

PRELIMINARY OFFICIAL STATEMENT DATED JULY 30, 2019

NEW ISSUE
BANK QUALIFIED

Moody's Rating: Requested

In the opinion of Kennedy & Graven, Chartered, Bond Counsel for the City, based on present federal and Minnesota laws, regulations, rulings and decisions (which excludes any pending legislation which may have a retroactive effect), and assuming compliance with certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Kennedy & Graven, Chartered regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. See "TAX EXEMPTION" and "OTHER FEDERAL AND STATE TAX CONSIDERATIONS" herein.

\$2,225,000*

City of Owatonna, Minnesota
General Obligation Improvement Bonds, Series 2019A
(the "Bonds")

(Book Entry Only)

Dated Date: Date of Delivery

Interest Due: Each March 1 and September 1,
commencing September 1, 2020

The Bonds will mature March 1 in the years and amounts* as follows:

2021	\$200,000	2023	\$220,000	2025	\$225,000	2027	\$225,000	2029	\$230,000
2022	\$220,000	2024	\$225,000	2026	\$225,000	2028	\$225,000	2030	\$230,000

Proposals for the Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption scheduled to conform to the maturity schedule set forth above.

The City may elect on March 1, 2028, and on any day thereafter, to redeem Bonds due on or after March 1, 2029 at a price of par plus accrued interest.

The Bonds are general obligations of the City for which the City pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge special assessments against benefited properties for repayment of a portion of the Bonds. The proceeds of the Bonds will be used to finance street and utility improvement projects within the City.

Proposals shall be for not less than \$2,207,200 plus accrued interest, if any, on the total principal amount of the Bonds. Proposals shall specify rates in integral multiples of 1/100 or 1/8 of 1%. The initial price to the public for each maturity must be 98.0% or greater. Following receipt of proposals, a good faith deposit will be required to be delivered to the City by the lowest bidder as described in the "Terms of Proposal" herein. Award of the Bonds will be made on the basis of True Interest Cost (TIC).

The Bonds will be issued as fully registered obligations without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Investors will not receive physical certificates representing their interest in the Bonds purchased. (See "Book Entry System" herein.) U.S. Bank National Association, Saint Paul, Minnesota will serve as registrar (the "Registrar") for the Bonds. The Bonds will be available for delivery at DTC on or about September 19, 2019.

PROPOSALS RECEIVED: Tuesday, August 20, 2019 until 10:00 A.M., Central Time
CONSIDERATION OF AWARD: City Council meeting commencing at 7:00 P.M., Central Time on Tuesday, August 20, 2019



Further information may be obtained from Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887 (651) 223-3000.

* Preliminary; subject to change.

The information contained in this Preliminary Official Statement is deemed by the City to be final as of the date hereof; however, the pricing and underwriting information is subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

CITY OF OWATONNA, MINNESOTA

CITY COUNCIL

Thomas A. Kuntz	Mayor
Greg Schultz	Council President
Kevin P. Raney	Council Vice President
Dave Burbank	Council Member
Nathan Dotson	Council Member
Jeff Okerberg	Council Member
Brent Svenby	Council Member
Doug Voss	Council Member

CITY ADMINISTRATOR

Kris M. Busse

FINANCE DIRECTOR

Rhonda Moen

MUNICIPAL ADVISOR

Baker Tilly Municipal Advisors, LLC
Saint Paul, Minnesota

BOND COUNSEL

Kennedy & Graven, Chartered
Minneapolis, Minnesota

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the City from time to time, may be treated as a Preliminary Official Statement with respect to the Bonds described herein that is deemed final as of the date hereof (or of any such supplement or correction) by the City.

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded copies of the Final Official Statement in the amount specified in the Terms of Proposal.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds, other than as contained in the Preliminary Official Statement or the Final Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City.

Certain information contained in the Preliminary Official Statement or the Final Official Statement may have been obtained from sources other than records of the City and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE PRELIMINARY OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE PRELIMINARY OFFICIAL STATEMENT NOR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE RESPECTIVE DATE THEREOF.

References herein to laws, rules, regulations, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Preliminary Official Statement or the Final Official Statement, they will be furnished upon request.

Any CUSIP numbers for the Bonds included in the Final Official Statement are provided for convenience of the owners and prospective investors. The CUSIP numbers for the Bonds are assigned by an organization unaffiliated with the City. The City is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the Bonds or as set forth in the Final Official Statement. No assurance can be given by the City that the CUSIP numbers for the Bonds will remain the same after the delivery of the Final Official Statement or the date of issuance and delivery of the Bonds.

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THE CITY HAS AUTHORIZED BAKER TILLY MUNICIPAL ADVISORS, LLC TO NEGOTIATE THIS ISSUE ON ITS BEHALF. PROPOSALS WILL BE RECEIVED ON THE FOLLOWING BASIS:

TERMS OF PROPOSAL

\$2,225,000*

CITY OF OWATONNA, MINNESOTA

GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2019A

(BOOK ENTRY ONLY)

Proposals for the above-referenced obligations (the “Bonds”) will be received by the City of Owatonna, Minnesota (the “City”) on Tuesday, August 20, 2019 (the “Sale Date”) until 10:00 A.M., Central Time at the offices of Baker Tilly Municipal Advisors, LLC (“Baker Tilly MA”), 380 Jackson Street, Suite 300, Saint Paul, Minnesota, 55101, after which time proposals will be opened and tabulated. Consideration for award of the Bonds will be by the City Council at its meeting commencing at 7:00 P.M., Central Time, of the same day.

SUBMISSION OF PROPOSALS

Baker Tilly MA will assume no liability for the inability of a bidder to reach Baker Tilly MA prior to the time of sale specified above. All bidders are advised that each proposal shall be deemed to constitute a contract between the bidder and the City to purchase the Bonds regardless of the manner in which the proposal is submitted.

(a) **Sealed Bidding.** Proposals may be submitted in a sealed envelope or by fax (651) 223-3046 to Baker Tilly MA. Signed proposals, without final price or coupons, may be submitted to Baker Tilly MA prior to the time of sale. The bidder shall be responsible for submitting to Baker Tilly MA the final proposal price and coupons, by telephone (651) 223-3000 or fax (651) 223-3046 for inclusion in the submitted proposal.

OR

(b) **Electronic Bidding.** Notice is hereby given that electronic proposals will be received via PARITY®. For purposes of the electronic bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all proposals submitted to PARITY®. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting its electronic proposal in a timely manner and in compliance with the requirements of the Terms of Proposal.* Neither the City, its agents, nor PARITY® shall have any duty or obligation to undertake registration to bid for any prospective bidder or to provide or ensure electronic access to any qualified prospective bidder, and neither the City, its agents, nor PARITY® shall be responsible for a bidder’s failure to register to bid or for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by the services of PARITY®. The City is using the services of PARITY® solely as a communication mechanism to conduct the electronic bidding for the Bonds, and PARITY® is not an agent of the City.

If any provisions of this Terms of Proposal conflict with information provided by PARITY®, this Terms of Proposal shall control. Further information about PARITY®, including any fee charged, may be obtained from:

PARITY®, 1359 Broadway, 2nd Floor, New York, New York 10018
Customer Support: (212) 849-5000

* *Preliminary; subject to change.*

Baker Tilly Municipal Advisors, LLC is a registered municipal advisor and wholly-owned subsidiary of Baker Tilly Virchow Krause, LLP, an accounting firm. Baker Tilly Virchow Krause, LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2019 Baker Tilly Municipal Advisors, LLC.

DETAILS OF THE BONDS

The Bonds will be dated as of the date of delivery and will bear interest payable on March 1 and September 1 of each year, commencing September 1, 2020. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature March 1 in the years and amounts* as follows:

2021	\$200,000	2023	\$220,000	2025	\$225,000	2027	\$225,000	2029	\$230,000
2022	\$220,000	2024	\$225,000	2026	\$225,000	2028	\$225,000	2030	\$230,000

* *The City reserves the right, after proposals are opened and prior to award, to increase or reduce the principal amount of the Bonds or the amount of any maturity or maturities in multiples of \$5,000. In the event the amount of any maturity is modified, the aggregate purchase price will be adjusted to result in the same gross spread per \$1,000 of Bonds as that of the original proposal. Gross spread for this purpose is the differential between the price paid to the City for the new issue and the prices at which the proposal indicates the securities will be initially offered to the investing public.*

Proposals for the Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption scheduled to conform to the maturity schedule set forth above. In order to designate term bonds, the proposal must specify “Years of Term Maturities” in the spaces provided on the proposal form.

BOOK ENTRY SYSTEM

The Bonds will be issued by means of a book entry system with no physical distribution of Bonds made to the public. The Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The lowest bidder (the “Purchaser”), as a condition of delivery of the Bonds, will be required to deposit the Bonds with DTC.

REGISTRAR

The City will name the registrar which shall be subject to applicable regulations of the Securities and Exchange Commission. The City will pay for the services of the registrar.

OPTIONAL REDEMPTION

The City may elect on March 1, 2028, and on any day thereafter, to redeem Bonds due on or after March 1, 2029. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If less than all Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All redemptions shall be at a price of par plus accrued interest.

SECURITY AND PURPOSE

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge special assessments against benefited properties for repayment of a portion of the Bonds. The proceeds of the Bonds will be used to finance street and utility improvement projects within the City.

BIDDING PARAMETERS

Proposals shall be for not less than \$2,207,200 plus accrued interest, if any, on the total principal amount of the Bonds. No proposal can be withdrawn or amended after the time set for receiving proposals on the Sale Date unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made. Rates shall be in integral multiples of 1/100 or 1/8 of 1%. The initial price to the public for each maturity as stated on the proposal must be 98.0% or greater. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional proposals will be accepted.

ESTABLISHMENT OF ISSUE PRICE

In order to provide the City with information necessary for compliance with Section 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (collectively, the "Code"), the Purchaser will be required to assist the City in establishing the issue price of the Bonds and shall complete, execute, and deliver to the City prior to the closing date, a written certification in a form acceptable to the Purchaser, the City, and Bond Counsel (the "Issue Price Certificate") containing the following for each maturity of the Bonds (and, if different interest rates apply within a maturity, to each separate CUSIP number within that maturity): (i) the interest rate; (ii) the reasonably expected initial offering price to the "public" (as said term is defined in Treasury Regulation Section 1.148-1(f) (the "Regulation")) or the sale price; and (iii) pricing wires or equivalent communications supporting such offering or sale price. Any action to be taken or documentation to be received by the City pursuant hereto may be taken or received on behalf of the City by Baker Tilly MA.

The City intends that the sale of the Bonds pursuant to this Terms of Proposal shall constitute a "competitive sale" as defined in the Regulation based on the following:

- (i) the City shall cause this Terms of Proposal to be disseminated to potential bidders in a manner that is reasonably designed to reach potential bidders;
- (ii) all bidders shall have an equal opportunity to submit a bid;
- (iii) the City reasonably expects that it will receive bids from at least three bidders that have established industry reputations for underwriting municipal bonds such as the Bonds; and
- (iv) the City anticipates awarding the sale of the Bonds to the bidder who provides a proposal with the lowest true interest cost, as set forth in this Terms of Proposal (See "AWARD" herein).

Any bid submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in the proposal. The Purchaser shall constitute an "underwriter" as said term is defined in the Regulation. By submitting its proposal, the Purchaser confirms that it shall require any agreement among underwriters, a selling group agreement, or other agreement to which it is a party relating to the initial sale of the Bonds, to include provisions requiring compliance with the provisions of the Code and the Regulation regarding the initial sale of the Bonds.

If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the Purchaser of such fact prior to the time of award of the sale of the Bonds to the Purchaser. **In such event, any proposal submitted will not be subject to cancellation or withdrawal.** Within twenty-four (24) hours of the notice of award of the sale of the Bonds, the Purchaser shall advise the City and Baker Tilly MA if 10% of any maturity of the Bonds (and, if different interest rates apply within a maturity, to each separate CUSIP number within that maturity) has been sold to the public and the price at which it was sold. The City will treat such sale price as the "issue price" for such maturity, applied on a maturity-by-maturity

basis. The City will not require the Purchaser to comply with that portion of the Regulation commonly described as the “hold-the-offering-price” requirement for the remaining maturities, but the Purchaser may elect such option. If the Purchaser exercises such option, the City will apply the initial offering price to the public provided in the proposal as the issue price for such maturities. If the Purchaser does not exercise that option, it shall thereafter promptly provide the City and Baker Tilly MA the prices at which 10% of such maturities are sold to the public; provided such determination shall be made and the City and Baker Tilly MA notified of such prices whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a maturity have been sold.

GOOD FAITH DEPOSIT

To have its proposal considered for award, the Purchaser is required to submit a good faith deposit to the City in the amount of \$22,250 (the “Deposit”) no later than 1:00 P.M., Central Time on the Sale Date. The Deposit may be delivered as described herein in the form of either (i) a certified or cashier’s check payable to the City; or (ii) a wire transfer. The Purchaser shall be solely responsible for the timely delivery of its Deposit whether by check or wire transfer. Neither the City nor Baker Tilly MA have any liability for delays in the receipt of the Deposit. If the Deposit is not received by the specified time, the City may, at its sole discretion, reject the proposal of the lowest bidder, direct the second lowest bidder to submit a Deposit, and thereafter award the sale to such bidder.

Certified or Cashier’s Check. A Deposit made by certified or cashier’s check will be considered timely delivered to the City if it is made payable to the City and delivered to Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101 by the time specified above.

Wire Transfer. A Deposit made by wire will be considered timely delivered to the City upon submission of a federal wire reference number by the specified time. Wire transfer instructions will be available from Baker Tilly MA following the receipt and tabulation of proposals. The successful bidder must send an e-mail including the following information: (i) the federal reference number and time released; (ii) the amount of the wire transfer; and (iii) the issue to which it applies.

Once an award has been made, the Deposit received from the Purchaser will be retained by the City and no interest will accrue to the Purchaser. The amount of the Deposit will be deducted at settlement from the purchase price. In the event the Purchaser fails to comply with the accepted proposal, said amount will be retained by the City.

AWARD

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis calculated on the proposal prior to any adjustment made by the City. The City’s computation of the interest rate of each proposal, in accordance with customary practice, will be controlling.

The City will reserve the right to: (i) waive non-substantive informalities of any proposal or of matters relating to the receipt of proposals and award of the Bonds, (ii) reject all proposals without cause, and (iii) reject any proposal that the City determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER’S OPTION

The City has **not** applied for or pre-approved a commitment for any policy of municipal bond insurance with respect to the Bonds. If the Bonds qualify for municipal bond insurance and a bidder desires to purchase a policy, such indication, the maturities to be insured, and the name of the desired insurer must be set forth on the bidder’s proposal. The City specifically reserves the right to reject any bid specifying municipal bond insurance, even though such bid may result in the lowest TIC to the City. All costs associated with the issuance and administration of such policy and associated ratings and expenses (other than any independent rating requested by the City) shall be paid by the successful bidder. Failure of the municipal bond insurer to issue the policy after the award of the Bonds shall not constitute cause for failure or refusal by the successful bidder to accept delivery of the Bonds.

CUSIP NUMBERS

If the Bonds qualify for the assignment of CUSIP numbers such numbers will be printed on the Bonds; however, neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the Purchaser to accept delivery of the Bonds. Baker Tilly MA will apply for CUSIP numbers pursuant to Rule G-34 implemented by the Municipal Securities Rulemaking Board. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the Purchaser.

SETTLEMENT

On or about September 19, 2019, the Bonds will be delivered without cost to the Purchaser through DTC in New York, New York. Delivery will be subject to receipt by the Purchaser of an approving legal opinion of Kennedy & Graven, Chartered of Minneapolis, Minnesota, and of customary closing papers, including a no-litigation certificate. On the date of settlement, payment for the Bonds shall be made in federal, or equivalent, funds that shall be received at the offices of the City or its designee not later than 12:00 Noon, Central Time. Unless compliance with the terms of payment for the Bonds has been made impossible by action of the City, or its agents, the Purchaser shall be liable to the City for any loss suffered by the City by reason of the Purchaser's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

In accordance with SEC Rule 15c2-12(b)(5), the City will undertake, pursuant to the resolution awarding sale of the Bonds, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Official Statement. The Purchaser's obligation to purchase the Bonds will be conditioned upon receiving evidence of this undertaking at or prior to delivery of the Bonds.

OFFICIAL STATEMENT

The City has authorized the preparation of a Preliminary Official Statement containing pertinent information relative to the Bonds, and said Preliminary Official Statement has been deemed final by the City as of the date thereof within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Preliminary Official Statement or for any additional information prior to sale, any prospective purchaser is referred to the Municipal Advisor to the City, Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

A Final Official Statement (as that term is defined in Rule 15c2-12) will be prepared, specifying the maturity dates, principal amounts, and interest rates of the Bonds, together with any other information required by law. By awarding the Bonds to the Purchaser, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the Purchaser up to 25 copies of the Final Official Statement. The City designates the Purchaser as its agent for purposes of distributing copies of the Final Official Statement to each syndicate member, if applicable. The Purchaser agrees that if its proposal is accepted by the City, (i) it shall accept designation and (ii) it shall enter into a contractual relationship with its syndicate members for purposes of assuring the receipt of the Final Official Statement by each such syndicate member.

Dated July 16, 2019

BY ORDER OF THE CITY COUNCIL

/s/ Kris M. Busse
City Administrator

OFFICIAL STATEMENT

\$2,225,000*

CITY OF OWATONNA, MINNESOTA
GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2019A
(BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement contains certain information relating to the City of Owatonna, Minnesota (the “City”) and its issuance of \$2,225,000* General Obligation Improvement Bonds, Series 2019A (the “Bonds”). The Bonds are general obligations of the City for which it pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge special assessments against benefited properties for repayment of a portion of the Bonds.

Inquiries may be directed to Ms. Rhonda Moen, Finance Director, City of Owatonna, 540 West Hills Circle, Owatonna, Minnesota 55060-4794, by telephoning (507) 774-7350, or by emailing Rhonda.Moen@ci.owatonna.mn.us. Inquiries may also be made to Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887, by telephoning (651) 223-3000, or by emailing bond_services@bakertilly.com.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934, as the same may be amended from time to time, and official interpretations thereof (the “Rule”), pursuant to the resolution awarding the sale of the Bonds (the “Resolution”), the City has entered into an undertaking (the “Undertaking”) for the benefit of holders including beneficial owners of the Bonds to provide certain financial information and operating data relating to the City to the Electronic Municipal Market Access system (“EMMA”) annually, and to provide notices of the occurrence of certain material events enumerated in the Rule to EMMA or the Municipal Securities Rulemaking Board (“MSRB”). The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Certificate to be executed and delivered by the City at the time the Bonds are delivered in substantially the form attached hereto as Appendix II.

The City has complied for the past five years in all material respects in accordance with the terms of its previous continuing disclosure undertakings entered into pursuant to the Rule. However, in the interest of full disclosure, the City notes the following:

- Prior continuing disclosure undertakings entered into by the City included language stating that the City’s audited financial statements would be filed “as soon as available.” Although the City did not always comply with this requirement, the audited financial statements were timely filed within the required twelve (12) month timeframe as provided for in each undertaking.

A failure by the City to comply with the Undertaking will not constitute an event of default on the Bonds (although holders may take such actions as may be necessary and appropriate including mandamus or specific performance by court order). Nevertheless, such a failure must be reported in accordance with

* Preliminary; subject to change.

the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

THE BONDS

General Description

The Bonds are dated as of date of delivery and will mature annually on March 1 as set forth on the front cover of this Official Statement. The Bonds are issued in book entry form. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2020. Interest will be payable to the holder (initially Cede & Co.) registered on the books of the Registrar as of the fifteenth day of the calendar month next preceding such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Principal of and interest on the Bonds will be paid as described in the section herein entitled “Book Entry System.” U.S. Bank National Association, Saint Paul, Minnesota will serve as Registrar for the Bonds, and the City will pay for registrar services.

Redemption Provisions

Thirty days’ written notice of redemption shall be given to the registered owner(s) of the Bonds. Failure to give such written notice to any registered owner of the Bonds or any defect therein shall not affect the validity of any proceedings for the redemption of the Bonds. All Bonds or portions thereof called for redemption will cease to bear interest after the specified redemption date, provided funds for their redemption are on deposit at the place of payment.

Optional Redemption

The City may elect on March 1, 2028, and on any day thereafter, to redeem Bonds due on or after March 1, 2029. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If less than all Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant’s interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All redemptions shall be at a price of par plus accrued interest.

Book Entry System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities

through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information

from the City or its agent on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to City or its agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

AUTHORITY AND PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475. The proceeds of the Bonds, along with available City funds, will be used to finance street and utility improvement projects within the City.

SOURCES AND USES OF FUNDS

The composition of the Bonds is estimated to be as follows:

Sources of Funds:	
Principal Amount	\$2,225,000
Available City Funds	97,500
Prepaid Assessments	<u>60,000</u>
Total Sources of Funds	\$2,382,500
Uses of Funds:	
Deposit to Project Fund	\$2,320,000
Estimated Costs of Issuance	44,700
Allowance for Discount Bidding	<u>17,800</u>
Total Uses of Funds	\$2,382,500

SECURITY AND FINANCING

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge special assessments against benefited properties for repayment of a portion of the Bonds. Special assessments in the principal amount of approximately \$854,000 are expected to be filed in 2019 for first collection in 2020. The City anticipates receiving prepayments of approximately \$60,000. Assessments will be filed over a term of ten years with equal annual payments of principal. Interest on the unpaid balance will be charged at an interest rate estimated to be 4.15%.

The City will also levy taxes for repayment of a portion of the Bonds, and will make its first levy in 2019 for collection in 2020. Each year's collection of taxes and special assessments, if collected in full, will be sufficient to pay 105% of the interest payment due September 1 of the collection year and the principal and interest payment due March 1 of the following year.

FUTURE FINANCING

The City does not anticipate issuing any additional long-term general obligation debt within the next 90 days.

LITIGATION

The City is not aware of any threatened or pending litigation affecting the validity of the Bonds or the City's ability to meet its financial obligations.

LEGALITY

The Bonds are subject to approval as to certain matters by Kennedy & Graven, Chartered, of Minneapolis, Minnesota, as Bond Counsel. Bond Counsel has not participated in the preparation of this Official Statement and will not pass upon its accuracy, completeness, or sufficiency. Bond Counsel has not examined nor attempted to examine or verify, any of the financial or statistical statements, or data contained in this Official Statement and will express no opinion with respect thereto. A legal opinion in substantially the form set out in Appendix I herein will be delivered at closing.

TAX EXEMPTION

At closing Kennedy & Graven, Chartered, of Minneapolis, Minnesota, Bond Counsel for the Bonds, will render an opinion that, at the time of their issuance and delivery to the original purchaser, under present federal and State of Minnesota laws, regulations, rulings and decisions (which excludes any pending legislation which may have a retroactive effect), the interest on the Bonds is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on

individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Kennedy & Graven regarding other federal or state tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. Preservation of the exclusion of interest on the Bonds from federal gross income and state gross and taxable net income, however, depends upon compliance by the City with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from federal gross income and state gross and taxable net income.

The City will covenant to comply with requirements necessary under the Code to establish and maintain the Bonds as tax-exempt under Section 103 thereof, including without limitation, requirements relating to temporary periods for investments and limitations on amounts invested at a yield greater than the yield on the Bonds.

OTHER FEDERAL AND STATE TAX CONSIDERATIONS

Property and Casualty Insurance Companies

Property and casualty insurance companies are required to reduce the amount of their loss reserve deduction by the applicable percentage of the amount of tax-exempt interest received or accrued during the taxable year on certain obligations, including interest on the Bonds.

Foreign Insurance Companies

Foreign companies carrying on an insurance business in the United States are subject to a tax on income which is effectively connected with their conduct of any trade or business in the United States, including "net investment income." Net investment income includes tax-exempt interest such as interest on the Bonds.

Branch Profits Tax

A foreign corporation is subject to a branch profits tax imposed by Section 884 of the Code. A branch's earnings and profits may include tax-exempt municipal bond interest, such as interest on the Bonds.

Passive Investment Income of S Corporations

Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than a certain percentage of the gross receipts of such S corporation is passive investment income.

Financial Institutions

Financial institutions are generally not entitled to a deduction for interest expenses allocable to the owners of tax-exempt obligations purchased after August 7, 1986. The City will designate the Bonds as qualified tax-exempt obligations pursuant to Section 265(b)(3) of the Code.

General

The preceding is not a comprehensive list of all federal or State tax consequences which may arise from the receipt or accrual of interest on the Bonds. The receipt or accrual of interest on the Bonds may otherwise affect the federal income tax (or Minnesota income tax or franchise tax) liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items of income or deductions. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

RATING

An application for a rating of the Bonds has been made to Moody's Investors Service ("Moody's"), 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York. If a rating is assigned, it will reflect only the opinion of Moody's. Any explanation of the significance of the rating may be obtained only from Moody's.

There is no assurance that a rating, if assigned, will continue for any given period of time, or that such rating will not be revised, suspended or withdrawn, if, in the judgment of Moody's, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL ADVISOR

The City has retained Baker Tilly Municipal Advisors, LLC, of Saint Paul, Minnesota as municipal advisor in connection with certain aspects of the issuance of the Bonds. In preparing this Official Statement, Baker Tilly Municipal Advisors, LLC has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for this Official Statement. Baker Tilly Municipal Advisors, LLC has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. Baker Tilly Municipal Advisors, LLC is an independent advisory firm, registered as a municipal advisor, and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTIFICATION

The City has authorized the distribution of the Preliminary Official Statement for use in connection with the initial sale of the Bonds and a Final Official Statement following award of the Bonds. The Purchasers will be furnished with a certificate signed by the appropriate officers of the City stating that the City examined each document and that, as of the respective date of each and the date of such certificate, each document did not and does not contain any untrue statement of material fact or omit to state a material fact necessary, in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

CITY PROPERTY VALUES

Trend of Values^(a)

Assessment/ Collection Year	Assessor's Estimated Market Value	Sales Ratio ^(b)	Economic Market Value ^(c)	Market Value Homestead Exclusion	Taxable Market Value	Adjusted Taxable Net Tax Capacity
2018/19	\$1,924,542,500	92.9%	\$2,071,708,922	\$159,750,951	\$1,753,856,049	\$20,786,172
2017/18	1,824,651,600	92.1	1,979,676,796	163,540,644	1,652,697,556	19,487,004
2016/17	1,720,295,500	93.8	1,832,958,045	166,846,781	1,547,359,619	18,413,863
2015/16	1,674,650,300	93.2	1,796,408,208	170,072,712	1,498,533,588	17,735,810
2014/15	1,627,879,800	93.6	1,738,855,599	171,666,100	1,449,584,700	17,131,010

(a) For a description of the Minnesota property tax system, see Appendix III.

(b) Sales Ratio Study for the year of assessment as posted by the Minnesota Department of Revenue, <https://www.revenue.state.mn.us/economic-market-values>.

(c) Economic market values for the year of assessment as posted by the Minnesota Department of Revenue, <https://www.revenue.state.mn.us/economic-market-values>.

Source: Steele County, Minnesota, June 2019, except as otherwise noted.

2018/19 Adjusted Taxable Net Tax Capacity: \$20,786,172*

Real Estate:		
Residential Homestead	\$11,014,975	51.2%
Commercial/Industrial, Railroad, and Public Utility	7,761,851	36.1
Residential Non-Homestead	2,503,323	11.6
Agricultural and Seasonal Recreational	160,606	0.7
Personal Property	<u>83,851</u>	<u>0.4</u>
2018/19 Net Tax Capacity	\$21,524,606	100.0%
Less: Captured Tax Increment	<u>(738,434)</u>	
2018/19 Adjusted Taxable Net Tax Capacity	\$20,786,172	

* Excludes mobile home valuation of \$38,648.

Ten of the Largest Taxpayers in the City

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018/19 Net Tax Capacity</u>
Viracon Inc.	Industrial	\$ 551,872
Federated Mutual Insurance Co.	Insurance Company	315,296
Cybex International, Inc.	Industrial	257,428
Cabela's Retail Inc.	Retail	177,432
Southern Minnesota Municipal Power Agency	Utility	175,308
Daikin Applied Americas Inc.	Industrial	161,348
Mayo Clinic Health System - Owatonna	Medical Services	156,386
MFF Mortgage Borrower 24 LLC	Commercial	155,968
Jas Realty LLC	Industrial	134,038
Lakeside Foods, Inc.	Industrial	<u>117,668</u>
Total		\$2,202,744*

* Represents 10.6% of the City's 2018/19 adjusted taxable net tax capacity.

CITY INDEBTEDNESS

Legal Debt Limit and Debt Margin*

Legal Debt Limit (3% of 2018/19 Estimated Market Value)	\$57,736,275
Less: Outstanding Debt Subject to Limit	<u>(5,465,000)</u>
Legal Debt Margin as of September 19, 2019	\$52,271,275

* The legal debt margin is referred to statutorily as the "Net Debt Limit" and may be increased by debt service funds and current revenues which are applicable to the payment of debt in the current fiscal year.

NOTE: Certain types of debt are not subject to the legal debt limit. See Appendix III – Debt Limitations.

General Obligation Debt Supported Solely by Taxes^(a)

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
9-4-14	810,000	Equipment Certificates	3-1-2020	170,000
9-3-15	460,000	Equipment Certificates	3-1-2021	195,000
8-25-16	1,260,000	Storm Water	3-1-2032	1,120,000 ^(b)
8-25-16	240,000	Equipment Certificates	3-1-2022	150,000
8-25-16	1,840,000	Storm Water Refunding	3-1-2024	1,350,000 ^(b)
8-30-17	145,000	Equipment Certificates	3-1-2025	125,000
7-19-18	4,825,000	Street Reconstruction	3-1-2029	<u>4,825,000</u>
Total				\$7,935,000

(a) These issues are subject to the legal debt limit, except as otherwise noted.

(b) Pursuant to Minnesota Statutes, Section 444.20, the City may levy taxes within the Storm Sewer District to finance the cost of improvements, perform maintenance, and pay debt service on obligations issued under Minnesota Statutes, Section 444.19. These issues are not subject to the legal debt limit.

General Obligation Special Assessment Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
12-8-11	2,560,000	Improvements & Refunding	3-2-2022	\$ 225,000
8-15-13	2,515,000	Improvements	3-1-2024	1,340,000
9-4-14	325,000	Improvements	3-1-2021	210,000
9-3-15	1,225,000	Improvements	3-1-2026	910,000
8-25-16	1,060,000	Improvements	3-1-2027	860,000
8-30-17	1,870,000	Improvements	3-1-2028	1,690,000
9-19-19	2,225,000	Improvements (the Bonds)	3-1-2030	<u>2,225,000</u>
Total				\$7,460,000

General Obligation Tax Increment Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
8-15-13	\$1,140,000	Tax Increment	3-1-2024	\$660,000

General Obligation Revenue Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
7-6-10	\$7,929,333	PFA Clean Water Loan	8-20-2025	\$3,372,928
8-25-16	1,260,000	Storm Water Revenue	3-1-2032	<u>1,120,000</u>
Total				\$4,492,928

Estimated Calendar Year Debt Service Payments Including the Bonds

<u>Year</u>	<u>G.O. Debt Supported Solely by Taxes</u>		<u>G.O. Special Assessment Debt</u>	
	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal</u>	<u>Principal & Interest^(a)</u>
2019 (at 9-19)	(Paid)	(Paid)	(Paid)	(Paid)
2020	\$1,060,000	\$ 1,334,569	\$ 765,000	\$ 934,435
2021	920,000	1,157,569	1,115,000	1,263,676
2022	850,000	1,052,569	975,000	1,098,186
2023	825,000	993,644	915,000	1,013,995
2024	860,000	994,169	940,000	1,014,644
2025	600,000	702,669	665,000	718,913
2026	600,000	675,044	670,000	707,694
2027	630,000	682,319	535,000	559,513
2028	640,000	674,169	420,000	434,784
2029	660,000	675,594	230,000	237,820
2030	95,000	100,219	230,000	232,645
2031	95,000	98,259		
2032	<u>100,000</u>	<u>101,125</u>		
Total	\$7,935,000 ^(b)	\$9,241,918	\$7,460,000 ^(c)	\$8,216,305

^(a) Includes the Bonds at an assumed average annual interest rate of 2.02%.

^(b) 96.3% of this debt will be retired within ten years.

^(d) 96.9% of this debt will be retired within ten years.

Estimated Calendar Year Debt Service Payments Including the Bonds (continued)

<u>Year</u>	<u>G.O. Tax Increment Debt</u>		<u>G.O. Revenue Debt</u>	
	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal</u>	<u>Principal & Interest</u>
2019 (at 9-19)	(Paid)	(Paid)	(Paid)	(Paid)
2020	\$125,000	\$139,988	\$ 613,000	\$ 687,416
2021	130,000	142,275	625,000	689,514
2022	130,000	139,188	638,000	692,362
2023	135,000	140,706	646,000	690,022
2024	140,000	141,925	654,000	687,568
2025			666,928	689,853
2026			85,000	97,519
2027			90,000	100,769
2028			90,000	98,969
2029			95,000	102,119
2030			95,000	100,219
2031			95,000	98,259
2032			<u>100,000</u>	<u>101,125</u>
Total	\$660,000	\$704,082	\$4,492,928*	\$4,835,714

* 93.5% of this debt will be retired within ten years.

Other Debt Obligations

Capital Lease

In 2015, the City entered into a lease agreement with Welch State Bank for the acquisition of equipment. The lease is currently outstanding at \$46,488 and carries an interest rate of 3.17%. The following is a schedule by years of future minimum lease payments as of December 31, 2018:

	<u>Year Ending December 31</u>
	2019
	2020
	<u>24,360</u>
Total minimum lease payments	\$48,719
Less: amount representing interest	<u>(2,231)</u>
Total	\$46,488

Overlapping Debt

Taxing Unit ^(a)	2018/19 Adjusted Taxable Net Tax Capacity	Est. G.O. Debt As of 9-19-19 ^(b)	Debt Applicable to Tax Capacity in City	
			Percent	Amount
Steele County	\$40,489,842	\$ 9,315,000	51.4%	\$ 5,254,525
I.S.D. No. 761 (Owatonna)	30,348,085	66,910,000	68.5	<u>47,626,950</u>
Total				\$50,621,260

(a) Only those units with outstanding general obligation debt are shown here.

(b) Excludes general obligation tax and aid anticipation certificates and revenue-supported debt.

Debt Ratios*

	G.O. Direct Debt	G.O. Direct & Overlapping Debt
To 2018/19 Estimated Market Value (\$1,924,542,500)	0.83%	3.46%
Per Capita (26,087 - 2018 State Demographer Estimate)	\$615	\$2,556

* Excludes general obligation revenue debt and other debt obligations.

CITY TAX RATES, LEVIES AND COLLECTIONS

Tax Capacity Rates for a City Resident in I.S.D. No. 761 (Owatonna)

	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
Steele County	58.237%	60.783%	60.015%	60.760%	60.778%
City of Owatonna	59.533	60.393	61.513	63.554	63.283
I.S.D. No. 761 (Owatonna)*	<u>16.856</u>	<u>31.681</u>	<u>30.889</u>	<u>30.283</u>	<u>27.810%</u>
Total	134.626%	152.857%	152.417%	154.597%	151.871

* In addition, Independent School District No. 761 (Owatonna) has a 2018/19 market value tax rate of 0.21989% spread across the market value of property in support of an excess operating levy.

NOTE: This table includes only net tax capacity-based rates. Certain other tax rates are based on market value. See Appendix III.

Tax Levies and Collections

<u>Levy/Collect</u>	<u>Net Levy*</u>	<u>Collected During Collection Year</u>		<u>Collected and/or Abated as of 12-31-18</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2018/19	\$13,181,716		(Not Yet Available)		
2017/18	12,421,848	\$12,382,707	99.7%	\$12,382,706	99.7%
2016/17	11,348,293	11,295,805	99.5	11,337,812	99.9
2015/16	10,763,609	10,676,668	99.2	10,759,879	99.9
2014/15	10,268,170	10,214,980	99.5	10,263,720	99.9

* The net levy excludes state aid for property tax relief and fiscal disparities, if applicable. The net levy is the basis for computing tax capacity rates. See Appendix III.

FUNDS ON HAND As of May 31, 2019

<u>Fund</u>	<u>Cash & Investments</u>
City:	
General Fund	\$ 4,492,252
Special Revenue Funds	43,425
Debt Service Funds	3,543,998
Capital Project Funds	10,190,547
Enterprise Fund – City	19,067,545
Enterprise Fund – Owatonna Public Utility Commission	29,762,322
Internal Service Funds	<u>1,629,774</u>
Total City	\$68,729,863
Component Units:	
Housing and Redevelopment Authority	\$ 110,528
Economic Development Authority	<u>2,906,908</u>
Total Component Units	\$ 3,017,436
Total All Funds	<u>\$71,747,299</u>

INVESTMENTS

The City has a formal investment policy and all investments are made in accordance with Minnesota Statutes. The primary objectives of the City's investment policy, in priority order, include safety, liquidity, and yield. Permitted investments include:

1. Federal securities, which include treasury bills, notes and bonds, as well as bonds and notes issued by U.S. Government agencies or instrumentalities;

2. State and local securities, which include bonds and other debt instruments issued by cities, counties, states or other governmental units, subject to rating requirements;
3. Commercial paper, subject to rating requirements;
4. Certificates of Deposit issued by U.S. banks fully insured by the Federal Deposit Insurance Corporation (FDIC);
5. Money Market Mutual Funds, subject to rating requirements; and
6. Government Investment Pools, including the 4M Fund.

The City will not purchase securities that are considered highly sensitive, securities that could expose the City to foreign currency risk, or derivatives. Per the City's investment policy, the City Administrator shall be responsible for the investment policy. Authority to conduct actual investment transactions may be delegated to the Finance Director, who shall act in accordance with procedures established by the investment policy.

As of May 31, 2019, the City has investments totaling \$71,747,299. The City's investments are as follows:

Certificates of Deposit	\$26,583,481	37.05%
Money Market Funds	19,830,639	27.64
Agency	18,810,929	26.22
Local Government Obligations	6,127,086	8.54
Cash	388,221	0.54
Pooled Investments	<u>6,943</u>	<u>0.01</u>
Total	\$71,747,299	100.0%

GENERAL INFORMATION CONCERNING THE CITY

The City is located in Steele County, approximately 65 miles southwest of the Minneapolis/Saint Paul metropolitan area. The City encompasses an area of approximately 14.62 square miles (9,356 acres).

Population

The City's population trend is shown below.

	<u>Population</u>	<u>Percent Change</u>
2018 State Demographer Estimate	26,087	1.9%
2010 U.S. Census	25,599	14.1
2000 U.S. Census	22,434	15.7
1990 U.S. Census	19,386	4.0
1980 U.S. Census	18,632	--

Sources: Minnesota State Demographic Center, mn.gov/admin/demography and United States Census Bureau, <http://www.census.gov/>.

The City’s population by age group for the past five years is as follows:

<u>Data Year/ Report Year</u>	<u>0-17</u>	<u>18-34</u>	<u>35-64</u>	<u>65 and Over</u>
2018/19	6,587	5,144	9,709	4,459
2017/18	6,621	5,193	9,747	4,341
2016/17	6,547	5,230	9,734	4,211
2015/16	6,572	5,179	9,724	4,065
2014/15	6,589	5,186	9,701	3,893

Sources: *Envionics Analytics, Claritas, Inc. and The Nielsen Company.*

Transportation

Interstate 35W runs north-south through the City. Highway 14 runs east-west through the City, connecting it to the nearby cities of Mankato and Rochester. The Minneapolis/Saint Paul International Airport is located approximately 65 miles northeast of the City and Owatonna Degner Regional Airport (“Regional Airport”) is located within the City. The Regional Airport is one of 22 key system airports in Minnesota that includes a 5,500-foot lighted runway with a precision instrument landing system and a 3,000-foot crosswind runway. Public transportation is available to City residents through Southern Minnesota Rural Transit.

Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number of Employees</u>
Viracon, Inc.	Glass manufacturing	1,750
Federated Mutual Insurance Co.	Insurance	1,500
I.S.D. No. 761 (Owatonna)	Public education	750
Truth Hardware	Hardware design and manufacturing	630
Bosch Automotive	Manufacturing	540
Daikin	HVAC manufacturing	450
Jostens	School memorabilia	416
Owatonna Hospital- Allina	Hospital and medical services	406
Wenger Corp	Musical equipment manufacturing	370
Mayo Clinic Health System – Owatonna	Healthcare and medical services	350
Cybex International, Inc.	Exercise equipment manufacturing	320
Cabela’s Retail Inc.	Outdoor sports retail	219

Source: *Owatonna Chamber of Commerce.*

Labor Force Data

	Annual Average				June
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Labor Force:					
City of Owatonna	14,653	14,746	14,975	13,947	14,357
Steele County	21,199	21,250	20,534	20,563	20,660
State of Minnesota	2,997,748	3,033,406	3,057,014	3,070,223	3,133,128
Unemployment Rate:					
City of Owatonna	3.4%	3.6%	3.3%	3.0%	3.4%
Steele County	3.3	3.6	3.3	2.9	3.5
State of Minnesota	3.7	3.9	3.4	2.9	3.4

Source: *Minnesota Department of Employment and Economic Development, <http://apps.deed.state.mn.us/lmi/laus>. 2019 data are preliminary.*

Retail Sales and Effective Buying Income (EBI)

City of Owatonna

<u>Data Year/ Report Year</u>	<u>Total Retail Sales (\$000)</u>	<u>Total EBI (\$000)</u>	<u>Median Household EBI</u>
2018/19	\$449,476	\$650,233	\$52,005
2017/18	N/A	631,065	50,958
2016/17	N/A	606,037	47,287
2015/16	638,869	576,248	46,003
2014/15	853,328	589,798	48,229

Steele County

<u>Data Year/ Report Year</u>	<u>Total Retail Sales (\$000)</u>	<u>Total EBI (\$000)</u>	<u>Median Household EBI</u>
2018/19	\$ 763,099	\$942,558	\$53,571
2017/18	N/A	903,474	51,995
2016/17	N/A	867,536	48,848
2015/16	910,725	826,193	47,275
2014/15	1,149,464	833,098	49,244

The 2018/19 Median Household EBI for the State of Minnesota was \$58,777. The 2018/19 Median Household EBI for the United States was \$52,468.

Sources: *EnviroNics Analytics, Claritas, Inc. and The Nielsen Company.*

Permits Issued by the City

Year	New Single Family Residential		New Commercial/Industrial		Total Value* (All Permits)
	Number	Value	Number	Value	
2019 (to 5-31)	10	\$2,673,638	0	-0-	\$ 8,561,041
2018	38	9,988,000	5	\$ 4,212,255	55,311,343
2017	33	8,029,759	3	3,036,436	48,482,633
2016	37	9,089,240	13	15,412,411	64,167,565
2015	12	2,630,368	5	5,473,500	32,156,311
2014	15	3,329,426	5	3,749,000	43,138,510
2013	17	3,475,794	5	8,205,845	34,274,260
2012	12	1,892,260	4	1,730,800	29,891,305
2011	13	2,979,688	10	19,332,150	55,237,955
2010	14	2,892,045	242	18,760,838	29,978,492

* In addition to building permits, the total value includes all other permits issued by the City (i.e. heating, lighting, plumbing, roof replacement, etc.).

Source: The City.

Recent Development

As of May 31, 2019, development activity in the City for 2019 includes the following:

- Issued building permit for a car dealership building.
- Issued building permit for a new mini-storage building.
- Seeking approval for a 350,000 square-foot distribution warehouse in the industrial park.
- Seeking approval for a 28-unit apartment building.
- Seeking approval for a 150,000 square-foot industrial warehouse in the industrial park.
- Seeking approval for a 100,000 square-foot industrial manufacturing building in the industrial park.
- Seeking approval for a 150,000 square-foot research and development building in the industrial park.
- Highway 14, from Owatonna to Dodge Center, received \$160 million in funding to allow for the expansion from two to four lanes. This critical extension project will encourage further economic growth for Owatonna. The project will begin in the fall of 2019 with construction anticipated to be completed by 2022.

Development activity in 2018 included the following:

- Torey's restaurant began a \$2.4 million relocation and renovation of a downtown building. Tax Increment Financing was utilized for this project.
- Construction started on a \$4 million, 33-unit market rate apartment building in the west part of the City.
- Construction started on a \$10 million, 54-unit market rate apartment building on Pearl Street in downtown. Tax Increment Financing will be utilized for this project.
- Construction started on a \$1.5 million bank in the south part of the City.
- Construction started on a \$1 million, 5,000 square-foot trucking office building along Interstate-35.
- Construction started on a \$1.5 million, 15,000 square-foot building for a construction company in the west part of the City.
- Construction started on two separate 4,800 square feet warehouse buildings and two mini-storage buildings in the industrial park.

Financial Institutions*

Banking and financial services available to City residents are provided by Community Bank of Owatonna, which had total deposits of \$51,041,000 as of March 31, 2019 (most recent information available). In addition, branches of Bremer Bank, National Association; First United Bank; Minnesota First Credit and Savings; Premier Bank; Profinium Financial; United Prairie Bank; U.S. Bank National Association; Wells Fargo Bank, National Association and West Bank are located within the City.

* This does not purport to be a comprehensive list.

Source: Federal Deposit Insurance Corporation, <https://research.fdic.gov/bankfind/>.

Health Care Services

The following is a summary of health care facilities located in the City:

<u>Facility</u>	<u>Type of Facility</u>	<u>No. of Beds</u>
Kaplan Woods Care Home Inc.	Supervised Living Facility	16 Supervised Living
Koda Living Community	Nursing Home	79 Nursing Home
Mayo Clinic Health System - Owatonna	Miscellaneous Medical Services	N/A
Owatonna Hospital - Allina	Hospital	43 Hospital 16 Infant Bassinets
Rem Woodvale Inc. Adams	Supervised Living Facility	6 Supervised Living
Rem Woodvale Inc. Maple Creek	Supervised Living Facility	6 Supervised Living
West Hill Lodge	Supervised Living Facility	15 Supervised Living

Source: Minnesota Department of Health, <http://www.health.state.mn.us/>.

Education

Public Education

The following district serves the residents of the City:

<u>District</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
Independent School District No. 761 (Owatonna)	City of Owatonna	Pre K-12	5,092

Non-Public Education

City residents are also served by the following private schools:

<u>School</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
Owatonna Christian School	City of Owatonna	K-12	76
St. Mary's School	City of Owatonna	K-8	284

Source: Minnesota Department of Education, www.education.state.mn.us.

Post-Secondary Education

Located in the City is Riverland Community College, a public two-year college. Additional higher education facilities available to City residents include Minnesota State University – Mankato, located approximately 43 miles west of the City; and Carleton College and St. Olaf College located in the City of Northfield, Minnesota, approximately 36 miles northeast of the City.

GOVERNMENTAL ORGANIZATION AND SERVICES

Organization

The City has been a municipal corporation since 1858 and is governed under a Home Rule Charter. The City has a Council-Administrator form of government, with all powers of the City vested in the Council. The Mayor and the seven Council members are elected to serve overlapping four-year terms of office. The following individuals comprise the current City Council:

		<u>Expiration of Term</u>
Thomas A. Kuntz	Mayor	December 31, 2020
Greg Schultz	Council President	December 31, 2020
Kevin P. Raney	Council Vice President	December 31, 2020
Dave Burbank	Council Member	December 31, 2022
Nathan Dotson	Council Member	December 31, 2022
Jeff Okerberg	Council Member	December 31, 2022
Brent Svenby	Council Member	December 31, 2022
Doug Voss	Council Member	December 31, 2020

The daily administration of City operations is the responsibility of the appointed City Administrator, Ms. Kris M. Busse, who has been with the City since December 2007. Ms. Rhonda Moen, Finance Director, is responsible for planning, organizing, and supervising all functions and programs of the City's Finance Department. Ms. Moen has been with the City since October 2010.

The City has 137 regular full-time and 23 part-time employees.

Services

The City provides a full range of services including police and fire protection; construction and maintenance of streets and other infrastructure; and other recreational and cultural activities. The City also provides water, sewer, storm water, gas, and electric services along with the operation of the aquatic center. The City is also responsible for the Owatonna Housing and Redevelopment Authority in addition to the Economic Development Authority.

Labor Contracts

The status of labor contracts in the City is as follows:

<u>Bargaining Unit</u>	<u>No. of Employees</u>	<u>Expiration Date of Current Contract</u>
International Association of Firefighters Local 1920	7	December 31, 2019
IUOE, Local 70	49	December 31, 2019
Minnesota Public Employees Association (Sergeants)	7	December 31, 2019
Minnesota Teamsters Public and Law Enforcement	27	December 31, 2019
Subtotal	90	
Non-unionized employees	<u>70</u>	
Total employees	160	

Employee Pensions

All full-time employees and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing multiple-employer retirement plans. GERF members belong to the Coordinated Plan. Coordinated members are covered by Social Security. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by PEPFF. The City’s contributions to GERF and PEPFF are equal to the contractually required contributions for each year as set by State Statute, and are as follows for the past five years:

	<u>GERF</u>	<u>PEPFF</u>
2018	\$863,494	\$545,388
2017	836,385	544,997
2016	804,270	500,744
2015	778,475	508,708
2014	695,645	432,074

PEDCP

Seven Council members of the City are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax-qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until the time of withdrawal. Plan benefits depend solely on the amounts contributed to the plan plus investment earnings less administrative expenses. An eligible elected official who chooses to participate in the plan contributes 5% of their salary, which is matched by the elected official’s employer. PERA receives 2% of employer contributions and 0.025% of the assets in each member’s account annually for administering the plan.

The City's contributions to PEDCP for the past five years are as follows:

	<u>PEDCP</u>
2018	\$3,000
2017	3,000
2016	2,520
2015	2,520
2014	2,490

Owatonna Firefighter's Relief Association

All members of the City's Fire Department (the "Department") are covered by a defined benefit plan administered by the Owatonna Firefighter's Relief Association (the "Association") organized under Minnesota Statutes, Chapters 424A and 69. The Association provides retirement and disability benefits to members, as well as benefits to survivors upon death of eligible members. Benefits vest after ten years of credited service. As of December 31, 2017 (most recent information available), membership included 30 active participants and six terminated employees entitled to, but not yet receiving benefits.

A member who retires from the Department after 20 years of service and is at least 50 years of age shall be entitled to a lump sum service pension of \$6,100 for each active year of service, not exceeding the maximum amount per year of service allowed by law. This lump sum amount was increased to \$6,800 in 2018 and \$7,150 in 2019. A member who retires after at least ten by less than 20 years of service and is at least 50 years of age shall be entitled to a lump sum service pension based on defined percentages for each year of service. State aids, investment earnings, and City contributions fund the plan. Total contributions to the Association for the past five years are as follows:

2018	\$164,842
2017	163,842
2016	164,223
2015	169,227
2014	155,878

For more information regarding the liability of the City with respect to its employees, please reference "Note V. Other Information, Section G. Employee Retirement Systems" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix IV of this Official Statement.

GASB 68

The Government Accounting Standards Board (GASB) has issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and related GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment to GASB 68, which revised existing standards for measuring and reporting pension liabilities for pension plans provided to City employees and require recognition of a liability equal to the City's proportionate share of net pension liability, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position.

The City's proportionate shares of the pension costs and the City's net pension liability for GERF and PEPFF for the past three years are as follows:

	GERF		PEPFF	
	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>
2018	0.1691%	\$ 9,380,975	0.3187%	\$ 3,397,014
2017	0.1732	11,056,974	0.3270	4,414,889
2016	0.1682	13,657,005	0.3190	12,802,025

For more information regarding GASB 68 with respect to the City with respect to its employees, please reference "Note V. Other Information, Section G. Employee Retirement Systems" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018 an excerpt of which is included as Appendix IV of this Official Statement.

Additional and detailed information about GEPF's net position is available in a separately-issued PERA financial report, which may be obtained at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, Saint Paul, Minnesota, 55103-2088; or by calling 1-800-652-9026.

Sources: City's Comprehensive Annual Financial Reports.

Other Post-Employment Benefits

The Government Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), establishing new accounting and financial reporting requirements related to post-employment healthcare and other non-pension benefits (referred to as Other Postemployment Benefits or "OPEB"). The implementation of GASB 75 required the restatement of the City's beginning net position for the fiscal year ended December 31, 2017. Please see "Note I. Summary of Significant Accounting Policies, Section D.16 - Restatement Due to a Change in Accounting Principle" in the City's Comprehensive Annual Financial Reported December 31, 2018 for this calculation.

The City administers a single-employer defined benefit healthcare plan that provides lifetime healthcare insurance for eligible retirees and their spouses for both active and retired employees of the City and the Owatonna Public Utilities Commission. Contribution requirements are negotiated between the City and union representatives. The City currently funds the plan on a pay-as-you-go basis. The following employees were covered by the benefit terms as of December 31, 2018:

Active employees	145
Active employees waiving coverage	35
Retired employees	10
Inactive employees entitled to but not yet receiving benefit payments	<u>0</u>
Total	190

The City's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Update procedures were used to roll forward the total OPEB liability to the measurement date. The discount rate used to measure the total OPEB liability was 3.3%.

Components of the City’s OPEB liability and related ratios for the fiscal year ended December 31, 2018 are as follows:

Service cost	\$ 85,987
Interest	53,819
Change in assumptions	62,955
Differences between expected and actual experience	(193,904)
Benefit payments	<u>(48,107)</u>
Net change in total OPEB liability	\$ (39,250)
Total OPEB liability – beginning of year	\$1,379,060
Total OPEB liability – end of year	<u>\$1,339,810</u>
Covered employee payroll	\$13,295,097
Total OPEB liability as a percentage of covered employee payroll	10%

For more information regarding the liability of the City with respect to its employees, please reference “Note V. Other Information, Section F. Other Postemployment Benefits” of the City’s Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix IV of this Official Statement.

Sources: City’s Comprehensive Annual Financial Reports.

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General Fund Budget Summary

	2018 <u>Budget</u>	2018 <u>Actual</u>	2019 <u>Budget</u>
Revenues:			
Taxes	\$10,014,143	\$10,138,721	\$10,794,376
Licenses and Permits	389,575	449,857	400,975
Intergovernmental	5,609,476	5,694,968	5,620,366
Charges for Services	2,048,254	2,042,584	2,056,105
Fines and Forfeits	154,400	156,847	179,400
Investment Earnings	90,000	150,034	98,000
Miscellaneous	<u>300,541</u>	<u>329,305</u>	<u>306,841</u>
Total Revenues	\$18,606,389	\$18,962,316	\$19,456,063
Expenditures:			
General Government	\$ 3,128,778	\$ 2,902,381	\$ 3,193,043
Public Safety	7,005,523	6,909,832	7,421,825
Public Works	4,281,182	4,345,785	4,409,650
Culture and Recreation	4,518,770	4,659,725	4,750,470
Housing and Economic Development	258,136	259,678	272,575
Capital Outlay	<u>0</u>	<u>162,214</u>	<u>0</u>
Total Expenditures	\$19,192,389	\$19,239,615	\$20,047,563
Excess of Revenues over (Under) Expenditures	\$ (586,000)	\$ (277,299)	\$ (591,500)
Other Financing Sources (Uses)			
Transfers In	\$ 586,000	\$ 586,000	\$ 591,500
Transfers Out	<u>0</u>	<u>(20,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	\$ 586,000	\$ 566,000	\$ 591,500
Net Change in Fund Balance	\$ 0	\$ 288,701	\$ 0
Fund Balance (Beginning)	<u>\$10,675,238</u>	<u>\$10,675,238</u>	<u>\$10,963,939</u>
Fund Balance (Ending)	<u>\$10,675,238</u>	<u>\$10,963,939</u>	<u>\$10,963,939</u>

Sources: City's Comprehensive Annual Financial Reports and 2019 Budget.

Major General Fund Revenue Sources

<u>Revenue</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Taxes	\$8,271,539	\$8,628,692	\$9,116,931	\$9,681,820	\$10,138,721
Intergovernmental	5,380,010	5,481,606	5,527,138	5,582,220	5,694,968
Charges for service	1,704,610	1,857,471	2,132,546	2,122,997	2,042,584
Transfers in	365,000	402,500	527,500	547,500	586,000
Licenses and Permits	349,311	292,628	428,138	445,702	449,857
Miscellaneous	332,723	316,086	341,900	300,772	329,305

Sources: City's Comprehensive Annual Financial Reports.

PROPOSED FORM OF LEGAL OPINION



Offices in 470 U.S. Bank Plaza
 Minneapolis 200 South Sixth Street
 Minneapolis MN 55402-1458
 Saint Paul (612) 337-9300 telephone
 (612) 337-9310 fax
 St. Cloud www.kennedy-graven.com
 Affirmative Action, Equal Opportunity Employer

\$ _____
 City of Owatonna, Minnesota
 General Obligation Improvement Bonds
 Series 2019A

We have acted as bond counsel to the City of Owatonna, Minnesota (the “Issuer”) in connection with the issuance by the Issuer of its General Obligation Improvement Bonds, Series 2019A (the “Bonds”), originally dated September 19, 2019, and issued in the original aggregate principal amount of \$ _____. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and executed, and are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable from special assessments levied or to be levied on property specially benefited by local improvements and ad valorem taxes for the Issuer’s share of the cost of the improvements, but if necessary for the payment thereof additional ad valorem taxes are required by law to be levied on all taxable property of the Issuer, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bonds is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax, or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

4. The rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights generally and by equitable principles, whether considered at law or in equity.

We have not been asked and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and accordingly we express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Dated September ____, 2019 at Minneapolis, Minnesota.

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
 City of Owatonna, Minnesota
 General Obligation Improvement Bonds
 Series 2019A

September ____, 2019

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Owatonna, Minnesota (the “Issuer”) in connection with the issuance of its General Obligation Improvement Bonds, Series 2019A (the “Bonds”), in the original aggregate principal amount of \$ _____. The Bonds are being issued pursuant to resolutions adopted by the City Council of the Issuer (the “Resolutions”). The Bonds are being delivered to _____ (the “Purchaser”) on the date hereof. Pursuant to the Resolutions, the Issuer has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The Issuer hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders (as defined herein) of the Bonds in order to provide for the public availability of such information and assist the Participating Underwriter(s) (as defined herein) in complying with the Rule (as defined herein). This Disclosure Certificate, together with the Resolutions, constitutes the written agreement or contract for the benefit of the Holders of the Bonds that is required by the Rule.

Section 2. Definitions. In addition to the defined terms set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any annual report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means annual financial statements of the Issuer, prepared in accordance with GAAP as prescribed by GASB.

“Bonds” means the General Obligation Improvement Bonds, Series 2019A, issued by the Issuer in the original aggregate principal amount of \$ _____.

“Disclosure Certificate” means this Continuing Disclosure Certificate.

“EMMA” means the Electronic Municipal Market Access system operated by the MSRB and designated as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule.

“Final Official Statement” means the deemed Final Official Statement, dated _____, 2019, which constitutes the final official statement delivered in connection with the Bonds, which is available from the MSRB.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a Financial Obligation as described in clause (a) or (b). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the fiscal year of the Issuer.

“GAAP” means generally accepted accounting principles for governmental units as prescribed by GASB.

“GASB” means the Governmental Accounting Standards Board.

“Holder” means the person in whose name a Bond is registered or a beneficial owner of such a Bond.

“Issuer” means the City of Owatonna, Minnesota, which is the obligated person with respect to the Bonds.

“Material Event” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board located at 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Participating Underwriter” means any of the original underwriter(s) of the Bonds (including the Purchaser) required to comply with the Rule in connection with the offering of the Bonds.

“Purchaser” means _____.

“Repository” means EMMA, or any successor thereto designated by the SEC.

“Rule” means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the SEC.

“SEC” means Securities and Exchange Commission, and any successor thereto.

Section 3. Provision of Annual Financial Information and Audited Financial Statements.

(a) The Issuer shall provide to the Repository not later than twelve (12) months after the end of the Fiscal Year commencing with the year that ends December 31, 2019, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable or fails to provide to the Repository an Annual Report by the date required in subsection (a), the Issuer shall send a notice of that fact to the Repository and the MSRB.

(c) The Issuer shall determine each year prior to the date for providing the Annual Report the name and address of each Repository.

Section 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or incorporate by reference the following sections of the Final Official Statement:

1. City Property Values
2. City Indebtedness
3. City Tax Rates, Levies and Collections

In addition to the items listed above, the Annual Report shall include Audited Financial Statements submitted in accordance with Section 3 of this Disclosure Certificate.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must also be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Material Events.

(a) This Section 5 shall govern the giving of notice of the occurrence of any of the following events (“Material Events”) with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other

than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) The Issuer shall file a notice of such occurrence with the Repository or with the MSRB within ten (10) business days of the occurrence of the Material Event.

(c) Unless otherwise required by law and subject to technical and economic feasibility, the Issuer shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Issuer's information.

Section 6. EMMA. The SEC has designated EMMA as a nationally recognized municipal securities information repository and the exclusive portal for complying with the continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB and the SEC, the Issuer shall make all filings required under this Disclosure Certificate solely with EMMA.

Section 7. Termination of Reporting Obligation. The Issuer's obligations under the Resolutions and this Disclosure Certificate shall terminate upon the redemption in full of all Bonds or payment in full of all Bonds.

Section 8. Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Resolutions and this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor dissemination agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of the Resolutions or this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause a violation of the Rule. The provisions of the Resolutions requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate, or any provision hereof, shall be null and void in the event that the Issuer delivers to the Repository an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which impose the continuing disclosure requirements of the Resolutions and the execution and delivery of this Disclosure Certificate are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. The provisions of the Resolutions requiring continuing disclosure pursuant to the Rule and this Disclosure Certificate may be amended without the consent of the Holders of the Bonds, but only upon the delivery by the Issuer to the Repository of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance with the Rule.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under the Resolutions and this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default with respect to the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriters, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, we have executed this Disclosure Certificate in our official capacities effective as of the date and year first written above.

CITY OF OWATONNA, MINNESOTA

Mayor

City Administrator

SUMMARY OF TAX LEVIES, PAYMENT PROVISIONS, AND MINNESOTA REAL PROPERTY VALUATION

Following is a summary of certain statutory provisions relative to tax levy procedures, tax payment and credit procedures, and the mechanics of real property valuation. The summary does not purport to be inclusive of all such provisions or of the specific provisions discussed, and is qualified by reference to the complete text of applicable statutes, rules and regulations of the State of Minnesota.

Property Valuations (Chapter 273, Minnesota Statutes)

Assessor's Estimated Market Value. Each parcel of real property subject to taxation must, by statute, be appraised at least once every five years as of January 2 of the year of appraisal. With certain exceptions, all property is valued at its market value, which is the value the assessor determines to be the price the property to be fairly worth, and which is referred to as the "Estimated Market Value." The 2013 Minnesota Legislature established the Estimated Market Value as the value used to calculate a municipality's legal debt limit.

Economic Market Value. The Economic Market Value is the value of locally assessed real property (Assessor's Estimated Market Value) divided by the sales ratio as provided by the State of Minnesota Department of Revenue plus the estimated market value of personal property, utilities, railroad, and minerals.

Taxable Market Value. The Taxable Market Value is the value that Net Tax Capacity is based on, after all reductions, limitations, exemptions and deferrals.

Net Tax Capacity. The Net Tax Capacity is the value upon which net taxes are levied, extended and collected. The Net Tax Capacity is computed by applying the class rate percentages specific to each type of property classification against the Taxable Market Value. Class rate percentages vary depending on the type of property as shown on the last page of this Appendix. The formulas and class rates for converting Taxable Market Value to Net Tax Capacity represent a basic element of the State's property tax relief system and are subject to annual revisions by the State Legislature. Property taxes are the sum of the amounts determined by (i) multiplying the Net Tax Capacity by the tax capacity rate, and (ii) multiplying the referendum market value by the market value rate.

Market Value Homestead Exclusion. In 2011, the Market Value Homestead Exclusion Program (MVHE) was implemented to offset the elimination of the Market Value Homestead Credit Program that provided relief to certain homesteads. The MVHE reduces the taxable market value of a homestead with an Assessor's Estimated Market Value up to \$413,800 in an attempt to result in a property tax similar to the effective property tax prior to the elimination of the homestead credit. The MVHE applies to property classified as Class 1a or 1b and Class 2a, and causes a decrease in the City's aggregate Taxable Market Value, even if the Assessor's Estimated Market Value on the same properties did not decline.

Property Tax Payments and Delinquencies (Chapters 275, 276, 277, 279-282 and 549, Minnesota Statutes)

Ad valorem property taxes levied by local governments in Minnesota are extended and collected by the various counties within the State. Each taxing jurisdiction is required to certify the annual tax levy to the county auditor within five (5) working days after December 20 of the year preceding the collection year. A listing of property taxes due is prepared by the county auditor and turned over to the county treasurer on or before the first business day in March.

The county treasurer is responsible for collecting all property taxes within the county. Real estate and personal property tax statements are mailed out by March 31. One-half (1/2) of the taxes on real property is due on or before May 15. The remainder is due on or before October 15. Real property taxes not paid by their due date are assessed a penalty on homestead property of 2% until May 31 and increased to 4% on June 1. The penalty on nonhomestead property is assessed at a rate of 4% until May 31 and increased to 8% on June 1. Thereafter, an additional 1% penalty shall accrue each month through October 1 of the collection year for unpaid real property taxes. In the case of the second installment of real property taxes due October 15, a penalty of 2% on homestead property and 4% on nonhomestead property is assessed. The penalty for homestead property increases to 6% on November 1 and again to 8% on December 1. The penalty for nonhomestead property increases to 8% on November 1 and again to 12% on December 1. Personal property taxes remaining unpaid on May 16 are deemed to be delinquent and a penalty of 8% attaches to the unpaid tax. However, personal property that is owned by a tax-exempt entity, but is treated as taxable by virtue of a lease agreement, is subject to the same delinquent property tax penalties as real property.

On the first business day of January of the year following collection all delinquencies are subject to an additional 2% penalty, and those delinquencies outstanding as of February 15 are filed for a tax lien judgment with the district court. By March 20 the county auditor files a publication of legal action and a mailing of notice of action to delinquent parties. Those property interests not responding to this notice have judgment entered for the amount of the delinquency and associated penalties. The amount of the judgment is subject to a variable interest determined annually by the Department of Revenue, and equal to the adjusted prime rate charged by banks but in no event is the rate less than 10% or more than 14%.

Property owners subject to a tax lien judgment generally have three years (3) to redeem the property. After expiration of the redemption period, unredeemed properties are declared tax forfeit with title held in trust by the State of Minnesota for the respective taxing districts. The county auditor, or equivalent thereof, then sells those properties not claimed for a public purpose at auction. The net proceeds of the sale are first dedicated to the satisfaction of outstanding special assessments on the parcel, with any remaining balance in most cases being divided on the following basis: county - 40%; town or city - 20%; and school district - 40%.

Property Tax Credits (Chapter 273, Minnesota Statutes)

In addition to adjusting the taxable value for various property types, primary elements of Minnesota's property tax relief system are: property tax levy reduction aids; the homestead credit refund and the renter's property tax refund, which relate property taxes to income and provide relief on a sliding income scale; and targeted tax relief, which is aimed primarily at easing the effect of significant tax increases. The homestead credit refund, the renter's property tax refund, and targeted credits are reimbursed to the taxpayer upon application by the taxpayer. Property tax levy reduction aid includes educational aids, local governmental aid, equalization aid, county program aid and disparity reduction aid.

Debt Limitations

All Minnesota municipalities (counties, cities, towns and school districts) are subject to statutory "net debt" limitations under the provisions of Minnesota Statutes, Section 475.53. Net debt is defined as the amount remaining after deducting from gross debt the amount of current revenues that are applicable within the current fiscal year to the payment of any debt and the aggregate of the principal of the following:

1. Obligations issued for improvements that are payable wholly or partially from the proceeds of special assessments levied upon benefited property.
2. Warrants or orders having no definite or fixed maturity.
3. Obligations payable wholly from the income from revenue producing conveniences.

4. Obligations issued to create or maintain a permanent improvement revolving fund.
5. Obligations issued for the acquisition and betterment of public waterworks systems, and public lighting, heating or power systems, and any combination thereof, or for any other public convenience from which revenue is or may be derived.
6. Certain debt service loans and capital loans made to school districts.
7. Certain obligations to repay loans.
8. Obligations specifically excluded under the provisions of law authorizing their issuance.
9. Certain obligations to pay pension fund liabilities.
10. Debt service funds for the payment of principal and interest on obligations other than those described above.
11. Obligations issued to pay judgments against the municipality.

**Levies for General Obligation Debt
(Sections 475.61 and 475.74, Minnesota Statutes)**

Any municipality that issues general obligation debt must, at the time of issuance, certify levies to the county auditor of the county(ies) within which the municipality is situated. Such levies shall be in an amount that if collected in full will, together with estimates of other revenues pledged for payment of the obligations, produce at least five percent in excess of the amount needed to pay principal and interest when due. Notwithstanding any other limitations upon the ability of a taxing unit to levy taxes, its ability to levy taxes for a deficiency in prior levies for payment of general obligation indebtedness is without limitation as to rate or amount.

**STATUTORY FORMULAE: CONVERSION OF TAXABLE MARKET VALUE (TMV) TO
NET TAX CAPACITY FOR MAJOR PROPERTY CLASSIFICATIONS**

<u>Property Type</u>	<u>Local Tax Payable 2015-2019</u>
Residential Homestead (1a)	
Up to \$500,000	1.00%
Over \$500,000	1.25%
Residential Non-homestead	
Single Unit (4bb)	
Up to \$500,000	1.00%
Over \$500,000	1.25%
1-3 unit and undeveloped land (4b1)	1.25%
Market Rate Apartments	
Regular (4a)	1.25%
Low-Income (4d)	
Up to \$139,000 ^(c)	0.75%
Over \$139,000 ^(c)	0.25%
Commercial/Industrial/Public Utility (3a)	
Up to \$150,000	1.50% ^(a)
Over \$150,000	2.00% ^(a)
Electric Generation Machinery	2.00%
Commercial Seasonal Residential	
Homestead Resorts (1c)	
Up to \$600,000	0.50%
\$600,000 - \$2,300,000	1.00%
Over \$2,300,000	1.25% ^(a)
Seasonal Resorts (4c)	
Up to \$500,000	1.00% ^(a)
Over \$500,000	1.25% ^(a)
Non-Commercial (4c12)	
Up to \$500,000	1.00% ^{(a)(b)}
Over \$500,000	1.25% ^{(a)(b)}
Disabled Homestead (1b)	
Up to \$50,000	0.45%
Agricultural Land & Buildings	
Homestead (2a)	
Up to \$500,000	1.00%
Over \$500,000	1.25%
Remainder of Farm	
Up to \$1,900,000 ^(d)	0.50% ^(b)
Over \$1,900,000 ^(d)	1.00% ^(b)
Non-homestead (2b)	1.00% ^(b)

^(a) State tax is applicable to these classifications.

^(b) Exempt from referendum market value based taxes.

^(c) Legislative increases, payable 2019. Historical valuations are: Payable 2018 - \$121,000; Payable 2017 - \$115,000; Payable 2016 - \$106,000; and Payable 2015 - \$100,000.

^(d) Legislative increases, payable 2019. Historical valuations are: Payable 2018 - \$1,940,000; Payable 2017 - \$2,050,000; Payable 2016 - \$2,140,000; and Payable 2015 - \$1,900,000.

NOTE: For purposes of the State general property tax only, the net tax capacity of non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure: First \$76,000 – 0.40%; \$76,000 to \$500,000 – 1.00%; and over \$500,000 – 1.25%. In addition to the State tax base exemptions referenced by property classification, airport property exempt from city and school district property taxes under M.S. 473.625 is exempt from the State general property tax (MSP International Airport and Holman Field in Saint Paul are exempt under this provision).

EXCERPT OF 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Data on the following pages was extracted from the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018. The reader should be aware that the complete financial statements may contain additional information which may interpret, explain or modify the data presented here.

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Owatonna

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Owatonna, Minnesota (the City), as of and for the year ended December 31, 2018, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Owatonna, Minnesota as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended December 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the City reported a restatement for a change in accounting principle (see Note 1, D, 16). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Owatonna, Minnesota's basic financial statements. The introductory section, combining statements, capital assets used in the operation of governmental funds and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

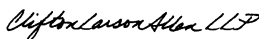
Other Information (Continued)

The combining statements and capital assets used in the operation of governmental funds 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 statements and capital assets used in the operation of governmental funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, May 13, 2019, 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 result 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 City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
May 13, 2019

Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the City of Owatonna's (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter found on pages 1-6 and with the financial statements that follow.

Financial Highlights

- The assets and deferred outflows of resources of the City of Owatonna exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$235,374,887 (net position). Of this amount, \$51,653,783 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$5,338,309.
- As of the end of the current fiscal year, the City of Owatonna's governmental funds reported combined ending fund balances of \$26,467,942, an increase of \$2,307,580 from the previous year. Over 67% of this amount, \$17,776,695, is available for spending at the government's discretion (assigned, committed and unassigned fund balance).
- At the end of the current fiscal year, the assigned, committed and unassigned fund balance for the general fund was \$10,749,575, or 55.9% of total general fund expenditures for 2018.
- The City of Owatonna's long-term liabilities remained unchanged. Although, the City issued bonds in 2018, this was offset by a decrease in the pension liability from the previous year. The pension liability for governmental activities decreased \$1,996,962 and for business-type activities increased \$696,892.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Owatonna's basic financial statements. The City of Owatonna's basic financial statements are comprised of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

- The Statement of Net Position presents information on all of the City of Owatonna's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the differences between them 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 of Owatonna is improving or deteriorating.

- The Statement of Activities presents information showing how the City's net position changed during the most recent 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 periods (e.g. uncollected taxes and earned, but unused absences).

Both of the government-wide financial statements distinguish functions of the City of Owatonna that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Owatonna include general government, public safety, public works, culture and recreation, and housing and economic development. The business-type activities of the City of Owatonna include a sewer utility, storm water utility, and a municipal electric, water, and gas utility. The electric, water and gas utility, comprising the Owatonna Public Utilities, are under the direction of their Board of Commissioners.

The government-wide financial statements include not only the City of Owatonna itself (known as the primary government), but also a legally separate Housing and Redevelopment Authority (HRA) and Economic Development Authority (EDA) for which the City of Owatonna is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 26-29 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 of Owatonna, 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 of Owatonna 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 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 of the government'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 functions and governmental activities.

The City of Owatonna maintains 20 individual governmental funds. 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 fund, debt service fund, and the capital projects fund, all of which are considered major funds. Data from the other 17 funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Owatonna 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 can be found on pages 32-41 of this report.

Proprietary funds. The City of Owatonna maintains five different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Owatonna uses enterprise funds to account for its sewer utility, storm water utility, electric, water and gas utilities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Owatonna's various functions. The City of Owatonna uses internal service funds to account for its risk management program and its vehicle replacement program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund statements 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 the sewer fund, storm water fund, and the municipal electric, water, and gas funds, which are considered to be major funds of the City of Owatonna.

The basic proprietary fund financial statements can be found on pages 42-47 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-83 of this report.

Other information. Readers desiring additional information on nonmajor funds can find it in the Combining Statements of Nonmajor Funds section of this report. Completing the financial section of the report are schedules on capital assets and other financial schedules. Finally, the statistical section presents trend information, revenue capacity information, debt capacity information, demographics and economic information, and operating information.

City as a Whole

Government-wide Financial Statements

Net Position serves as a useful indicator of a government's financial position. For the City of Owatonna, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$235.4 million at the end of the current year. The largest portion of the City's net position are invested in capital assets (e.g. land, building, equipment and streets) and reported net of related outstanding debt (\$171.6 million, or 72.9%). The City uses these capital assets to provide services to its citizens; thus they do not represent resources available for future spending. An additional portion of the City of Owatonna's net position (\$12.1 million or 5.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$51.7 million or 22.0%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The City's financial position improved during 2018 with their net position increasing by \$5.3 million from \$230.0 million to \$235.3 million.

A condensed version of the Statement of Net Position at December 31, 2018 follows:

Net Position at Year-end
(in millions)

	Governmental Activities		Business-type Activities		Total Government
	2018	2017	2018	2017	
Cash and investments	\$27.3	\$23.8	\$47.9	\$45.2	\$75.2
Other assets	7.0	8.4	9.9	9.8	16.9
Capital assets	92.3	90.6	100.6	99.4	192.9
Total assets	126.6	122.8	158.4	154.4	285.0
Deferred outflows of resources	5.9	8.2	.8	1.4	6.7
Other liabilities	3.8	3.8	9.1	9.1	12.9
Long term outstanding	24.5	19.7	13.1	13.6	37.6
Total liabilities	26.0	23.5	20.5	22.7	46.5
Deferred inflows of resources	8.5	8.6	1.3	1.1	9.8
Net position:					
Net investment in capital assets	79.0	81.1	92.6	90.3	171.6
Restricted	12.1	10.8			12.1
Unrestricted	6.8	7.0	44.9	41.7	51.7
Total net position	\$97.9	\$98.9	\$137.5	\$132.0	\$235.4

Governmental activities. Governmental activities provided a \$.2 million decrease to the City's net position.

A condensed version of the Statement of Activities follows:

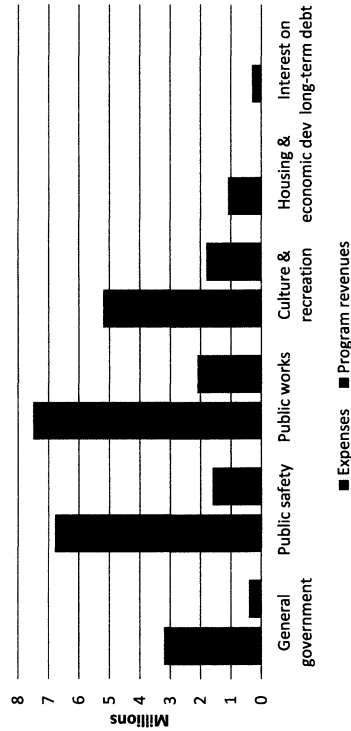
Governmental and Proprietary Activities
For the year ended December 31, 2018
(in millions)

	Governmental Activities 2018	2017	Business-type Activities 2018	2017	Total Government 2018
Revenues					
Program revenues	\$3.1	\$3.1	\$64.4	\$61.3	\$67.5
Charges for services	1.5	1.6			1.5
Grants and contributions	1.3	3.7	.1	.1	1.3
Operating Capital	13.2	11.8	.3	.3	13.5
Taxes	.4	.2	.7	.5	1.1
Interest	4.4	4.4			4.4
Sale of capital assets	23.9	24.8	65.4	62.2	89.3
Grants and contributions					
Total revenues	3.2	3.2	3.2	3.2	3.2
Expenses					
General government	6.8	7.7	7.7	6.8	6.8
Public safety	7.5	7.1	7.1	7.5	7.5
Public works	5.2	5.2	5.2	5.2	5.2
Culture and recreation	1.1	.8	.8	1.1	1.1
Housing & economic dev					
Miscellaneous	.3	.2	.2	.3	.3
Interest on long-term debt			2.8	2.8	2.8
Sewer			.7	.6	.7
Storm water			39.3	37.6	39.3
Electric			3.4	3.3	3.4
Water			13.7	13.7	13.7
Gas			59.9	56.0	84.0
Total expenses	24.1	24.2	59.9	56.0	84.0
Excess (deficiency) before transfers	(2)	(.1)	5.5	4.2	5.3
Transfers	(.2)	.5	5.5	4.3	5.3
Change in net position	98.9	98.4	132.0	127.7	230.9
Restatement	(.8)				(.8)
Ending net position	\$97.9	\$98.9	\$137.5	\$132.0	\$235.4

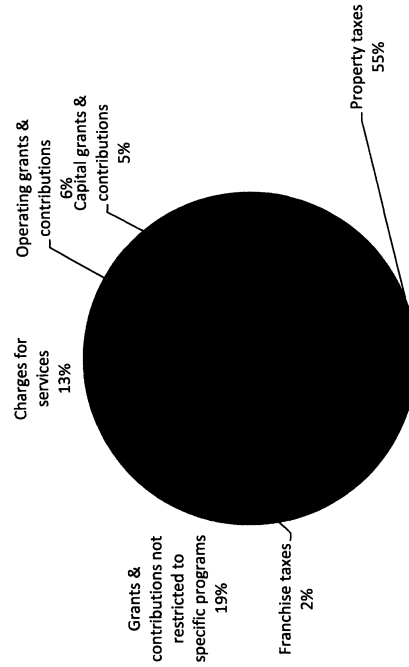
Business-type activities. Business-type activities provided a \$5.5 million increase to the City's total net position. Key elements of this increase are as follows:

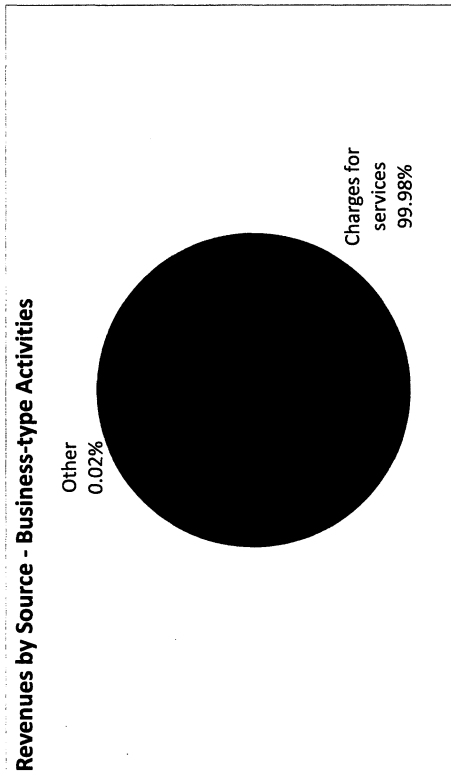
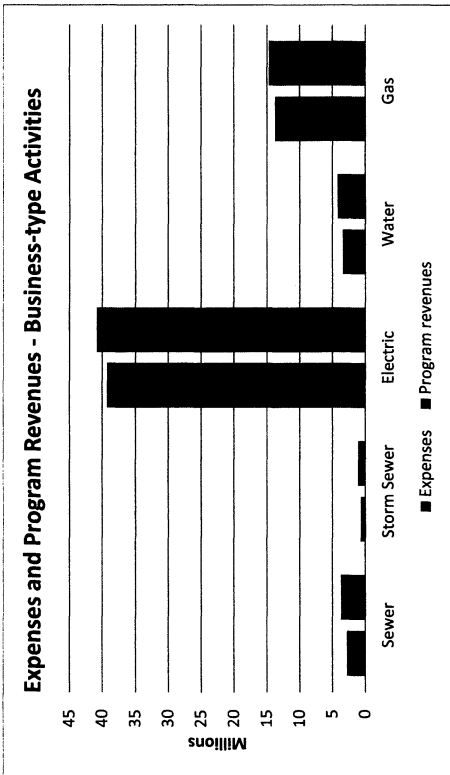
- \$3.6 million increase is attributable to the operations of the municipal electric, gas, and water utilities.
- The Sewer fund had a gain from operations of \$0.7 million.
- The storm water fund continued to implement its new rate structure following the completion of a rate study. \$1.2 million increase is attributable to the storm water operations.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities





Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Owatonna'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 of Owatonna's financing requirements. In particular, the City's assigned and 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 of Owatonna's governmental funds reported combined ending fund balances of \$26.5 million, a \$2.3 million increase from the prior year. Over half of this total amount (\$17.8 million) constitutes assigned, committed and unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is already either in nonspendable form, or restricted for 1) various capital projects (\$3.5 million), or 2) debt service (\$5.0 million), or 3) a variety of other restricted purposes (\$73,598).

The general fund is the chief operating fund of the City of Owatonna. At the end of the current fiscal year, assigned and unassigned fund balance of the general fund was \$10.7 million, while total fund balance was \$11.0 million. As a measure of the general fund's liquidity, it may be useful to compare assigned and unassigned fund balance and total fund balance to total fund expenditures for 2018. Assigned and unassigned fund balance represents 55.9% of total general fund expenditures, while total fund balance represents 57.0% of that same amount.

The fund balance of the City of Owatonna's general fund increased by \$0.3 million during the current fiscal year. Key factors in this increase are as follows:

- Most all revenue categories had higher than anticipated results. The largest of these was building permits. The City is experiences very healthy increases in construction activity.
- There were a few departments that experienced some salary savings due to vacant positions throughout the year.

The debt service fund has a fund balance of \$5.0 million, all of which is restricted for the payment of debt service. The debt service fund's fund balance has remained unchanged from prior year. The government collected \$1.0 million in debt service levy and \$0.5 million in assessments. \$1.3 million in debt was retired in 2018 plus \$0.2 million in interest costs. The debt service fund received a transfer of \$0.1 million from a non-major governmental fund which represented tax increment collected for the purpose of paying TIF bonds.

The capital projects fund has a fund balance of \$6.8 million, of which \$1.6 million is restricted for specific capital projects, \$6.1 million has been assigned for future capital projects and the council has committed \$1.1 million for specific capital projects. There was an increase of \$1.8 million in fund balance during the current year. The capital projects fund received improvement bond proceeds, including premium, of \$5.2 million in 2018.

There were no significant changes in fund balance for the nonmajor governmental funds in 2018.

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

Unrestricted net position at the end of the year was \$16.1 million for the sewer fund, \$2.1 million for the storm water fund, \$26.9 million for the municipal electric, water and gas utilities. The total change in net position was \$0.7 million for the sewer fund, \$1.2 million for the storm water fund, \$3.6 million for the municipal electric, water and gas utilities. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Owatonna's business-type activities.

Budgetary Highlights

The current year budget included revenues equal to expenditures for the general fund. Actual expenditures were within the budgeted amount. Additional information on the budget can be found in note III.A, on page 58 of the basic financial statements.

General fund revenues and other financing sources were \$0.3 million over budget due to an increase in licenses and permits, interest earnings and grant funds related to the 2018 tornado damage.

Capital Assets and Debt Administration

Capital Assets. The City of Owatonna's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$193.0 million (net of accumulated depreciation). This investment in capital assets includes land and other rights, building, improvements, equipment, park facilities, roads, bridges, and utility systems. The total increase in the City of Owatonna's investment in capital assets for the current fiscal year was 1.6% (a 2.0% increase for governmental activities and a 1.3% increase for business-type activities).

Major capital asset events during the current year included the following:

- Replacement of the fuel tanks at the public works building along with the addition of a canopy over the tanks (\$0.2 million).
- Vehicle acquisitions of \$1.1 million.
- Street reconstruction projects including 18th Street SW with the addition of a trail, downtown alley and parking lot project, Hemlock Avenue, and the 2018 Street and Utility project for \$2.1 million.
- Two significant street projects were still in process at year end. These include the reconstruction of Park Drive and the Lake Kohlmier Drive project for \$2.1 million.
- There were \$0.5 million in storm water improvements completed as part of the current year street improvement projects. This was in addition to the completion of the downtown storm water project for \$0.2 million.
- Various system improvements were completed for the municipal water, electric and gas utilities at cost of \$4.8 million.

Capital Assets at Year-end

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land and other rights	\$8.8	\$8.6	\$3.0	\$2.9	\$11.8	\$11.5
Buildings	22.8	22.8	48.4	48.0	71.2	70.8
Improvements	1.1	1.0			1.1	1.0
Equipment	15.3	14.4	17.9	17.8	33.2	32.2
Infrastructure	115.9	113.7	99.2	95.2	215.1	208.9
Construction in Progress	2.3	.1	4.1	4.3	6.4	4.4
Subtotal	166.2	160.6	172.6	168.2	338.8	328.8
Accumulated depreciation	73.8	70.0	72.0	68.9	145.8	138.9
Capital assets, net	<u>\$92.4</u>	<u>\$90.6</u>	<u>\$100.6</u>	<u>\$99.3</u>	<u>\$193.0</u>	<u>\$189.9</u>

Additional information on the City's capital assets can be found in note IV.D. on pages 63-64 of the basic financial statements.

Long-term Debt. At year-end, the City had \$20.5 million in bonds and notes outstanding. There was \$4.8 million of debt issued in 2018. There was a total of \$2.2 million in debt retired during the year.

Debt Outstanding at Year-end

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
G.O. Bonds	\$5.8	\$1.3			\$5.8	\$1.3
G.O. Improvement Bonds	6.0	6.9			6.0	6.9
G.O. Tax Increment Bonds	.8	.9			.8	.9
G.O. Revenue Bonds			\$4.0	\$4.3	4.0	4.3
Revenue Bonds			3.9	4.5	3.9	4.5
Total bonds payable	<u>\$12.6</u>	<u>\$9.1</u>	<u>\$7.9</u>	<u>\$9.8</u>	<u>\$20.5</u>	<u>\$17.9</u>

The City's bond rating is Aa2 from Moody's Investor Services. Other obligations include compensated absences. More detailed information on the City's long-term liabilities is presented in note IV.G. on pages 66-69 of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- The State of Minnesota legislature attempts to reach an agreement on the funding level of LGA on an annual basis. This has proven to be a contentious issue each legislative session. The uncertainty of future LGA funding levels does create a challenge.
- The City of Owatonna has established an internal service fund to serve as a vehicle replacement fund. This has resulted in an increase to the operating budget of the general fund with the intention of eventually decreasing the demands on the capital projects funds.
- The City of Owatonna has established a building maintenance fund in order to address the maintenance needs of the many buildings the City owns. The funding for this began in 2018.
- The City of Owatonna has seen its population increase 14.1% since the 2000 census.
- The City of Owatonna has seen local unemployment rates improve as well as development activity has resumed.

Unrestricted fund balance in the general fund is within the recommendation by the Office of the State Auditor. It is recommended that the city maintain a balance between thirty and fifty percent of fund operating revenues or no less than 5 months of operating expenditures. The committed, assigned and unassigned fund balance of the general fund, which is the equivalent of "unrestricted fund balance" at the end of the current fiscal year equaled 53.6% of next years' budgeted expenditures.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 540 West Hills Circle, Owatonna, Minnesota 55060.

CITY OF OWATONNA, MINNESOTA
Statement of Net Position
December 31, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Housing & Redevelopment Activities	Economic Development Activities
ASSETS					
Cash and cash equivalents	\$5,574,825	\$11,457,623	\$17,032,448	\$125,729	\$562,222
Investments	21,759,373	36,491,320	58,250,693		1,000,000
Interest receivable	165,263		165,263		209
Taxes receivable - delinquent	128,210		128,210	1,656	
Accounts receivable	180,464	6,969,032	7,149,496	23,145	24,785
Assessments receivable	2,820,257	43,151	2,863,408		
Due from other governments	1,217,402		1,217,402	89,241	
Due from component units	1,848		1,848		
Inventories	48,285	925,704	973,989		
Other current assets		1,652,202	1,652,202	184,208	2,466,016
Loans receivable	58,085		58,085	6,170	1,532,834
Prepaid items	216,770		216,770		
Internal balances	419,933	(419,933)			
Restricted assets:					
Cash and cash equivalents				18,702	
Other assets		660,266	660,266		
Net Pension Asset	1,638,277		1,638,277		
Capital assets:					
Land and land rights	8,793,067	3,022,902	11,815,969		252,156
Buildings	22,774,411	48,419,522	71,193,933	52,000	
Improvements other than buildings	1,087,313		1,087,313		
Equipment	15,283,052	17,868,751	33,151,803		
Infrastructure	115,904,414	99,218,349	215,122,763		
Construction in progress	2,296,251	4,105,081	6,401,332		
Less: accumulated depreciation	(73,786,590)	(72,001,749)	(145,788,339)	(15,798)	
Total assets	<u>126,580,910</u>	<u>158,412,221</u>	<u>284,993,131</u>	<u>485,053</u>	<u>5,838,222</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	5,788,668	829,042	6,617,710		
Other post-empl benefits related	87,320	19,405	106,725		
	<u>5,875,988</u>	<u>848,447</u>	<u>6,724,435</u>		
LIABILITIES					
Accounts payable	\$955,174	\$6,784,498	\$7,739,672	\$1,492	\$99,121
Accrued wages	290,876	286,242	577,118		
Accrued interest payable	162,701	56,207	218,908		
Deposits	51,050		51,050	18,702	
Surcharges payable	7,157		7,157		
Unearned revenue	31,102	317,733	348,835	2,427	
Due to other governments				26,041	
Due to primary government					1,848
Noncurrent liabilities:					
Accrued OPEB liability	1,057,984	281,826	1,339,810		
Net pension liability	8,196,389	4,581,600	12,777,989		
Due within one year	2,151,881	980,000	3,131,881		
Due in more than one year	13,147,275	7,234,328	20,381,603		
Total liabilities	<u>26,051,589</u>	<u>20,522,434</u>	<u>46,574,023</u>	<u>48,662</u>	<u>100,969</u>
DEFERRED INFLOWS OF RESOURCES					
Pension related	8,357,196	1,184,858	9,542,054		
Other post-empl benefits related	161,343	10,299	171,642		
Gain on bond refunding		54,960	54,960		
	<u>8,518,539</u>	<u>1,250,117</u>	<u>9,768,656</u>		
NET POSITION					
Net investment in capital assets	79,004,771	92,586,465	171,591,236	36,202	252,156
Restricted for:					
Library Hunewill	16,500		16,500		
Library memorials	5,788		5,788		
Net pension asset	1,638,277		1,638,277		
Debt service	6,965,922		6,965,922		
Dam repair	44,068		44,068		
Grant projects	21		21		
Capital projects	3,452,946		3,452,946		
Economic development	6,346		6,346		5,412,996
Unrestricted	6,752,131	44,901,652	51,653,783	400,189	72,101
Total Net Position	<u>\$97,886,770</u>	<u>\$137,488,117</u>	<u>\$235,374,887</u>	<u>\$436,391</u>	<u>\$5,737,253</u>

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

CITY OF OWATONNA, MINNESOTA
Statement of Activities
For the year ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	Housing & Redevelopment Authority	Component Units Economic Development Authority
Governmental activities:									
General government	\$3,205,461	\$346,509	\$13,997		\$(2,842,955)		\$(2,842,955)		
Public safety	6,812,922	833,619	798,830		(5,180,473)		(5,180,473)		
Public works	7,474,091	543,571	333,926	\$1,210,456	(5,386,138)		(5,386,138)		
Culture and recreation	5,165,302	1,356,050	346,399	51,601	(3,411,252)		(3,411,252)		
Housing & economic development	1,111,126	21,072			(1,090,054)		(1,090,054)		
Interest on long-term debt	335,781				(335,781)		(335,781)		
Total governmental activities	24,104,684	3,102,821	1,493,152	1,262,057	(18,246,653)		(18,246,653)		
Business-type activities:									
Sewer	2,798,229	3,675,717		9,262		\$886,750	\$886,750		
Storm water	660,873	1,068,692	5,000			412,819	412,819		
Electric	39,303,834	40,814,286				1,510,452	1,510,452		
Water	3,420,096	4,169,129				749,033	749,033		
Gas	13,740,097	14,762,244				1,022,147	1,022,147		
Total business-type activities	59,923,129	64,490,068	5,000	9,262		4,581,201	4,581,201		
Total primary government	\$84,027,813	\$67,592,889	\$1,498,152	\$1,271,319					
Component Units:									
Housing & redevelopment authority	\$1,250,951	\$39,887	\$1,065,135					\$(145,929)	\$(424,059)
Economic development authority	571,392	147,333						(145,929)	(424,059)
Component Unit	\$1,822,343	\$187,220	\$1,065,135						
General revenues:									
Property taxes					12,829,040	314,930	13,143,970	165,673	170,000
Lodging tax									266,419
Franchise taxes					353,476		353,476		
Grants and contributions not restricted to specific programs					4,387,352		4,387,352		
Unrestricted investment earnings					440,334		440,334	1,565	26,406
Transfers					48,162		48,162		
Total general revenues and transfers					18,058,364	945,397	19,003,761	167,238	462,825
Change in net position					(188,289)	5,526,598	5,338,309	21,309	38,766
Net position – beginning									
As previously reported									
Restatement					98,877,733	132,012,753	230,890,486	415,082	5,698,487
As restated					(802,674)	(51,234)	(853,908)	415,082	5,698,487
Net position – ending					98,075,059	131,961,519	230,036,578	415,082	5,698,487
					\$97,886,770	\$137,488,117	\$235,374,887	\$436,391	\$5,737,253

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

Major Funds

Governmental

General Fund

This fund accounts for the financial operations of the City that are not accounted for in any other fund. Principal sources of revenue are state and county shared revenue and property taxes.

Debt Service Fund

This fund was established to account for the accumulation of special assessments levied against property for improvements which are a benefit to such property, the debt service tax levy for the non-assessable portion of projects, and any other source of funding related to debt service. These resources are used for the payment of principal and interest on the debt of the City.

Capital Projects Fund

This fund was established to account for financial resources to be used for the acquisition or construction of major capital assets. This includes street improvement projects as well as capital asset purchases.

Proprietary

The City's enterprise funds are used to account for self-supporting activities that render services to the general public on a user charge basis.

Sewer Fund

This fund accounts for the income and expenses in the operation of the sanitary sewer collection function and wastewater treatment.

Storm Water Fund

This fund accounts for the income and expenses in the operation of the storm water management function.

Electric Utility Fund

This fund accounts for the income and expenses in the operation of the electric distribution function.

Water Utility Fund

This fund accounts for the income and expenses in the operation of the water distribution function.

Gas Utility Fund

This fund accounts for the income and expenses in the operation of the gas distribution function.

CITY OF OWATONNA, MINNESOTA
Balance Sheet
Governmental Funds
December 31, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$415,099	\$2,937,985	\$1,198,969	\$248,197	\$4,800,250
Investments	10,429,373	2,000,000	6,850,000	1,700,000	20,979,373
Interest receivable	165,263				165,263
Taxes receivable – delinquent	123,876			4,334	128,210
Accounts receivable	151,115		27,000		178,115
Assessments receivable		2,195,327	624,930		2,820,257
Due from other funds	6,616		269,515		276,131
Due from other governments	436,606		780,796		1,217,402
Inventories	48,285				48,285
Advance to other funds	121,136		140,529		261,665
Loans receivable			58,085		58,085
Total assets	\$11,897,369	\$7,133,312	\$9,949,824	\$1,952,531	\$30,933,036
LIABILITIES					
Accounts payable	\$477,159		\$391,600	\$51,578	\$920,337
Accrued wages	290,876				290,876
Surcharges payable	7,157				7,157
Deposits	51,050				51,050
Unearned revenue	30,102		1,000		31,102
Due to other funds	12,413	\$4,689		17,811	34,913
Advance from other funds			121,136	140,529	261,665
Total liabilities	868,757	4,689	513,736	209,918	1,597,100
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	64,673	2,132,466	666,521	4,334	2,867,994
Total deferred inflows of resources	64,673	2,132,466	666,521	4,334	2,867,994
FUND BALANCES					
Fund Balances					
Nonspendable:					
Inventories	48,285				48,285
Advance to other funds	121,136				121,136
Restricted for:					
Library Hunewill				16,500	16,500
Library memorial				5,788	5,788
Debt service		4,996,157			4,996,157
Dam repair	44,068				44,068
Airport programs	875				875
Grant projects				21	21
Capital projects			1,584,895	1,867,176	3,452,071
Economic development				6,346	6,346
Committed for:					
Capital projects			1,112,446		1,112,446
Assigned for:					
Capital projects			6,072,226		6,072,226
Compensated absences/OPEB	3,084,017				3,084,017
Unassigned	7,665,558			(157,552)	7,508,006
Total fund balances	10,963,939	4,996,157	8,769,567	1,738,279	26,467,942
Total liabilities, deferred inflows of resources and fund balances	\$11,879,369	\$7,133,312	\$9,949,824	\$1,952,531	\$30,933,036

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

CITY OF OWATONNA, MINNESOTA
Reconciliation of the Balance Sheet of
Governmental Funds to the
Statement of Net Position
December 31, 2018

Fund balance – total governmental funds	\$26,467,942
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.	88,661,675
Net Pension Asset is included in the Statement of Net Position.	1,638,277
Deferred pension outflows of \$5,788,668 and inflows of \$(8,357,196) are included in the Statement of Net Position.	(2,568,528)
Deferred other post-employment benefits outflows of \$87,320 and inflows of \$(161,343) are included in the Statement of Net Position	(74,023)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds.	(24,716,230)
Internal service fund assets and liabilities are included in governmental activities in the Statement of Net Position.	5,609,663
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	<u>2,867,994</u>
Net Position of Governmental Activities	<u><u>\$97,886,770</u></u>

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

CITY OF OWATONNA, MINNESOTA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$10,138,721	\$1,018,307	\$1,064,325	\$1,009,470	\$13,230,823
Licenses and permits	449,857				449,857
Intergovernmental revenue	5,694,968		904,736		6,599,704
Charges for service	2,042,584				2,042,584
Fines and forfeits	156,847				156,847
Special assessments		536,069	141,434		677,503
Interest on investments	150,034	69,468	187,080	33,752	440,334
Miscellaneous	329,305		98,771	86,765	514,841
Total revenues	<u>18,962,316</u>	<u>1,623,844</u>	<u>2,396,346</u>	<u>1,129,987</u>	<u>24,112,493</u>
EXPENDITURES					
Current:					
General government	2,902,381				2,902,381
Public safety	6,909,832				6,909,832
Public works	4,345,785				4,345,785
Culture and recreation	4,659,725				4,659,725
Housing & economic development	259,678			834,081	1,093,759
Miscellaneous		9,250		74,207	83,457
Capital outlay	162,214		5,767,564	60,878	5,990,656
Debt service:					
Principal retired		1,335,000			1,335,000
Interest and service charges		220,591	77,287		297,878
Total expenditures	<u>19,239,615</u>	<u>1,564,841</u>	<u>5,844,851</u>	<u>969,166</u>	<u>27,618,473</u>
Excess of revenues over (under) expenditures	<u>(277,299)</u>	<u>59,003</u>	<u>(3,448,505)</u>	<u>160,821</u>	<u>(3,505,980)</u>
OTHER FINANCING SOURCES (USES)					
Bond issuance			4,825,000		4,825,000
Premium on bonds			402,560		402,560
Transfers out	(20,000)			(150,920)	(170,920)
Transfers in	586,000	150,920	20,000		756,920
Total other financing sources (uses)	<u>566,000</u>	<u>150,920</u>	<u>5,247,560</u>	<u>(150,920)</u>	<u>5,813,560</u>
Net change in fund balance	288,701	209,923	1,799,055	9,901	2,307,580
Fund balance - beginning	10,675,238	4,786,234	6,970,512	1,728,378	24,160,362
Fund balance - ending	<u>\$10,963,939</u>	<u>\$4,996,157</u>	<u>\$8,769,567</u>	<u>\$1,738,279</u>	<u>\$26,467,942</u>

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

CITY OF OWATONNA, MINNESOTA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the year ended December 31, 2018

Net change in fund balances – total governmental funds	\$2,307,580
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays (\$5,253,664) exceeded depreciation (\$3,839,895) in the current period.	1,413,769
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(368,489)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	(3,870,384)
Net changes in the net pension asset/liability and the additions and amortization of deferred inflows and outflows related to pensions in the Statement of Activities.	311,864
Net changes in the net other post-employment benefits liability and the additions and amortization of deferred inflows and outflows related to other post-employment in the Statement of Activities.	(64,742)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(38,067)
The net revenue (expense) of the internal service funds is reported with governmental activities.	120,180
Change in Net Position of Governmental Activities	<u><u>\$(188,289)</u></u>

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

CITY OF OWATONNA, MINNESOTA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund
For the year ended December 31, 2018

	Budget		(Budgetary Basis) Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$10,014,143	\$10,014,143	\$10,138,721	\$124,578
Licenses and permits	389,575	389,575	449,857	60,282
Intergovernmental revenue	5,609,476	5,609,476	5,694,968	85,492
Charges for service	2,048,254	2,048,254	2,042,584	(5,670)
Fines and forfeits	154,400	154,400	156,847	2,447
Interest on investments	90,000	90,000	150,034	60,034
Miscellaneous	300,541	300,541	329,305	28,764
Total revenues	18,606,389	18,606,389	18,962,316	355,927
EXPENDITURES				
Current:				
General government				
Mayor & council	405,382	405,382	230,683	174,699
Administrative services	1,578,007	1,578,007	1,576,755	1,252
City attorney	250,739	250,739	240,358	10,381
Government buildings	894,650	894,650	854,585	40,065
Total general government	3,128,778	3,128,778	2,902,381	226,397
Public safety				
Police	4,960,486	4,960,486	4,870,976	89,510
Fire	1,635,884	1,635,884	1,626,978	8,906
Building inspection	409,153	409,153	411,878	(2,725)
Total public safety	7,005,523	7,005,523	6,909,832	95,691
Public works				
Engineering	882,216	882,216	891,633	(9,417)
Street maintenance	2,973,975	2,973,975	3,036,064	(62,089)
Airport	424,991	424,991	418,088	6,903
Total public works	4,281,182	4,281,182	4,345,785	(64,603)
Culture and recreation				
Library	1,300,523	1,300,523	1,328,306	(27,783)
Park & rec administration	322,843	322,843	315,981	6,862
Park maintenance	1,277,011	1,277,011	1,297,387	(20,376)
Recreation – adult	78,100	78,100	79,710	(1,610)
Recreation – youth	306,136	306,136	347,943	(41,807)
Tennis & fitness center	299,760	299,760	330,788	(31,028)
Senior center	109,865	109,865	118,326	(8,461)
Aquatic center	243,092	243,092	226,422	16,670
Brooktree golf course	581,440	581,440	614,862	(33,422)
Total culture and recreation	4,518,770	4,518,770	4,659,725	(140,955)
Housing & economic development				
Planning & zoning	258,136	258,136	259,678	(1,542)
Total housing & economic develop	258,136	258,136	259,678	(1,542)
Capital outlay	\$0	\$0	\$162,214	\$(162,214)
Total expenditures	19,192,389	19,192,389	19,239,615	(47,226)
Excess of revenues over (under) expenditures	(586,000)	(586,000)	(277,299)	308,701
OTHER FINANCING SOURCES (USES)				
Transfers out			(20,000)	20,000
Transfers in	586,000	586,000	586,000	
Total other financing sources and uses	586,000	586,000	566,000	20,000
Net change in fund balance			288,701	288,701
Fund balance – beginning	10,675,238	10,675,238	10,675,238	
Fund balance – ending	10,675,238	10,675,238	10,963,939	288,701

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

CITY OF OWATONNA, MINNESOTA
Statement of Net Position
Proprietary Funds
December 31, 2018

	Business-type Activities				- Enterprise Funds			Governmental Activities	
	Sewer Fund	Storm Water Fund	Electric Fund	Water Fund	Water Fund	Gas Fund	Total Enterprise Funds	Internal Service Funds	
ASSETS									
Current assets:									
Cash and cash equivalents	\$484,225	\$930,692	\$5,076,607	\$975,487	\$3,990,612	\$11,457,623		\$774,575	
Investments	15,700,000	1,450,000	4,901,131	6,019,617	8,420,572	36,491,320		780,000	
Accounts receivable	14,617		3,740,336	490,910	2,723,169	6,969,032		2,349	
Assessments receivable	43,151					43,151			
Due from other funds	653,276		34,913			688,189			
Inventories at cost			652,848	45,734	227,122	925,704			
Other assets			1,135,352	124,929	391,921	1,652,202			
Total current assets	16,895,269	2,380,692	15,541,187	7,656,677	15,753,396	58,227,221		1,773,694	
Noncurrent assets:									
Capital assets – net	23,483,846	11,281,992	37,949,363	16,016,714	11,900,941	100,632,856		3,690,243	
Land held for future use					660,266	660,266			
Total noncurrent assets	23,483,846	11,281,992	37,949,363	16,016,714	12,561,207	101,293,122		3,690,243	
Total assets	40,379,115	13,662,684	53,490,550	23,673,391	28,314,603	159,520,343		5,463,937	
DEFERRED OUTFLOWS OF RESOURCES									
Pension related	109,886	16,753	330,353	178,259	216,399	851,650			
Other post-employment benefits related	5,573		6,224	3,043	4,565	19,405			
Total deferred outflows of resources	115,459	16,753	336,577	181,302	220,964	871,055			
LIABILITIES									
Current liabilities:									
Accounts payable	88,089	30,682	3,876,602	446,880	2,342,245	6,784,498		34,837	
Accrued wages	15,460	2,436	120,908	58,806	88,632	286,242			
Accrued interest payable	20,545	35,662				56,207			
Due to other funds			563,092	366,315		929,407			
Unearned revenue			210,186	81,871	25,676	317,733			
Accrued compensated absences	60,000					60,000			
Notes and bonds payable – net	535,000					920,000			
Total current liabilities	719,094	453,780	4,770,788	953,872	2,456,553	9,354,087		34,837	
Noncurrent liabilities:									
Notes and bonds payable – net	3,372,928	3,808,423		1,001,167	1,215,376	7,181,351			
Net pension liability	442,243	67,426	1,855,388			4,581,600			
Accrued compensated absences	50,038	2,939				52,977			
Accrued OPEB liability	67,530		96,433	47,145	70,718	281,826			
Total noncurrent liabilities	3,932,739	3,878,788	1,951,821	1,048,312	1,286,094	12,097,754			
Total liabilities	4,651,833	4,332,568	6,722,609	2,002,184	3,742,647	21,451,841		34,837	
DEFERRED INFLOWS OF RESOURCES									
Pension related	125,363	19,113	474,053	255,799	310,530	1,184,858			
Other post-employment benefits related	10,299					10,299			
Gain on refunding		54,960				54,960			
Total deferred inflows of resources	135,662	74,073	474,053	255,799	310,530	1,250,117			
NET POSITION									
Net investment in capital assets	19,575,919	7,143,529	37,949,363	16,016,714	11,900,941	92,586,465		3,690,243	
Unrestricted	16,111,543	2,126,276	8,681,102	5,579,996	12,581,449	45,080,367		1,738,857	
Total net position	\$35,687,462	\$9,269,805	\$46,630,465	\$21,596,710	\$24,482,390	137,666,832		\$5,429,100	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds									(176,715)
Net Position of Business-type Activities									<u>\$137,488,117</u>

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

CITY OF OWATONNA, MINNESOTA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds

For the year ended December 31, 2018

	Business-type Activities				- Enterprise Funds			Governmental Activities	
	Sewer Fund	Storm Water Fund	Electric Fund	Water Fund	Gas Fund	Total Enterprise Funds	Internal Service Funds		
OPERATING REVENUES:									
Charges for service	\$3,674,259	\$1,068,692	\$40,814,286	\$4,169,129	\$14,762,244	\$64,488,610	\$3,034,852		
Miscellaneous	1,458					1,458			
Total operating revenues	<u>3,675,717</u>	<u>1,068,692</u>	<u>40,814,286</u>	<u>4,169,129</u>	<u>14,762,244</u>	<u>64,490,068</u>	<u>3,034,852</u>		
OPERATING EXPENSES:									
Operation and maintenance	1,467,562	291,921	32,836,301	1,455,228	10,649,091	46,700,103	2,371,009		
Depreciation	1,018,416	300,367	2,109,889	482,182	586,557	4,497,411	697,853		
Utility service contributed to city			1,079,403	121,301	268,034	1,468,738			
Capitalized internal costs	226,198		(251,763)	(57,567)	(86,449)	(395,779)			
Administrative costs	2,712,176	592,288	3,530,004	1,418,952	2,322,864	7,498,018			
Total operating expenses	<u>963,541</u>	<u>476,404</u>	<u>39,303,834</u>	<u>3,420,096</u>	<u>13,740,097</u>	<u>59,768,491</u>	<u>3,068,862</u>		
Operating income (loss)			1,510,452	749,033	1,022,147	4,721,577	(34,010)		
Non-operating revenues (expenses)									
Property taxes		314,930				314,930			
Intergovernmental revenue		5,000				5,000			
Income (loss) on investments	274,708		125,188	91,201	151,042	678,628	130,521		
Sale of capital assets	(63,109)					(130,968)			
Interest expense and fiscal charges	211,599	(67,859)				867,590			
Total non-operating revenues (expenses)		<u>288,560</u>	<u>125,188</u>	<u>91,201</u>	<u>151,042</u>	<u>867,590</u>	<u>130,521</u>		
Income (loss) before contributions & transfers	1,175,140	764,964	1,635,640	840,234	1,173,189	5,589,167	96,511		
Capital contributions	9,262								
Transfer out	(507,700)	537,838				547,100	39,665		
Total contributions & transfers	<u>(498,438)</u>	<u>(78,300)</u>				<u>(586,000)</u>	<u>39,665</u>		
Change in net position	676,702	1,224,502	1,635,640	840,234	1,173,189	5,550,267	136,176		
Total net position – beginning									
As previously reported	35,061,994	8,045,303	44,994,825	20,756,476	23,309,201		5,292,924		
Restatement	(51,234)								
As restated	<u>35,010,760</u>	<u>8,045,303</u>	<u>44,994,825</u>	<u>20,756,476</u>	<u>23,309,201</u>		<u>5,292,924</u>		
Total net position – ending	<u>\$35,687,462</u>	<u>\$9,269,805</u>	<u>\$46,630,465</u>	<u>\$21,596,710</u>	<u>\$24,482,390</u>		<u>\$5,429,100</u>		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds						(23,669)			
Change in Net Position of Business-type Activities						<u>\$5,526,598</u>			

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

CITY OF OWATONNA, MINNESOTA
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2018

	- Enterprise Funds				Governmental Activities		
	Sewer Fund	Storm Water Fund	Electric Fund	Water Fund	Gas Fund	Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from customers	\$3,408,937	\$1,068,692	\$38,542,040	\$3,554,557	\$14,574,437	\$61,148,663	\$3,043,543
Cash payments to suppliers for goods and services	(1,010,466)	(227,040)	(34,270,947)	(1,503,974)	(12,393,698)	(49,406,125)	(2,353,589)
Cash payments to employees for services	(775,006)	(102,452)	(2,561,998)	(1,143,636)	(1,567,375)	(6,150,467)	
Other cash receipts			1,970,539	387,262	681,575	3,039,376	
Net cash provided by (used for) operating activities	1,623,465	739,200	3,679,634	1,294,209	1,294,939	8,631,447	689,954
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfer to other funds	(507,700)	(78,300)				(586,000)	
Net cash provided by (used for) noncapital financing activities	(507,700)	(78,300)				(586,000)	
CASH FLOWS FROM CAPITAL AND REL. FIN. ACTIVITIES							
Acquisition of capital assets	(202,471)	(293,469)	(2,447,948)	(1,402,665)	(904,997)	(5,251,570)	(1,080,302)
Cost of removal, net of salvage			1,956	10,800	11,600	24,356	142,789
Capital contribution- customer	9,262					5,108	
Intergovernmental	108	5,000				9,262	
Taxes levied for debt service		314,930				314,930	
Principal paid on revenue bonds/notes payable	(527,000)	(385,000)				(912,000)	
Interest expense and fiscal charges	(65,879)	(112,763)				(178,642)	
Net cash used for capital and rel. fin. activities	(785,980)	(471,322)	(2,445,992)	(1,391,865)	(893,397)	(5,988,556)	(937,513)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of investment securities	(300,000)	(150,000)	(2,172,613)	(2,479,000)	(1,541,485)	(6,643,098)	(500,000)
Proceeds from sale of investment securities			1,604,265	1,475,380	1,516,272	4,595,917	
Interest on investments	274,708	36,489	129,195	63,449	97,183	601,024	
Net cash provided by (used for) investing activities	(25,292)	(113,511)	(439,153)	(940,171)	71,970	(1,446,157)	(500,000)
Net increase (decrease) in cash and cash equivalents	304,493	76,067	794,489	(1,037,627)	473,512	610,734	(747,559)
Cash and cash equivalents - beginning of the year	179,732	854,625	4,282,118	2,013,314	3,517,100	10,846,889	1,522,134
Cash and Cash Equivalents - end of the year	\$484,225	\$930,692	\$5,076,607	\$975,487	\$3,990,612	\$11,457,623	\$774,575
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
Operating income/(loss)	\$963,541	\$476,404	\$1,510,452	\$749,033	\$1,022,147	\$4,721,577	\$(34,010)
Adjustments							
Depreciation	1,018,416	300,367	2,109,889	482,182	586,557	4,497,411	697,853
Net changes in assets and deferred outflows and liabilities and deferred inflows:							
Accounts receivable	(14,617)		(123,602)	(79,003)	(548,529)	(765,751)	8,691
Assessments receivable	6,735					6,735	
Inventories at cost			(42,135)	(2,624)	(29,416)	(74,175)	
Other current assets	(258,898)		(141,629)	(78,999)	1,066,996	589,470	7,908
Deferred outflows	35,381	6,547	239,271	84,507	137,199	502,905	
Accounts payable and accrued expenses	(107,802)	(38,171)	465,844	163,889	(832,126)	(348,368)	
Unearned revenue		(1,250)	(12,403)	(56,610)	13,282	(56,981)	9,512
Net pension liability	(82,197)	(13,586)	(38,416)	(34,101)	(179,582)	(696,892)	
OP&B and compensated absences	51,851	1,149	23,127	11,307	104,394	104,394	
Deferred inflows	11,055	7,740	36,236	54,628	99,463	151,122	
Net cash provided by (used for) operating activities	\$1,623,465	\$739,200	\$3,679,634	\$1,294,209	\$1,294,939	\$8,631,447	\$689,954
Noncash investing, capital, and financing activities:							
Amortization of gain on refunding		\$(10,637)					\$(10,637)
Amortization of bond premium		(30,416)					(30,416)
Capital Contribution		537,838					537,838

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's policies are described below.

A. Reporting Entity

The City of Owatonna (the City) operates under a Home Rule Charter form of government allowed by Minnesota statutes. The City is governed by an elected Mayor and seven-member Council. The Council exercises legislative authority and determines all matter of policy. The 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. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Individual Component Unit Disclosures

Discretely Presented Component Units – The Owatonna Housing and Redevelopment Authority (HRA) and Economic Development Authority (EDA) serve all the citizens of the City and are governed by City appointed boards.

The HRA was created by the City to carry out certain redevelopment projects. The five-member board is appointed by the Council. The Council reviews and approves HRA tax levies, and the City provides major community development financing for HRA activities. Debt issued for HRA activities are City general obligations. The HRA consists of two separate operations: general operations and housing programs. Separately issued financial statements as of December 31 are available upon request from the Executive Director of the HRA at 540 West Hills Circle, Owatonna, MN.

The EDA was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the Council. The seven-member board consists of three Council members and four other Council approved members. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the Council. The EDA has a December 31 year end. Separate financial statements are not issued.

B. Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated as this would distort the direct costs and program revenues reported for the various functions concerned. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

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

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental and proprietary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met. Internal service fund activity is eliminated to avoid "doubling up" of revenues and expenses.

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 measurable when the amount of the transaction can be determined. Revenues are considered to be available when they are collectible with 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 after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

General fund

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

Debt service fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects fund

This fund accounts for the financial resources to be used for the acquisition or construction of major capital assets. This includes street improvement projects as well as capital asset purchases.

The City reports the following major proprietary funds:

Sewer fund

This accounts for the operating, maintenance, and capital improvement of the City's sewer utility.

Storm water fund

This accounts for the operating, maintenance, and capital improvement of the City's storm water utility.

Electric fund

This accounts for the operating, maintenance, and capital improvement of the municipally owned electric utility in the City.

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Water fund

This accounts for the operating, maintenance, and capital improvement of the municipally owned water utility in the City.

Gas fund

This accounts for the operating, maintenance, and capital improvement of the municipally owned gas utility in the City.

Additionally, the City reports the following fund types:

Internal service funds account for services and/or commodities provided to other departments of the City on a cost reimbursement basis. The City has two internal service funds. One fund accounts for payroll and risk management activities for workers compensation insurance, the activities of the group health plan, and property and liability insurance. The other fund accounts for the cost of purchasing vehicles.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's Public Utilities function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 and expenses of the City's enterprise funds and internal service funds are charges to customers for 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.

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

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

1. Deposits and investments

Cash balances from all funds are pooled and invested to the extent available in investments authorized by Minnesota State Statute and as further authorized by the Council. Earnings from investments are allocated monthly to each fund based on month end balances of cash and investments.

The City's investment policy states funds are to be invested to the maximum extent possible at the highest rates obtainable after considering safety, liquidity, yield and risk factors.

Investments are stated at fair value as of the end of the year, except for non-negotiable certificates of deposit, which are stated at cost. Broker money market funds operate in accordance with appropriate state laws and regulations.

For purposes of the statement of cash flows, the enterprise and internal service funds consider cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

2. Property Tax Receivables

The City levies its property tax for the subsequent year in December. This levy is certified to Steele County as the collection agency for taxes within the County. Taxes are recognized as receivables in the current year when the City is notified by the County of the amounts. They become a lien against the property on the date of levy. Taxes are due and payable at the County on May 15 and October 15, and collections are remitted to the City in July and December. Adjustments are made to delinquent taxes based on the records of the County Auditor.

Delinquent taxes represent unpaid taxes for the past nine years. Delinquent taxes have been offset by an unavailable revenue for delinquent taxes not received within 60 days after year end in the fund financial statements.

3. Special Assessments

Special assessments are certified to Steele County for collection annually. Noncertified assessments represent assessments to be certified annually in the future. 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 an unavailable revenue in fund financial statements.

4. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as "advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

5. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of inventories are recorded as an expenditure/expense when consumed rather than when purchased.

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide statements. These costs are recognized during the period benefited by the repayment using the consumption method.

6. Restricted Assets

Restricted assets consist of cash and temporary investments restricted for specific purposes by agreements.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, 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 cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at acquisition value. The City reports infrastructure assets on a network or subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

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). The cost of infrastructure acquired prior to implementation of GASB 34 is included at estimated historical costs based on the current replacement cost of a similar asset and deflated through the use of price-level indexes.

The costs of normal maintenance and repairs that do not add to the value or capacity of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. A composite depreciation rate is used for infrastructure assets. Depreciation on the remaining capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Improvements Other than Buildings	15-50 years
Equipment and vehicles	3-20 years
Infrastructure	20-50 years

Capital assets not being depreciated consist of land and construction in progress.

Electric and Gas Utility Plant is recorded at original cost. Water Utility Plant is recorded at cost less funds provided from municipal special assessments. When units of property are sold, retired or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Depreciation is computed using the straight-line method which expenses the cost of the plant over its estimated useful life. The utilities depreciate on a composite basis.

8. Credit Risk

As of December 31, 2018 the enterprise funds had no significant concentration of credit risk with respect to consumer accounts receivable due to the large number of customers and their dispersion across many different residential and industrial customers.

9. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has four types of this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources; property taxes, special assessments, and a long-term receivable. These amounts are recognized as an inflow of resources in the period that the amounts become available. The City reports a deferred inflow for a gain on a bond refunding which will be amortized over the life of the bonds. Pension related deferred inflows are recorded in the current year, but the revenue will be recorded in subsequent years. Other postemployment benefits (OPEB) deferred inflows are recorded in the current year, but the revenue will be recorded in subsequent years.

10. Pension

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.

For purposes of measuring the net pension asset, deferred outflows/inflows of resources, and expense associated with the City's requirement to contribute to the Owatonna Firefighters Relief Association Plan, information about the Plan's fiduciary net position and additions to/deductions from the Owatonna Firefighters Relief Association Plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, plan contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Deferred Outflows of Resources

The City's governmental activities and proprietary fund financial statements report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position or fund balance, that relates to future periods. The City will not recognize the related outflow until a future event occurs. Pension related deferred outflows and OPEB related deferred outflows are recorded in the current year, but the expenses will be recorded in subsequent years.

12. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick leave and paid time off (PTO). Vacation and PTO are paid upon separation. Sick leave is only payable at 50% and only upon retirement. Employees hired prior to 1980 are paid the current year accrual annually. The General Fund is used to liquidate governmental compensated absences payable.

All vacation, PTO and the portion of sick pay allowable at retirement is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion for these amounts is calculated based on historical trends. There is an assigned fund balance for the entire amount of these compensated absences in the general fund.

13. 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 statements of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

14. Fund Balance/Net Position

The City of Owatonna reports the following categories of fund balance:

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form (i.e. inventories, prepaids and advances to other funds)
- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, laws, or regulations, or other governments
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- **Assigned Fund Balance** – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Administrator as permitted by policy.
- **Unassigned Fund Balance** – these are residual amounts in the General Fund, not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

The City's fund balance policy provides that the City maintain a minimum general fund balance of 50% of budgeted operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first and then unrestricted. The order of use for unrestricted fund balance shall be committed, assigned, and then unassigned.

In the government-wide financial statements, net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position consists of all other items that do not meet the definitions of "restricted" or "net investment in capital assets".

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15. Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

16. Restatement Due to a Change in Accounting Principle

During the year ended December 31, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the restatement of the December 31, 2017 net position in the Proprietary Fund statements and the government-wide statements as follows:

	Sewer
Net Position, December 31, 2017, as Previously Reported	\$35,061,994
Cumulative Affect of Application of GASB 75, Net OPEB Liability	(53,504)
Cumulative Affect of Application of GASB 75, Deferred Outflow of Resources	2,270
Net Position, December 31, 2017, as Restated	<u>\$35,010,760</u>
	Governmental
Net Position, December 31, 2017, as Previously Reported	\$88,877,733
Cumulative Affect of Application of GASB 75, Net OPEB Liability	(838,245)
Cumulative Affect of Application of GASB 75, Deferred Outflows of Resources	35,571
Net Position, December 31, 2017, as Restated	<u>\$88,075,059</u>
	Business-type
Net Position, December 31, 2017, as Previously Reported	\$132,012,753
Cumulative Affect of Application of GASB 75, Net OPEB Liability	(53,504)
Cumulative Affect of Application of GASB 75, Deferred Outflows of Resources	2,270
Net Position, December 31, 2017, as Restated	<u>\$131,961,519</u>

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this (\$24,716,230) difference are as follows:

Bonds and notes payable	\$(13,347,147)
Net Pension liability	(8,196,389)
Accrued OPEB liability	(1,057,984)
Accrued compensated absences	(1,952,009)
Accrued interest payable	<u>(162,701)</u>
Total difference	<u>\$ (24,716,230)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

CITY OF OWATONNA, MINNESOTA
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The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that "Revenues on the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds." The details of this \$(368,489) difference are as follows:

Delinquent taxes rec. unavailable revenue:	
At December 31, 2017	\$(117,314)
At December 31, 2018	69,007
Special assessments/development receivable unavailable revenue:	
At December 31, 2017	(3,119,169)
At December 31, 2018	<u>2,798,987</u>
	<u>\$ (368,489)</u>

Another element of that reconciliation states that "Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds." The details of this \$(38,067) difference are as follows:

Amortization of bond premium	\$44,253
Change in accrued interest	(82,156)
Change in accrued compensated absences	<u>(164)</u>
	<u>\$ (38,067)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds of the City. Only the General Fund's budget is considered an "annually legally adopted budget". The remaining funds' budgets are used as a management tool. The debt service funds are budgeted according to the terms of the original bond issues. Project-length financial plans are adopted for all capital projects' funds. Any modification in the adopted budget can be made upon request of and approval by the City Council. Appropriations in all funds lapse at the end of the year.

In July of each year, all departments of the City submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared for the General Fund by department and cost center and also includes information on the preceding two fiscal years, current year estimates of expenditures and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review prior to September 15. The City Council holds public hearings. A final budget is adopted by December 28 of each year.

In the General Fund expenditures exceeded appropriations during the year ended December 31, 2018. The overages were considered by the City's management to be the result of necessary expenditures critical to operations and were approved by the City Council or City Administrator as appropriate.

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B. Deficit Fund Balance

At year-end 2018, there were two funds that carried deficit fund balances. Two funds were tax increment financing funds that were funded by the City through interfund loans. These deficit fund balances will be reduced and eliminated over time as increment from the levies are used to retire the various loans.

The following funds carried deficit fund balances at the end of 2018 in the amounts indicated:

TIF 3-6 Viracon Economic Development Fund	\$59,567
TIF 3-8 Daikin Applied Economic Development Fund	97,985

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Earnings from such investments are allocated to the respective funds on the basis of applicable balance participation by each fund. The primary government and component units' cash and investments are pooled.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it in full. In accordance with Minnesota Statutes and as authorized by the City Council, the City of Owatonna 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 market value of the collateral pledged must be equal to 110% of the deposits not covered by insurance or bonds. Authorized collateral includes U.S. government securities, state or local government obligations, and other securities authorized by Minnesota Statute 118A.03. 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.

The City's deposits in banks at December 31, 2018 were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

Investments

The City may also invest idle funds as authorized investments by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- 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 all of the investments have a final maturity of thirteen months or less.
- General obligations of a state or local government with taxing powers rated 'A' or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rated "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

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g. Repurchase or reverse repurchase agreements and securities lending agreements 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.

h. Guaranteed investment contracts (GICs) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, and with a credit quality in one of the top two rating highest categories.

The City's investments as of December 31, 2018 are as follows:

Type of Investment	Amount	Credit Quality Rating	Investment Maturity in Years				
			< 1 Year	1-5 Years	6-10 Years	> 10 Years	
US Govt Agencies	\$14,685,079	AAA	\$2,629,165	\$11,816,159	\$249,755	\$18,446	
US Govt Agencies	8,880,745	N/R	8,463,795	398,504			
Local Govt Obligations	868,466	AAA	565,701		300,765		
Local Govt Obligations	1,059,923	AA2	1,069,923				
Local Govt Obligations	3,294,523	AA3	2,491,240	803,283			
Local Govt Obligations	2,463,289	AA+		687,414	877,608	903,267	
Pooled Investments	7,280	N/A		60	1,779	5,441	
MN Municipal MM	6,652,197	N/A					
Wells Fargo Adv MM	189,157	N/A					
Primer Bank MM	1,023,405	N/A					
Premium	29,075	N/A					
Wells Fargo Govt Fund	13,481	AAA					
Negotiable CDs	27,953,300	N/A	24,175,821	3,387,479			
	\$66,782,920		\$47,332,960	\$17,092,899	\$1,429,907	\$927,154	

Reconciliation of deposits and investments to Statement of Net Position:

	Primary Government	EDA	HRA	Total Reporting Entity
Cash on hand	\$3,635			\$3,635
Deposits	9,496,585	\$562,222	\$144,431	10,203,238
Investments	65,782,920	1,000,000		66,782,920
Total deposits and investments	\$75,283,140	\$1,562,222	\$144,431	\$76,989,793
Per Statement of Net Position:				
Cash and cash equivalents	\$17,032,447	\$562,222	\$125,729	\$17,720,398
Investments	58,250,693	1,000,000		59,250,693
Restricted cash & cash equivalents			18,702	18,702
Total cash and investments	\$75,283,140	\$1,562,222	\$144,431	\$76,989,793

Interest rate risk. The City's investment policy requires minimizing interest rate risk by structuring the investment portion so securities mature to meet cash requirements for ongoing operations. Within these parameters, it is the City's practice to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses related to rising interest rates.

Credit risk. The City's investment policy limits the level of investments allowed in each category of credit risk. Credit risk is the risk that an issuer will not fulfill its obligation. State law limits investments in state and local securities and commercial paper to those with specified rating by nationally recognized rating agencies. U.S. Treasury Obligations are not considered to have credit risk. U.S. Government Agencies which are rated all carry a AAA credit rating. The U.S. Government Agencies which are unrated are comprised of 'stripped' securities for which the underlying agency notes are all AAA rated.

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The underlying agency's rating is considered to pass through to the "stripped" bond. The Local Government Obligations carry a AA2 credit rating.

Concentration risk. The City does not have a formal policy limiting the amount of the portfolio that may be invested in any one depository or issuer. The following investments represent at least 5% of the City's investment portfolio: FINMA, FHLMC, and Minnesota Municipal Money Market.

Fair Value Measurements. The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. These inputs include bonds valued by a pricing service that uses matrix pricing and valuation multiples.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Assets of the City measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
US Govt Agencies		\$23,575,824		\$23,575,824
Local Govt Obligations		7,729,201		7,729,201
Negotiable CDs		27,563,300		27,563,300
US Govt Agency pools		7,280		7,280
Total		\$58,875,605		\$58,875,605

Assets of the City measured at amortized cost:

4M Fund Liquid Asset Fund	\$5,425,730
4M Fund PLUS Fund	1,226,467
Wells Fargo Advisors Money Market Fund	189,157
Bremer Bank Money Market Fund	1,023,405
Profinium Money Market Fund	29,075
Wells Fargo Government Fund	13,481
Total	\$7,907,315

The 4M Fund is a brokered money market account that is valued at amortized cost with maturities of investments of one year or less. Funds in the 4M Fund PLUS fund require thirty day deposit period before funds can be withdrawn.

The Wells Fargo Government Fund is an external investment pool and its investments are valued at amortized cost. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of investments.

B. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major accounts receivable balances for the governmental activities include franchise fees and miscellaneous charges. Business-type activities report utility earnings as their major accounts receivable.

Governmental funds report unavaiable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the three components of unavaiable revenue reported in the governmental funds were for delinquent taxes receivable not yet available (general fund and nonmajor capital projects fund) of \$69,007; special assessments receivable not yet available (debt service fund and capital projects fund) of \$2,740,902; and a development receivable not yet available (capital projects fund) of \$58,085.

C. Loans Receivable

The Capital Projects Fund has made a loan to a local business. The balance of this loan at December 31, 2018 was \$58,085 and is offset by an unavaiable revenue. This loan matures in twelve years.

Discretely Presented Component Unit

The EDA Loan Fund has made loans to local businesses with various terms and interest rates for repayment. The balance of these loans at December 31, 2018 was \$185,100 which consists of loans maturing in one to seven years with interest ranging from 0 to 5.25 percent. These notes are secured by property, equipment and personal guarantees.

The EDA Loan Fund has made five loans to local businesses with certain conditions attached which would then make the loans forgivable. These loans are not considered receivable and are not included in the loans receivable balance at December 31, 2018. The balance of these forgivable loans was \$211,980 at December 31, 2018.

The EDA Land Fund has entered into various development agreements with local businesses to finance the sale of property to the developer. The balance of these loans at December 31, 2018 was \$1,347,734 which consists of loans maturing in 24 to 25 years all with interest rates of 3 percent.

The HRA issues notes as their contribution to SCDP housing rehab program. These notes consist of \$1,000 per housing unit. They are deferred for a period of 7 years. The notes will be forgiven as long as the owner continues to rent to low income residents and maintains ownership for the 7 years. If the owner sells before the 7 years the note will need to be repaid in full. These notes are not considered receivable and are not included in the Statement of Net Position. The balance of these notes at December 31, 2018 is \$9,000.

The HRA works with local community housing agencies to provide emergency fix-up deferred loans for home improvements that resolve code emergency deficiencies, energy efficiency, or improve accessibility. The maximum amount of each loan is \$5,000. They are deferred until the property is sold or transferred. The balance of these notes at December 31, 2018 is \$6,170.

CITY OF OWATONNA, MINNESOTA
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D. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$8,572,410	\$220,657	\$8,793,067	\$8,793,067
Construction in Progress	1,031,436	3,488,628	2,296,251	2,296,251
Total Non-depreciable	8,580,619	3,709,285	1,099,318	11,089,318
Depreciable capital assets:				
Buildings	22,749,624	24,787	22,774,411	22,774,411
Improvements Other than Bldgs	1,031,436	55,877	1,087,313	1,087,313
Equipment	14,354,496	1,683,864	15,268,062	15,268,062
Infrastructure	13,745,773	2,160,639	113,904,414	113,904,414
Total depreciable	151,877,321	3,925,267	155,049,190	155,049,190
Accumulated Depreciation				
Buildings	11,068,839	504,357	11,573,196	11,573,196
Improvements Other than Bldgs	349,921	57,297	407,218	407,218
Equipment	9,006,000	1,066,843	9,321,713	9,321,713
Infrastructure	49,565,212	2,979,231	52,464,463	52,464,463
Total accumulated depreciation	69,989,972	4,537,746	73,786,590	73,786,590
Govt activities capital assets, net	\$90,567,968	\$3,096,804	\$1,312,854	\$92,351,918

Depreciation expense for governmental activities is charged to functions as follows:

General government	\$185,289
Public safety	244,167
Public works	3,035,297
Culture and recreation	375,142
Internal service funds	697,853
Total depreciation for governmental activities	\$4,537,746

Capital asset activity for business-type activities for the year ended December 31, 2018 was as follows:

	Beginning Balances	Adjustments	Increases	Decreases	Ending Balances
Land and other rights	\$2,984,619		\$58,283		\$3,022,902
Construction in Progress	4,309,542		6,073,089	\$6,277,550	4,105,081
Total Non-depreciable	7,274,161		6,131,372	6,277,550	7,127,983
Depreciable capital assets:					
Buildings	48,007,017	\$(78,143)	538,118	47,470	48,419,522
Equipment	17,816,894	76,143	1,177,904	1,204,190	17,868,751
Infrastructure	95,213,687		4,255,284	250,622	99,218,349
Total depreciable	161,037,598		5,971,306	1,502,282	165,506,622
Accumulated Depreciation					
Buildings	14,664,653		973,738	47,470	15,512,778
Equipment	13,820,320		895,478	1,146,072	13,647,869
Infrastructure	40,481,571		2,628,195	248,664	42,841,102
Total accumulated depreciation	68,946,544		4,497,411	1,442,206	72,001,749
Business-type activities capital assets, net	\$99,365,215		\$7,605,267	\$6,337,626	\$100,632,856

CITY OF OWATONNA, MINNESOTA
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Depreciation expense for business-type activities is charged to functions as follows:

Sewer	\$1,018,416
Storm water	300,367
Electric	2,109,889
Water	482,182
Gas	586,557
Total depreciation for business-type activities	\$4,497,411

Discretely Presented Component Units

Capital asset activity for the component units was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$252,156			\$252,156

Housing and Redevelopment Authority

	Beginning Balances	Increases	Decreases	Ending Balances
Buildings	\$95,362		\$43,362	\$52,000
Accumulated Depreciation	17,317	\$1,932	3,451	15,798
Capital assets, net	\$78,045	\$1,932	\$39,911	\$36,202

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

Housing & economic development	\$1,932
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E. Interfund Balances and Transfers

The composition of interfund balances as of December 31, 2018 is as follows:

Due to/from other funds

Several funds have made short-term loans to other funds through normal day-to-day operations. Items such as utility infrastructure associated with street projects, sewer billing and collections performed by another utility fund, and centralized fuel purchases are examples of why these occur. These loans are planned to be eliminated in the subsequent year.

	General Fund	Capital Projects Fund	Sewer Fund	Electric Fund	Total
Due from:					
General Fund				\$12,413	\$12,413
Debt Service Fund				4,689	4,689
Nonmajor Govtl Funds				17,811	17,811
Electric Fund	\$6,616		\$556,476		563,092
Water Fund		\$269,515	96,800		366,315
Total Due to:	\$6,616	\$269,515	\$653,276	\$34,913	\$964,320

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Advance to/from other funds

During the course of operations, numerous transactions occur between individual funds for goods provided, services rendered, or cash flow purposes. Long-term interfund loans are classified as "advances to/from other funds".

	General Fund	Capital Projects Fund	Total
Due from:			
Capital Projects Fund	\$121,136	\$121,136	\$242,272
Nonmajor Govt Funds	\$140,529	140,529	281,058
Total Due to:	<u>\$121,136</u>	<u>\$140,529</u>	<u>\$261,665</u>

Due to/from primary government and component units

Receivable Fund	Payable Fund	Amount
Primary Govt – ISF	Component Unit – EDA	\$1,848
Total		<u>\$1,848</u>

Interfund transfers

Transfers In:	General Fund	Nonmajor Govt Funds	Sewer Fund	Storm Water Fund	Total
General Fund			\$507,700	\$78,300	\$586,000
Debt Service Fund	\$20,000	\$150,920			170,920
Capital Projects Fund					20,000
Total Transfers Out	<u>\$20,000</u>	<u>\$150,920</u>	<u>\$507,700</u>	<u>\$78,300</u>	<u>\$756,920</u>

Throughout the course of the year, the City has to make occasional interfund transfers. The City annually transfers funds from its enterprise operations to its general fund to compensate for the cost of administration. The City annually transfers tax increment from a nonmajor Governmental Fund to its debt service fund for upcoming debt service payments.

Capital Contributions

Occasionally, the acquisitions of capital assets for business-type activities are funded by governmental activities. These capital contributions totaled \$537,838 in 2018.

F. Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities		
Equipment	\$110,979		
Less: Accumulated depreciation	(43,954)		
Total	<u>\$67,025</u>		

The lease currently outstanding is as follows:

Welch State Bank	2019-2020	3.17%	\$46,488
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The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Year ending December 31	Governmental Activities
2019	\$24,359
2020	24,360
Total minimum lease payments	48,719
Less: amount representing interest	(2,231)
Present value of minimum lease payments	<u>\$46,488</u>

G. Long-term Debt

General Obligation Bonds

General obligation bonds are issued to provide for the acquisition of major capital equipment. These bonds are direct obligations and are backed by the full faith and credit of the City. Six general obligation bonds with an original issue amount of \$6,695,000 are currently outstanding as follows:

	2019	2.00%	\$40,000
G.O. Equipment Certificates Series 2013A	2019-2020	2.00%	335,000
G.O. Equipment Certificates Series 2014A	2019-2021	3.00%	290,000
G.O. Equipment Certificates Series 2016A	2019-2022	3.00%	195,000
G.O. Equipment Certificates Series 2017A	2019-2025	3.00%	145,000
G.O. Street Reconstruction Series 2018A	2019-2029	3.00-5.00%	4,825,000
			<u>\$5,830,000</u>

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year	Principal	Interest
2019	\$365,000	\$254,384
2020	735,000	211,475
2021	585,000	184,375
2022	500,000	159,650
2023	470,000	136,300
2024-2028	2,610,000	330,000
2029	565,000	8,475
	<u>\$5,830,000</u>	<u>\$1,284,659</u>

CITY OF OWATONNA, MINNESOTA
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General Obligation Improvement Bonds

General obligation improvement bonds are issued for the construction of major capital improvements having a relatively long life. They are payable from special assessments levied and collected on local improvements to property and are backed by the full faith and credit of the City. Six bond issues with a total original issue amount of \$9,635,000 are currently outstanding as follows:

	2019-2022	1.75-2.200%	\$310,000
G.O. Improvement Series 2011A	2019-2022	2.00-2.750%	1,590,000
G.O. Improvement Series 2013A	2019-2021	2.000%	240,000
G.O. Improvement Series 2014A	2019-2021	2.50-3.000%	1,025,000
G.O. Improvement Series 2015A	2019-2027	2.00-3.000%	960,000
G.O. Improvement Series 2016A	2019-2028	2.00-3.000%	1,870,000
G.O. Improvement Series 2017A			<u>\$5,995,000</u>

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year	Governmental Activities	
	Principal	Interest
2019	\$760,000	\$147,965
2020	765,000	128,748
2021	915,000	107,546
2022	755,000	85,626
2023	695,000	65,174
2024-2028	2,105,000	99,971
Total	<u>\$5,995,000</u>	<u>\$634,930</u>

G.O. Tax Increment Bonds

The City issued bonds for an economic development project. The tax increments resulting from increased tax capacity of the development property will be used to retire the related debt. These bonds had an original issue amount of \$1,140,000. These bonds are backed by the full faith and credit of the City.

The general obligation tax increment bonds currently outstanding are as follows:

Governmental Activities	2019-2024	2.00-2.75%	\$785,000
Tax Increment Bonds Series 2013A			

Annual debt service requirements to maturity for the general obligation revenue bonds are as follows:

Year	Business-type Activities	
	Principal	Interest
2019	\$125,000	\$17,487
2020	125,000	14,987
2021	130,000	12,274
2022	130,000	9,187
2023	135,000	5,707
2024	140,000	1,925
Total	<u>\$785,000</u>	<u>\$61,567</u>

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G.O. Revenue Bonds

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service in addition to levying a tax. These bonds are recorded in the fund according to the purpose for which they were issued. The Sewer Fund is currently carrying bonds payable for the expansion of the Sewage Treatment Plant. These bonds had an original issue amount of \$7,929,333 and are fully payable from the revenues of the sewer fund. The Storm Water Fund is currently carrying bonds payable for storm water improvements. These bonds had an original issue amount of \$4,360,000. The Series 2016A refunding bonds have a \$100,000 annual pledge of revenue. The second Series 2016A have a revenue pledge equal to 50% of the required debt service payment. These bonds are all backed by the full faith and credit of the City.

The general obligation revenue bonds currently outstanding are as follows:

Business-type Activities	2019-2025	1.423%	\$3,907,928
MIPA Revenue Bonds Series 2011	2019-2032	2.00-3.00%	2,380,000
Revenue Bonds Series 2016A	2019-2024	3.00%	<u>1,595,000</u>
Revenue Bonds Series 2016A - Refunding			<u>\$7,882,928</u>

Annual debt service requirements to maturity for the general obligation revenue bonds are as follows:

Year	Business-type Activities	
	Principal	Interest
2019	\$920,000	\$156,823
2020	938,000	137,509
2021	960,000	117,708
2022	988,000	97,282
2023	1,001,000	76,366
2024-2028	2,305,928	156,034
2029-2032	770,000	33,444
Total	<u>\$7,882,928</u>	<u>\$775,166</u>

Change in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. Bonds	\$1,345,000	\$4,825,000	\$340,000	\$5,830,000	\$385,000
G.O. Tax Increment Bonds	905,000	120,000	120,000	785,000	125,000
G.O. Improvement Bonds	6,870,000	875,000	875,000	5,995,000	760,000
Less: bond discount	(6,087)	(1,496)	(1,496)	(4,591)	
Plus: bond premium	336,439	402,560	45,749	685,250	
Total bonds payable	9,452,352	5,227,960	1,379,253	13,300,659	1,250,000
Capital Leases Payable	68,664	22,176	22,176	46,488	22,881
Accrued Compensated Absences	1,951,845	1,028,343	1,028,179	1,952,009	879,000
Governmental Activity					
Long-term liabilities	<u>\$11,472,861</u>	<u>\$6,255,903</u>	<u>\$2,429,608</u>	<u>\$15,299,156</u>	<u>\$2,151,881</u>

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There has been no significant reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's insurance coverage in any of the prior three fiscal years.

The City is a member of the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool, and has currently placed coverage with them for its general liability and personal property claims. Coverage is provided up to a maximum of \$1,000,000. This coverage has a \$100,000 annual deductible. The City levies funds annually to cover all claims against this deductible.

The City participates in the LMCIT for its workers compensation insurance which is administered by Berkley Administrators. This is a retrospectively rated policy with the premium being based primarily on the City's loss experience.

The LMCIT operates as a common risk management and insurance program for member cities. The LMCIT agreement provides that the LMCIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. The reinsurance point is \$1.2 million per occurrence for general liability and \$850,000 for workers compensation medical and hospitalization.

B. Commitments and Contingent Liabilities

In connection with the normal conduct of its affairs, the City is involved in various claims, litigations and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the City.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City had several commitments under construction contracts still in process at the end of the year. The combined total of remaining commitments was \$870,913 at December 31, 2018.

Power Sales Contract - Owatonna Public Utilities (electric, water and gas funds) is a member of the Southern Minnesota Municipal Power Agency (SMMPA). Under the terms of the power sales contract, Owatonna Public Utilities and the other members are committed to purchase 100% of their power requirements from SMMPA through the contract life. After which, Owatonna Public Utilities, and the other member cities, may elect to purchase their future power and energy requirements, from sources other than SMMPA. The contract expires April 2050 and the rates paid are subject to periodic review

Capacity Purchase Agreement – On September 1, 1991, the Electric Utility entered into a Capacity Purchase Agreement with SMMPA. Under this agreement, the Utility has agreed to dedicate a gas fired electric generating facility owned by the Electric Utility for SMMPA's exclusive use. In order to get the generating units in working order and to operate, SMMPA agreed to reimburse the Electric Utility for operation and maintenance costs and recommissioning costs. The contract remains in effect until the date five years after written notice of termination by either party or until retirement of the facility.

Gas Service Agreement – Under its gas service agreement, the Gas Utility is committed to purchase its natural gas demand requirements from Northern Natural Gas Company until October 2022. The rates paid are in accordance with the Federal Energy Regulatory Commission.

CITY OF OWATONNA, MINNESOTA
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	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
G.O. Revenue Bonds	\$4,360,000		\$385,000	\$3,975,000	385,000
Revenue Bonds	4,434,928		527,000	3,907,928	535,000
Plus: bond premium	248,839		30,416	218,423	
Total notes & bonds payable	9,043,767		942,416	8,101,351	920,000
Accrued Compensated Absences	110,618	\$68,123	65,764	112,977	60,000
Business-type Activity					
Long-term liabilities	\$9,154,385	\$68,123	\$1,008,180	\$8,214,328	\$980,000

For the governmental activities, accrued compensated absences, net pension liability and OPEB are generally liquidated by the general fund.

Conduit Debt Obligations

From time to time, the City has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from revenues of the industries to which the bonds were remitted. The City is not obligated in any matter for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2018, there were nine outstanding bond issues with an original issue amount of \$31,218,139 and a balance of \$26,073,216.

H. Tax Abatements

The City has several pay-as-you-go tax increment financing districts with local businesses to promote economic development, housing, and redevelopment within the City as authorized under Minnesota Statute 469.174. The City reaches agreements with the business related to land acquisition, public infrastructure and building improvements. The businesses complete their improvements which increase the tax base. The increment taxes are based on the increase of the property's value after the improvements are made. The school district and the county have also abated their portion of the tax increment following the improvements. The agreements call for 90-95% of the property tax increments collected to be paid to reimburse development costs less administrative fees. The City currently has nineteen tax increment financing districts which includes nine economic development districts which end between December 31, 2018-December 31, 2028; two housing and redevelopment district which end between December 31, 2023-December 31, 2042; and eight redevelopment districts which end between December 31, 2026-December 31, 2045. For the year ended December 31, 2018, the City paid tax increment in the amount of \$1,009,470. No other commitments were made by the City as part of these agreements.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City accounts for its risk management activities in an internal service fund. Revenue to this fund is derived from premium charges to user departments, employees, and other funds of the City. These charges are then available to pay claims, administrative costs and insurance premiums.

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Gas Purchase Commitment – The Gas Utility has entered into forward contracts to purchase a portion of its natural gas at a specified time in the future at a guaranteed price. The Gas Utility enters into these contracts to help plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the Utilities is committed to buy. This would reduce the value of the contract. The Gas Utility is committed to purchase 4,285,000 cubic feet of natural gas through December 2023 for a total commitment of \$13,528,308 at December 31, 2018.

C. Lease Commitments

The Utilities entered into an operating lease for a mini excavator and various copier equipment. Lease expense for the year ended December 31, 2018 was \$8,122.

Minimum lease commitments in effect at December 31, 2018 are as follows:

Year ending December 31	Business-type Activities
2019	\$4,042
2020	3,369
	<u>\$7,411</u>

D. 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.

E. Deferred Compensation Plan

The City of Owatonna offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

F. Other Postemployment Benefits

1. Plan Description

The City of Owatonna administers a single-employer defined benefit healthcare plan. The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. There are 145 active participants, 35 active waiving coverage, 10 retired participants and zero inactive employees entitled to but not yet receiving benefits. The healthcare plan does not issue a publicly available financial report.

The primary government includes amounts for the City and Owatonna Public Utilities (Electric Fund, Water Fund and Gas Fund); however the City and Owatonna Public Utilities had separate actuary reports for which the amounts were taken from and combined.

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2. Funding Policy

The City has no assets accumulated in a trust that meets the criteria in GASB 75. Contribution requirements are negotiated between the City and union representatives. The eligibility for, amount of, duration of, and City's contribution to the cost of the benefits provided varies by contract and date of retirement. The City is funding this liability on a pay-as-you-go basis. For plan year 2018, the City contributed \$47,432 to the plan.

3. Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016.

Actuarial Assumptions

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Health Care Trend Rates	Gradually decreasing over several decades to 4% in 2076 and later

For general employees, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. For police and fire, mortality rates were based on the RP-2000 mortality tables with projected mortality improvements based on scale AA, and other adjustments.

The discount rate used to measure the total OPEB liability was 3.3%. The discount rate is based on the estimated yield of 20-year AA rated municipal bonds.

Since the most recent GASB 45 valuation, the discount rate was changed from 3.5% to 3.3%.

4. Changes in Total OPEB Liability

Balances at January 1, 2018	\$1,379,060
Changes for the Year:	
Service Cost	85,987
Interest	53,819
Change in Assumptions	62,955
Difference between expected and actual experience	(193,904)
Benefit Payments	(48,107)
Net change in Total OPEB Liability	<u>(39,250)</u>
Balances at December 31, 2018	<u>\$1,339,810</u>

5. Total OPEB Liability Sensitivity

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or on percentage point higher than the current discount rate:

Total OPEB Liability	\$1,339,810	Discount Rate	1% Increase	\$1,207,257
		(2.3%)	(3.3%)	(4.3%)
	\$1,496,362			

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The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease In trend rate	Current Trend rate	1% Increase In trend rate
Total OPEB Liability	\$1,160,060	\$1,339,810	\$1,557,910

For the year ended December 31, 2018, the City recognized OPEB expense of \$124,773.

At December 31, 2018, the City's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience Assumption Changes	\$55,727	\$171,642
City Contributions Made Subsequent to Measurement Date	50,998	
Total	\$106,725	\$171,642

\$50,998 reported as deferred outflow of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Pension Expense Amount
2019	\$(15,034)
2020	(15,034)
2021	(15,034)
2022	(15,034)
2023	(15,034)
Thereafter	(40,745)

G. Employee Retirement Systems

Substantially all City employees are members of retirement plans. The following disclosures are made in accordance with requirements of the Governmental Accounting Standards Board:

Public Employees Retirement Association

Cost-sharing Multiple Employer Defined Benefit Pension Plan

1. 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.

A. General Employees Retirement Plan

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All full-time and certain part-time employees of the City are covered by the General Employees Retirement Plan. General Employees Plan (GEP) members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Public Employees Police and Fire Fund

The Police and Fire Plan (P&FP), originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1989, the P&FP also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

2. Benefits Provided

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

A. GEP Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

B. P&FP Benefits

Benefits for the P&FP members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for P&FP members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the post-retirement benefit increase will be lowered to 1.0%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

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3. Contributions

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

A. General Employee Fund Contributions

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2018 and the City was required to contribute 7.50% for Coordinated Plan members. The City contributions to the GEP for the year ended December 31, 2018, were \$863,494. The City contributions were equal to the required contributions as set by state statute.

B. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2018 and the City was required to contribute 16.20% of pay for members in calendar year 2018. The City contributions to the P&FP for the year ended December 31, 2018, were \$545,388. The City contributions were equal to the required contributions as set by state statute.

4. Pension Costs

A. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$9,380,975 for its proportionate share of the General Employee 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 2018. 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 \$307,610. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was 0.1691% which was a decrease of .0041% from its proportion measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$9,380,975
State of Minnesota's proportionate share of the net pension liability associated with the City	307,610
Total	<u>\$9,688,585</u>

For the year ended December 31, 2018, the City recognized pension expense of \$921,514 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$71,738 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, 2018, the City's proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF OWATONNA, MINNESOTA
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Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$248,299	\$273,603
Assumption Changes	896,121	1,054,053
Net Difference between Projected and Actual Earnings on Pension Plan Investments		958,587
Change in Proportion	224,403	259,101
City Contributions Made Subsequent to Measurement Date	439,839	
Total	<u>\$1,808,662</u>	<u>\$2,545,344</u>

\$439,839 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2019	\$342,764
2020	(499,540)
2021	(823,948)
2022	(195,797)

B. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$3,397,014 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was 0.3187% which was a decrease of .0083% from its proportion measured as of June 30, 2017. The City also recognized \$28,683 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the City recognized pension expense of \$372,957 for its proportionate share of the P&FP's pension expense.

At December 31, 2018, the City's proportionate share of P&FP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF OWATONNA, MINNESOTA
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Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$136,918	\$833,373
Change of Assumptions	4,223,333	5,000,949
Net Difference between Projected and Actual Earnings on Pension Plan Investments		711,514
Change in Proportion	133,034	168,488
City Contributions Made Subsequent to Measurement Date	285,448	
Total	\$4,778,733	\$6,714,224

\$285,448 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2019	\$(92,087)
2020	(249,819)
2021	(480,431)
2022	(1,362,345)
2023	(36,258)

The City's total pension expense for all plans for the year ended December 31, 2018, was \$1,366,209.

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age 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% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disability were based on RP 2014 tables for all plans 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 the General Employees Plan, and 1.00 percent for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

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General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

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:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Totals	100%	

6. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at rates set in Minnesota statute. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. 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 one percentage point lower or one percentage point higher than the current discount rate:

	General Employees Fund	Police & Fire Fund
1% Lower	6.5%	\$7,283,410
Current Discount Rate	7.5%	3,397,014
1% Higher	8.5%	183,125

CITY OF OWATONNA, MINNESOTA
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8. Pension Plan Fiduciary Net Position

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

Defined Contribution Plan

Seven council members of the City of Owatonna are covered by the Defined Contribution Plan (DCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The DCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Owatonna during fiscal year 2018 were:

Contribution Amount	Percentage of Covered Payroll	Required
Employee	Employee	Rates
\$3,000	5.0%	5.0%
	Employer	
	5.0%	

Owatonna Firefighter's Relief Association

Single Employer Defined Benefit Pension Plan

1. Plan Description

Firefighters of the City of Owatonna are members of the Owatonna Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A and the Association's by-laws. As of December 31, 2017, membership includes 30 active participants and 6 terminated employees entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

2. Benefits Provided

Authority for payment of pension benefits is established in Minnesota Statutes §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$6,450 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law. The lump sum amount was increased to \$6,800 in 2018 and \$7,150 in 2019.

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Pursuant to Minnesota Statutes §424A.02, Subds. 2 and 4, members who retire with 20 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in Minnesota Statutes §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$6,450 for each year the member was an active member of the Owatonna Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

3. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City and state aid is determined as follows:

Normal Cost	
+ Amortization Payment on Unfunded Accrued Liability Prior to Any Change	
+ Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	
+ Administrative Expenses	
- Anticipated State Aid	
- Projected Investment Earnings	
= Total Contribution Required	

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$164,842 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2017 was \$0.

4. Pension Costs

At December 31, 2018, the City reported an asset of \$1,638,277 for the Association's net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$15,088 for the year ended December 31, 2018. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
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Description	Expected and Actual Economic Experience	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Actuarial Assumptions		\$30,315	\$97,228
Net Difference between Projected and Actual Earnings on Pension Plan Investments			7,605
City Contributions Subsequent to Measurement Date			177,653
Total		\$30,315	\$282,486

Amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2019	\$(41,763)
2020	(30,001)
2021	(70,670)
2022	(72,783)
2023	(9,391)
Thereafter	(27,563)

5. Actuarial Assumptions

The actuarial total pension asset was determined as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/16
Actuarial Cost Method	Entry Age Normal
Amortization Method	Straight-line
	Closed
Actuarial Assumptions:	
Discount Rate	6.75%
Investment Rate of Return	6.75%
20-Year Municipal Bond Yield	3.31%
Age of Service Retirement	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 (2.75%). All results are then rounded to the nearest quarter percentage point.

The best-estimate of expected future real rates of return were published in the 2017 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.

CITY OF OWATONNA, MINNESOTA
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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 December 31, 2016 are summarized in the following table:

Asset Class	Allocation at December 31, 2017	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	45.00%	5.39%	8.14%
International Equity	15.85%	5.20%	7.95%
Fixed Income	12.88%	1.98%	4.73%
Real Estate	0.30%	4.25%	7.00%
Cash Equivalents	25.97%	.79%	3.54%
Total	100.00%		6.85%
Reduced for assumed investment expense			(0.15%)
Net assumed investment return (rounded to 1/4%)			6.75%

The following changes in actuarial assumptions occurred since the prior valuation:

- The expected investment return and discount rate increased from 6.50% to 6.75% to reflect updated capital market assumptions.

6. Discount Rate

The discount rate used to measure the total pension liability was 6.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

7. Pension Liability Sensitivity

The following presents the City of Owatonna's net pension asset of the Association, calculated using the discount rate of 6.75%, as well as what the Association's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Asset	\$1,601,120	\$1,638,277	\$1,673,304
Discount Rate	5.5%	6.5%	7.5%

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
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CITY OF OWATONNA, MINNESOTA
Required Supplementary Information
Schedule of Changes in the Total OPEB Liability and Related Ratios

8. Plan's Fiduciary Net Position

Information about the Plan's fiduciary net position is as follows:

	2017
Assets	
Cash and Investments	\$3,861,112
Total Assets	<u>\$3,861,112</u>
Net Position	
Unrestricted	\$3,861,112
Revenues	
Fire State Aid	\$164,842
Interest	528,546
Total Revenues	693,388
Expenses	
Benefit Payments	165,835
Administrative	6,340
Total Expenses	172,175
Change in Net Position	521,213
Beginning Net Position	3,339,899
Ending Net Position	<u>\$3,861,112</u>

Information about the changes in the Plan's net pension asset is as follows:

	Measurement Date December 31, 2017
Total Pension Liability	
Service Cost	\$61,804
Interest	137,411
Difference between expected and actual experience	(8,549)
Changes of assumptions	62,880
Changes of benefit terms	(165,835)
Benefit payments, including member contribution refunds	87,711
Net Change in Total Pension Liability	<u>2,135,124</u>
Total Pension Liability – Beginning	\$2,222,835
Total Pension Liability – Ending (a)	<u>\$164,842</u>
Plan Fiduciary Net Position	
State Contributions	528,546
Net Investment Income	(165,835)
Benefit Payments	(6,340)
Administrative Expenses	521,213
Net Change in Fiduciary Net Position	<u>3,339,899</u>
Fiduciary Net Position – Beginning	\$3,861,112
Fiduciary Net Position – Ending (b)	<u>\$ (1,638,277)</u>
Association's Net Pension Liability/(Asset) – Ending (a) – (b)	<u>\$ (1,638,277)</u>

	December 31, 2017
Total OPEB Liability	
Service Cost	\$85,987
Interest	53,819
Change in Assumptions	62,955
Difference between expected and actual experience	(193,904)
Benefit Payments	(48,107)
Net Change in Total OPEB Liability	<u>(39,250)</u>
Total OPEB Liability – Beginning	1,379,060
Total OPEB Liability - Ending	<u>\$1,339,810</u>
Covered-Employee Payroll	\$13,295,097
City's Total OPEB Liability as a Percentage of Covered-Employee Payroll	10%

Note: Information is presented prospectively and an accumulation of ten years will be provided. No assets are accumulated in a trust that meets the criteria of GASB 75.

CITY OF OWATONNA, MINNESOTA
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability

	6/30/18	6/30/17	6/30/16	6/30/15
PERA General Employees Retirement Fund (GEP)				
Measurement Date	6/30/18	6/30/17	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.1691%	0.1732%	0.1682%	0.1672%
Proportionate Share of the Net Pension Liability	\$9,390,975	\$11,056,974	\$13,657,005	\$8,665,171
State's Proportionate Share of the Net Pension Liability Associated with the City	307,610	139,018	179,369	
Total State and City's proportionate share of the Net Pension Liability	\$9,698,585	\$11,195,992	\$13,836,374	\$8,665,171
Covered Payroll	\$11,372,604	\$11,313,906	\$10,443,843	\$9,826,867
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	82.49%	97.73%	130.77%	88.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.91%	78.20%
PERA Public Employees Police & Fire Fund (P&FP)				
Measurement Date	6/30/18	6/30/17	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.3187%	0.327%	0.319%	0.311%
Proportionate Share of the Net Pension Liability	\$3,397,014	\$4,414,889	\$12,802,025	\$3,533,688
Covered Payroll	\$3,358,796	\$3,361,271	\$3,070,825	\$2,853,462
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	101.14%	131.35%	416.89%	123.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%	85.40%	63.88%	86.60%

Note: Information is presented prospectively and an accumulation of ten years will be provided.

CITY OF OWATONNA, MINNESOTA
Required Supplementary Information
Schedule of City Contributions

	2018	2017	2016	2015	2014
PERA General Employees Retirement Fund (GEP)					
Contractually Required Contribution	\$863,494	\$836,385	\$804,270	\$778,475	\$695,645
Contributions in Relation to the Contractually Required Contribution	(863,494)	(836,385)	(804,270)	(778,475)	(695,645)
Contribution Deficiency (Excess)	0	0	0	0	0
City's Covered Payroll	\$11,513,238	\$11,151,750	\$10,726,757	\$10,379,740	\$9,695,508
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.25%
PERA Public Employees Police & Fire Fund (P&FP)					
Contractually Required Contribution	\$545,388	\$544,997	\$500,744	\$508,708	\$432,074
Contributions in Relation to the Contractually Required Contribution	(545,388)	(544,997)	(500,744)	(508,708)	(432,074)
Contribution Deficiency (Excess)	0	0	0	0	0
City's Covered Payroll	\$3,366,594	\$3,364,225	\$3,091,017	\$3,140,174	\$2,824,017
Contributions as a Percentage of Covered Payroll	16.2%	16.2%	16.2%	16.2%	15.3%
Owatonna Firefighters Relief Association					
Statutorily Required Contribution	\$-	\$-	\$-	\$-	\$-
Contributions in Relation to the Statutorily Required Contribution	\$-	\$-	\$-	\$-	\$-
Contribution Deficiency (Excess)	\$-	\$-	\$-	\$-	\$-
Association's Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A

Note: Information is presented prospectively and an accumulation of ten years will be provided.

CITY OF OWATONNA, MINNESOTA
Required Supplementary Information
Schedule of Changes in Net Pension Asset and Related Ratios – Relief Association

Measurement Date	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total Pension Liability				
Service Cost	\$61,804	\$66,200	\$53,176	\$51,753
Interest	137,411	140,109	130,326	135,178
Differences between expected and actual experience		(121,874)	-	-
Changes of assumptions	(8,549)	20,753	-	-
Changes of benefit terms	62,880	107,406	-	-
Benefit Payments, Including member refunds	(165,835)	(25,640)	-	(506,107)
Net Change in Total Pension Liability	87,711	186,954	183,502	(319,176)
Total Pension Liability – Beginning	2,135,124	1,814,825	1,684,499	2,003,675
Total Pension Liability – Ending (a)	\$2,222,835	\$2,135,124	\$1,814,825	\$1,684,499
Plan Fiduciary Net Position				
State Contributions	\$164,842	\$164,223	\$169,227	\$154,878
Net Investment Income	528,546	200,390	9,916	260,890
Benefit Payments	(165,835)	(25,640)	-	(506,107)
Administrative Expenses	(6,340)	(6,311)	(6,291)	(6,218)
Net Change in Fiduciary Net Position	521,213	332,662	172,852	(96,557)
Fiduciary Net Position – Beginning	3,339,899	3,007,237	2,834,385	2,930,942
Fiduciary Net Position – Ending (b)	3,861,112	\$3,339,899	\$3,007,237	\$2,834,385
Association's Net Pension Liability/(Asset) – Ending (a) – (b)	\$(1,638,277)	\$(1,204,775)	\$(1,059,067)	\$(1,149,886)
Fiduciary Net Position as a Percentage of the Total Pension Liability	173.70%	156.43%	165.70%	168.26%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Note: Information is presented prospectively and an accumulation of ten years will be provided.

City of Owatonna, Minnesota
\$2,225,000* General Obligation Improvement Bonds, Series 2019A

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$_____ (which may not be less than \$2,207,200) plus accrued interest, if any, to the date of delivery.

<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>	<u>Year</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Dollar Price</u>
2021	_____ %	_____ %	_____ %	2026	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2027	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2028	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %	2029	_____ %	_____ %	_____ %
2025	_____ %	_____ %	_____ %	2030	_____ %	_____ %	_____ %

Designation of Term Maturities

Years of Term Maturities _____

In making this offer on the sale date of August 20, 2019 we accept all of the terms and conditions of the Terms of Proposal published in the Preliminary Official Statement dated July 30, 2019, including the City’s right to modify the principal amount of the Bonds. (See “Terms of Proposal” herein.) In the event of failure to deliver these Bonds in accordance with said Terms of Proposal, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

By submitting this proposal, we confirm that we have an established industry reputation for underwriting municipal bonds such as the Bonds.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$_____

TRUE INTEREST RATE: _____ %

The Bidder will not will purchase municipal bond insurance from _____.

Account Members

Account Manager

By: _____

Phone: _____

.....
The foregoing proposal has been accepted by the City.

Attest: _____

Date: _____

.....
* Preliminary; subject to change.