Management Report

for

City of Burnsville, Minnesota

December 31, 2019

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the City Council and Management
City of Burnsville, Minnesota

We have prepared this management report in conjunction with our audit of the City of Burnsville, Minnesota's (the City) financial statements for the year ended December 31, 2019. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 8, 2020

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2019:

- We have issued an unmodified opinion on the City's basic financial statements.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*
- We reported no findings based on our testing of the City's compliance with Minnesota laws and regulations.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Impact of Novel Coronavirus (COVID-19)

Shortly after the end of the 2019 fiscal year, the onset of the novel coronavirus (COVID-19) pandemic caused substantial volatility in economic conditions and tremendous disruption in the way governments, businesses, and individuals function. Minnesota cities may experience the impact of this pandemic in a myriad of financial areas, such as: declines in investment rates of return, cash flow issues, increased utility billing and property tax delinquencies, significant increases in the number and frequency of employees working remotely, challenges in processing general and payroll disbursements, disruption of prescribed internal control procedures, delays in internal and external financial reporting, and new compliance requirements attached to potential federal relief subsidies. As your city adapts to the new normal of municipal operations in a post-COVID-19 world, the assessment of and responses to new risks that may accompany operational changes will be critical to the safeguarding of city resources and sound financial stewardship. We encourage management and governance to include a robust financial risk assessment process when planning responses to these challenges, and to reassess and adapt internal controls over financial transactions and reporting to align with significant changes made to daily operations, even those intended to be temporary.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2019; however, the City implemented the following governmental accounting standards during the fiscal year:

- Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations,* which addressed accounting and financial reporting for certain asset retirement obligations, which are legally enforceable liabilities associated with the retirement of a tangible capital asset.

- GASB Statement No. 84, *Fiduciary Activities,* which established new criteria for identifying and reporting fiduciary activities.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* which improved and clarified the information to be disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

- GASB Statement No. 90, *Majority Equity Interest—an amendment of GASB Statements No. 14 and No. 61,* which improved the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates and Management Judgments

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- **Depreciation** – Management's estimates of depreciation expense are based on the estimated useful lives of the assets.

- **Other Post-Employment Benefit (OPEB) and Pension Liabilities** – The City has recorded liabilities and activity for OPEB and pension benefits. These obligations are calculated using actuarial methodologies described in GASB Statement Nos. 68 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

- **Compensated Absences –** Management's estimate is based on current rates of pay and sick leave balances.

We evaluated the key factors and assumptions used by management to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements With Management

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 8, 2020.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis (MD&A) and the pension and OPEB-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules accompanying the financial statements, which is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the combining and individual fund statements and schedules to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements, but are not RSI. Such information 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.

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which includes the General, special revenue, debt service, and capital project funds. These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance and the sufficiency of each governmental fund's current assets to finance its current liabilities.

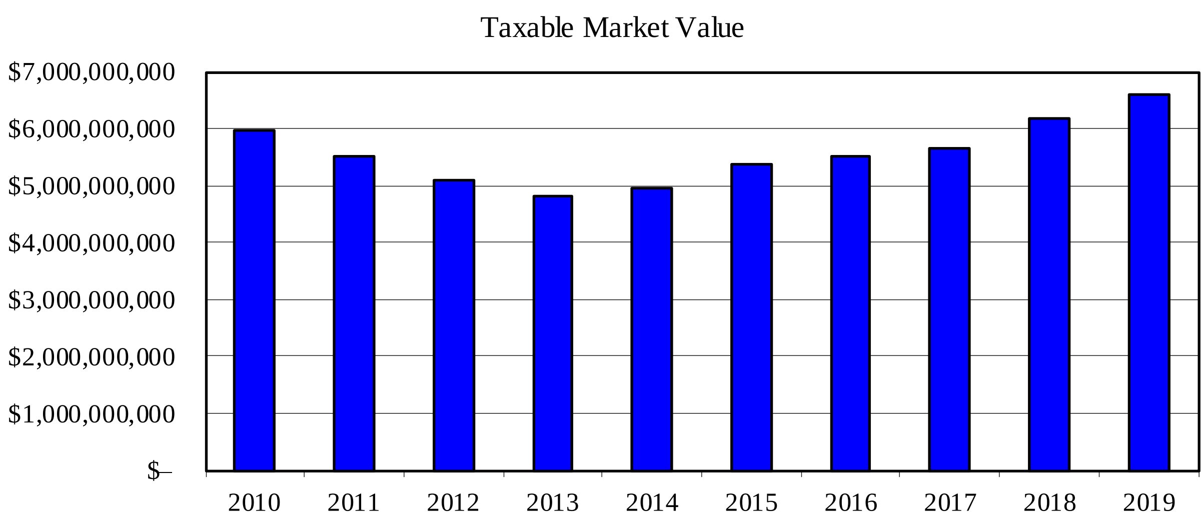
PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2018 fiscal year, local ad valorem property tax levies provided 41.5 percent of the total governmental fund revenues for cities over 2,500 in population, and 36.7 percent for cities under 2,500 in population. Total property taxes levied by all Minnesota cities for taxes payable in 2019 increased 5.6 percent from the prior year.

The total tax capacity value of property in Minnesota cities increased about 7.1 percent for the 2019 levy year. The tax capacity values used for levying property taxes are based on the assessed market values for the previous fiscal year (e.g., tax capacity values for taxes levied in 2019 were based on assessed market values as of January 1, 2018), so the trend of change in these tax capacity values lags somewhat behind the housing market and economy in general.

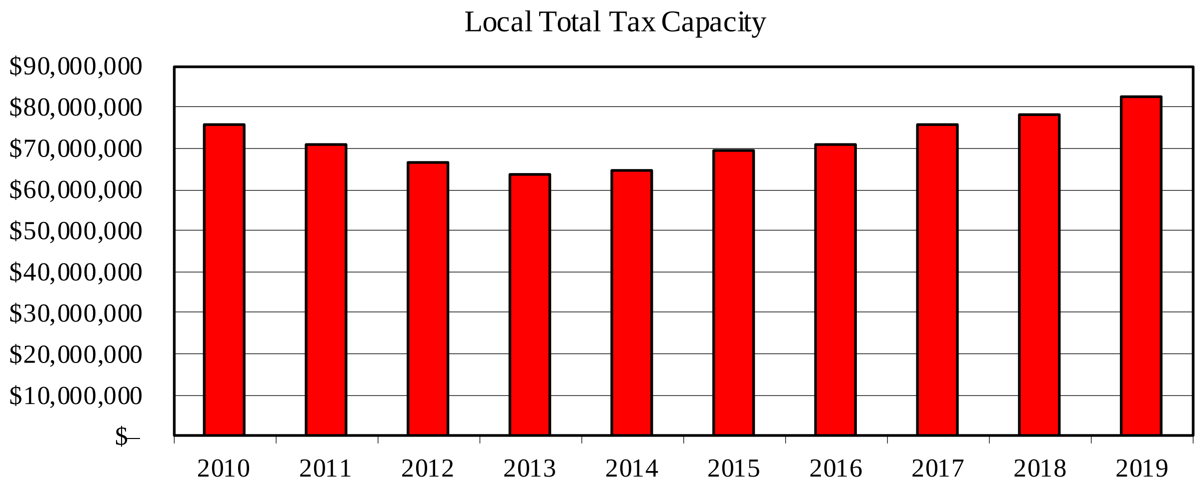
The City's taxable market value increased 9.4 percent for taxes payable in 2018 and 6.2 percent for taxes payable in 2019.

The following graph shows the City's changes in taxable market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of its tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. The City's tax capacity increased 3.5 percent and 5.7 percent for taxes payable in 2018 and 2019, respectively.

The following graph shows the City's change in total tax capacities over the past 10 years:



The following table presents the average tax rates applied to city residents for each of the last three levy years:

Rates Expressed as a Percentage of Net Tax Capacity

	City of Burnsville		
	2017	2018	2019
Average tax rate			
City	46.6	43.6	43.6
County	28.0	26.6	25.4
School	27.5	27.5	24.4
Special taxing	5.4	4.8	4.7
Total	107.5	102.5	98.1

The total average tax rate declined over the prior year, mainly due to the decline in the school rate.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

The following table presents the per capita revenue of the City's governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City's data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as a city's stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year, due to the effect of inflation and changes in its operation. Also, certain data in these tables may be classified differently than how they appear in the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of the City. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the MD&A. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita
With State-Wide Averages by Population Class

	State-Wide		City of Burnsville		
Year	December 31, 2017	December 31, 2018	2017	2018	2019
Population	20,000–100,000	20,000–100,000	62,239	62,657	62,657
Property taxes	$ 475	$ 493	$ 525	$ 544	$ 571
Tax increments	38	43	13	15	16
Franchise fees and other taxes	48	50	40	38	37
Special assessments	59	57	30	28	37
Licenses and permits	49	47	33	39	54
Intergovernmental revenues	147	157	82	85	92
Charges for services	103	112	107	115	115
Other	48	49	41	48	82
Total revenue	$ 967	$ 1,008	$ 871	$ 912	$ 1,004

The City has generated more property tax revenue for its governmental funds revenue compared to the average Minnesota city. The City receives less special assessment revenue than comparable cities as the City tends to finance capital projects with other revenue sources. The City traditionally receives a lower level of intergovernmental revenue than the average city, causing the City to rely on property taxes and other forms of revenue to operate the governmental activities of the City.

Total revenue for the City's governmental funds for 2019 was $62,867,460, an increase of $5,704,551 (10.0 percent) from the prior year. On a per capita basis, the City's governmental funds revenue for 2019 was $1,004, an increase of $92 from the prior year. The increase is spread across all categories with the largest increase in other revenue and property taxes, which increased $34 and $27 per capita, respectively. The increase in other revenue was due to improved investment earnings and increased park dedication fees. Property taxes increased, due to the increase in the tax levy in the current year.

The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources, such as taxes and intergovernmental revenues.

- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.

- **Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources, such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City's expenditures per capita of its governmental funds for the past three years, together with comparative state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita
With State-Wide Averages by Population Class

	State-Wide		City of Burnsville		
Year	December 31, 2017	December 31, 2018	2017	2018	2019
Population	20,000–100,000	20,000–100,000	62,239	62,657	62,657
Current					
General government	$ 101	$ 104	$ 114	$ 112	$ 112
Public safety	287	294	374	375	386
Public works	101	106	109	124	123
Recreation	99	104	16	16	18
All other	77	78	29	32	33
Total current	665	686	642	659	672
Capital outlay and construction	263	307	274	177	201
Debt service					
Principal	121	109	52	72	61
Interest and fiscal	32	29	25	25	19
Total debt service	153	138	77	97	80
Total expenditures	$ 1,081	$ 1,131	$ 993	$ 933	$ 953

The City's governmental funds current per capita expenditures are similar to state-wide averages for cities in the same population class. The City's current operating costs have generally been higher than average for public safety, which is partially caused by the City having a full-time fire department. The City's expenditures relating to parks are included within the public works function instead of recreation, resulting in higher per capita expenditures than average for public works and lower than average for recreation. The increase in capital outlay and construction from the prior year relates to the ice center roof replacement project and street improvement projects in the current year. Debt service expenditures have generally been lower than state-wide averages for cities in the same population class.

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2019, presented both by fund balance classification and by major fund:

Governmental Funds Change in Fund Balance

	Fund Balance as of December 31, 2019	Fund Balance as of December 31, 2018	Change
Fund balances of governmental funds			
Total by classification			
Nonspendable	$ 1,191,544	$ 1,191,544	$ –
Restricted	9,731,144	9,988,173	(257,029)
Committed	7,675,063	7,184,681	490,382
Assigned	9,805,040	8,233,382	1,571,658
Unassigned	22,064,434	18,548,252	3,516,182
Total governmental funds	$ 50,467,225	$ 45,146,032	$ 5,321,193
Total by fund			
General	$ 25,835,752	$ 22,608,694	$ 3,227,058
G.O. Improvement Bonds	4,834,540	4,516,052	318,488
Infrastructure Trust Capital Projects	2,718,329	4,882,032	(2,163,703)
Facilities Capital Projects	2,637,139	2,493,815	143,324
Nonmajor funds	14,441,465	10,645,439	3,796,026
Total governmental funds	$ 50,467,225	$ 45,146,032	$ 5,321,193

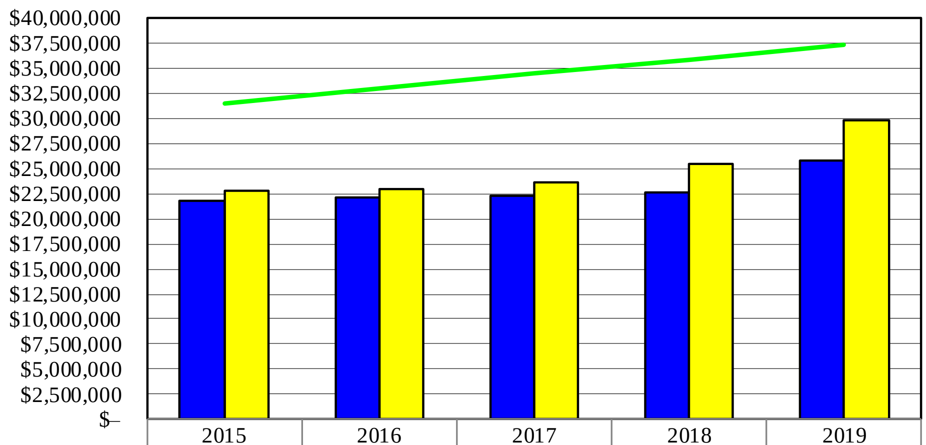
In total, the fund balances of the City's governmental funds increased by $5,321,193 during the year ended December 31, 2019. Unassigned fund balance increased $3,516,182, mainly due to the increased fund balance in the General Fund. The decline in the Infrastructure Trust Capital Projects Fund of $2,163,703 was related to the timing of projects when compared to the related funding. The increase in assigned fund balance and nonmajor funds is mainly due to increased park dedication fees received in the current year.

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation.

The graph below illustrates the change in the General Fund financial position over the last five years. We have also included an expenditure line to reflect the change in the size of the General Fund operation over the same period:

General Fund Financial Position
Year Ended December 31,



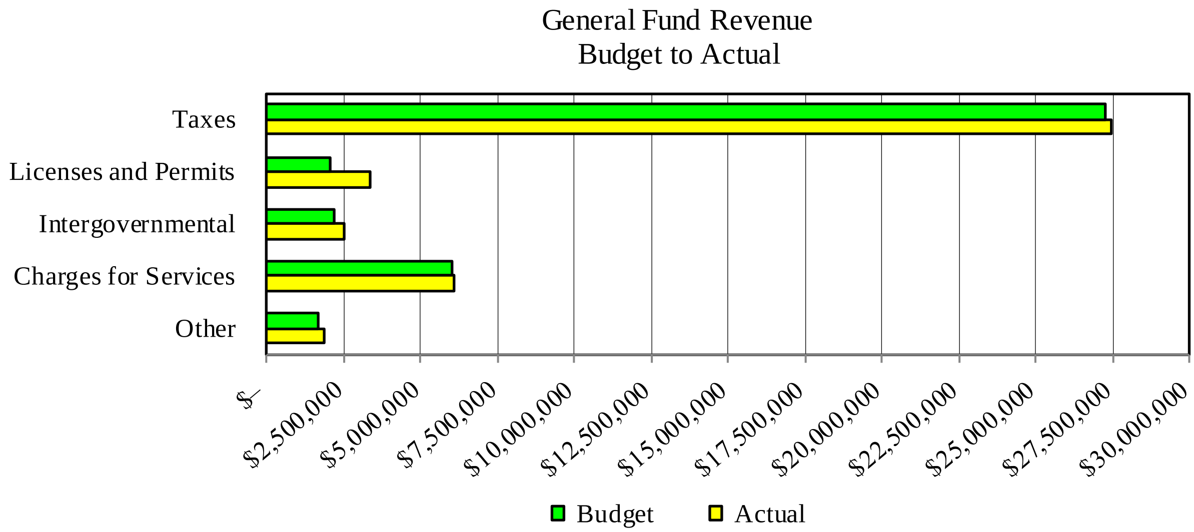
	2015	2016	2017	2018	2019
Fund Balance	$21,849,224	$22,212,232	$22,338,001	$22,608,694	$25,835,752
Cash Bal (Incl Interfund Borrowing)	$22,739,656	$22,950,731	$23,566,028	$25,551,247	$29,796,637
Expenditures	$31,570,145	$33,059,591	$34,601,354	$35,939,483	$37,298,890

The City's General Fund cash and investments balance (including interfund borrowing) at December 31, 2019 was $29,796,637, an increase of $4,245,390 from the previous year, mainly due to the increasing fund balance and increases to customer deposits in the current year. Total fund balance at December 31, 2019 was $25,835,752, an increase of $3,227,058 from the prior year. Of this amount, $1,191,544 is nonspendable for advances to other funds, $1,546,137 is restricted for landfill abatement, $540,000 is assigned for the subsequent year's budget, $280,000 is assigned for the ice center renovation debt service, and $22,278,071 is unassigned. The fund balance represents 61 percent of the subsequent year's General Fund budgeted use of funds. The City's fund balance policy has a stated goal to maintain a minimum of 35 percent fund balance as a percentage of the subsequent year's budgeted use of funds.

As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has fluctuated. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. Generally, the amount of equity required typically increases as the size of the operation increases.

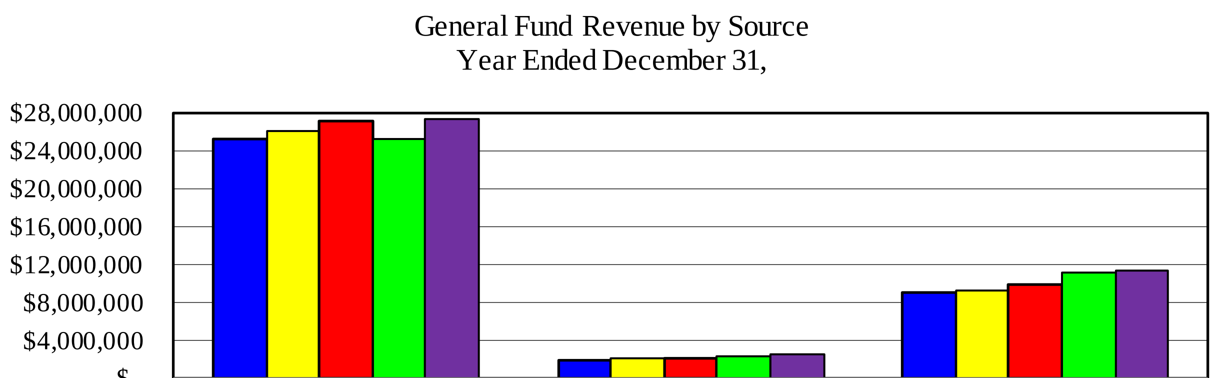
A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and can be a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance is particularly important given the fluctuations in property tax petitions in recent years.

The following graph reflects the City's General Fund revenue sources for 2019 compared to budget, excluding the net change in the fair value of investments, which is not budgeted by the City:



Total General Fund revenues (excluding the net change in fair value of investments) for 2019 was $41,329,363 (5.4 percent) over the final budget. Licenses and permits exceeded budgeted revenues by $1,267,811, due to more than anticipated building activity in the current year. Intergovernmental exceeded budgeted amounts by $318,055, mainly due to more than anticipated police and fire aid.

The following graph presents the City's General Fund revenue sources for the last five years:

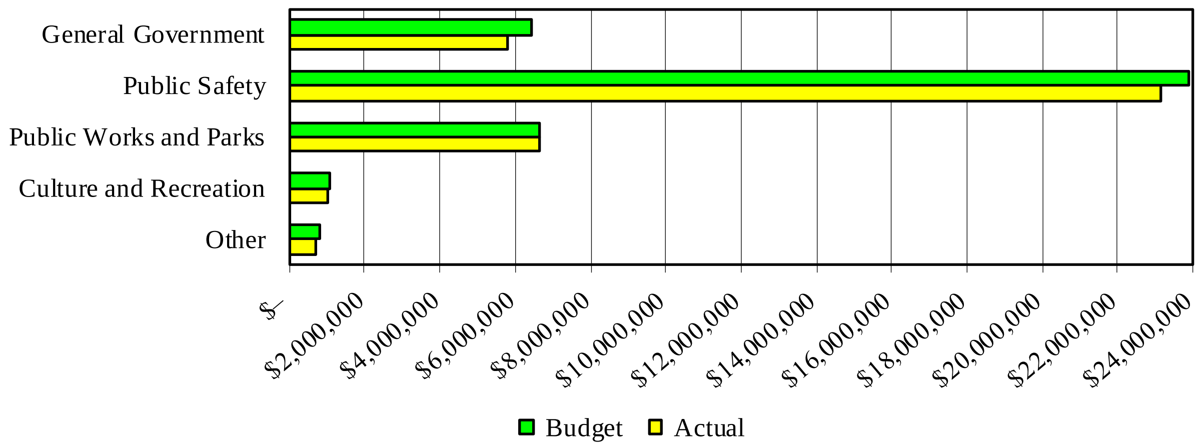


	Taxes	Intergovernmental	Other
2015	$25,272,522	$1,986,290	$9,161,276
2016	$26,114,547	$2,028,283	$9,385,441
2017	$27,162,382	$2,218,985	$9,916,544
2018	$25,359,103	$2,354,659	$11,216,421
2019	$27,471,285	$2,501,534	$11,356,544

Total General Fund revenue (excluding the net change in fair value of investments) for 2019 was $41,329,363, an increase of $2,399,180 from the prior year. Tax revenue increased $2,112,182, due to the increase in the general property tax levy approved by the City Council for 2019.

The following graph provides you with the components of the City's General Fund spending for 2019 compared to budget:

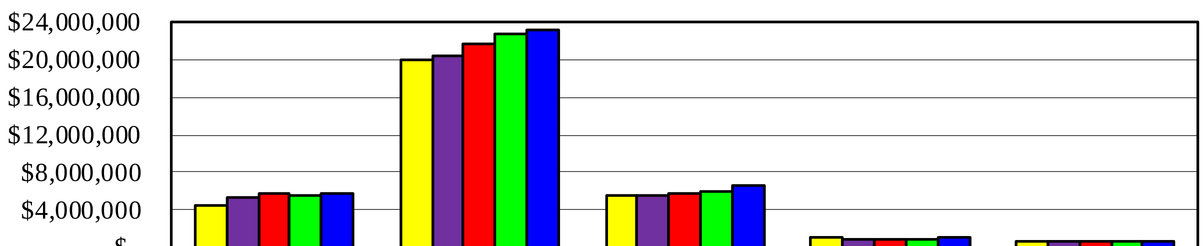
General Fund Expenditures
Budget to Actual



Total General Fund expenditures for 2019 were $37,298,890, an increase of $1,359,407 (3.8 percent) from the prior year, and $1,506,610 (3.9 percent) less than the final budget. Public safety expenditures were $716,590 under budget, mainly in the police department. General government expenditures were $615,033 under budget, which was spread across various departments with the largest departments under budget being planning ($248,545), information technologies ($190,991), human resources ($152,278), and manager and administration ($114,392), due primarily to open positions, consulting, and delays in technology spending.

The following graph presents the City's General Fund expenditures by function for the last five years:

General Fund Expenditures by Function
Year Ended December 31,



	General Government	Public Safety	Public Works and Parks	Culture and Recreation	Other
2015	$4,493,231	$19,933,325	$5,493,297	$980,429	$669,863
2016	$5,431,731	$20,359,131	$5,617,029	$952,106	$699,594
2017	$5,662,001	$21,694,499	$5,683,109	$881,006	$680,739
2018	$5,497,196	$22,842,428	$5,997,627	$897,047	$705,185
2019	$5,801,852	$23,144,350	$6,621,045	$1,036,613	$695,030

As noted above, General Fund expenditures increased $1,359,407 from the prior year, mainly in the public works and parks, general government, and public safety functions. Public works and parks increased $623,418, mainly in the parks and streets department. General government increased $304,656, mainly in the insurance department. Expenditures increased $301,922 in public safety, mainly in the fire department.

ENTERPRISE FUNDS OVERVIEW

The City maintains several enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds, which includes the Water and Sewer Utility, Storm Water Utility, Ames Center, Ice Arena, Golf Course, and Street Light Utility Funds.

ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City's enterprise funds during the year ended December 31, 2019, presented both by classification and by fund:

Enterprise Funds Change in Financial Position

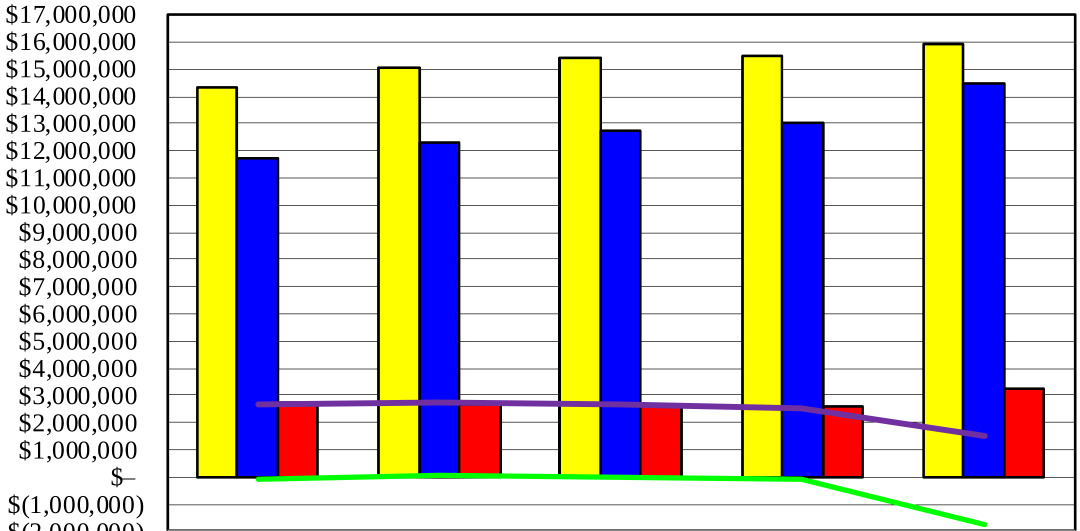
	Net Position as of December 31, 2019	Net Position as of December 31, 2018	Change
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	$ 106,718,734	$ 107,069,459	$ (350,725)
Unrestricted	25,140,929	24,995,080	145,849
Total enterprise funds	$ 131,859,663	$ 132,064,539	$ (204,876)
Total by fund			
Water and Sewer	$ 65,908,847	$ 67,273,855	$ (1,365,008)
Storm Water	42,189,128	41,793,501	395,627
Ames Center	15,997,747	15,880,916	116,831
Nonmajor funds	7,763,941	7,116,267	647,674
Total enterprise funds	$ 131,859,663	$ 132,064,539	$ (204,876)

In total, the net position of the City's enterprise funds decreased by $204,876 during the year ended December 31, 2019. The decrease in net position was mainly in the Water and Sewer Fund, due to increased repairs and maintenance costs in the current year.

Water and Sewer Fund

The following graph presents five years of operating results for the Water and Sewer Fund:

Water and Sewer Fund
Year Ended December 31,



	2015	2016	2017	2018	2019
Oper Revenue	$14,350,769	$15,044,358	$15,436,661	$15,520,599	$15,935,623
Oper Expense	$11,691,664	$12,293,736	$12,768,350	$13,010,204	$14,458,200
Depreciation Exp	$2,710,276	$2,656,234	$2,696,682	$2,564,038	$3,235,453
Oper Inc (Loss)	$(51,171)	$94,388	$(28,371)	$(53,643)	$(1,758,030)
Oper Inc Excl Dep	$2,659,105	$2,750,622	$2,668,311	$2,510,395	$1,477,423

The Water and Sewer Fund ended 2019 with a net position of $65,908,847, a decrease of $1,365,008 from the prior year. Of this, $49,324,458 represents the net investment in water and sewer distribution system capital assets, leaving $16,584,389 of unrestricted net position.

Water and Sewer Fund operating revenue was $15,935,623 for 2019, an increase of $415,024 from 2019, due to an approved rate increase.

Operating expenses, excluding depreciation, were $1,447,996 more than last year, mainly due to increases in repairs and maintenance.

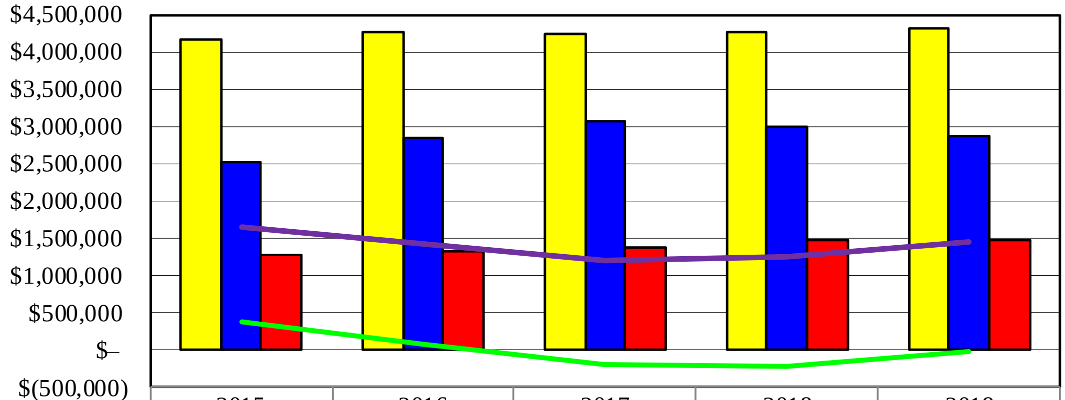
During fiscal 2019, this fund received $1,007,001 in capital contributions for connection charges.

Although this fund is in a healthy financial position, we suggest that the City continue to review the water and sewer rates on an annual basis. Water and sewer rates are generally designed to cover operating costs, and provide an accumulation of resources for significant repairs and replacements, and an operating cushion for potential negative years in financial operations.

STORM WATER FUND

The following graph presents five years of operating results for the Storm Water Fund:

Storm Water Fund
Year Ended December 31,



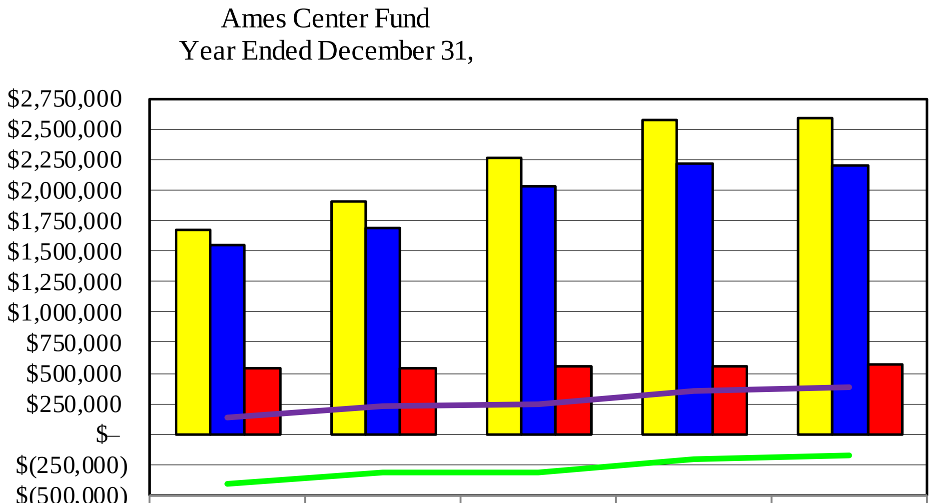
	2015	2016	2017	2018	2019
Oper Revenue	$4,166,171	$4,271,318	$4,251,318	$4,271,323	$4,326,247
Oper Expense	$2,524,717	$2,852,255	$3,058,176	$3,007,405	$2,877,235
Depreciation Exp	$1,270,182	$1,325,092	$1,376,664	$1,469,754	$1,469,474
Oper Inc (Loss)	$371,272	$93,971	$(183,522)	$(205,836)	$(20,462)
Oper Inc Excl Dep	$1,641,454	$1,419,063	$1,193,142	$1,263,918	$1,449,012

The Storm Water Fund ended 2019 with a net position of $42,189,128, an increase of $395,627 from the prior year. Of this, $35,680,483 represents the net investment in storm water capital assets, leaving $6,508,645 of unrestricted net position.

The Storm Water Fund operating revenues for 2019 were $4,326,247, an increase of $54,924 from the prior year. Operating expenses for 2019, excluding depreciation, were $2,877,235, down $130,170 from the prior year.

AMES CENTER FUND

The following graph presents five years of operating results for the Ames Center Fund:



	2015	2016	2017	2018	2019
Revenue	$1,674,811	$1,914,540	$2,273,555	$2,573,831	$2,588,448
Exp Excl Depreciation	$1,545,968	$1,686,710	$2,035,424	$2,223,269	$2,207,412
Depreciation Exp	$544,513	$546,283	$556,439	$558,435	$563,305
Inc (Loss) Before Trans	$(415,670)	$(318,453)	$(318,308)	$(207,873)	$(182,269)
Inc (Loss) Before Trans Excl Dep	$128,843	$227,830	$238,131	$350,562	$381,036

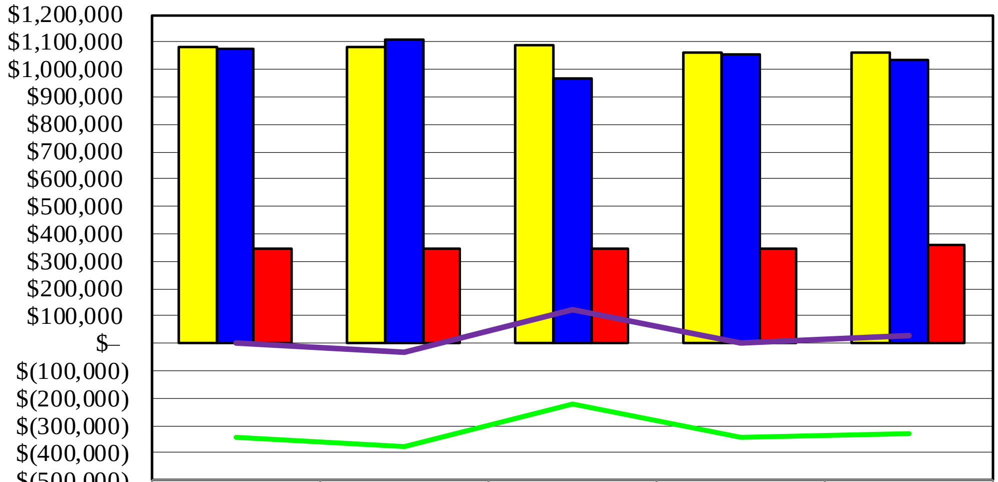
The Ames Center Fund ended 2019 with a net position of $15,997,747, an increase of $116,831 from the prior year. Of this, $15,300,801 represents the net investment in capital assets, leaving $696,946 of unrestricted net position.

Revenues for 2019 were $2,588,448, a $14,617 increase from last year. Expenses for 2019, excluding depreciation, were $2,207,412, a decrease of $15,857, mainly due to decreases in the other operating expenses category in the current year.

ICE ARENA FUND

The following graph presents five years of operating results for the Ice Arena Fund:

Ice Arena Fund
Year Ended December 31,



	2015	2016	2017	2018	2019
Oper Revenue	$1,081,207	$1,080,874	$1,091,259	$1,060,331	$1,063,694
Oper Expense	$1,077,786	$1,110,163	$965,308	$1,057,567	$1,033,659
Depreciation Exp	$345,529	$345,530	$347,592	$348,674	$356,914
Oper Inc (Loss)	$(342,108)	$(374,819)	$(221,641)	$(345,910)	$(326,879)
Oper Inc (Loss) Excl Dep	$3,421	$(29,289)	$125,951	$2,764	$30,035

The Ice Arena Fund ended 2019 with a net position of $5,098,513, an increase of $687,262 from the prior year. Of this, $4,516,519 represents the investment in ice arena capital assets, leaving $581,994 of unrestricted net position.

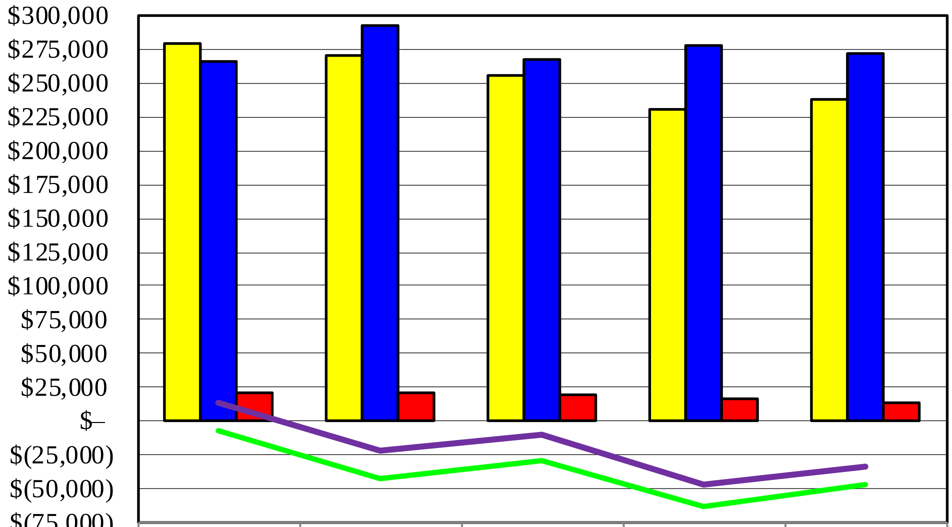
The Ice Arena Fund operating revenues for 2019 were $1,063,694, a $3,363 increase from last year. Operating expenses for 2019, excluding depreciation, were $1,033,659, a decrease of $23,908, mainly in repairs and maintenance costs.

During fiscal 2019, this fund received $1,082,865 in capital contributions from governmental activities for the ice arena roof replacement project.

GOLF COURSE FUND

The following graph presents five years of operating results for the Golf Course Fund:

Golf Course Fund
Year Ended December 31,



	2015	2016	2017	2018	2019
Oper Revenue	$280,153	$270,610	$256,647	$230,732	$238,093
Oper Expense	$266,781	$292,814	$267,251	$278,258	$271,674
Depreciation Exp	$20,707	$20,233	$18,927	$16,194	$13,230
Oper Inc (Loss)	$(7,335)	$(42,437)	$(29,531)	$(63,720)	$(46,811)
Oper Inc (Loss) Excl Dep	$13,372	$(22,204)	$(10,604)	$(47,526)	$(33,581)

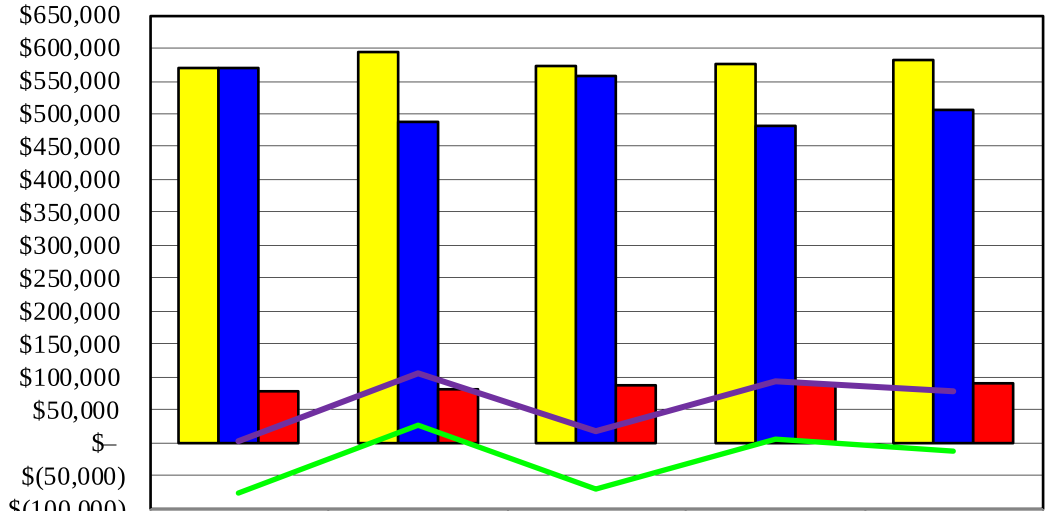
The Golf Course Fund ended 2019 with a net position of $946,472, a decrease of $41,275 from the prior year. Of this, $834,630 represents the investment in golf course capital assets, leaving $111,842 of unrestricted net position.

The Golf Course Fund operating revenues for 2019 were $238,093, an increase of $7,361 from the prior year. Operating expenses, excluding depreciation for 2019, were $271,674, which was a decrease of $6,584. As the graph above illustrates, this fund has shown an operating loss in each of the five years presented above.

STREET LIGHT FUND

The following graph presents five years of operating results for the Street Light Fund:

Street Light Fund
Year Ended December 31,



	2015	2016	2017	2018	2019
Oper Revenue	$571,265	$594,775	$574,180	$576,018	$582,858
Oper Expense	$568,751	$487,928	$557,247	$481,890	$504,551
Depreciation Exp	$77,517	$80,435	$86,528	$90,047	$90,047
Oper Inc (Loss)	$(75,003)	$26,412	$(69,595)	$4,081	$(11,740)
Oper Inc Excl Dep	$2,514	$106,847	$16,933	$94,128	$78,307

The Street Light Fund ended 2019 with a net position of $1,718,956, an increase of $1,687 from the prior year. Of this, $1,061,843 represents the investment in capital assets, leaving $657,113 of unrestricted net position.

Operating revenues for 2019 were $582,858, which were $6,840 more than last year. Operating expenses, excluding depreciation, for 2019 were $504,551, an increase of $22,661 from the prior year, due to increases in utility costs.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what the City owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

- **Net Investment in Capital Assets** – The portion of net position reflecting equity in capital assets (i.e., capital assets minus related debt).

- **Restricted Net Position** – The portion of net position equal to resources whose use is legally restricted minus any noncapital-related liabilities payable from those same resources.

- **Unrestricted Net Position** – The residual balance of net position after the elimination of net investment in capital assets and restricted net position.

The following table presents the components of the City's net position as of December 31, 2019 and 2018, for governmental activities and business-type activities:

	As of December 31,		
	2019	2018	Change
Net position			
Governmental activities			
Net investment in capital assets	$ 112,053,594	$ 110,069,219	$ 1,984,375
Restricted	15,896,522	14,981,193	915,329
Unrestricted	(9,221,379)	(13,917,013)	4,695,634
Total governmental activities	118,728,737	111,133,399	7,595,338
Business-type activities			
Net investment in capital assets	106,718,734	107,069,459	(350,725)
Unrestricted	25,140,929	24,995,080	145,849
Total business-type activities	131,859,663	132,064,539	(204,876)
Total net position	$ 250,588,400	$ 243,197,938	$ 7,390,462

The City's total net position at December 31, 2019 was $7,390,462 higher than the previous year-end. This increase includes an increase in net position from the governmental activities of $7,595,338 and a decline in net position from the business-type activities of $204,876. The increase in the governmental activities net investment in capital assets is mostly related to payments on debt exceeding the depreciation on the related capital assets. The increase in unrestricted net position relates to positive operating results in the General Fund.

STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net position. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2019 and 2018:

	2019			2018
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	$ 7,922,564	$ 439,491	$ (7,483,073)	$ (7,743,168)
Public safety	24,636,452	8,747,775	(15,888,677)	(15,107,699)
Public works and parks	17,890,927	11,104,382	(6,786,545)	(6,291,399)
Culture and recreation	1,111,709	520,788	(590,921)	(517,725)
Natural resources	1,320,038	215,313	(1,104,725)	(1,098,619)
Economic development	815,386	–	(815,386)	(514,776)
Interest on long-term debt	1,041,948	–	(1,041,948)	(1,162,754)
Business-type activities				
Water and sewer	18,324,199	17,294,127	(1,030,072)	(1,217,734)
Storm water	4,396,039	4,780,912	384,873	(7,870)
Ames Center	2,770,717	2,574,503	(196,214)	(209,425)
Ice arena	1,390,573	1,064,355	(326,218)	(343,697)
Golf course	284,904	238,312	(46,592)	(62,983)
Street light	594,598	582,858	(11,740)	4,081
Sidewalk snow plowing	–	–	–	(23,192)
Total net (expense) revenue	$ 82,500,054	$ 47,562,816	(34,937,238)	(34,296,960)
General revenues				
Property taxes			36,745,654	34,816,920
Lodging and franchise taxes			2,297,387	2,361,237
Unrestricted grants and contributions			890,909	1,127,674
Investment earnings			2,393,750	1,136,466
Total general revenues			42,327,700	39,442,297
Change in net position			$ 7,390,462	$ 5,145,337

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues, such as property taxes and unrestricted grants. It also shows if the City's business-type activities are generating sufficient program revenues (service charges and program-specific grants) to cover expenses. This is critical given the current downward pressures on the general revenue sources.

LEGISLATIVE UPDATES

The 2019 legislative session began with a projected state general fund surplus of $1.052 billion. The legislative agenda was primarily focused on setting an operating budget for the state's fiscal 2020-2021 biennium. At the end of the regular session, only a higher education budget bill had been completed. However, after a special session, the Legislature was able to address the 11 remaining budget bills, as well as pass an omnibus tax bill and small pension bill. The following is a brief summary of specific legislative changes from the 2019 session or previous legislative sessions potentially impacting Minnesota cities.

Local Government Aid (LGA) – An additional $26 million was added to the appropriation for the city LGA formula beginning in fiscal 2020, bringing the total state-wide appropriation to $560.4 million. An additional $4 million was added to the appropriation beginning in fiscal 2021. The LGA distribution formula for 2020 was altered to provide that a city's 2020 LGA may not be less than its 2019 aid, and the cap on maximum aid losses in any year thereafter was modified.

Bonding Bill – The 2019 bonding bill provided financing for approximately $102 million of projects and funding authorized by the 2018 omnibus bonding bill, which had been legally challenged due to their reliance on the use of the Environment and Natural Resources Trust Fund to generate appropriation bonds. The 2019 Legislature changed the funding source for these projects to general obligation bonds, clearing the way for the projects to go forward. Included in this was $59 million earmarked for city water and wastewater projects through the state Public Facilities Authority.

Local Option Sales Tax Process – Effective May 1, 2019, the process for cities to enact a local option sales tax have been modified, requiring special legislation prior to a local referendum vote. Cities must now adopt a resolution specifying the proposed sales tax rate and time frame for the sales tax. The resolution must also include a detailed description of the project or projects (up to five) to be funded by the sales tax, the amount to be raised for each project, and documentation of the regional significance of each project. The resolution must be submitted to the House and Senate tax committee chairs by January 31st to be considered for special legislation by the State Legislature. If special legislation is approved, voter approval must be obtained by referendum at a general election within two years of legislative approval.

Wage Theft – The Legislature enacted a number of changes in employment law aimed at reducing wage theft by employers. The changes require employers to provide written notice to new employees of specific wage information including rate of pay, allowances, paid leave, deductions, days in a pay period, and the employer's legal name, address, and phone number. Employers must also provide an earnings statement that includes similar information. The changes also create new requirements for employer recordkeeping for hours worked each day and each workweek, and imposes penalties for failure to do so and for refusal to make the records available for inspection by the Department of Labor.

Written Estimates of Consulting Fees – Effective August 1, 2019, upon request by applicants for a permit, license, or other approval relating to real estate development or construction, cities are required to provide a written, nonbinding estimate of consulting fees to be charged to the applicant based on information available at that time. The related application will not be considered complete until the city has provided the estimate, received the required application fees, and received the applicant's signed acceptance of the fee estimate along with a signed statement that the applicant has not relied on the fee estimate in its decision to proceed with the application.

Contract Retainage – Effective for contracts entered into August 1, 2019 or later, contract retainage must be released no later than 60 days after the related construction project reaches substantial completion as defined by statute. After substantial completion, cities can still withhold amounts equal to, 1) 250 percent of the cost to correct or complete work known at the time of substantial completion, and 2) the greater of $500 or 1 percent of the value of the contract pending the completion of "final paperwork," including documents required to fulfill contractual obligations such as operating manuals, payroll documents for projects subject to prevailing wage requirements, and contractor payroll tax withholding affidavits. Any resulting reduction in retainage must be passed from the contractor to all subcontractors at the same rate.

Driver and Vehicle Registration System (VTRS) – The Legislature selected VTRS, a third party vendor system, to replace the failed Minnesota Licensing and Registration System (MNLARS). Fees from driver's licenses, license plates, and filing fees were increased and a technology surcharge imposed on vehicle registration renewals to pay for the implementation of VTRS, the decommissioning of MNLARS, and to temporarily increase the capacity of Driver and Vehicle Services to meet public service needs. Included in this is $13 million appropriated in 2019 for reimbursement grants to deputy registrars for costs related to MNLARS. The grants, which would be determined by formula, would require the deputy registrar accepting the grant to release the state from any further liability or claims related to MNLARS.

Vaping Ordinance Authority – Effective July 1, 2019, cities are allowed to enact and enforce ordinances with more stringent measures than the Minnesota Clean Indoor Air Act to protect individuals from involuntary exposure to aerosol or vapor from electronic delivery devices.

Water Connection Fees – Effective January 1, 2020, the annual water connection fees cities are required to collect on behalf of the Minnesota Department of Health for water testing and support has been increased from $6.36 to $9.72.

Military Exception to Open Meeting Law – Effective August 1, 2019, members of a public body that are in the military will be allowed to participate in public meetings via interactive television when they are at a required drill, deployed, or on active duty. The member may participate under this exception up to three times a year.

Pension Plan Changes – The 2019 pension bill included several changes to the various pension plans throughout the state:

- Changes to plans administered by the Public Employees Retirement Association (PERA) included:

  - The rights of PERA General Employees Retirement Fund (GERF) plan and Public Employees Police and Fire Fund (PEPFF) plan members to purchase service credit for periods of military leave were expanded. This gives plan members the right to purchase up to five years of service credit for military service leave that is not federally protected because the service occurred prior to public employment or the member did not meet the payment deadlines applicable to federally protected leave service credit purchases.

  - The Phased Retirement Option (PRO) program, which gives cities an opportunity to retain potentially retiring employees that are GERF plan members aged 62 or over, was altered and made permanent. Under a PRO arrangement, an employee would begin collecting a retirement annuity, but could continue working for their current employer for up to five years if they agree to a work schedule that represents a reduction of at least 25 percent each pay period from their current schedule, up to a maximum of 1,044 hours per year. Employees would not be allowed to contribute to a pension benefit plan or accrue additional service time while working under a PRO.

  - A process was established for municipalities and joint powers entities to terminate participation in the PERA Statewide Volunteer Firefighter (SVF) plan if, 1) the entity has either eliminated its fire department or ceased using the services of all departing firefighters and any other noncareer or volunteer firefighters, and 2) the entity's account has assets sufficient to cover all liabilities including the fully vested liabilities for all departing firefighters and administrative expenses.

- Changes impacting volunteer firefighter relief associations (VRFAs) included:
  - Effective January 1, 2020, vesting schedules for defined contribution plans cannot require that a member have more than 20 years of active service to become 100 percent vested in the member's account, or provide for a larger vesting percentage with respect to the completed years of service than as provided in the statutory schedule.
  - Effective January 1, 2020, the permitted graded vesting schedule for defined benefit pension plans is reduced from 20 years to 10 years for full vesting. Also, plans cannot require that a member have more than 20 years of active service to become 100 percent vested in the member's accrued service pension, or provide for a larger vesting percentage with respect to the completed years of service than as provided in the statutory schedule.
  - Effective January 1, 2020, supplemental benefits are allowed to be paid to designated beneficiaries or estates when plan members have no surviving spouse or children.

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ACCOUNTING AND AUDITING UPDATES

The following is a summary of GASB standards expected to be implemented in the next few years. Due to the COVID-19 outbreak, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB STATEMENT NO. 87, *LEASES*

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2019 and are now effective for fiscal years beginning after June 15, 2021.

GASB STATEMENT NO. 91, *CONDUIT DEBT OBLIGATIONS*

The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

This statement also addresses arrangements, often characterized as leases, that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third party obligors in the course of their activities.

This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2020 and are now effective after December 15, 2021. Earlier application is encouraged.