

Annual Financial Report

City of Carver
Carver, Minnesota

For the Year Ended
December 31, 2019

City of Carver, Minnesota
 Annual Financial Report
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INTRODUCTORY SECTION

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Carver, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2019

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Courtney Johnson	Mayor	12/31/22
Glen Henry	Council Member	12/31/22
Joy McKnight	Council Member	12/31/20
Laurie Sayre	Council Member	12/31/22
Kristy Mock	Council Member	12/31/20

APPOINTED

Brent Mareck	City Manager
Cathy Elke	Accountant
Vicky Sons-Eiden	City Clerk/Treasurer

FINANCIAL SECTION

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Carver, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Carver, Minnesota (the City), 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Standards

As described in Note 9 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 84, Fiduciary Activities, for the year ended December 31, 2019. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios and the Schedules of Employer's Contributions starting on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

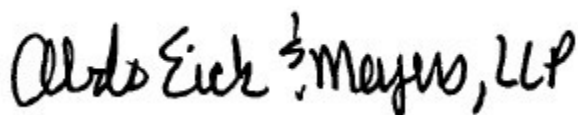
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 3, 2020

Management's Discussion and Analysis

As management of the City of Carver, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2019.

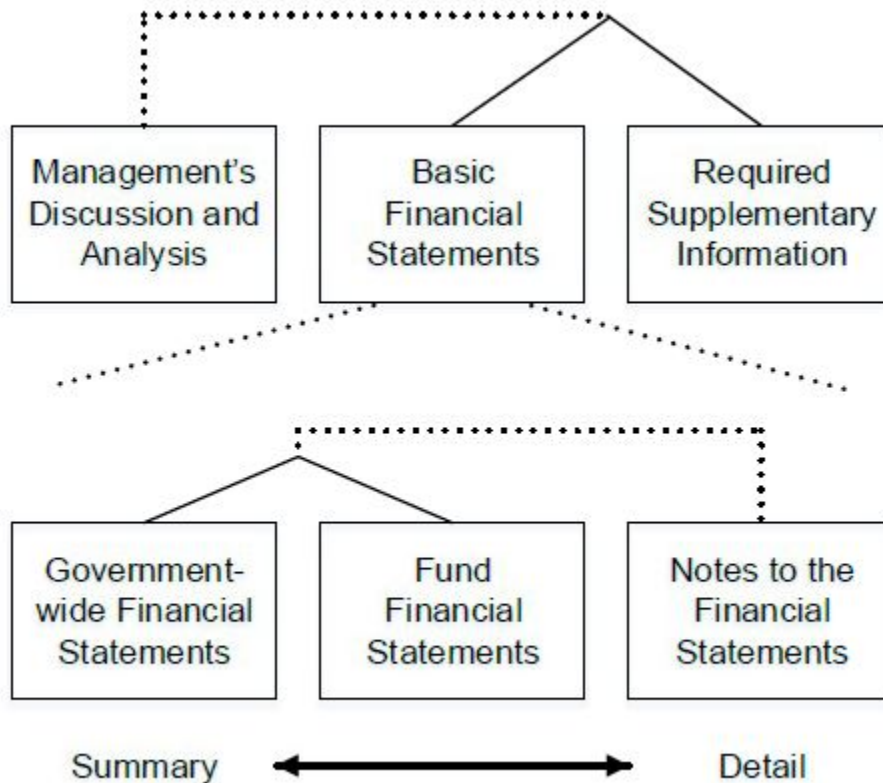
Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$47,668,520 (net position). Of this amount, \$7,018,324 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$4,030,708 with a majority of the increase related to government-type activities with an increase of \$2,844,083. The increase is mainly due to capital contributions during the year related to special assessments and park dedication fees.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,157,713, an increase of \$349,087 in comparison with the prior year. The increase is primarily attributed to the bond issuance of \$4,130,000 offset with capital expenditures for various projects during the year. There was unspent bond proceeds of \$0 at the end of 2019, which is expected to be spent in 2020 to complete street improvement projects.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,351,058 or 48.0 percent of total 2019 General fund expenditures and transfers out.
- The City's total noncurrent liabilities increased \$4,794,897 during the current fiscal year. This is mainly due to the issuance of the 2019A and 2019B bonds offset by regularly scheduled principal payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Organization of the City's Annual Financial Report



The following chart summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government and the City's component units	The activities of the City that are not proprietary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statements of Net Position • Statements of Revenues, Expenses and Changes in Fund Net Position • Statements of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the City.

The government-wide financial statements start on page 31 of this report.

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

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

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

The City maintains numerous individual governmental funds, nine of which are Debt Service funds though they are presented as one. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Debt Service, and Park Development fund, 2019 Street Improvements, Commerce Drive Improvements, and City Hall Construction fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

The basic governmental fund financial statements start on page 36 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water utilities.

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

The basic proprietary fund financial statements start on page 44 of this report.

Notes to the Financial Statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding to provide pension benefits to its employees. Required supplementary information can be found starting on page 80.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 51 of this report.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Shares of the Net Pension Liability and the Schedule of Employer's Contributions and related notes starting on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund financial statements and schedules start on page 86 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$47,668,520 at the close of the most recent fiscal year.

The largest portion of the City's net position (77.8 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Carver's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Assets						
Current and other assets	\$ 9,822,286	\$ 8,701,828	\$ 1,120,458	\$ 5,947,213	\$ 4,816,252	\$ 1,130,961
Capital assets, net of depreciation	28,336,400	22,221,579	6,114,821	33,191,713	32,479,295	712,418
Total Assets	38,158,686	30,923,407	7,235,279	39,138,926	37,295,547	1,843,379
Deferred Outflows of Resources	209,332	156,103	53,229	61,462	76,034	(14,572)
Liabilities						
Noncurrent liabilities outstanding	17,341,564	13,255,904	4,085,660	10,519,070	9,739,823	779,247
Other liabilities	1,547,357	1,115,001	432,356	306,106	425,225	(119,119)
Total Liabilities	18,888,921	14,370,905	4,518,016	10,825,176	10,165,048	660,128
Deferred Inflows of Resources	133,227	206,818	(73,591)	52,562	70,508	(17,946)
Net Position						
Net investment in capital assets	13,523,948	13,481,401	42,547	23,544,964	23,725,355	(180,391)
Restricted for						
Debt service	1,722,956	847,945	875,011	-	-	-
Park improvements	1,653,051	1,197,669	455,382	-	-	-
Economic development	205,277	107,787	97,490	-	-	-
Unrestricted	2,240,638	866,985	1,373,653	4,777,686	3,410,670	1,367,016
Total Net Position	\$ 19,345,870	\$ 16,501,787	\$ 2,844,083	\$ 28,322,650	\$ 27,136,025	\$ 1,186,625

A portion of the City's net position (7.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$7,018,324) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. All categories were positive in the prior year as well.

Significant changes from the prior year are noted below:

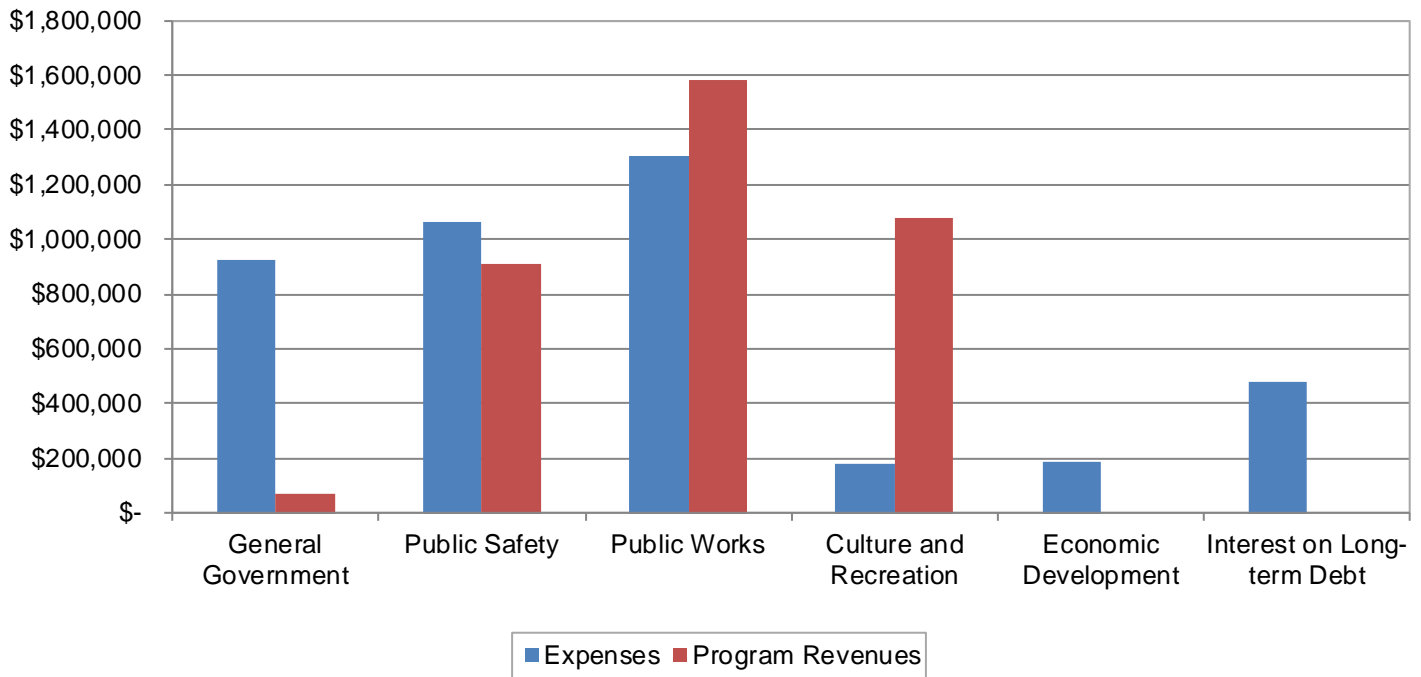
City of Carver's Changes in Net Position

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 954,882	\$ 484,106	\$ 470,776	\$ 1,608,989	\$ 1,423,157	\$ 185,832
Operating grants and contributions	155,135	207,348	(52,213)	1,496	3,448	(1,952)
Capital grants and contributions	2,525,418	1,161,982	1,363,436	2,114,420	628,342	1,486,078
General Revenues						
Taxes						
Property taxes	2,792,959	2,417,549	375,410	-	-	-
Tax increments	188,532	204,612	(16,080)	-	-	-
Grants and contributions not restricted to specific programs	133,324	169,319	(35,995)	-	-	-
Unrestricted investment earnings	230,092	15,132	214,960	150,266	39,424	110,842
Gain on sale of capital assets	27,080	20,721	6,359	-	22,500	(22,500)
Total Revenues	7,007,422	4,680,769	2,326,653	3,875,171	2,116,871	1,758,300
Expenses						
General government	927,722	1,049,617	(121,895)	-	-	-
Public safety	1,063,104	873,538	189,566	-	-	-
Public works	1,304,686	1,559,807	(255,121)	-	-	-
Culture and recreation	178,921	129,416	49,505	-	-	-
Economic development	188,414	267,349	(78,935)	-	-	-
Interest on long-term debt	479,202	351,350	127,852	-	-	-
Water	-	-	-	1,237,998	1,229,960	8,038
Sewer	-	-	-	1,105,139	1,101,395	3,744
Storm water	-	-	-	366,699	425,947	(59,248)
Total Expenses	4,142,049	4,231,077	(89,028)	2,709,836	2,757,302	(47,466)
Change in Net Position						
Before Transfers	2,865,373	449,692	2,415,681	1,165,335	(640,431)	1,805,766
Transfers - Internal Activities	(21,290)	(285,158)	263,868	21,290	285,158	(263,868)
Change in Net Position	2,844,083	164,534	2,679,549	1,186,625	(355,273)	1,541,898
Net Position, January 1	16,501,787	16,337,253	164,534	27,136,025	27,491,298	(355,273)
Net Position, December 31	\$ 19,345,870	\$ 16,501,787	\$ 2,844,083	\$ 28,322,650	\$ 27,136,025	\$ 1,186,625

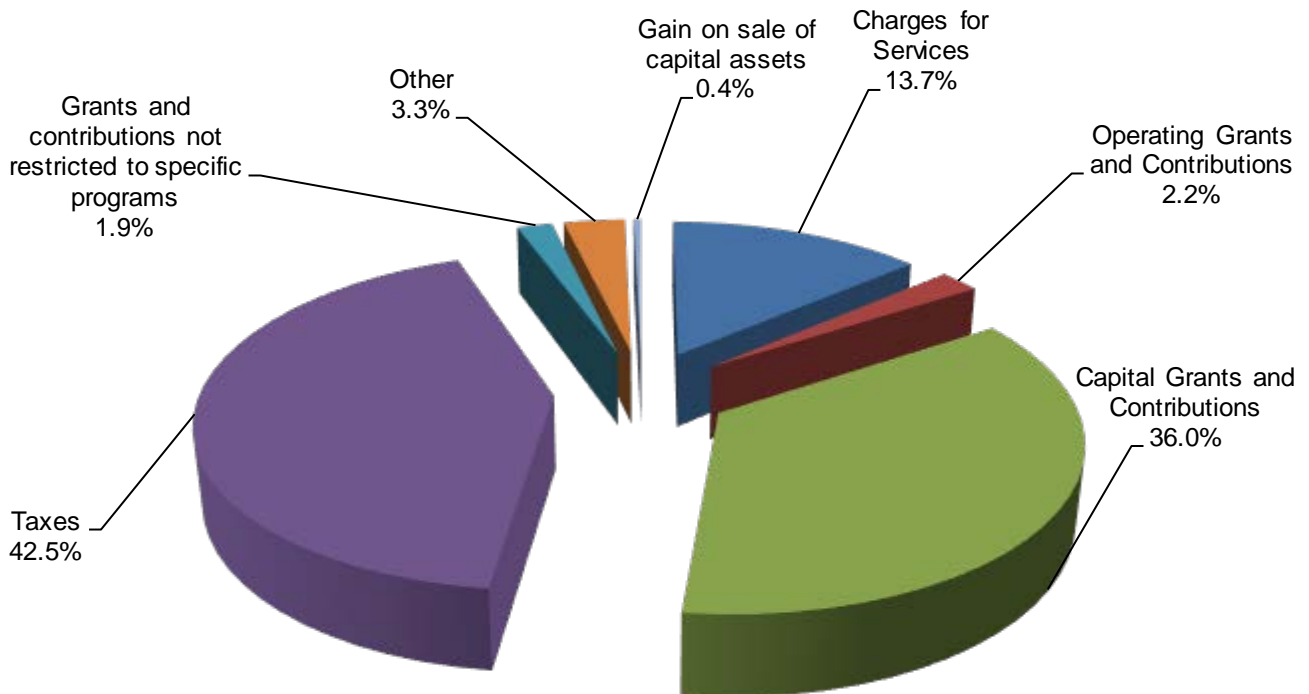
Governmental Activities increased the City's net position by \$2,844,083, thereby accounting for a portion of the overall increase in the net position of the City.

The following graph depicts various governmental activities and shows the expenses and program revenues directly related to those activities.

Expenses and Program Revenues - Governmental Activities



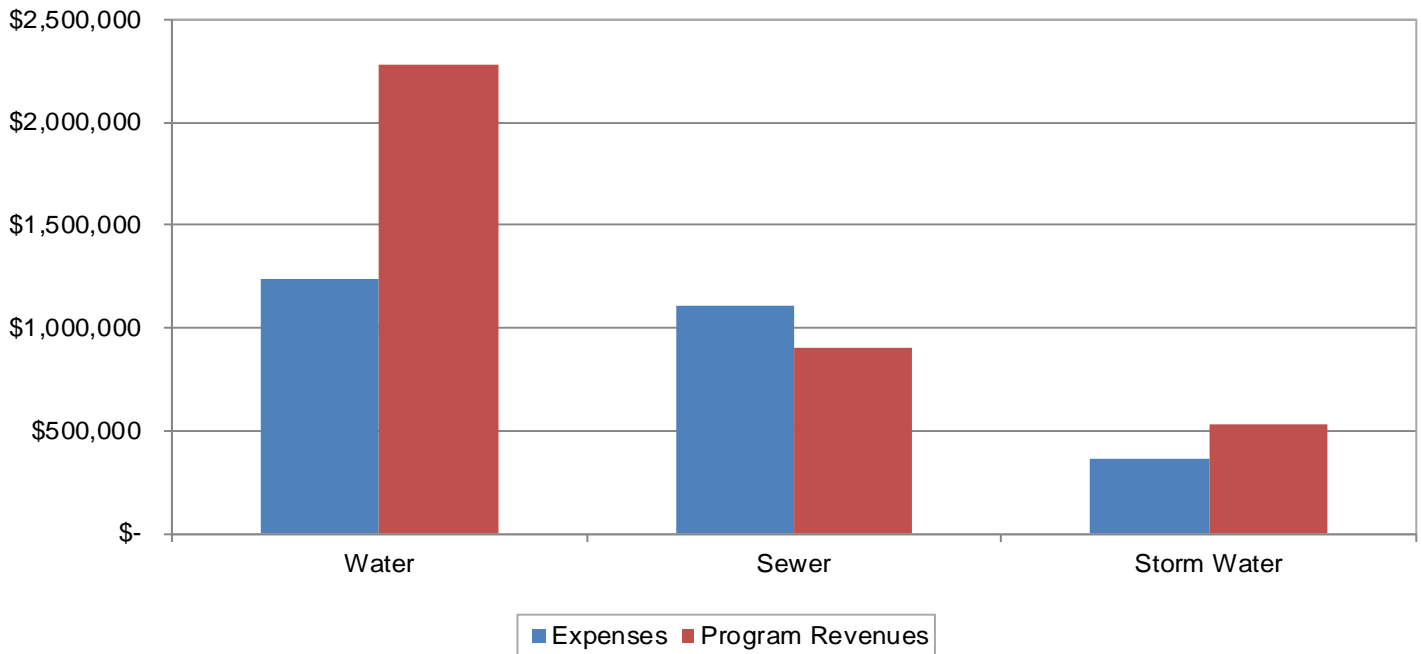
Revenues by Source - Governmental Activities



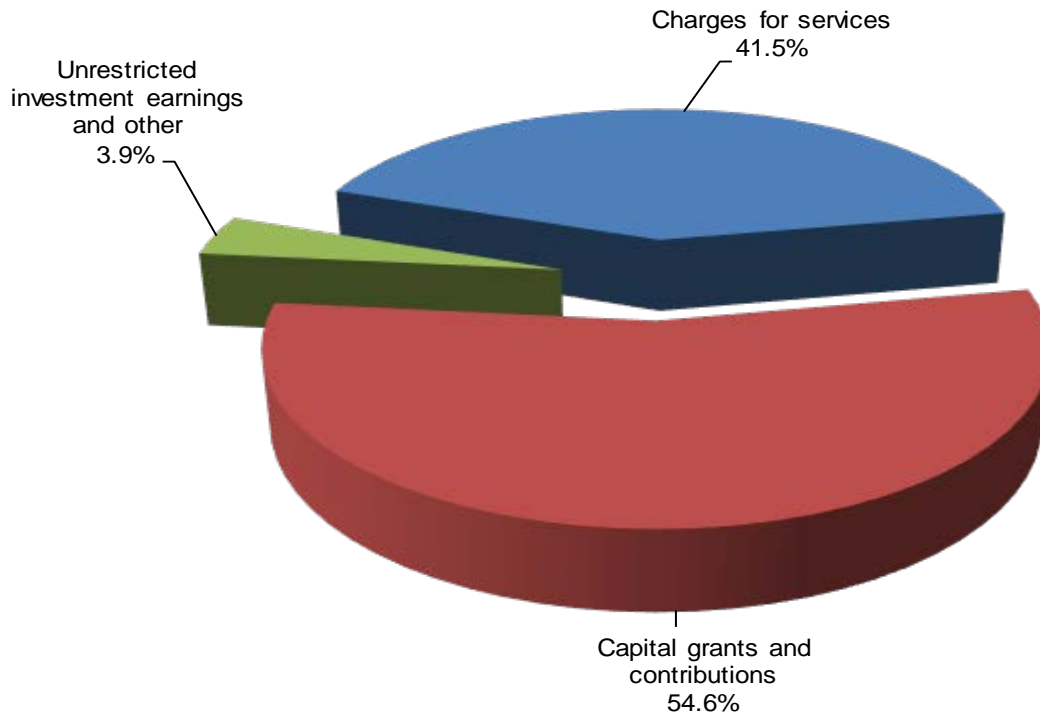
Business-type Activities. There was an increase of \$1,186,625 in net position reported with the City's business-type activities. Key elements of this increase are as follows:

- Total revenues of the proprietary funds totaled \$1,857,830, which includes charges for services, investment earnings, and miscellaneous revenues.
- Capital contributions, which includes water and sewer access fees and storm water area charges, totaled \$2,114,420 for 2019.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,157,713, an increase of \$349,087 in comparison with the prior year mainly due to the issuance of 2019A and 2019B bonds offset with capital expenditures on various projects around the City. Approximately 15.4 percent of this total amount (\$1,100,698) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance (\$6,057,015) is not available for new spending because it is either 1) nonspendable (\$3,130), 2) restricted (\$4,740,550), 3) committed (\$45,398), or 4) assigned (\$1,267,937). For further classification, refer to note 3F on page 69 of this report.

Activity in the City's major governmental funds is discussed below.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2019	2018	
General	\$ 1,354,188	\$ 1,262,966	\$ 91,222
The increase in the General fund balance is primarily a result of excess revenues over expenditures, and proceeds from sale of capital assets of \$27,080. The increase is mainly due to permits in excess of budget due to growth in the City. The total fund balance at makes up 50.1 percent of next year's general fund budget.			
Debt Service	\$ 1,638,221	\$ 1,233,525	\$ 404,696
The fund balance in the Debt Service fund increased in 2019, primarily as a result of revenues from taxes and special assessments, offset with debt payments. This entire fund balance is restricted to use toward future debt service payments.			
Park Development	\$ 2,192,422	\$ 1,197,669	\$ 994,753
The fund balance in the Park Development fund increased primarily due to park dedication fees received from developers offset with capital expenditures on park improvements.			
2019 Street Improvements	\$ 895,453	\$ (333,663)	\$ 1,229,116
The increase in fund balance in the 2019 Street Improvements fund is primarily due to issuance of new debt in the current year offset by capital expenditures on the street project. The remaining fund balance is expected to be spent in 2020 on the balance of the project.			
Commerce Drive Improvements	\$ 12,079	\$ (154,515)	\$ 166,594
The increase in fund balance in the 2019 is primarily due to issuance of new debt in the current year offset by capital expenditures on the street project. The remaining fund balance is expected to be spent in 2020 on the balance of the			
City Hall Construction	\$ 165,492	\$ 3,384,677	\$ (3,219,185)
The decrease in fund balance for the City Hall Construction fund is due to the capital expenditures for the construction of the new city hall building exceeding the current year revenues recorded in the fund. Bonds were issued in 2018 to pay for the construction.			

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds at the end of the year amounted to \$4,777,686. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Some of the significant variances can be briefly summarized as follows:

- Revenues were \$383,638 higher than budgeted, mainly due to licenses and permits revenues being over budget by \$281,913 due to conservative budgeting for building permits.
- Total expenditures were \$21,374 under budget. The main reason for the budget variance was expenditures in the public safety department were under budget by \$41,376 due to various expenditures differing from budget. Police services and charges were under budget by \$28,325 accounting for a majority of the variance.

Capital Asset and Debt Administration

Capital Assets. This City's investment in capital assets for its governmental and business-type activities as of December 31, 2019 amounts to \$61,528,113 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. Major capital asset events during the current fiscal year included the following:

- 2019 Street and Utility Improvements
- City Hall Audio Visual Equipment
- Purchase of a Kubota tractor
- City Hall construction
- Purchase of a Dodge Ram truck
- Commerce Drive construction

**City of Carver's Capital Assets
(Net of Depreciation)**

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Land	\$ 2,035,644	\$ 2,035,644	\$ -	\$ 627,374	\$ 627,374	\$ -
Historical Treasures and Collectables	30,000	30,000	-	-	-	-
Construction in Progress	8,035,833	1,664,494	6,371,339	1,721,652	447,488	1,274,164
Buildings	1,183,224	1,233,455	(50,231)	120,817	126,051	(5,234)
Infrastructure	16,088,404	16,467,032	(378,628)	30,200,127	31,068,253	(868,126)
Vehicles and Equipment	963,295	790,954	172,341	521,743	210,129	311,614
Total	\$ 28,336,400	\$ 22,221,579	\$ 6,114,821	\$ 33,191,713	\$ 32,479,295	\$ 712,418

Additional information on the City's capital assets can be found in Note 3C starting on page 62 of this report.

Noncurrent Liabilities. At the end of the current fiscal year, the City had total bonded debt outstanding of \$26,240,120. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Carver's Noncurrent Liabilities

	Governmental Activities			Business-type Activities		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
G.O. Bonds	\$ 7,440,000	\$ 6,010,000	\$ 1,430,000	\$ -	\$ -	\$ -
G.O. Improvement Bonds	7,880,439	5,710,000	2,170,439	105,000	125,000	(20,000)
G.O. Revenue Bonds	-	-	-	9,817,561	9,116,000	701,561
Loans Payable	750,000	750,000	-	-	-	-
Unamortized Bond Premium	736,014	305,684	430,330	261,106	178,539	82,567
Total	<u>\$ 16,806,453</u>	<u>\$ 12,775,684</u>	<u>\$ 4,030,769</u>	<u>\$ 10,183,667</u>	<u>\$ 9,419,539</u>	<u>\$ 764,128</u>

The increase in noncurrent liabilities was due to the issuance of the 2019A and 2019B bonds.

The City's bond rating is "AA" rating from Standard & Poor's for general obligation debt.

Additional information on the City's noncurrent liabilities can be found in Note 3E starting on page 65 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City's estimated population as of April 1, 2018 is 4,990. Through its budgeting process, the City plans for conservative levels of growth in fiscal year 2020, fiscal year 2021, and fiscal year 2022.
- Property valuations within the City remain stable.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2020 fiscal year.

Requests for Information

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 Manager, City of Carver, PO Box 147, Carver, Minnesota 55315.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

FUND FINANCIAL STATEMENTS

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Carver, Minnesota (the City), operates under the "Optional Plan A" form of government as defined in the State of Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council members. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the City. The City has the following component unit.

Blended Component Unit. The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the City Council. It is comprised of the members of the City Council. Also, the City has operational responsibility of the EDA. It is these criteria that results in the EDA being reported as a blended component unit as separate special revenue fund of the City. The EDA has a December 31 year end. Separate financial statements are not issued for this component unit.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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.

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 provider have been met.

Governmental fund financial statements 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. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Park Development fund* accounts for the accumulation of resources for improving parks in the City.

The *2019 Street Improvements fund* accounts for all the costs associated with the street projects completed within the City.

The *Commerce Drive Improvements fund* accounts for all the costs and resources associated with the Commerce Drive project.

The *City Hall Construction fund* accounts for the resources used to build the new City hall.

The City reports the following major proprietary funds:

The *Water fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sewer fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Storm Water fund* accounts for costs associated with the City's storm water system and to ensure that user charges are sufficient to pay for those costs.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions 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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. 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.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of December 31, 2019:

- US Government Securities of \$559,372 are valued using quoted market prices (Level 1 inputs)
- Municipal bonds of \$1,878,141 and brokered certificates of deposits of \$2,006,779 are valued using a matrix pricing model (Level 2 inputs)

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

Property Taxes

The City Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for taxes not received within 60 days after year end in the governmental fund financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2019. Generally, the City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than the amounts defined below and an estimated useful life in excess of one year.

For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Land and Land Improvements	\$ 5,000
Other Improvements	5,000
Buildings	10,000
Building Improvements	10,000
Machinery and Equipment	5,000
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the acquisition value of the item at the date of its donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives In Years</u>
Buildings and Improvements	15 to 75
System Improvements/Infrastructure	20 to 60
Vehicles and Equipment	3 to 15
Vehicles	3 to 10
Other Assets	3 to 15

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

It is the City's policy to permit employees to accumulate a percentage of earned but unused "paid time off" (PTO) benefits. Employees also earn "catastrophic sick bank" and upon termination in good standing will be paid up to 240 hours of earned, unused sick bank. All PTO and up to 240 hours of sick bank is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General fund is typically used to liquidate governmental compensated absences payable.

Pensions

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

The total pension expense for the GERP and Fire Relief Association is as follows:

		Public Employees Retirement Association of Minnesota (PERA) GERP		Fire Relief Association		Total All Plans
Pension Expense	\$	131,329	\$	49,346	\$	180,675

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by the Carver Fire Department Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value.

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. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Bond issuance costs are reported as an expense in the period incurred.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Fund Balance

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

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers 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.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 40 percent of budgeted expenditures for cash-flow timing needs.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

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

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

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. Annual appropriations lapse at year end for all funds. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the fund level. The General fund budget was amended during 2019. All budget amendments were approved based on unanticipated expenditures and revenues encountered during the year.

B. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2019:

<u>Fund</u>	<u>Amount</u>
Nonmajor Special Revenue	
Park & Ride Transit	\$ 130,573
Nonmajor Capital Projects	
TIF Industrial Project	49,728
Jonathan Carver Parkway Improvements	70,059

The above deficits will be eliminated through future tax increment revenues, charges for services, and intergovernmental revenues.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of corporate surety bonds include:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any Federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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 selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$755,625 and the bank balance was \$774,292. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance was covered by collateral held by the pledging financial institution's trust department in the City's name.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Investments

The investments of the City are subject to the following risks:

- *Custodial Credit Risk* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities which are in the possession of an outside party. The City's investment policy requires appropriate collateralization of investments.
- *Concentration of Credit Risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer; however, the investment policy does strive for diversification of investment instruments. The City has no concentrations greater than 5% in any one issuer.
- *Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Using the segmented time distribution method, the interest rate risk of the City's investments ranges from less than 6 months to more than 3 years. The City's investment policy requires diversification of investment maturity dates in order to mitigate interest rate risk.
- *Credit Risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings provided by various credit rating agencies where applicable indicate associated credit risk. The City's investment policy and Minnesota statutes limit the City's investments to the list on page 53 of the notes.

At year end, the City's investment balances were as follows:

Type of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments at Amortized Costs						
4M Fund	N/A	Less than 6 months	\$ 3,215,561	\$ -	\$ -	\$ -
Broker Money Market Funds	N/A	Less than 6 months	4,413,536	-	-	-
Non-pooled Investments at Fair Value						
U.S. Government Securities	AA+	1-5 years	559,372	559,372	-	-
Municipal Bonds	AA	1-5 years	160,000	-	160,000	-
Municipal Bonds	AA	More than 5 years	700,000	-	700,000	-
Municipal Bonds	AAA	1-5 years	25,000	-	25,000	-
Municipal Bonds	AAA	More than 5 years	210,000	-	210,000	-
Municipal Bonds	AA+	More than 5 years	283,141	-	283,141	-
Municipal Bonds	A+	1-5 years	75,000	-	75,000	-
Municipal Bonds	A+	More than 5 years	100,000	-	100,000	-
Municipal Bonds	Aa2	More than 5 years	100,000	-	100,000	-
Municipal Bonds	Aa3	More than 5 years	125,000	-	125,000	-
Municipal Bonds	A2	1-5 years	100,000	-	100,000	-
Brokered Certificates of Deposit	N/A	Less than 1 year	650,789	-	650,789	-
Brokered Certificates of Deposit	N/A	1-5 years	1,355,990	-	1,355,990	-
Total Investments			\$ 12,073,389	\$ 559,372	\$ 3,884,920	\$ -

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

A reconciliation of cash and temporary investments as shown on the statement of net position for the City follows:

Carrying Amount of Deposits	\$ 755,625
Investments	<u>12,073,389</u>
 Total	 <u><u>\$ 12,829,014</u></u>
 Statement of Net Position	
Cash and temporary investments	<u><u>\$ 12,829,014</u></u>

B. Loans Receivable and Payable

The City issued a loan in 2015 for \$750,000 to a developer through the Metropolitan Council Livable Communities Demonstration Account (LCDA), all of which is outstanding at year-end. The loan is secured through a mortgage on the project parcel. Additionally, the loan bears no interest rate and is due in 2045. The portion of the LCDA grant which is loaned to the developer is subject to repayment (both by the Developer to the City and then by the City to the Metropolitan Council) on the following conditions:

1. The developer becomes obligated to repay the City's loan or defaults on the City's loan.
2. When the initial thirty year compliance period expires (unless the Metropolitan Council agrees in writing to allow the LCDA grant fund structured as a loan to continue in place for an extended use).
3. There is non-compliance by the developer with the low income housing tax credit program requirements or some other event that triggers the developer's obligation to repay the loan.
4. The project is sold (unless the City consents to allowing an assumption of the loan and mortgage).

The City is only obligated to repay the Metropolitan Council the amount the City lends to the developer to the extent the City is able to enforce and collect the loan.

Annual requirements to maturity for loans payable are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2045	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 750,000</u>

In 2015 there was also a zero interest loan issued to Harvey's Bar and Grill in the amount of \$2,500. The loan is to be paid back over five years at \$500 per year. The outstanding amount of the loan is \$1,000 at year-end.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ 2,035,644	\$ -	\$ -	\$ 2,035,644
Historical treasures and collectibles	30,000	-	-	30,000
Construction in progress	1,664,494	6,371,339	-	8,035,833
Total Capital Assets not Being Depreciated	<u>3,730,138</u>	<u>6,371,339</u>	<u>-</u>	<u>10,101,477</u>
Capital Assets Being Depreciated				
Buildings	1,901,667	-	-	1,901,667
Infrastructure	18,990,829	94,850	-	19,085,679
Vehicles and equipment	2,400,037	323,487	(79,644)	2,643,880
Total Capital Assets Being Depreciated	<u>23,292,533</u>	<u>418,337</u>	<u>(79,644)</u>	<u>23,631,226</u>
Less Accumulated Depreciation for				
Buildings	(668,212)	(50,231)	-	(718,443)
Infrastructure	(2,523,797)	(473,478)	-	(2,997,275)
Vehicles and equipment	(1,609,083)	(151,146)	79,644	(1,680,585)
Total Accumulated Depreciation	<u>(4,801,092)</u>	<u>(674,855)</u>	<u>79,644</u>	<u>(5,396,303)</u>
Total Capital Assets Being Depreciated, Net	<u>18,491,441</u>	<u>(256,518)</u>	<u>-</u>	<u>18,234,923</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,221,579</u>	<u>\$ 6,114,821</u>	<u>\$ -</u>	<u>\$ 28,336,400</u>

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

Governmental Activities	
General Government	\$ 8,027
Public Safety	162,591
Public Works	427,862
Culture and Recreation	76,375
Total Depreciation Expense - Governmental Activities	<u>\$ 674,855</u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not Being Depreciated				
Land	\$ 627,374	\$ -	\$ -	\$ 627,374
Construction in progress	447,488	1,274,164	-	1,721,652
Total Capital Assets not Being Depreciated	<u>1,074,862</u>	<u>1,274,164</u>	<u>-</u>	<u>2,349,026</u>
Capital Assets Being Depreciated				
Buildings	209,359	-	-	209,359
Infrastructure	38,249,192	-	-	38,249,192
Vehicles and equipment	619,840	365,906	-	985,746
Total Capital Assets Being Depreciated	<u>39,078,391</u>	<u>365,906</u>	<u>-</u>	<u>39,444,297</u>
Less Accumulated Depreciation for				
Buildings	(83,308)	(5,234)	-	(88,542)
Infrastructure	(7,180,939)	(868,126)	-	(8,049,065)
Vehicles and equipment	(409,711)	(54,292)	-	(464,003)
Total Accumulated Depreciation	<u>(7,673,958)</u>	<u>(927,652)</u>	<u>-</u>	<u>(8,601,610)</u>
Total Capital Assets Being Depreciated, Net	<u>31,404,433</u>	<u>(561,746)</u>	<u>-</u>	<u>30,842,687</u>
Business-type Activities Capital Assets, Net	<u>\$ 32,479,295</u>	<u>\$ 712,418</u>	<u>\$ -</u>	<u>\$ 33,191,713</u>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type Activities	
Water	\$ 355,920
Sewer	453,792
Storm water	<u>117,940</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 927,652</u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Construction Commitments

The City has active construction projects as of December 31, 2019. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
New City Hall	\$ 3,552,335	\$ 281,402
2018 Stormwater Project	291,946	806,305
2019 Street Improvements	1,688,626	547,434
Commerce Drive	1,129,485	289,151
 Total	 <u>\$ 6,662,392</u>	 <u>\$ 1,924,292</u>

D. Interfund Transfers

The composition of interfund transfers for the year ended December 31, 2019 is as follows:

<u>Fund</u>	<u>Transfers In</u>			<u>Total</u>
	<u>Park Development</u>	<u>Nonmajor Governmental</u>	<u>Storm Water Enterprise</u>	
Transfers Out				
General	\$ 16,891	\$ 363,732	\$ -	\$ 380,623
Debt Service	-	-	21,290	21,290
 Total Transfers In	 <u>\$ 16,891</u>	 <u>\$ 363,732</u>	 <u>\$ 21,290</u>	 <u>\$ 401,913</u>

The City made the following one time transfers during 2019:

- The General fund transferred \$302,232 to nonmajor governmental funds per fund balance policy, for future capital improvements.
- The General fund transferred \$16,891 to the nonmajor governmental funds for future park improvements.
- The General fund transferred \$61,500 to nonmajor governmental funds per the City's budget to fund future street maintenance costs.
- The Debt Service funds transferred \$21,290 to the Storm Water Fund for debt service payments.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

E. Long-term Debt

General Obligation (G.O.) Bonds

The City issues G.O. bonds to provide funds for the acquisition and construction of major capital facilities. G.O. bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, bonds have been issued to refund G.O. improvement and G.O. revenue bonds. G.O. bonds are direct obligations and pledge the full faith and credit of the City. G.O. bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Equipment Certificates Bonds, 2010A	\$ 485,000	1.0 - 2.55 %	11/4/2010	2/1/2020	\$ 60,000
G.O. Refunding Bonds Series 2010A	1,335,000	1.0 - 3.0	11/4/2010	2/1/2023	530,000
G.O. Equipment Certificates Bonds, 2015A	370,000	2.00	06/04/15	02/01/25	250,000
G.O. Capital Improvement Bonds, 2018A	4,950,000	3.00 - 5.00	08/02/18	02/01/39	4,950,000
G.O. Capital Improvement Bonds, 2019A	955,000	3.00 - 5.00	08/14/19	02/01/30	955,000
G.O. Equipment Certificates Bonds, 2019B	695,000	4.00 - 5.00	08/14/19	02/01/40	<u>695,000</u>
Total General Obligation Bonds					<u><u>\$ 7,440,000</u></u>

Annual requirements to maturity for G.O. bonds are as follows:

Year Ending December 31,	General Obligation Bonds Governmental Activities		
	Principal	Interest	Total
2020	\$ 300,000	\$ 277,358	\$ 577,358
2021	395,000	267,648	662,648
2022	515,000	248,910	763,910
2023	530,000	226,735	756,735
2024	415,000	205,785	620,785
2025 - 2029	2,180,000	736,075	2,916,075
2030 - 2034	1,495,000	391,119	1,886,119
2035 - 2039	<u>1,610,000</u>	<u>143,978</u>	<u>1,753,978</u>
Total	<u><u>\$ 7,440,000</u></u>	<u><u>\$ 2,497,608</u></u>	<u><u>\$ 9,937,608</u></u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

G.O. Improvement (Special Assessment) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies as well as transfers from enterprise funds for their portion of the obligation. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Governmental					
G.O. Improvement Refunding Bonds, 2010A	\$ 375,000	1.00 - 2.75 %	01/04/10	02/01/21	\$ 90,000
G.O. Improvement Bonds, 2011A	1,630,000	2.00 - 3.70	12/01/11	02/01/34	1,485,000
G.O. Improvement Bonds, 2013A	1,345,000	0.65 - 3.85	09/03/13	02/01/30	1,055,000
G.O. Improvement Bonds, 2015A	695,000	2.00 - 3.00	06/04/15	02/01/31	575,000
G.O. Improvement Refunding Bonds, 2015B	505,000	2.00 - 4.00	06/04/15	02/01/24	335,000
G.O. Improvement Bonds, 2017A	1,905,000	3.00 - 3.125	08/17/17	02/01/38	1,860,439
G.O. Improvement Bonds, 2019B	2,480,000	3.00 - 5.00	08/14/19	02/01/40	2,480,000
Total Governmental					<u>7,880,439</u>
Business					
G.O. Improvement Refunding Bonds, 2015B	165,000	2.00 - 4.00	06/04/15	02/01/24	105,000
Total G.O. Improvement Bonds					<u>\$ 7,985,439</u>

Annual requirements to maturity for G.O. improvement bonds are as follows:

Year Ending December 31,	G.O. Special Assessment Bonds			G.O. Special Assessment Bonds		
	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 380,198	\$ 247,264	\$ 627,462	\$ 20,000	\$ 3,000	\$ 23,000
2021	435,196	239,314	674,510	20,000	2,400	22,400
2022	445,768	225,625	671,393	20,000	1,700	21,700
2023	450,768	210,609	661,377	20,000	900	20,900
2024	468,553	195,632	664,185	25,000	250	25,250
2025 - 2029	2,143,969	757,398	2,901,367			-
2030 - 2034	2,126,382	383,177	2,509,559	-	-	-
2035 - 2039	1,259,605	116,131	1,375,736	-	-	-
2040	170,000	2,550	172,550	-	-	-
Total	<u>\$ 7,880,439</u>	<u>\$ 2,377,700</u>	<u>\$ 10,258,139</u>	<u>\$ 105,000</u>	<u>\$ 8,250</u>	<u>\$ 113,250</u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future revenues pledged from the Water, Sewer, and Storm Water funds and are backed by the taxing power of the City. Annual principal and interest payments excluding amounts paid from escrow agent on the bonds are expected to require over 128, 49, and 139 percent of revenues from the Water, Sewer, and Storm Water funds, respectively. For 2019, principal and interest paid and total charges for services for the Water fund were \$674,334 and \$804,113, respectively. For 2019, principal and interest paid and total charges for services for the Sewer fund were \$229,203 and \$616,805, respectively. For 2019, principal and interest paid and total charges for services for the Storm Water fund were \$167,664 and \$188,188, respectively.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
MPFA Water Revenue Note, 2004	\$ 2,522,966	2.82 %	03/03/04	08/20/23	\$ 618,000
G.O. Water Revenue Refunding Bonds, 2010A	350,000	1.00 - 3.00	11/04/10	02/01/22	105,000
G.O. Sewer Revenue Refunding Bonds, 2010A	280,000	1.00 - 3.00	11/04/10	02/01/22	85,000
G.O. Storm Revenue Refunding Bonds, 2010A	180,000	1.00 - 2.75	11/04/10	02/01/21	40,000
G.O. Water Revenue Refunding Bonds, 2012A	675,000	1.00 - 2.15	03/28/12	02/01/25	385,000
G.O. Revenue Bonds, Series 2013A	895,000	0.65 - 3.85	09/03/13	02/01/29	650,000
G.O. Revenue Bonds, Series 2015A	155,000	2.00 - 3.00	06/04/15	02/01/26	110,000
G.O. Utility Revenue Refunding Bonds, 2015B	4,140,000	2.00 - 4.00	06/18/15	02/01/29	3,825,000
G.O. Improvement Bonds, 2017A	1,515,000	3.00 - 3.125	08/17/17	02/01/38	1,479,561
G.O. Improvement Bonds, 2018B	1,040,000	3.00 - 5.00	08/02/18	02/01/39	1,040,000
G.O. Improvement Bonds, 2019B	1,480,000	3.00 - 5.00	08/14/19	02/01/40	<u>1,480,000</u>
 Total G.O. Revenue Bonds					 <u><u>\$ 9,817,561</u></u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

Annual requirements to maturity for G.O. revenue bonds are as follows:

<u>Year Ending December 31,</u>	G.O. Revenue Bonds Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 807,803	\$ 305,722	\$ 1,113,525
2021	961,803	280,739	1,242,542
2022	996,232	346,993	1,343,225
2023	945,232	211,251	1,156,483
2024	811,447	179,504	990,951
2025 - 2029	3,996,031	511,100	4,507,131
2030 - 2034	823,618	137,499	961,117
2035 - 2040	475,395	26,008	501,403
Total	<u>\$ 9,817,561</u>	<u>\$ 1,998,816</u>	<u>\$ 11,816,377</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds and Loans Payable					
G.O. bonds	\$ 6,010,000	\$ 1,650,000	\$ (220,000)	\$ 7,440,000	\$ 300,000
G.O. improvement bonds	5,710,000	2,480,000	(309,561)	7,880,439	380,198
Loans payable	750,000	-	-	750,000	-
Total Bonds and Loans Payable	<u>12,470,000</u>	<u>4,130,000</u>	<u>(529,561)</u>	<u>16,070,439</u>	<u>680,198</u>
Unamortized Bond Premium	305,684	480,562	(50,232)	736,014	-
Compensated Absences Payable	<u>53,213</u>	<u>69,110</u>	<u>(60,528)</u>	<u>61,795</u>	<u>60,800</u>
Governmental Activity Long-term Liabilities	<u>\$ 12,828,897</u>	<u>\$ 4,679,672</u>	<u>\$ (640,321)</u>	<u>\$ 16,868,248</u>	<u>\$ 740,998</u>
Business-type Activities					
Bonds and Loans Payable					
G.O. revenue bonds	\$ 9,116,000	\$ 1,480,000	\$ (778,439)	\$ 9,817,561	\$ 807,803
G.O. improvement bonds	125,000	-	(20,000)	105,000	20,000
Total Bonds and Loans Payable	<u>9,241,000</u>	<u>1,480,000</u>	<u>(798,439)</u>	<u>9,922,561</u>	<u>827,803</u>
Unamortized Bond Premium	178,539	179,647	(97,080)	261,106	-
Compensated Absences Payable	<u>37,200</u>	<u>42,411</u>	<u>(39,392)</u>	<u>40,219</u>	<u>39,570</u>
Business-type Activity Long-term Liabilities	<u>\$ 9,456,739</u>	<u>\$ 1,702,058</u>	<u>\$ (934,911)</u>	<u>\$ 10,223,886</u>	<u>\$ 867,373</u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on All Funds (Continued)

F. Components of Fund Balance

At December 31, 2019, portions of the City's governmental fund balances are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

Purpose	General	Debt Service	Park Development	2019 Street Improvements	Commerce Drive Improvements	City Hall Construction	Other Governmental Funds	Total
Nonspendable								
Prepaid items	\$ 3,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,130
Restricted for								
Debt service	\$ -	\$ 1,638,221	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,638,221
Economic development	-	-	-	-	-	-	205,277	205,277
Park improvements	-	-	1,653,051	-	-	-	-	1,653,051
Street improvements	-	-	-	895,453	-	-	-	895,453
Capital equipment	-	-	-	-	-	-	348,548	348,548
Total Restricted	<u>\$ -</u>	<u>\$ 1,638,221</u>	<u>\$ 1,653,051</u>	<u>\$ 895,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 553,825</u>	<u>\$ 4,740,550</u>
Committed to								
Economic development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,235	\$ 14,235
Mount Hope Cemetery	-	-	-	-	-	-	28,524	28,524
Community events	-	-	-	-	-	-	2,639	2,639
Total Committed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,398</u>	<u>\$ 45,398</u>
Assigned to								
Capital improvements	\$ -	\$ -	\$ -	\$ -	\$ 12,079	\$ 165,492	\$ 550,995	\$ 728,566
Park improvements	-	-	539,371	-	-	-	-	539,371
Total Assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 539,371</u>	<u>\$ -</u>	<u>\$ 12,079</u>	<u>\$ 165,492</u>	<u>\$ 550,995</u>	<u>\$ 1,267,937</u>

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Plan (GERP)

Full-time and certain part-time employees of the City are covered by the General Employees Retirement Plan (GERP). GERP members belong to the Coordinated Plan. Coordinated Plan members are 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 the provisions in effect at the time they last terminated their public service.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

GERP Benefits

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

Annuities, disability benefits and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 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 the increase will receive the 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 reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under 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 Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employee's Fund for the years ending December 31, 2019, 2018 and 2017 were \$81,480, \$69,774 and \$59,225, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$768,500 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$23,999. 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. The City's proportionate share 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 proportionate share was 0.0139 percent which was an increase of 0.0011 percent from its proportion measured as of June 30, 2018.

City's Proportionate Share of the Net Pension Liability	\$ 768,500
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>23,999</u>
Total	<u>\$ 792,499</u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

For the year ended December 31, 2019, the City recognized pension expense of \$129,532 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized \$1,797 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 21,555	\$ 13,095
Changes in Actuarial Assumptions	6,712	61,187
Net Difference Between Projected and Actual Earnings on Plan Investments	-	62,559
Changes in Proportion	89,295	-
Contributions Paid to PERA Subsequent to the Measurement Date	42,455	-
Total	\$ 160,017	\$ 136,841

The \$42,455 reported as deferred outflows of resources related to pensions resulting from the City's contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ 1,271
2021	(26,296)
2022	4,507
2023	1,239

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.25 percent per year for General Employees 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. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	35.5 %	5.10 %
Private Markets	25.0	5.90
Fixed Income	20.0	0.75
International Equity	17.5	5.90
Cash Equivalents	<u>2.0</u>	-
Total	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1 Percent Decrease (6.50%)</u>	<u>Current (7.50%)</u>	<u>1 Percent Increase (8.50%)</u>
General Employees Fund	\$ 1,263,372	\$ 768,500	\$ 359,884

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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.

Note 5: Defined Benefit Pension Plans - Fire Relief Association

A. Plan Description

All members of the Carver Fire Department (the Department) are covered by a defined benefit plan administered by the Carver Firemen's Relief Association (the Association). As of December 31, 2018, the plan covered 29 active firefighters and 10 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

B. Benefits Provided

A fire fighter who completes at least 20 years as an active member of the Department is entitled, after age 50, to a full service pension upon retirement.

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 5 years of service, shall be equal to 400 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 5 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions (if applicable). The State of Minnesota contributed \$36,267 in 2019 in fire state aid to the plan on behalf of the Carver Fire Department, which was recorded as a revenue within the City's financial statements. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2018 were \$36,623. The City made no voluntary contributions to the plan in 2018. Furthermore, the firefighter has no obligation to contribute to the plan.

D. Pension Costs

At December 31, 2019, the City reported a net pension asset of \$271,154 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2018. The total pension liability was calculated in accordance with GASB 68 and was determined by Van Iwaarden Associates applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2018	\$ 426,355	\$ 831,111	\$ (404,756)
Changes For the Year			
Service cost	22,772	-	22,772
Interest on pension liability (asset)	27,022	-	27,022
Actuarial experience (gains)/losses	5,328	-	5,328
Changes of assumptions	14,192	-	14,192
Changes of benefit terms	32,443	-	32,443
Contributions - State and local	-	37,352	(37,352)
Net investment income	-	(57,472)	57,472
Benefit payments	(66,795)	(66,795)	-
Administrative expenses	-	(11,725)	11,725
Total Net Changes	<u>34,962</u>	<u>(98,640)</u>	<u>133,602</u>
Ending Balance December 31, 2018	<u>\$ 461,317</u>	<u>\$ 732,471</u>	<u>\$ (271,154)</u>

For the year ended December 31, 2019, the City recognized pension expense of \$49,346 .

At December 31, 2019, the City reported deferred inflows of resources and deferred outflows of resources for its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 4,741	\$ 32,082
Changes in Actuarial Assumptions	16,750	16,866
Net Difference Between Projected and Actual Earnings on Plan Investments	53,019	-
Contributions to the Plan Subsequent to the Measurement Date	<u>36,267</u>	<u>-</u>
Total	<u>\$ 110,777</u>	<u>\$ 48,948</u>

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

Deferred outflows of resources totaling \$36,267 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

2020	\$	9,410
2021		1,215
2022		2,445
2023		16,213
2024		(5,074)
Thereafter		1,353

E. Actuarial Assumptions

The total pension liability at December 31, 2018 was determined using the entry age normal level percent of payroll actuarial cost method and the following actuarial assumptions:

Retirement Eligibility at 50 Percent for the later of Age 50 and 20 Years of Service and 50 Percent Retire each Subsequent Year until Age 65 or 30 Years of Service	
Inflation Rate	2.50%
Discount Rate	6.00%
Expected Return on Plan Assets	6.00%

There were the following changes in actuarial assumptions since the prior measurement date:

- The expected investment return and discount rate decreased from 6.50% to 6.00% to reflect updated capital market assumptions in 2018 assumptions.
- The mortality and withdrawal assumptions were updated from the rates used in the July 1, 2016 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation.
- The assumed inflation assumption decreased from 2.75% to 2.50%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50 percent). All results are then rounded to the nearest quarter percentage point.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 5: Defined Benefit Pension Plans - Fire Relief Association (Continued)

The best estimates of expected future asset class returns were published in the 2018 Survey of Capital Market Assumptions produced by Horizon Actuarial Services. These expected returns, along with expected asset class standard deviations and correlation coefficients, are based on Horizon's annual survey of investment advisory firms. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data. Best-estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	52.00 %	4.95 %
International Equity	18.00	5.24
Fixed Income	30.00	1.99
Real Estate	-	4.19
Cash	-	0.58
 Total	 <u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the 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/asset.

G. Pension Asset Sensitivity

The following presents the City's net pension asset for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1 Percent Decrease (5.00%)</u>	<u>Current (6.00%)</u>	<u>1 Percent Increase (7.00%)</u>
Defined Benefit Plan	\$ (244,432)	\$ (271,154)	\$ (296,653)

H. Pension Plan Fiduciary Net Position

The Association issues a publicly available financial report. The report may be obtained by writing to the Carver Fire Department Relief Association, Post Office Box 361, Carver, Minnesota 55315.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 6: Deferred Compensation Plans - Statewide

Plan Description

Under Minnesota statute 353.028, subdivision 2, City managers or administrators may elect to be excluded from membership in PERA. They must choose exclusion within six months of the day they begin employment. The law also provides for refunds of contributions made before the election. If they elect exclusion, they and their cities may agree that the cities will defer and contribute additional compensation on behalf of the employees to a deferred compensation program. The program must meet federal income tax laws. The City contribution cannot exceed the amount it would have made under the PERA contribution.

The City Administrator is covered by deferred compensation plan 457(b) administered by ICMA-RC. The City's contribution to the plan for the year ending December 31, 2019, 2018 2017 were \$9,120, \$8,936 and \$8,537 respectively.

In general, any amount of compensation deferred, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income is paid to the participant or other beneficiary. Under federal requirements, a plan meets distribution requirements if under the plan amounts will not be made available to participants or beneficiaries earlier than (i) the calendar year in which the participant attains age 70 ½, (ii) when the participant has a severance from employment with the employer, or (iii) when the participant is faced with an unforeseeable emergency (determined in the manner prescribed by the Secretary in regulations).

ICMA-RC issues a publicly available financial report that includes financial statements and required supplementary information for the 457(b) plan. That report may be obtained by writing to ICMA-RC Headquarters, 777 North Capitol Street, NE Washington, DC 20002 or by calling 202-962-4600.

Note 7: 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and, therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2019, the market value of property within the City is \$504,930,500 for an allowable margin of \$15,147,915. There is \$1,695,000 of outstanding debt at year end that is applied against the statutory limit.

C. Tax Increment Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

City of Carver, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 7: Other Information (Continued)

D. Joint Powers Agreement

Minnesota River Valley Rail Line

In 2008, the City entered into the Minnesota River Valley Rail Line joint powers agreement with the Carver County Regional Rail Authority, the Scott County Regional Rail Authority, the City of Chaska, and the Metropolitan Council to acquire and preserve the Union Pacific - Chaska Industrial Lead rail line right of way proposed to be abandoned by the Union Pacific Railroad extending through the jurisdictions of the regional rail authorities and the cities for future trail use and public purposes or uses, which may include, but are not limited to, utility corridor, transit line, and preservation of public safety.

CSAH 11/ Jonathan Carver Parkway Corridor Study

In 2017, the City entered into a joint powers agreement with Carver County for the CSAH 11/ Jonathan Carver Parkway Corridor Study. The City Council identified a need to create a long-range plan for the corridor as it is expected to encounter significant development and traffic demands over the next several decades. The corridor study uses a combination of analytics, stakeholder input, and direction from policy makers to plan for future intersection development, lane configurations, and other design elements along CSAH11/ Jonathan Carver Parkway. The study is expected to take a year to complete.

Note 8: Conduit Debt Obligations

The City has issued a Senior Housing revenue refunding note to provide financial assistance to private sector entities for the acquisition and construction of Healthcare facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payment received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The outstanding balance of Senior Housing revenue refunding note at December 31, 2019 is \$5,079,432.

Note 9: Change in Accounting Principle

During fiscal year 2019, the City implemented a new accounting pronouncement issued by the Government Accounting Standards Board (GASB), Statement No. 84, *Fiduciary Activities*. This standard required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2019 financial statements. Changes related to this standard are reflected in the financial statements and related disclosures.

Note 10: Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the City is unable to determine if it will have a material impact to its operations.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

City of Carver, Minnesota
 Required Supplementary Information
 For the Year Ended December 31, 2019

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a+b/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0139 %	\$ 768,500	\$ 23,999	\$ 792,499	\$ 987,138	80.3 %	80.2 %
06/30/18	0.0128	710,092	23,257	733,349	858,438	85.4	79.5
06/30/17	0.0120	766,072	9,647	775,719	774,184	100.2	75.9
06/30/16	0.0112	909,384	11,828	921,212	689,592	133.6	68.9
06/30/15	0.0109	564,895	-	564,895	640,137	88.2	78.2

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

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/19	\$ 81,480	\$ 81,480	\$ -	\$ 1,086,403	7.5 %
12/31/18	69,774	69,774	-	930,319	7.5
12/31/17	59,225	59,225	-	789,671	7.5
12/31/16	54,614	54,614	-	728,181	7.5
12/31/15	50,568	50,568	-	674,239	7.5

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

City of Carver, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2019

Notes to the Required Supplementary Information - General Employees Fund

Changes in Actuarial Assumptions

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - 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 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2019 - 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 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2015 - 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.

City of Carver, Minnesota
 Required Supplementary Information (Continued)
 For the Year Ended December 31, 2019

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/19	\$ 36,267	\$ 36,267	\$ -
12/31/18	36,623	36,623	-
12/31/17	34,615	49,735	(15,120)
12/31/16	34,461	34,461	-
12/31/15	33,811	33,811	-

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

City of Carver, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2019

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)	2017 (Fire Relief Report Date 2016)	2016 (Fire Relief Report Date 2015)	2015 (Fire Relief Report Date 2014)
Total Pension Liability					
Service cost	\$ 22,772	\$ 20,541	\$ 26,220	\$ 25,612	\$ 24,927
Interest	27,022	26,212	26,336	23,704	21,759
Differences between expected and actual experience	5,328	14,919	(48,621)	-	-
Changes of assumptions	14,192	5,457	(16,382)	(11,587)	-
Changes of benefit terms	32,443	-	-	-	-
Benefit payments, including refunds of employee contributions	(66,795)	(17,125)	(47,830)	(12,936)	(11,088)
Net Change in Total Pension Liability	<u>34,962</u>	<u>50,004</u>	<u>(60,277)</u>	<u>24,793</u>	<u>35,598</u>
Total Pension Liability - January 1,	<u>426,355</u>	<u>376,351</u>	<u>436,628</u>	<u>411,835</u>	<u>376,237</u>
Total Pension Liability - December 31, (a)	<u>\$ 461,317</u>	<u>\$ 426,355</u>	<u>\$ 376,351</u>	<u>\$ 436,628</u>	<u>\$ 411,835</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 1,085	\$ 14,029	\$ -	\$ -	\$ 17,952
Contributions - state	36,267	36,263	34,461	38,979	32,210
Contributions - donations and other income	-	-	200	-	-
Net investment income	(57,472)	114,743	44,246	(4,066)	35,945
Benefit payments, including refunds of employee contributions	(66,795)	(17,125)	(47,830)	(12,936)	(11,088)
Administrative expense	(11,725)	(14,180)	(15,115)	(9,144)	(8,938)
Net Change in Plan Fiduciary Net Position	<u>(98,640)</u>	<u>133,730</u>	<u>15,962</u>	<u>12,833</u>	<u>66,081</u>
Plan Fiduciary Net Position - January 1,	<u>831,111</u>	<u>697,381</u>	<u>681,419</u>	<u>668,586</u>	<u>602,505</u>
Plan Fiduciary Net Position - December 31, (b)	<u>\$ 732,471</u>	<u>\$ 831,111</u>	<u>\$ 697,381</u>	<u>\$ 681,419</u>	<u>\$ 668,586</u>
Fire Relief's Net Pension Liability (Asset) - December 31, (a-b)	<u>\$ (271,154)</u>	<u>\$ (404,756)</u>	<u>\$ (321,030)</u>	<u>\$ (244,791)</u>	<u>\$ (256,751)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	158.78%	194.93%	185.30%	156.06%	162.34%
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

The expected investment return and discount rate decreased from 6.50% to 6.00% to reflect updated capital market assumptions. The mortality and withdrawal assumptions were updated from the rates used in the July 1, 2016 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation. The assumed inflation assumption decreased from 2.75% to 2.5%.

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

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

OTHER REQUIRED REPORTS

CITY OF CARVER
CARVER, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Carver, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Carver, Minnesota (the City) 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, and have issued our report thereon dated June 3, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 3, 2020



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 City Council
City of Carver, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Carver, Minnesota (the City), 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, and have issued our report thereon dated June 3, 2020.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described as item 2019-001 to be a significant deficiency.

Compliance and Other Matters

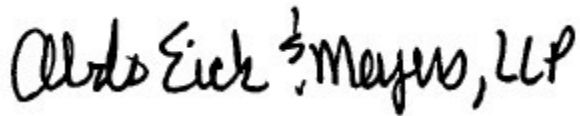
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The City's Responses to the Findings

The City's responses to the findings identified in our audit is described in the accompanying Schedule of Finding and Response. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 3, 2020

City of Carver, Minnesota
Schedule of Finding and Response
For the Year Ended December 31, 2019

<u>Finding</u>	<u>Description</u>
2019-001	Preparation of Financial Statements
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over the reliability of financial records and reporting.
<i>Cause:</i>	From a practical standpoint, we both prepare your statements and determine the fairness of the presentation in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situations listed above, we would offer the following specific recommendations: 1) Utilize a disclosure checklist to ensure all required disclosures are presented and agree to work papers, and 2) Agree your accounting information from Banyon to those reported in the financial statements.
<i>Management Response:</i>	For now, the City accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.