial assumptions in 2019.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.00%. 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:

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 6. PENSION PLANS (Continued)**

**A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN (CONTINUED)**  
**Pension Sensitivity(Continued)**

	1% Decrease in Discount Rate (5.00%)	Discount Rate (6.00%)	1% Increase in Discount Rate (7.00%)
Net Pension (Asset)/Liability	(\$57,385)	(\$60,860)	(\$64,390)

**Plan Investments**

**Investment Policy:**

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor, state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in the *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI with assistance of the SBI staff and Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**Asset Allocation:**

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.50%
Cash	5%	0.50%

**CITY OF VESTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 6. PENSION PLANS (Continued)**

**A. VOLUNTEER FIRE RELIEF ASSOCIATION PENSION PLAN (CONTINUED)**

The six percent long term expected rate of return on pension plan investments was determined using a building block method. Best estimates for expected future real rates of return(expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no changes to their investment policy during the Fiscal year 2019 for the Volunteer Firefighter Fund.

Detailed information about the VFRA's fiduciary net position as of December 31, 2019, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at [www.mnpera.org](http://www.mnpera.org).

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

Fiscal Year	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Ending							
6/30/19	0.0012%	\$66,345	\$5,861	\$72,206	\$83,459	86.52%	75.90%
6/30/18	0.0011%	\$61,023	\$3,539	\$64,562	\$84,325	76.56%	75.90%
6/30/17	0.0017%	\$108,527	\$1,340	\$109,867	\$75,806	144.93%	75.90%
6/30/16	0.0022%	\$178,629	\$2,408	\$181,037	\$138,062	131.13%	68.90%
6/30/15	0.0021%	\$108,833	\$9,618	\$118,451	\$142,659	83.03%	78.20%

\* 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 FUND

<u>Fiscal Year Ending</u>	Statutorily Required <u>Contribution (a)</u>	Contributions in Relation to the Statutorily Required <u>Contribution (b)</u>	Contribution Deficiency <u>(Excess) (a-b)</u>	Covered- Employee <u>Payroll (d)</u>	Contributions as a Percentage of Covered-Employee <u>Payroll (b/d)</u>
December 31, 2019	\$ 6,191	\$ 6,191	-	\$ 82,552	7.50%
December 31, 2018	6,324	6,324	-	84,325	7.50%
December 31, 2017	5,685	5,685	-	75,806	7.50%
December 31, 2016	10,131	10,131	-	135,078	7.50%
December 31, 2015	10,699	10,699	-	142,659	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  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2019

**General Employees Fund**

*2019 Changes*

- The mortality projection scale was changed from MP-2017 to MP-2018.
- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

*2018 Changes*

Changes in Actuarial Assumptions:

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

*2017 Changes*

Changes in Actuarial Assumptions:

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

*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.



**City of Vesta**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2019**

	<b>Budgeted Amounts</b>			<b>Variance Over (Under) Final to Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Property Taxes	\$ 177,000	\$ 177,000	\$ 193,035	\$ 16,035
Special Assessments	9,152	9,152	--	(9,152)
Licenses and Permits	1,000	1,000	3,325	2,325
State Grants	1,500	1,500	3,211	1,711
Donations	500	500	1,075	575
Interest Revenue	800	800	2,116	1,316
Insurance Dividends	2,500	2,500	840	(1,660)
Miscellaneous	14,527	14,527	1,132	(13,395)
Rent Income	2,000	2,000	1,250	(750)
User charges	18,097	18,097	17,461	(636)
Other	89,617	89,617	87,617	(2,000)
Sale of Assets	--	--	600	600
DEED State Grant	--	--	125,937	125,937
<b>Total Revenues</b>	<b>316,693</b>	<b>316,693</b>	<b>437,599</b>	<b>120,906</b>
<b>Other Financing Sources</b>				
<b>Total Revenues and Other Financing Sources</b>	<b>316,693</b>	<b>316,693</b>	<b>437,599</b>	<b>120,906</b>
<b>Expenditures</b>				
<b>General Government:</b>				
Mayor and Council Salaries	7,745	7,745	8,037	(292)
Clerk-Treasurer Salaries	29,952	29,952	31,764	(1,812)
Clerk-Treasurer Payroll Taxes and Benefits	8,295	8,295	18,679	(10,384)
Travel	200	200	276	(76)
Bonds and Insurance	--	--	3,033	(3,033)
Professional Fees	15,200	15,200	26,427	(11,227)
Dues/Conferences/Training	7,419	7,419	5,001	2,418
Office Supplies	6,686	6,686	7,605	(919)
Telephone	1,236	1,236	1,246	(10)
Utilities	4,500	4,500	3,429	1,071
Building Repairs and Maintenance	3,200	3,200	1,930	1,270
Miscellaneous	28,153	28,153	3,255	24,898
Election Expenditures	--	--	46	(46)
Utilities	3,180	3,180	3,402	(222)
Deed State Grant Expenses	--	--	125,937	(125,937)

**City of Vesta**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund (Continued)**  
**For the Year Ended December 31, 2019**

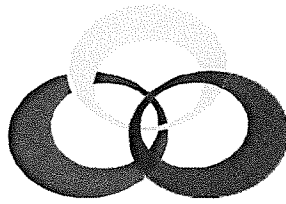
	<b>Budgeted Amounts</b>			<b>Variance Over (Under) Final to Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Public Safety:</b>				
Salaries	6,000	6,000	2,681	3,319
Insurance	--	--	3,034	(3,034)
Professional Fees	--	--	1,703	(1,703)
Supplies	12,000	12,000	12,102	(102)
State Relief Association Aid	500	500	315	185
Capital Outlay	22,210	22,210	1,200	21,010
Debt Service	8,033	8,033	7,674	359
<b>Public Works:</b>				
Salaries	16,728	16,728	25,432	(8,704)
Payroll Taxes	2,972	2,972	2,461	511
Shop Supplies	3,100	3,100	698	2,402
Shop Utilities	8,396	8,396	7,341	1,055
Repairs and Maintenance	19,000	19,000	14,522	4,478
Insurance	--	--	3,034	(3,034)
Vehicle Operating Expenditures	600	600	3,982	(3,382)
Miscellaneous	6,944	6,944	630	6,314
Capital Outlay	40,000	40,000	--	40,000
Training	--	--	420	(420)
<b>Culture &amp; Rec and Parks:</b>				
Salaries	6,576	6,576	4,664	1,912
Payroll Taxes	991	991	1,214	(223)
Repairs and Maintenance	1,000	1,000	--	1,000
Utilities	5,056	5,056	4,025	1,031
Supplies/Miscellaneous	9,340	9,340	7,271	2,069
Capital Outlay	5,000	5,000	--	5,000
Website	400	400	511	(111)
First Responder Expenses	25,881	25,881	8,946	16,935
<b>Total Expenditures</b>	<b>316,493</b>	<b>316,493</b>	<b>353,927</b>	<b>(37,434)</b>
<b>Other Financing Uses</b>				
Transfers to Other Funds	--	--	10,673	10,673
<b>Total Expenditures and Other Financing Uses</b>	<b>316,493</b>	<b>316,493</b>	<b>364,600</b>	<b>(48,107)</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>200</b>	<b>200</b>	<b>72,999</b>	<b>72,799</b>
<b>Net Change in Fund Balance</b>	<b>200</b>	<b>200</b>	<b>72,999</b>	<b>72,799</b>
<b>Fund Balance at Beginning of Period</b>	<b>360,511</b>	<b>360,511</b>	<b>360,511</b>	<b>--</b>
<b>Fund Balance at End of Period</b>	<b>\$ 360,711</b>	<b>\$ 360,711</b>	<b>\$ 433,510</b>	<b>\$ 72,799</b>

**City of Vesta**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2019**

	Special Revenue	Debt Service		
	EDA	Debt 2003	Debt 2008	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 8,200	\$ 55,079	\$ 10,535	\$ 73,814
Taxes Receivable	--	275	139	414
Special Assessments Receivable	--	523	--	523
Special Assessments Delinquent	--	1,016	--	1,016
<i>Total Assets</i>	8,200	56,893	10,674	75,767
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Aggregated deferred outflows	--	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 8,200</u>	<u>\$ 56,893</u>	<u>\$ 10,674</u>	<u>\$ 75,767</u>
<b>LIABILITIES</b>				
<i>Total Liabilities</i>	--	--	--	--
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	--	1,739	116	1,855
<i>Total Liabilities and Deferred Inflows of Resources</i>	--	1,739	116	1,855
<b>FUND BALANCE</b>				
Restricted	--	55,154	10,558	65,712
Committed	8,200	--	--	8,200
<i>Total Fund Balance</i>	8,200	55,154	10,558	73,912
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 8,200</u>	<u>\$ 56,893</u>	<u>\$ 10,674</u>	<u>\$ 75,767</u>

**City of Vesta**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2019**

	<u>Special Revenue</u>	<u>Debt Service</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>EDA</u>	<u>Debt 2003</u>	<u>Debt 2008</u>	
<b>Revenues</b>				
Taxes	\$ --	\$ (23)	\$ 22	\$ (1)
Refunds and Reimbursements	--	--	1	1
Interest Revenue	26	168	--	194
Special Assessments	--	262	--	262
<b>Total Revenues</b>	<u>26</u>	<u>407</u>	<u>23</u>	<u>456</u>
<b>Expenditures</b>				
Interest Expense	--	583	--	583
Debt - Principal	--	25,000	--	25,000
<b>Total Expenditures</b>	<u>--</u>	<u>25,583</u>	<u>--</u>	<u>25,583</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>26</u>	<u>(25,176)</u>	<u>23</u>	<u>(25,127)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Change in Fund Balance</b>	<u>26</u>	<u>(25,176)</u>	<u>23</u>	<u>(25,127)</u>
<b>Fund Balance at Beginning of Period</b>	8,174	80,330	10,535	99,039
<b>Fund Balance at End of Period</b>	<u>\$ 8,200</u>	<u>\$ 55,154</u>	<u>\$ 10,558</u>	<u>\$ 73,912</u>



**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, 2019, 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 July 14, 2020.

**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 2019-001, 2019-002, and 2019-003 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.

### **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 no matters of noncompliance that are required to be reported under Minnesota Statutes.

### **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*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Vesta'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

July 14, 2020

212 3<sup>rd</sup> Street, Suite 1, Tracy, MN 56175  
507-629-3662 or 800-858-5410, fax 507-629-3446  
Visit our website at [www.kinner.co](http://www.kinner.co)

**CITY OF VESTA**  
**SCHEDULE OF PRIOR AND CURRENT**  
**FINDINGS AND RESPONSES**  
**DECEMBER 31, 2019**

**STATUS OF PRIOR AUDIT FINDINGS**

**Finding 2018-001:** 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 2019-001.

**Finding 2018-002:** 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 2019-002.

**Finding 2018-006:** A material weakness was reported due to not reconciling the general ledger to the bank statement in a timely matter. This finding continues to exist and has been restated as Finding 2019-003

**Finding 2018-007:** A material weakness was reported due to payroll related reporting filings and penalties. This finding has been resolved.

**CITY OF VESTA**  
**SCHEDULE OF PRIOR AND CURRENT**  
**FINDINGS AND RESPONSES**  
**DECEMBER 31, 2019**

**CURRENT YEAR FINDINGS**

**2019-001 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.

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 statement and related reconciliation.

Council Response and Corrective Action Plan: There is no disagreement with the audit finding.

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. The Mayor and the City Council are responsible for ensuring corrective action of this deficiency. 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. The Mayor and City Council will be monitoring this corrective action plan.



**CITY OF VESTA**  
**SCHEDULE OF PRIOR AND CURRENT**  
**FINDINGS AND RESPONSES**  
**DECEMBER 31, 2019**

**CURRENT YEAR FINDINGS (CONTINUED)**

**2019-002 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. The adjustments were also results of a new accounting system. 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.

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

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

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. The City should hire an individual that is familiar with city finance to help the new clerk prepare for the next audit. The clerk must obtain the expertise so they can sufficiently review, understand and approve the journal entries.

Council Response and Corrective Action Plan: There is no disagreement with the audit 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. The Mayor and the City Council are responsible for ensuring corrective action of this deficiency. This plan will continue to be implemented. The Mayor and City Council will be monitoring this plan.

**CITY OF VESTA**  
**SCHEDULE OF PRIOR AND CURRENT**  
**FINDINGS AND RESPONSES**  
**DECEMBER 31, 2019**

**CURRENT YEAR FINDINGS (CONTINUED)**

**2019-003 GENERAL LEDGER AND BANK STATEMENT RECONCILIATIONS NOT PREPARED IN A TIMELY MATTER**

Condition: During our audit, we found that the new accounting system was not reconciled timely to the bank statements.

Effect: This could affect the City's ability to initiate, record, process and report financial data.

Cause: The City clerk was not prepared for the transition of the new software.

Criteria: The Council should be receiving monthly revenue and expense/budget vs actual reporting.

Recommendation: We recommend that the City clerk find answers to his questions before initiating the transactions in the system. The Council should monitor his financial reporting so at the monthly meetings the council receives monthly revenue and expense reports.

Council Response and Corrective Action Plan: There is no disagreement with the audit finding. The City will continue to be updated from the clerk monthly on where the financial reporting is at and if there are any questions. The Mayor and the City Council are responsible for ensuring corrective action of this deficiency.