

PRELIMINARY OFFICIAL STATEMENT DATED JULY 30, 2019

NEW ISSUE
BANK QUALIFIED

S&P Rating: Requested

In the opinion of Briggs and Morgan, Professional Association, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of their issuance and delivery to the original Purchaser, interest on the Bonds is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, in computing both gross and taxable net income for purposes of State of Minnesota income tax (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts. No opinion will be expressed by Bond Counsel 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. See "TAX EXEMPTION" and "OTHER FEDERAL TAX CONSIDERATIONS" herein.

\$5,985,000*

City of Excelsior, Minnesota

General Obligation Street Reconstruction Bonds, Series 2019A
(the "Bonds")

(Book Entry Only)

Dated Date: Date of Delivery

Interest Due: Each February 1 and August 1,
commencing August 1, 2020

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

2021	\$180,000	2025	\$265,000	2029	\$290,000	2033	\$310,000	2037	\$345,000
2022	\$255,000	2026	\$265,000	2030	\$290,000	2034	\$320,000	2038	\$355,000
2023	\$260,000	2027	\$275,000	2031	\$300,000	2035	\$335,000	2039	\$370,000
2024	\$260,000	2028	\$280,000	2032	\$310,000	2036	\$340,000	2040	\$380,000

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 February 1, 2028, and on any day thereafter, to redeem Bonds due on or after February 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. The proceeds of the Bonds will be used to finance various street and utility reconstruction projects within the City.

Proposals shall be for not less than \$5,907,195 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 as stated on the proposal 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 City will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

The Bonds will be issued as fully registered bonds 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 18, 2019.

PROPOSALS RECEIVED: Monday, August 19, 2019 until 10:00 A.M., Central Time
CONSIDERATION OF AWARD: City Council meeting commencing at 6:30 P.M., Central Time on Monday, August 19, 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 EXCELSIOR, MINNESOTA

CITY COUNCIL

Todd Carlson	Mayor
Jennifer Caron	Council Member
Lou Dierking	Council Member
Dale Kurschner	Council Member
Greg Miller	Council Member

CITY MANAGER

Kristi Luger

FINANCE DIRECTOR

Kelly Horn, CPA

MUNICIPAL ADVISOR

Baker Tilly Municipal Advisors, LLC
Saint Paul, Minnesota

BOND COUNSEL

Briggs and Morgan, Professional Association
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.

TABLE OF CONTENTS

	<u>Page(s)</u>
Terms of Proposal	i-v
Introductory Statement.....	1
Continuing Disclosure	1
The Bonds	2
Authority and Purpose	4
Sources and Uses of Funds	4
Security and Financing	4
Future Financing	5
Litigation.....	5
Legality	5
Tax Exemption.....	5
Other Federal Tax Considerations	6
Bank-Qualified Tax-Exempt Obligations	7
Rating.....	7
Municipal Advisor	7
Certification	7
City Property Values.....	8
City Indebtedness.....	9
City Tax Rates, Levies and Collections	13
Funds on Hand	14
Investments	14
General Information Concerning the City	14
Governmental Organization and Services.....	18
Proposed Form of Legal Opinion.....	Appendix I
Continuing Disclosure Undertaking.....	Appendix II
Summary of Tax Levies, Payment Provisions, and Minnesota Real Property Valuation	Appendix III
Excerpt of 2018 Annual Financial Report	Appendix IV

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

\$5,985,000*

CITY OF EXCELSIOR, MINNESOTA

GENERAL OBLIGATION STREET RECONSTRUCTION BONDS, SERIES 2019A

(BOOK ENTRY ONLY)

Proposals for the above-referenced obligations (the “Bonds”) will be received by the City of Excelsior, Minnesota (the “City”) on Monday, August 19, 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 6:30 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.*

DETAILS OF THE BONDS

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

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

2021	\$180,000	2025	\$265,000	2029	\$290,000	2033	\$310,000	2037	\$345,000
2022	\$255,000	2026	\$265,000	2030	\$290,000	2034	\$320,000	2038	\$355,000
2023	\$260,000	2027	\$275,000	2031	\$300,000	2035	\$335,000	2039	\$370,000
2024	\$260,000	2028	\$280,000	2032	\$310,000	2036	\$340,000	2040	\$380,000

* *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 February 1, 2028, and on any day thereafter, to redeem Bonds due on or after February 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. The proceeds of the Bonds will be used to finance various street and utility reconstruction projects within the City.

BIDDING PARAMETERS

Proposals shall be for not less than \$5,907,195 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 \$59,850 (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 18, 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 Briggs and Morgan, Professional Association, 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

On the date of actual issuance and delivery of the Bonds, the City will execute and deliver a Continuing Disclosure Undertaking (the "Undertaking") whereunder the City will covenant for the benefit of the owners of the Bonds to provide certain financial and other information about the City and notices of certain occurrences to information repositories as specified in and required by SEC Rule 15c2-12(b)(5).

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 8, 2019

BY ORDER OF THE CITY COUNCIL

/s/ Lynette R. Peterson
City Clerk

OFFICIAL STATEMENT

\$5,985,000*

CITY OF EXCELSIOR, MINNESOTA

GENERAL OBLIGATION STREET RECONSTRUCTION BONDS, SERIES 2019A

(BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement contains certain information relating to the City of Excelsior, Minnesota (the “City”) and its issuance of \$5,985,000* General Obligation Street Reconstruction 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.

Inquiries may be directed to Ms. Kelly Horn, CPA, Finance Director, City of Excelsior, 339 Third Street, Excelsior, Minnesota 55331, by telephoning (952) 653-3677, or by emailing khorn@ci.excelsiormn.org. 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. If information of a specific legal nature is desired, requests may be directed to Ms. Mary L. Ippel, Briggs and Morgan, Professional Association, Bond Counsel, 2200 IDS Center, 80 South 8th Street, Minneapolis, Minnesota 55402-2157, by telephoning (612) 997-8400, or by emailing mippel@briggs.com.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 (the “Rule”), pursuant to the Award Resolution and Continuing Disclosure Undertaking to be executed on behalf of the City on or before closing, the City has and will covenant (the “Undertaking”) for the benefit of holders or beneficial owners of the Bonds to provide certain financial information and operating data relating to the City to certain information repositories annually, and to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. 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 Undertaking in substantially the form attached hereto as Appendix II, subject to such modifications thereof or additions thereto as: (i) consistent with requirements under the Rule, (ii) required by the purchaser of the Bonds from the City, and (iii) acceptable to the Mayor and Administrator of the City.

The City believes it has complied for the past five years in accordance with the terms of its previous continuing disclosure undertakings entered into pursuant to the Rule.

A failure by the City to comply with the Undertaking will not constitute an event of default on the Bonds (although holders or other beneficial owners of the Bonds will have the sole remedy of bringing an action for specific performance). Nevertheless, such a failure must be reported in accordance with 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.

* *Preliminary; subject to change.*

THE BONDS

General Description

The Bonds are dated as of the date of delivery and will mature annually on February 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 February 1 and August 1 of each year, commencing August 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 February 1, 2028, and on any day thereafter, to redeem Bonds due on or after February 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 the 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 its 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, Chapter 475.58 (subd. 3b), and the City's Five-Year Street Reconstruction Plan covering the years 2019 through 2023. The proceeds of the Bonds will be used to finance various street and utility reconstruction 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	<u>\$5,985,000</u>
Total Sources of Funds	\$5,985,000
Uses of Funds:	
Deposit to Project Fund	\$5,854,175
Allowance for Discount Bidding	77,805
Estimated Costs of Issuance	<u>53,020</u>
Total Uses of Funds	\$5,985,000

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 \$251,887 are expected to be filed in the fall of 2020 for first collection in 2021. Assessments will be filed over a term of 20 years with equal payments of principal and interest. Interest on the unpaid balance will be charged at an interest rate estimated to be 3.66%.

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 August 1 of the collection year and the principal and interest payment due February 1 of the following year.

The City expects to use net revenues from its water, sewer, and surface water enterprise funds (collectively, the "Utility Funds") to pay a portion of the debt service payments due on the Bonds; however, the Utility Funds are not pledged for repayment of the Bonds.

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 Briggs and Morgan, Professional Association, 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 Briggs and Morgan, Professional Association, Bond Counsel, 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 each Bond is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, in computing both gross income and taxable net income for purposes of State of Minnesota income tax (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and that interest on the Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts. No opinion will be expressed by Bond Counsel 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 TAX CONSIDERATIONS

Property and Casualty Insurance Companies

Property and casualty insurance companies are required to reduce the amount of their loss reserve deduction by 15% of the amount of tax-exempt interest received or accrued during the taxable year on certain obligations acquired after August 7, 1986, 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 equal to 30% of the “dividend equivalent amount” for the taxable year. The “dividend equivalent amount” is the foreign corporation's “effectively connected earnings and profits” adjusted for increase or decrease in “U.S. net equity.” 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 25% of the gross receipts of such S corporation is passive investment income.

Financial Institutions

For federal income tax purposes, financial institutions are unable to deduct any portion of the interest expense allocable to the ownership of certain tax-exempt obligations acquired after August 7, 1986, including the Bonds but for the designation as Qualified Tax-Exempt Obligations. See “Bank-Qualified Tax-Exempt Obligations” herein.

General

The preceding is not a comprehensive list of all federal 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.

BANK-QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds 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.

RATING

Application for a rating of the Bonds has been made to S&P Global Ratings (“S&P”), 55 Water Street, New York, New York. If a rating is assigned, it will reflect only the opinion of S&P. Any explanation of the significance of the rating may be obtained only from S&P.

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 S&P, 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 Purchaser 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 document 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	\$516,736,300	95.6%	\$540,857,975	\$1,428,640	\$514,707,660	\$5,774,617
2017/18	483,668,400	93.9	516,091,557	1,763,992	481,454,408	5,436,784
2016/17	442,760,300	92.5	478,150,756	2,264,271	440,026,029	4,973,275
2015/16	415,153,600	94.5	439,056,538	2,583,955	411,900,445	4,638,729
2014/15	377,139,600	89.4	421,289,241	3,139,146	373,256,354	4,226,786

(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: Hennepin County, Minnesota, June 2019, except as otherwise noted.

2018/19 Adjusted Taxable Net Tax Capacity: \$5,774,617

Real Estate:		
Residential Homestead	\$3,566,120	55.0%
Commercial/Industrial and Public Utility	1,946,015	30.0
Residential Non-Homestead	588,161	9.1
Commercial, Seasonal Recreational and Other	310,138	4.8
Personal Property	<u>68,408</u>	<u>1.1</u>
2018/19 Net Tax Capacity	\$6,478,840	100.0%
Less: Captured Tax Increment	(122,192)	
Contribution to Fiscal Disparities	(753,414)	
Plus: Distribution from Fiscal Disparities	<u>171,383</u>	
2018/19 Adjusted Taxable Net Tax Capacity	\$5,774,617	

Ten of the Largest Taxpayers in the City

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018/19 Net Tax Capacity</u>
Southshore Properties LLC	Commercial	\$ 79,150
Individual	Apartments	73,088
Gorham HSG Partners II LLC	Commercial	67,050
KTJ 207 LLC	Commercial	61,330
200 Water LLC	Commercial	58,190
Kowalski's Re-Excelsior LLC	Commercial	57,430
Christmas Lake Manor LLP	Apartments	53,588
Ridgeview Medical Center	Medical Clinic	52,430
Bermer Co/Mitchell Ranch	Apartments	46,225
Individual	Residential	<u>45,963</u>
 Total		 \$594,444*

* Represents 10.3% 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)	\$15,502,089
Less: Outstanding Debt Subject to Limit (Includes the Bonds)	<u>(7,340,000)</u>
 Legal Debt Margin as of September 18, 2019	 \$8,162,089

* 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 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 9-18-19</u>
10-21-10	\$2,635,000	Street Reconstruction	2-1-2026	\$1,355,000 ^(b)
9-18-19	5,985,000	Street Reconstruction (the Bonds)	2-1-2040	<u>5,985,000^(c)</u>
Total				\$7,340,000

(a) These issues are subject to the legal debt limit.

(b) The City expects to use available special assessment collections to pay a portion of this issue.

(c) The City expects to repay a portion of the Bonds with available special assessment collections as well as net revenues from its water, sewer, and surface water enterprise funds (the "Utility Funds"). The Utility Funds are not pledged for repayment of the Bonds.

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 9-18-19</u>
6-14-17	\$1,525,000	Street Improvements	2-1-2033	\$1,370,000

General Obligation Utility Revenue Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-18-19</u>
8-15-07	\$ 680,000	Water Revenue	2-1-2023	\$ 220,000
10-21-10	160,000	Water and Sewer Revenue	2-1-2026	80,000
11-26-14	837,361	Water and Sewer Revenue (PFA)	8-20-2034	647,000
6-14-17	2,650,000	Utility Revenue	2-1-2033	<u>2,385,000</u>
Total				\$3,332,000

Estimated Calendar Year Debt Service Payments Including the Bonds

<u>Year</u>	<u>G.O. Debt Supported by Taxes</u>		<u>G.O. Special Assessment Debt</u>	
	<u>Principal</u>	<u>Principal & Interest^(a)</u>	<u>Principal</u>	<u>Principal & Interest</u>
2019 (at 9-18)	(Paid)	(Paid)	(Paid)	(Paid)
2020	\$ 180,000	\$ 355,842	\$ 80,000	\$ 118,638
2021	360,000	545,748	85,000	121,163
2022	440,000	614,750	85,000	118,613
2023	455,000	617,464	90,000	120,988
2024	460,000	609,520	90,000	118,288
2025	470,000	605,793	95,000	120,513
2026	475,000	596,204	95,000	117,663
2027	275,000	386,205	100,000	119,988
2028	280,000	385,793	100,000	117,488
2029	290,000	389,948	105,000	119,794
2030	290,000	383,713	105,000	116,775
2031	300,000	387,073	110,000	118,550
2032	310,000	389,903	115,000	120,175
2033	310,000	382,308	115,000	116,725
2034	320,000	384,273		
2035	335,000	390,590		
2036	340,000	386,393		
2037	345,000	381,888		
2038	355,000	381,999		
2039	370,000	386,575		
2040	<u>380,000</u>	<u>385,605</u>		
Total	\$7,340,000^(b)	\$9,347,587	\$1,370,000^(c)	\$1,665,361

(a) Includes the Bonds at an assumed average annual interest rate of 2.55%.

(b) 50.2% of this debt will be retired within ten years.

(c) 67.5% 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. Utility Revenue Debt</u>	
	<u>Principal</u>	<u>Principal & Interest</u>
2019 (at 9-18)	(Paid)	(Paid)
2020	\$ 240,000	\$ 325,363
2021	251,000	329,076
2022	256,000	326,476
2023	267,000	329,578
2024	212,000	267,703
2025	222,000	271,843
2026	223,000	266,768
2027	218,000	256,323
2028	218,000	251,518
2029	224,000	252,425
2030	229,000	251,735
2031	235,000	251,670
2032	240,000	250,445
2033	251,000	254,995
2034	<u>46,000</u>	<u>46,460</u>
Total	\$3,332,000*	\$3,932,378

* 70.0% of this debt will be retired within ten years.

Overlapping Debt

<u>Taxing Unit^(a)</u>	<u>2018/19 Adjusted Taxable Net Tax Capacity</u>	<u>Est. G.O. Debt As of 9-18-19^(b)</u>	<u>Debt Applicable to Tax Capacity in City</u>	
			<u>Percent</u>	<u>Amount</u>
Hennepin County	\$1,979,015,644	\$1,047,495,000	0.3%	\$ 3,142,485
I.S.D. No. 276 (Minnetonka)	82,296,686	108,000,000	7.0	7,560,000
Metropolitan Council	4,281,620,797	5,735,000 ^(c)	0.1	5,735
Metropolitan Transit	3,433,535,041	262,085,000	0.2	<u>524,170</u>
Total				\$11,232,390

^(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.

^(c) Excludes general obligation debt supported by wastewater revenues and housing rental payments. Includes certificates of participation.

Debt Ratios*

	<u>G.O. Direct Debt</u>	<u>G.O. Direct & Overlapping Debt</u>
To 2018/19 Estimated Market Value (\$516,436,300)	1.69%	3.86%
Per Capita (2,321 - 2018 MN Metropolitan Council Estimate)	\$3,753	\$8,592

* Excludes general obligation utility revenue debt.

CITY TAX RATES, LEVIES AND COLLECTIONS

Tax Capacity Rates for a Resident in Independent School District No. 276 (Minnetonka)

	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	
					<u>Total</u>	<u>For Debt Only</u>
Hennepin County	46.398%	45.356%	44.087%	42.808%	41.861%	4.579%
City of Excelsior	32.462	30.253	28.802	27.133	27.124	3.049
I.S.D. No. 276						
(Minnetonka) ^(a)	25.093	22.887	22.770	23.133	21.209	8.321
Special Districts ^(b)	<u>9.785</u>	<u>9.530</u>	<u>9.319</u>	<u>8.973</u>	<u>8.550</u>	<u>2.219</u>
Total	113.738%	108.026%	104.978%	102.047%	98.744%	18.168%

(a) In addition, Independent School District No. 276 (Minnetonka) has a 2018/19 market value tax rate of 0.034013% spread across the market value of property in support of an excess operating levy.

(b) Special districts include Metropolitan Council, Metropolitan Transit District, Metropolitan Mosquito Control, Three Rivers Park District, Park Museum, Hennepin County Regional Rail Authority, and Hennepin County Housing and Redevelopment Authority.

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 6-1-19</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2018/19	\$1,566,322				
2017/18	1,474,972	\$1,448,265	98.2%	\$1,144,265	98.2%
2016/17	1,428,369	1,412,432	98.9	1,416,775	99.2
2015/16	1,406,424	1,387,320	98.6	1,389,988	98.5
2014/15	1,378,972	1,369,280	99.3	1,376,863	99.8

* 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

Total Cash and Investments	\$7,143,312
----------------------------	-------------

INVESTMENTS

The City has an investment policy and invests funds as authorized by Minnesota Statutes. The primary objectives, in order of priority, of all City investment activities are safety, liquidity, and yield. Instruments that are eligible for investment by the City include:

- (a) Government Securities: Instruments such as bonds, notes, bills, mortgages, and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies.
- (b) Certificates of Deposit: A negotiable or nonnegotiable instruments issued by commercial banks and insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).
- (c) Repurchase Agreement: An investment which consists of two simultaneous transactions, where an investor purchases securities from a bank or dealer. At the same time, the selling bank or dealer agrees to repurchase the securities at the same price plus interest at some agreed-upon future date. The security purchased is the collateral protecting the investment.
- (d) Prime Commercial Paper: An investment used by corporations to finance receivables. A short-term (matures in 270 days or less) unsecured promissory note is issued for a maturity specified by the purchaser. Corporations market their paper through dealers who, in turn, market the paper to investors.
- (e) Securities: Any security which is a general obligation of the State of Minnesota or any of its municipalities.
- (f) Statewide Investment Pools: which invest in authorized instruments according to Minnesota Statutes 118A.
- (g) Money Market Mutual Funds: which invest in authorized instruments for public funds.

As of May 31, 2019, the market value of the City's investments totaled \$5,441,478.15. Of this amount, 16.6 % was invested in money markets and 83.4% was invested in commercial paper, certificates of deposit, and U.S. government agency securities. The City's investments will mature no later than May 20, 2026.

GENERAL INFORMATION CONCERNING THE CITY

The City is located in Hennepin County, approximately 18 miles west of the City of Minneapolis. The City encompasses an area of approximately one square mile (640 acres).

Population

The City's population trend is shown below.

	<u>Population</u>	<u>Percent Change</u>
2018 MN Metropolitan Council Estimate	2,321	6.1%
2010 U.S. Census	2,188	(8.5)
2000 U.S. Census	2,393	1.1
1990 U.S. Census	2,367	(6.2)
1980 U.S. Census	2,523	--

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

The City's estimated population by age group for the past three 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	405	485	1,005	469
2017/18	406	484	1,011	452
2016/17	417	493	1,024	440

Sources: Environics Analytics and Claritas, Inc.

Transportation

City residents have convenient access to the Minneapolis/Saint Paul metropolitan area via interstate highways I-494 and I-394. Minnesota Highway 7 runs east-west through the City. City residents have access to Metro Transit bus service and Transit Link. Light rail access, through the Southwest Transitway, is currently in the planning stages. The City is approximately 25 minutes from the Minneapolis/Saint Paul International Airport.

Major Employers in and Around the City

Residents of the City are employed throughout the Minneapolis/Saint Paul metropolitan area. Major employers in close proximity to the City include those listed below.

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number of Employees</u>
Independent School District No. 276 (Minnetonka)	Public education	1,600
Kowalski's	Grocery store	130
Maynards	Restaurant	90*
The Waters of Excelsior	Senior assisted living	48
Estates of Excelsior	Nursing home	46
Lyman Lumber Company	Building materials	27
Ridgeview Excelsior Clinic	Health care	13

* Excludes seasonal employees. Maynards employs up to 250 employees during the summer months.

Source: This does not purport to be a comprehensive list and is based on a July 2019 best efforts telephone survey of individual employers. Some employers do not respond to inquiries.

Economy

The City's downtown commercial district consists of about 1,961,000 square feet of leasable space and includes over 200 retail and service businesses. The City has a long tradition of being the destination entertainment center and commercial center of Lake Minnetonka's south shore. The City is completely developed; however, in order to maintain a strong economic and social base, renovation and rehabilitation of existing sites is strongly encouraged. Major projects have been completed or are in the planning stages in the downtown area and along Highway 7, including several restaurants and retail shops.

Labor Force Data

	Annual Average				June
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Labor Force:					
Hennepin County	676,722	687,472	698,548	703,310	715,912
Minneapolis - Saint Paul - Bloomington MSA	1,916,011	1,938,642	1,979,780	2,016,208	2,033,996
State of Minnesota	2,997,748	3,033,406	3,057,014	3,070,223	3,133,128
Unemployment Rate:					
Hennepin County	3.3%	3.3%	3.0%	2.5%	3.2%
Minneapolis - Saint Paul - Bloomington MSA	3.5	3.6	3.3	2.7	3.3
State of Minnesota	3.7	3.9	3.4	23.9	3.4

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

Retail Sales and Effective Buying Income (EBI)

City of Excelsior

<u>Data Year/ Report Year</u>	<u>Total Retail Sales (\$000)</u>	<u>Total EBI (\$000)</u>	<u>Median Household EBI</u>
2018/19	\$257,886	\$121,263	\$59,557
2017/18	95,471	116,586	58,818
2016/17	72,690	117,193	54,785

Hennepin 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	\$35,994,743	\$46,545,290	\$63,176
2017/18	32,491,357	43,417,598	60,957
2016/17	33,502,543	40,956,758	57,190
2015/16	26,004,909	38,495,033	55,756
2014/15	21,713,206	36,578,500	52,644

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: *Envionics Analytics and Claritas, Inc.*

Permits Issued by the City

	<u>Total Permits</u>	
	<u>Number</u>	<u>Value</u>
2019 (at 5-31)	48	\$ 6,118,764
2018	88	7,174,306
2017	131	36,451,258
2016	110	9,552,427
2015	118	7,402,020
2014	128	14,468,771
2013	96	10,121,099
2012	121	7,154,708

Source: City of Excelsior.

Financial Institutions*

City residents are served by branches of Alerus Bank, Bridgewater Bank, First Minnesota Bank, TCF National Bank, and Wells Fargo Bank, National Association.

* This does not purport to be a comprehensive list.

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

Health Care Services

The following health care facility is located within the City:

<u>Facility</u>	<u>Location</u>	<u>No. of Beds</u>
The Estates at Excelsior	City of Excelsior	56 Nursing home beds

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

Education

Public Education

The following district serves the residents of the City:

<u>School</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
Independent School District No. 276 (Minnetonka)	City of Minnetonka	K-12	10,970

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

Non-Public Education

City residents are also served by the following private school:

<u>School</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
St. John the Baptist	City of Excelsior	K-8	34

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

Post-Secondary Education

City residents have access to various colleges and universities located in the Minneapolis/Saint Paul metropolitan area.

GOVERNMENTAL ORGANIZATION AND SERVICES

Organization

The City has been a municipal corporation since 1856 and is governed under a Home Rule Charter effective as of November 2, 1982. The City's governing body is the City Council, comprised of the Mayor and four Council members. The Mayor is elected to serve a two-year term of office, while the four Council members serve overlapping four-year terms.

The following individuals comprise the current City Council:

		<u>Expiration of Term</u>
Todd Carlson	Mayor	December 31, 2020
Jennifer Caron	Council Member	December 31, 2022
Lou Dierking	Council Member	December 31, 2020
Dale Kurschner	Council Member	December 31, 2022
Greg Miller	Council Member	December 31, 2020

The daily administration of City operations is the responsibility of the appointed City Manager, Ms. Kristi Luger, who has been with the City since April 2008. Ms. Kelly Horn, CPA, Finance Director, is responsible for the City's financial services. The City has ten regular full-time employees.

Services

Police protection for the City is provided by South Lake Minnetonka Police Department through a Joint Powers agreement with the neighboring cities of Shorewood, Greenwood, and Tonka Bay.

Fire protection for the City is provided through Excelsior Fire District through a Joint Powers agreement with the neighboring cities of Shorewood, Greenwood, Tonka Bay, and Deephaven. The department has 40 volunteers and three full-time positions.

The City is home to exceptional parkland including two public beaches, a baseball field, and tennis courts. Residents also have access to City-sponsored community events including Summer Concerts in the Park and Artic Fever. In addition, there are City-maintained public and residential docks and community garden plots.

Municipal water, sewer, storm water, refuse/recycling, and street light services are provided to 100% of City residents. The City's water system has three wells and a combined storage capacity of approximately 550,000 gallons. Wastewater treatment and disposal is provided by the Metropolitan Council Environmental Services (MCES). Refuse and Recycling Services are provided by a City-wide contract with a private refuse hauler.

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>
Teamsters Local 320	5	December 31, 2019
Non-unionized employees	<u>5</u>	
Total employees	10	

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) which is a cost-sharing multiple-employer retirement plan. GERF members belong to either the Coordinated Plan, which is covered by Social Security. The City's contributions to GERF 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>
2018	\$50,273
2017	49,164
2016	47,992
2015	46,043
2014	44,492

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 for the past four years are as follows:

	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>
2018	0.0099%	\$549,210
2017	0.0101	644,777
2016	0.0102	828,189
2015	0.0103	533,799

For more information regarding GASB 68 with respect to the City, please reference “Note 4, Defined Benefit Pension Plans – Statewide” and “Required Supplementary Information” of the City’s 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 GERP’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.

2018 Omnibus Retirement Bill

On Thursday, May 31, 2018, Minnesota Governor Mark Dayton signed into law the 2018 Omnibus Retirement Bill, which includes sustainability measures for all four of the State’s public pension systems, including PERA. The City anticipates this legislation will have some level of positive impact on the proportionate share of pension costs and net pension liability for GERP for the fiscal year ending December 31, 2018 and thereafter.

Sources: City’s Annual Financial Reports.

Other Postemployment 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, 2018. Please see “Note 8, Change in Accounting Principle” in the City’s Annual Financial Report for the fiscal year ended December 31, 2018 for this calculation.

The City provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical coverage provided by Health Partners. The contribution requirements established by the City are based on contract terms with Health Partners, and are based on a pay-as-you-go financing. As of December 31, 2018, there were ten (10) active plan members covered by the benefit terms.

The City’s total OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of January 1, 2018. 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 4.09%. Components of the City’s OPEB liability and related ratios for the fiscal year ended December 31, 2018 are as follows:

Service cost	\$ 1,533
Interest	363
Benefit payments	<u>(618)</u>
Net change in total OPEB liability	<u>\$ (1,278)</u>
Total OPEB liability – beginning of year	\$ 9,024
Total OPEB liability – end of year (a)	<u>\$10,302</u>
Covered Payroll	\$ 7,000
Total OPEB liability as a percentage of covered employee payroll	1.47%

The City's contributions for the past four years are as follows:

<u>Fiscal Year Ended</u>	<u>Actuarial Determined Contribution</u>	<u>District Contributions</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
December 31, 2018	\$50,273	\$50,273	\$663,082	7.50%
December 31, 2017	49,164	49,164	650,346	7.50
December 31, 2016	47,992	47,992	635,783	7.50
December 31, 2015	46,043	46,043	607,741	7.50

The City's OPEB liabilities for the past four years are as follows:

<u>Fiscal Year Ended</u>	<u>Total OPEB Liability</u>	<u>Net OPEB Liability</u>	<u>Net OPEB Liability as a Percentage of Covered Employee Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total OPEB Liability</u>
December 31, 2018	\$567,182	\$549,210	85.5%	79.5%
December 31, 2017	652,881	644,777	100.4	75.9
December 31, 2016	839,075	828,189	132.0	68.9
December 31, 2015	533,799	533,799	87.8	78.2

For more information regarding GASB 75 with respect to the City, please reference "Note 5, Postemployment Benefits Other than Pensions" and "Required Supplementary Information" of the City's 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 Annual Financial Reports.

General Fund Budget Summary

	<u>2017 Actual</u>	<u>2018 Budget</u>	<u>2018 Actual</u>	<u>2019 Budget</u>
<u>Revenues</u>				
Property taxes	\$1,324,632	\$1,296,544	\$1,276,883	\$1,386,700
Franchise fees	69,630	69,750	70,225	69,750
Licenses and permits	413,801	254,055	241,985	261,075
Intergovernmental revenues	7,877	3,095	3,095	3,095
Charges for services	159,586	81,804	104,520	74,400
Parking kiosks	259,462	265,000	240,327	265,000
Fines and forfeits	95,891	69,575	83,752	69,575
Rents	46,453	47,680	45,279	38,600
Interest earnings	6,072	18,500	8,241	20,000
Miscellaneous revenue	41,103	42,550	35,147	43,550
Transfers from other funds	<u>102,800</u>	<u>99,000</u>	<u>80,000</u>	<u>165,579</u>
Total Revenues	\$2,527,307	\$2,247,553	\$2,189,454	\$2,397,324
<u>Expenditures</u>				
Council	\$ 20,139	\$ 22,135	\$ 21,912	\$ 27,435
City Manager/Clerk	106,491	108,639	111,332	115,860
Elections	867	7,800	6,820	1,300
Finance	39,398	39,340	35,307	50,414
Planning and zoning	96,844	97,878	84,581	120,642
City administration	267,766	286,570	304,955	284,820
Parking kiosks	30,617	32,200	31,173	35,000
Heritage preservation	427	1,085	1,129	1,185
Police	728,244	763,770	757,333	783,637
Fire contract	197,592	208,681	208,681	223,100
Building inspection	41,621	30,000	92,239	40,000
Engineering	17,680	12,500	15,439	13,000
Streets	190,410	210,305	241,993	220,328
Park maintenance	126,096	185,522	206,441	223,559
Recreation programs	92,380	34,200	33,013	33,200
Cemetery	21,278	22,010	22,312	24,460
Transfers to other funds	<u>229,195</u>	<u>184,918</u>	<u>375,377</u>	<u>199,384</u>
Total Expenditures	\$2,207,045	\$2,274,553	\$2,550,037	\$2,397,324
Net Change	\$ 320,262	\$ 0	\$ (360,583)	\$ 0
Beginning Fund Balance	<u>\$1,285,379</u>	<u>\$1,605,641</u>	<u>\$1,605,641</u>	<u>\$1,605,641</u>
Ending Fund Balance	<u>\$1,605,641</u>	<u>\$1,605,641</u>	<u>\$1,245,058</u>	<u>\$1,605,641</u>

Sources: The City, the City's 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	\$1,296,248	\$1,360,483	1,359,264	1,394,242	\$1,347,108
Charges for services	210,625	187,405	266,549	465,501	389,973
Licenses and permits	315,701	267,433	260,570	413,801	241,985
Fines and forfeitures	73,175	69,038	68,635	95,891	83,752
Transfers in	85,200	110,400	106,600	102,800	80,000

Sources: City's Annual Financial Reports.



2200 IDS Center
 80 South 8th Street
 Minneapolis, MN 55402
 OFC 612-977-8400
 FAX 612-977-8650
 URL Briggs.com

PROPOSED FORM OF LEGAL OPINION

\$5,985,000
 GENERAL OBLIGATION STREET RECONSTRUCTION BONDS, SERIES 2019A
 CITY OF EXCELSIOR
 HENNEPIN COUNTY
 MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Excelsior, Hennepin County, Minnesota (the "Issuer"), of its \$5,985,000 General Obligation Street Reconstruction Bonds, Series 2019A, bearing a date of original issue of September 18, 2019 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and federal laws (which excludes any pending legislation which may have a retroactive effect on or before the date hereof), regulations, rulings and decisions, it is our opinion that:

(1) The proceedings show lawful authority for the issuance of the Bonds according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the Issuer and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

(3) At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal

alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts. The opinions set forth in the preceding sentence are 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, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion 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.

BRIGGS AND MORGAN
Professional Association

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Excelsior, Minnesota (the "Issuer"), in connection with the issuance of its \$5,985,000 General Obligation Street Reconstruction Bonds, Series 2019A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on August 19, 2019 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

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

"Annual Report" shall mean any annual financial information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean the financial statements of the Issuer audited annually by an independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean such party from time to time designated in writing by the Issuer to act as information dissemination agent and which has filed with the Issuer a written acceptance of such designation.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" shall be the fiscal year of the Issuer.

"Governing Body" shall, with respect to the Bonds, have the meaning given that term in Minnesota Statutes, Section 475.51, Subdivision 9.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 5 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated _____, 2019, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Resolution" shall mean the resolution or resolutions adopted by the Governing Body of the Issuer providing for, and authorizing the issuance of, the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2019, the Issuer shall, or shall cause the Dissemination Agent to provide to the MSRB by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking by not later than December 31, 2020, and by December 31 of each year thereafter.

B. If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection A, the Issuer shall send a notice of such delay and estimated date of delivery to the MSRB.

SECTION 4. Content and Format of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the financial information and operating data pertaining to the Issuer listed below as of the end of the preceding Fiscal Year. The Annual Report may be submitted to the MSRB as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Disclosure Undertaking.

The following financial information and operating data shall be supplied:

A. An update of the operating and financial data of the type of information contained in the Official Statement under the captions: City Property Values; City Indebtedness; and City Tax Rates, Levies and Collections.

B. Audited Financial Statements of the Issuer. The Audited Financial Statements of the Issuer may be submitted to the MSRB separately from the balance of the Annual Report. In the event Audited Financial Statements of the Issuer are not available on or before the date for filing the Annual Report with the MSRB as set forth in Section 3.A. above, unaudited financial statements shall be provided as part of the Annual Report. The accounting principles pursuant to which the financial statements will be prepared will be pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as such principles are modified by the governmental accounting standards promulgated by the Government Accounting Standards Board, as in effect from time to time. If Audited Financial Statements are not provided because they are not available on or before the date for filing the Annual Report, the Issuer shall promptly provide them to the MSRB when available.

SECTION 5. Reporting of Significant Events. This Section 5 shall govern the giving of notices of the occurrence of any of the following 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 Bonds, or other material events affecting the tax status of the Bonds;
- (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 Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (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.

Whenever an event listed above has occurred, the Issuer shall promptly, which may not be in excess of the ten (10) business days after the Occurrence, file a notice of such Occurrence with the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of a failure by the Issuer to provide the Annual Reports described in Section 4.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 10. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner 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 to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: _____, 2019.

CITY OF EXCELSIOR, MINNESOTA

By _____
Its Mayor

By _____
Its City Manager

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 which are payable wholly or partly from the proceeds of special assessments levied upon property specially benefited thereby, including those which are general obligations of the municipality issuing them, if the municipality is entitled to reimbursement in whole or in part from the proceeds of the special assessments.

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 of any combination thereof or for any other public convenience from which a revenue is or may be derived.
6. Debt service loans and capital loans made to a school district under the provisions of Minnesota Statutes, Sections 126C.68 and 126C.69.
7. Amount of all money and the face value of all securities held as a debt service fund for the extinguishment of obligations other than those deductible under this subdivision.
8. Obligations to repay loans made under Minnesota Statutes, Section 216C.37.
9. Obligations to repay loans made from money received from litigation or settlement of alleged violations of federal petroleum pricing regulations.
10. Obligations issued to pay pension fund or other postemployment benefit liabilities under Minnesota Statutes, Section 475.52, subdivision 6, or any charter authority.
11. Obligations issued to pay judgments against the municipality under Minnesota Statutes, Section 475.52, subdivision 6, or any charter authority.
12. All other obligations which under the provisions of law authorizing their issuance are not to be included in computing the net debt of 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.

**Metropolitan Revenue Distribution (Chapter 473F, Minnesota Statutes)
“Fiscal Disparities Law”**

The Charles R. Weaver Metropolitan Revenue Distribution Act, more commonly known as “Fiscal Disparities,” was first implemented for taxes payable in 1975. Forty percent of the increase in commercial-industrial (including public utility and railroad) net tax capacity valuation since 1971 in each assessment district in the Minneapolis/Saint Paul seven-county metropolitan area (Anoka, Carver, Dakota, excluding the City of Northfield, Hennepin, Ramsey, Scott, excluding the City of New Prague, and Washington Counties) is contributed to an area-wide tax base. A distribution index, based on the factors of population and real property market value per capita, is employed in determining what proportion of the net tax capacity value in the area-wide tax base shall be distributed back to each assessment district.

**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 ANNUAL FINANCIAL REPORT

Data on the following pages was extracted from the City's 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 AUDITOR'S REPORT

Honorable Mayor and City Council
City of Excelsior, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Excelsior, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

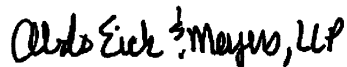
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and other financial information are presented for purposes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

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

The introductory section and other financial information 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 results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

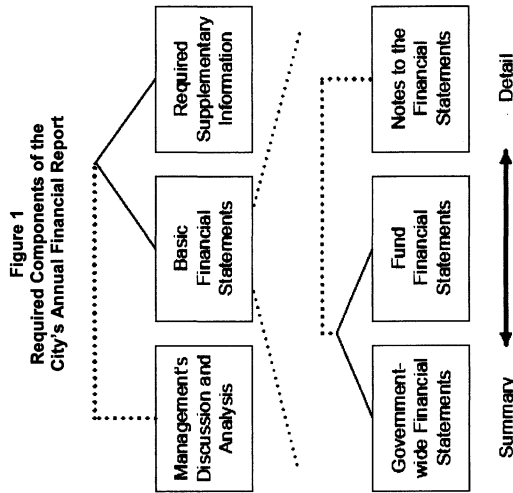


ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
May 13, 2019

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules which further explain and support the information in the financial statements. Figure 1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about non-major governmental funds, which are added together and presented in single columns in the basic financial statements.



Management's Discussion and Analysis

As management of the City of Excelsior, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$15,862,005 (net position). Of this amount, \$6,757,310 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$887,530. The increase was supported primarily by charges for services for both the governmental and enterprise funds. Another reason for the increase was support by general revenues including property taxes, franchise taxes, tax increments, and unrestricted grants and contributions.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,732,252, an increase of \$501,095 in comparison with the prior year. Approximately 23.7 percent of this total amount, \$1,123,596, is either unassigned or assigned and available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,138,804, or 47.5 percent of total General fund 2018 budgeted expenditures.
- The City's total debt decreased \$282,048 or 4.0 percent during the current fiscal year. The decrease was due to regularly scheduled debt payments.

Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, housing and economic development, and miscellaneous. The business-type activities of the City include water, sewer, solid waste, surface water management, street lighting and commercial docks.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the 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 funds and governmental activities.

The City maintains 8 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 and the Capital Improvement funds are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements or schedules elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with their budgets.

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

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, commercial docks, surface water management, solid waste and street lighting.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the major enterprise funds. Data from the non-major enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of combining statements or schedules elsewhere in this report.

The basic proprietary fund financial statements start on page 42 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 52 of this report.

Notes to the 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 start on page 53 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 84 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,862,005 at the close of the most recent fiscal year.

A portion of the City's net position (52.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Excelsior's Summary of Net Position

	Governmental Activities		Business-type Activities		Increase (Decrease)
	2018	2017	2018	2017	
Assets					
Current and other assets	\$ 5,900,859	\$ 5,152,045	\$ 3,051,245	\$ 4,135,293	\$ (1,084,048)
Capital assets	6,895,419	7,155,042	8,081,884	7,096,741	1,045,143
Total Assets	12,796,278	12,307,087	11,133,129	11,172,034	(38,905)
Deferred Outflows of Resources					
Deferred pension resources	59,408	87,148	(27,740)	31,788	64,969
Liabilities					
Noncurrent liabilities outstanding	2,698,636	2,922,709	(224,073)	4,616,168	4,859,057
Other liabilities	458,405	584,196	(127,791)	238,103	219,610
Total Liabilities	3,155,041	3,506,905	(351,864)	4,854,271	5,078,667
Deferred Inflows of Resources					
Deferred pension resources	82,809	86,628	(3,819)	64,477	77,503
Net Position					
Net investment in capital assets	4,539,653	4,703,545	(163,892)	3,781,143	3,576,539
Restricted	783,899	1,082,756	(298,857)	-	204,604
Unrestricted	4,292,284	3,015,001	1,277,283	2,465,026	2,504,294
Total Net Position	\$ 9,615,836	\$ 8,801,302	\$ 814,534	\$ 6,246,169	\$ 6,080,633
					\$ 165,336

Additionally, \$783,899 is restricted for debt service, tax increment district expenditure and park improvement expenditures. The remaining balance of unrestricted net position (\$6,757,310) may be used to meet the City's ongoing obligations to citizens and creditors.

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

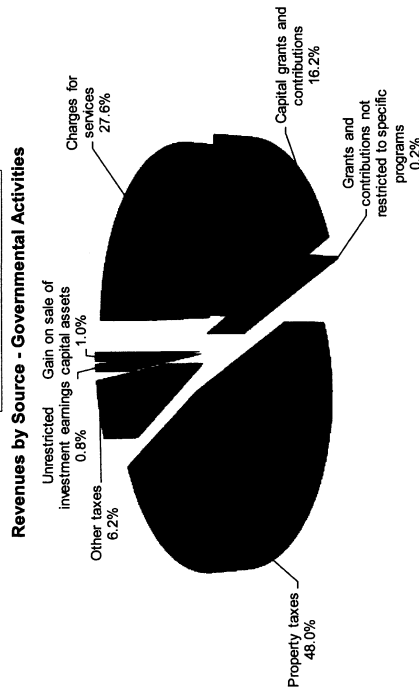
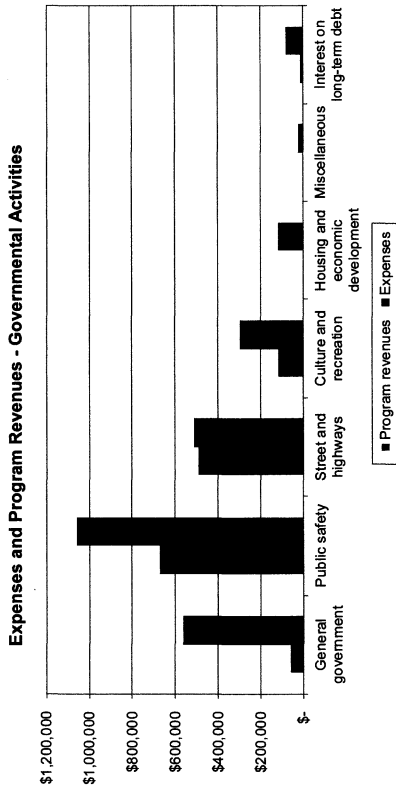
The City's net position increased \$687,530 during the current fiscal year. Both the governmental activities and the business type activities increased the net position, by \$717,060 and \$170,470, respectively.

Governmental Activities. Governmental activities increased the City's net position by \$717,060. Key elements of this increase are as follows:

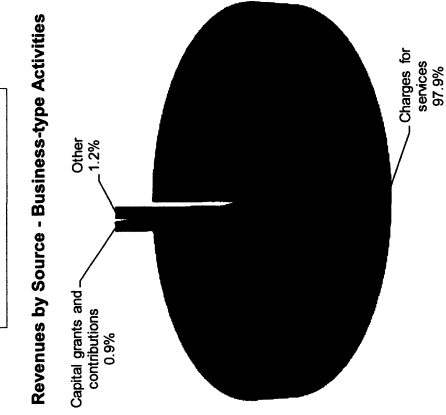
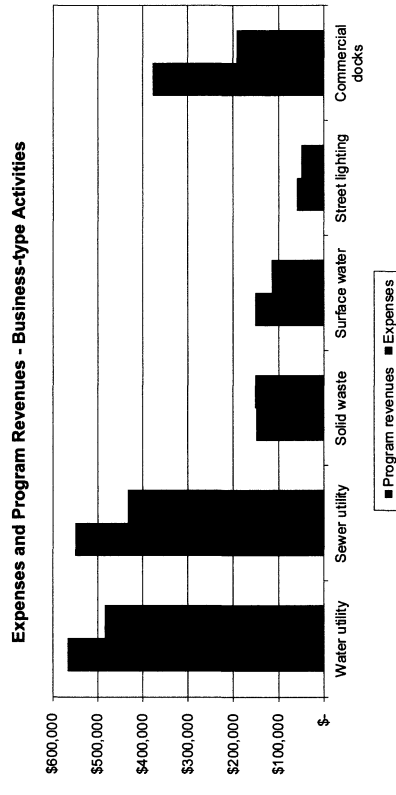
City of Excelsior's Changes in Net Position

	Governmental Activities		Business-type Activities		Increase (Decrease)
	2018	2017	2018	2017	
Revenues					
Program Revenues	\$ 849,043	\$ 1,280,335	\$ (431,292)	\$ 1,835,660	\$ 1,741,377
Charges for services	488,719	713,872	(215,153)	16,280	160,713
Capital grants and contributions	1,477,743	1,428,171	49,572	-	-
General Revenues	192,074	178,659	13,415	-	-
Property taxes	5,333	7,995	(2,662)	1,952	118
Other taxes	23,984	16,621	7,363	19,908	14,806
Grants and contributions not restricted to specific programs	30,779	-	30,779	-	-
Unrestricted investment earnings	3,077,675	3,625,653	(547,978)	1,873,800	1,917,014
Miscellaneous					
Total Revenues	564,267	731,422	(167,155)	-	-
Expenses					
General government	1,058,343	967,457	90,886	-	-
Public safety	510,587	428,320	82,267	-	-
Streets and highways	294,442	302,680	(8,138)	-	-
Culture and recreation	113,646	106,824	6,822	-	-
Housing and economic development	22,107	21,745	362	-	-
Miscellaneous	77,223	90,292	(13,069)	-	-
Interest on long-term debt	-	-	-	483,018	486,403
Water utility	-	-	-	431,872	486,220
Sewer utility	-	-	-	150,973	148,660
Solid waste	-	-	-	115,262	119,076
Surface water	-	-	-	49,840	50,282
Street lighting	-	-	-	192,365	160,253
Commercial docks	-	-	-	-	32,112
Commercial trucks	-	-	-	-	-
Total Expenses	2,640,615	2,648,640	(8,025)	1,423,330	1,470,894
Increase in Net Position Before Transfers	437,060	977,013	(539,953)	450,470	446,120
Transfers	280,000	102,800	177,200	(280,000)	(177,200)
Change in Net Position	717,060	1,079,813	(362,753)	170,470	343,320
Net Position, January 1	8,801,302	7,721,489	1,079,813	6,080,633	5,737,513
Prior Period Restatement (Note 6)	97,474	-	97,474	(5,134)	-
Net Position, December 31	\$ 9,615,836	\$ 8,801,302	\$ 814,534	\$ 6,246,169	\$ 6,080,633
					\$ 165,336

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



Business-type Activities. Business-type activities increased the City's net position by \$170,470. Key elements of this increase are as follows:



Financial Analysis of the Government's Funds

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

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

	Fund Balances December 31		Increase (Decrease)
	2017	2018	
Major Funds			
General	\$ 1,605,641	\$ 1,245,058	\$ (360,583)
The fund balance decrease is mainly due to transfers out to the Capital Improvement fund for future projects and to Other Governmental funds.			

Capital Improvement
The fund balance increased mainly due to transfers in.

G.O. Bonds 2017A
The fund balance increased due to tax revenues and transfers in. The fund is used to track the debt activity relating to the 2017A bonds.

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

Unrestricted net position of the enterprises funds at the end of the year amounted to \$2,465,028. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights
The City's General fund budget projected no change in fund balance, but actual amounts for 2018 resulted in a decrease in fund balance in the amount of \$360,583. This was mainly due to decreased revenues and increased expenditures in the current year with a larger amount of transfers out.

Overall, revenues were under the budgeted amount by \$69,878. This was due in large part to miscellaneous revenues being under budget by \$32,182 primarily due to refunds and reimbursements and taxes being under budget by \$19,186, primarily relating to property tax revenue.

Expenditures were over budget by \$112,025. This was due in large part to public safety expenditures being over budget by \$55,892. The main cause of the variance was due to protective inspection expenditures. Another reason was due to capital outlay being over budget by \$52,788, primarily relating to the public works department.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities, as of December 31, 2018, amounts to \$14,975,303 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The City's total investment in capital assets increased \$785,520, or 5.5 percent during the year.

Major capital asset activity during the current year included:

- The City purchased a 2018 Chevy Silverado and a 2019 Chevy Silverado.
- The 2017 Street and Utilities Project increased Construction in Progress by \$358,534.
- The 2019 Street and Utility Project was started and has a Construction in Progress of \$96,401.
- The City started and completed a dock expansion project, a Mill Street Water and Sewer Improvement project and the CSAH 19 and Water Street Intersection projects.

Additional information on the City's capital assets can be found in Note 3B starting on page 63 of this report.

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

	Governmental Activities		Business-type Activities			
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Land	\$ 1,111,042	\$ 1,111,042	\$ -	\$ 50,000	\$ 50,000	\$ -
Construction in Progress	1,447,829	1,916,072	(468,243)	2,422,142	1,498,984	923,178
Buildings	119,639	134,461	(14,822)	-	-	-
Improvement other than Building	2,929,985	3,039,757	(109,772)	-	-	-
Machinery and Equipment	426,927	449,032	(22,105)	523,500	508,541	14,959
Infrastructure	857,987	504,678	353,319	5,086,242	4,972,236	107,006
Total	\$ 6,693,419	\$ 7,155,042	\$ (261,623)	\$ 9,081,884	\$ 7,036,741	\$ 1,045,143

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,721,687. This amount consists of general obligation revenue and improvement bonds. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Excelsior's Outstanding Debt

	Governmental Activities		Business-type Activities			
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
G.O. Revenue Bonds	\$ -	\$ -	\$ -	\$ 957,000	\$ 1,047,000	\$ (90,000)
G.O. Improvement Bonds	2,289,994	2,383,327	(93,333)	3,300,006	3,386,673	(86,667)
Bond Premium	63,772	68,170	(4,398)	110,915	118,565	(7,650)
Total	\$ 2,353,766	\$ 2,451,497	\$ (97,731)	\$ 4,367,921	\$ 4,552,238	\$ (184,317)

The City's total debt decreased \$282,048 (4.0 percent) during the current fiscal year. The decrease was due to regularly scheduled debt payments.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The City has no outstanding debt subject to the limit.

Additional information on the City's long-term debt can be found in Note 3D starting on page 66 of this report.

Economic Factors and Next Year's Budgets and Rates

- Preliminary property valuations increased again in 2019 for taxes payable 2020. Property values overall are increasing about 5.6 percent within the City, with the largest increases occurring in apartments and commercial properties.
- The 2019 budget includes a 6.0 percent levy increase. This increase was planned to accommodate the future debt levy associated with financing the 2019 Street and Utility Improvement Project which will occur in the College Lake neighborhood. Other 2019 projects include the replacement of the 1978 Lift Station at Excelsior Boulevard, the automation and updating of the Iron Filters at the Water Plant, and Water Street Trail Crossing Improvements.
- Utility Rates for 2019 were modestly increased over 2018, the increases will ensure the City is able to meet both operating and capital expense demands in order to maintain and improve the City's utility infrastructure.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kelly Horn, the Finance Director, City of Excelsior, 339 Third Street, Excelsior, Minnesota 55331.

City of Excelsior, Minnesota
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash temporary investments	\$ 5,063,401	\$ 2,623,083	\$ 7,686,484
Restricted cash and cash temporary investments	-	33,590	33,590
Receivables			
Interest	28,016	-	28,016
Accounts	30,899	358,578	389,477
Delinquent taxes	72,922	-	72,922
Special assessments	695,866	13,167	709,033
Due from other governments	3,862	-	3,862
Prepaid items	5,893	22,827	28,720
Land and construction in progress	2,558,873	2,472,142	5,031,015
Depreciable infrastructure, buildings, property and equipment, net	4,334,546	5,609,742	9,944,288
Total Assets	12,794,278	11,133,129	23,927,407
Deferred Outflows of Resources			
Deferred pension resources	59,408	31,788	91,196
Liabilities			
Accounts payable	309,842	159,872	469,714
Accrued salaries payable	15,004	15,873	30,877
Accrued interest payable	32,092	51,712	83,804
Due to other governments	5,407	5,509	10,916
Unearned revenue	94,060	5,137	99,197
Noncurrent liabilities			
Due within one year			
Compensated absences payable	5,727	5,473	11,200
Bonds payable	175,925	314,074	489,999
Due in more than one year			
Compensated absences payable	11,456	10,949	22,405
Net pension liability	322,985	226,225	549,210
Bonds payable, net	2,177,841	4,053,847	6,231,688
Other postemployment benefits payable	4,702	5,600	10,302
Total Liabilities	3,155,041	4,854,271	8,009,312
Deferred Inflows of Resources			
Deferred pension resources	82,809	64,477	147,286
Net Position			
Net investment in capital assets	4,539,653	3,781,143	8,320,796
Restricted for			
Debt service	500,478	-	500,478
Tax increment financing district	12,757	-	12,757
Park improvements	270,664	-	270,664
Unrestricted	4,292,284	2,465,026	6,757,310
Total Net Position	\$ 9,615,836	\$ 6,246,169	\$ 15,862,005

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

City of Excelsior, Minnesota
Statement of Activities
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 564,267	\$ 59,731	\$ -	\$ -	\$ (504,536)	\$ -	\$ (504,536)
Public safety	1,058,343	669,945	-	-	(388,398)	-	(388,398)
Public works	510,587	3,720	-	486,889	(19,978)	-	(19,978)
Culture and recreation	294,442	115,647	-	-	(178,795)	-	(178,795)
Housing and economic development	113,646	-	-	-	(113,646)	-	(113,646)
Miscellaneous	22,107	-	-	-	(22,107)	-	(22,107)
Interest on long-term debt	77,223	-	-	11,830	(65,393)	-	(65,393)
Total Governmental Activities	2,640,615	849,043	-	498,719	(1,292,853)	-	(1,292,853)
Business-type Activities							
Water utility	483,018	558,133	-	7,486	-	82,601	82,601
Sewer utility	431,872	543,806	-	5,782	-	117,716	117,716
Solid waste	150,973	148,458	-	-	-	(2,515)	(2,515)
Surface water	115,262	148,587	-	3,012	-	36,337	36,337
Street lighting	49,840	59,200	-	-	-	9,360	9,360
Commercial docks	192,365	377,476	-	-	-	185,111	185,111
Total Business-type Activities	1,423,330	1,835,660	-	16,280	-	428,610	428,610
Total	\$ 4,063,945	\$ 2,684,703	\$ -	\$ 514,999	(1,292,853)	428,610	(864,243)
General Revenues							
Taxes							
Property taxes levied for general purposes					1,299,186	-	1,299,186
Property taxes levied for debt service					178,557	-	178,557
Tax increments					121,849	-	121,849
Franchise taxes					70,225	-	70,225
Grants and contributions not restricted to specific programs					5,333	1,952	7,285
Unrestricted investment earnings					23,984	19,908	43,892
Gain on sale of capital assets					30,779	-	30,779
Transfers					280,000	(280,000)	-
Total General Revenues and Transfers					2,009,913	(258,140)	1,751,773
Change in Net Position					717,060	170,470	887,530
Net Position, January 1					8,801,302	6,080,833	14,882,135
Prior Period Restatement (Note 8)					97,474	(5,134)	92,340
Net Position, December 31					\$ 9,615,836	\$ 6,246,169	\$ 15,862,005

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

City of Excelsior, Minnesota

Balance Sheet

Governmental Funds

December 31, 2018

	General	Capital Projects Capital Improvement	Debt Service G.O. Bonds 2017A	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and temporary investments	\$ 1,402,642	\$ 2,763,488	\$ 160,804	\$ 736,467	\$ 5,063,401
Receivables					
Interest	28,016	-	-	-	28,016
Accounts	20,652	9,867	-	380	30,899
Delinquent taxes	62,298	-	-	10,624	72,922
Special assessments	-	230,839	422,787	42,240	695,866
Due from other funds	14,683	-	-	-	14,683
Due from other governments	3,862	-	-	-	3,862
Prepaid items	5,893	-	-	-	5,893
Total Assets	\$ 1,538,046	\$ 3,004,194	\$ 583,591	\$ 789,711	\$ 5,915,542
Liabilities					
Accounts payable	\$ 132,022	\$ 132,604	\$ -	\$ 45,216	\$ 309,842
Accrued salaries payable	14,339	-	-	665	15,004
Due to other funds	-	-	-	14,683	14,683
Due to other governments	4,119	-	-	1,288	5,407
Unearned revenue	94,060	-	-	-	94,060
Total Liabilities	244,540	132,604	-	61,852	438,996
Deferred Inflows of Resources					
Unavailable revenue - special assessments	-	230,839	422,787	42,220	695,846
Unavailable revenue - property taxes	48,448	-	-	-	48,448
Total Deferred Inflows of Resources	48,448	230,839	422,787	42,220	744,294
Fund Balances					
Nonspendable					
Prepaid items	5,893	-	-	-	5,893
Restricted for					
Debt service	-	-	160,804	68,586	229,390
Tax increment financing district	-	-	-	12,757	12,757
Park improvements	-	-	-	270,664	270,664
Committed for					
Self insurance	66,756	-	-	-	66,756
Compensated absences	33,605	-	-	-	33,605
Parking lot maintenance	-	-	-	37,049	37,049
Assigned for					
Capital improvements	-	2,503,420	-	-	2,503,420
Park improvements	-	-	-	128,119	128,119
Parking improvements	-	137,331	-	-	137,331
Parking lot maintenance	-	-	-	183,682	183,682
Unassigned	1,138,804	-	-	(15,218)	1,123,586
Total Fund Balances	1,245,058	2,640,751	160,804	685,639	4,732,252
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,538,046	\$ 3,004,194	\$ 583,591	\$ 789,711	\$ 5,915,542

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

City of Excelsior, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2018

Amounts reported for the governmental activities in the statement of net position are different because

Total Fund Balances - Governmental	\$ 4,732,252
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	9,545,981
Less: accumulated depreciation	(2,652,562)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(17,183)
Bond principal payable	(2,289,994)
Plus premium on bonds issued	(63,772)
Other postemployment benefits payable	(4,702)
Pension liability	(322,985)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.	
Delinquent taxes receivable	48,448
Special assessments receivable	695,846
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	59,408
Deferred inflows of pension resources	(82,809)
Governmental funds do not report a liability for accrued interest until due and payable.	(32,092)
Total Net Position - Governmental Activities	\$ 9,615,836

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

City of Excelsior, Minnesota
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018

	General	Capital Projects Capital Improvement	Debt Service G.O. Bonds 2017A	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,347,108	\$ -	\$ 78,557	\$ 221,849	\$ 1,647,514
Licenses and permits	241,985	-	-	-	241,985
Intergovernmental	3,095	22,351	-	11,830	37,276
Charges for services	389,973	45,553	-	46,180	481,706
Fines and forfeitures	83,752	-	-	-	83,752
Special assessments	153	52,089	24,993	36,621	113,856
Interest on investments	8,241	11,576	430	3,737	23,984
Miscellaneous	4,368	31,035	-	10,032	45,435
Total Revenues	<u>2,078,675</u>	<u>162,604</u>	<u>103,980</u>	<u>330,249</u>	<u>2,675,508</u>
Expenditures					
Current					
General government	573,382	-	-	-	573,382
Public safety	1,058,343	-	-	-	1,058,343
Public works	213,101	-	-	24,771	237,872
Culture and recreation	239,454	-	-	-	239,454
Miscellaneous	22,312	-	-	-	22,312
Capital outlay					
General government	23,827	27,152	-	-	50,979
Public works	44,241	626,264	-	-	670,505
Culture and recreation	-	-	-	6,750	6,750
Housing and economic development	-	-	-	113,646	113,646
Debt service					
Principal	-	-	-	93,333	93,333
Interest and other	-	-	48,176	39,207	87,383
Total Expenditures	<u>2,174,660</u>	<u>653,416</u>	<u>48,176</u>	<u>277,707</u>	<u>3,153,959</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(95,985)</u>	<u>(490,812)</u>	<u>55,804</u>	<u>52,542</u>	<u>(478,451)</u>
Other Financing Sources (Uses)					
Transfers in	80,000	452,377	105,000	300,000	937,377
Capital transfer	-	668,767	-	-	668,767
Sale of capital assets	30,779	-	-	-	30,779
Transfers out	(375,377)	(25,000)	-	(257,000)	(657,377)
Total Other Financing Sources (Uses)	<u>(264,598)</u>	<u>1,096,144</u>	<u>105,000</u>	<u>43,000</u>	<u>979,546</u>
Net Change in Fund Balances	<u>(360,583)</u>	<u>605,332</u>	<u>160,804</u>	<u>95,542</u>	<u>501,095</u>
Fund Balances, January 1	<u>1,605,641</u>	<u>2,035,419</u>	<u>-</u>	<u>590,097</u>	<u>4,231,157</u>
Fund Balances, December 31	<u>\$ 1,245,058</u>	<u>\$ 2,640,751</u>	<u>\$ 160,804</u>	<u>\$ 685,639</u>	<u>\$ 4,732,252</u>

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

City of Excelsior, Minnesota
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances
to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2018

Amounts reported for governmental activities in the statement of activities are different because

Net Change in Fund Balances - Governmental Funds	\$ 501,095
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	623,667
Depreciation expense	(216,523)
Capital transfer	(668,767)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal payments	93,333
Amortization of bond premium	4,398
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	5,762
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	4,541
Pension revenue from State contributions	2,238
<p>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.</p>	
Compensated absences	(1,023)
Other postemployment benefits	(811)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	22,303
Special assessments	346,847
	346,847
Change in Net Position - Governmental Activities	\$ 717,060

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

City of Excelsior, Minnesota
 Statements of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended December 31, 2018

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,366,294	\$ 1,366,294	\$ 1,347,108	\$ (19,186)
Licenses and permits	254,055	254,055	241,985	(12,070)
Intergovernmental	3,095	3,095	3,095	-
Charges for services	400,484	400,484	389,973	(10,511)
Fines and forfeitures	69,575	69,575	83,752	14,177
Special assessments	-	-	153	153
Interest on investments	18,500	18,500	8,241	(10,259)
Miscellaneous	36,550	36,550	4,368	(32,182)
Total Revenues	<u>2,148,553</u>	<u>2,148,553</u>	<u>2,078,675</u>	<u>(69,878)</u>
Expenditures				
Current				
General government	580,347	580,347	573,382	6,965
Public safety	1,002,451	1,002,451	1,058,343	(55,892)
Public works	222,805	222,805	213,101	9,704
Culture and recreation	219,722	219,722	239,454	(19,732)
Miscellaneous	22,010	22,010	22,312	(302)
Capital outlay	15,300	15,300	68,068	(52,768)
Total Expenditures	<u>2,062,635</u>	<u>2,062,635</u>	<u>2,174,660</u>	<u>(112,025)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>85,918</u>	<u>85,918</u>	<u>(95,985)</u>	<u>(181,903)</u>
Other Financing Sources (Uses)				
Transfers in	99,000	99,000	80,000	(19,000)
Sale of capital assets	-	-	30,779	30,779
Transfers out	(184,918)	(184,918)	(375,377)	(190,459)
Total Other Financing Sources (Uses)	<u>(85,918)</u>	<u>(85,918)</u>	<u>(264,598)</u>	<u>(178,680)</u>
Net Change in Fund Balances	-	-	(360,583)	(360,583)
Fund Balances, January 1	<u>1,605,641</u>	<u>1,605,641</u>	<u>1,605,641</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 1,605,641</u></u>	<u><u>\$ 1,605,641</u></u>	<u><u>\$ 1,245,058</u></u>	<u><u>\$ (360,583)</u></u>

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

City of Excelsior, Minnesota
Statement of Net Position (Continued on the Following Pages)
Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks	Surface Water Management	Other Proprietary Funds	Totals
Assets						
Current Assets						
Cash and temporary investments	\$ 848,671	\$ 1,155,263	\$ 264,609	\$ 258,791	\$ 95,749	\$ 2,623,083
Restricted cash and temporary investments	12,767	-	-	20,823	-	33,590
Receivables						
Accounts	147,280	144,779	-	-	66,519	358,578
Special assessments	11,255	294	-	-	-	11,549
Prepaid items	2,238	17,375	2,355	239	620	22,827
Total Current Assets	<u>1,022,211</u>	<u>1,317,711</u>	<u>266,964</u>	<u>279,853</u>	<u>162,888</u>	<u>3,049,627</u>
Noncurrent Assets						
Special assessments receivable	-	1,618	-	-	-	1,618
Capital Assets, at Cost	6,626,417	3,313,284	646,481	776,011	33,303	11,395,496
Less Accumulated Depreciation	(1,848,547)	(926,855)	(410,512)	(111,681)	(16,017)	(3,313,612)
Net Capital Assets	<u>4,777,870</u>	<u>2,386,429</u>	<u>235,969</u>	<u>664,330</u>	<u>17,286</u>	<u>8,081,884</u>
Total Noncurrent Assets	<u>4,777,870</u>	<u>2,388,047</u>	<u>235,969</u>	<u>664,330</u>	<u>17,286</u>	<u>8,083,502</u>
Total Assets	<u>5,800,081</u>	<u>3,705,758</u>	<u>502,933</u>	<u>944,183</u>	<u>180,174</u>	<u>11,133,129</u>
Deferred Outflows of Resources						
Deferred pension resources	9,909	8,691	5,085	10,211	(2,108)	31,788
Liabilities						
Current Liabilities						
Accounts payable	\$ 110,826	\$ 24,270	\$ 2,180	\$ 10,056	\$ 12,540	\$ 159,872
Accrued salaries payable	4,323	4,659	3,207	2,252	1,432	15,873
Compensated absences payable	1,346	1,805	975	827	520	5,473
Accrued interest payable	35,488	10,088	-	6,136	-	51,712
Due to other governments	4,362	61	-	-	1,086	5,509
Unearned revenue	-	-	5,137	-	-	5,137
Bonds payable, current portion	225,570	53,287	-	35,217	-	314,074
Total Current Liabilities	<u>381,915</u>	<u>94,170</u>	<u>11,499</u>	<u>54,488</u>	<u>15,578</u>	<u>557,650</u>
Noncurrent Liabilities						
Compensated absences payable	2,692	3,610	1,949	1,655	1,043	10,949
Bonds payable, net of current portion	2,961,687	703,086	-	389,074	-	4,053,847
Net pension liability	64,562	63,636	43,499	49,050	5,478	226,225
Other postemployment benefits payable	1,237	1,270	2,240	213	640	5,600
Total Noncurrent Liabilities	<u>3,030,178</u>	<u>771,602</u>	<u>47,688</u>	<u>439,992</u>	<u>7,161</u>	<u>4,296,621</u>
Total Liabilities	<u>3,412,093</u>	<u>865,772</u>	<u>59,187</u>	<u>494,480</u>	<u>22,739</u>	<u>4,854,271</u>
Deferred Inflows of Resources						
Deferred pension resources	17,851	18,298	13,088	11,766	3,474	64,477
Net Position						
Net investment in capital assets	1,616,147	1,630,056	235,969	281,685	17,286	3,781,143
Unrestricted	763,899	1,200,323	199,774	166,463	134,567	2,465,026
Total Net Position	<u>\$ 2,380,046</u>	<u>\$ 2,830,379</u>	<u>\$ 435,743</u>	<u>\$ 448,148</u>	<u>\$ 151,853</u>	<u>\$ 6,246,169</u>

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

City of Excelsior, Minnesota
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks	Surface Water Management	Other Proprietary Funds	Totals
Operating Revenues						
Charges for services	\$ 558,133	\$ 543,806	\$ 377,476	\$ 148,587	\$ 207,658	\$ 1,835,660
Operating Expenses						
Personnel services	88,828	97,787	95,286	53,922	30,588	366,411
Supplies	58,910	13,935	4,778	685	264	78,572
Other services and charges	114,397	215,023	73,221	27,695	169,611	599,947
Depreciation	137,956	81,429	19,080	18,659	350	257,474
Total Operating Expenses	400,091	408,174	192,365	100,961	200,813	1,302,404
Operating Income	158,042	135,632	185,111	47,626	6,845	533,256
Nonoperating Revenues (Expenses)						
Interest on investments	8,127	7,639	2,043	1,542	557	19,908
Interest expense and other	(82,927)	(23,698)	-	(14,301)	-	(120,926)
Other income	525	558	420	285	164	1,952
Total Nonoperating Revenues (Expenses)	(74,275)	(15,501)	2,463	(12,474)	721	(99,066)
Income Before Contributions and Transfers	83,767	120,131	187,574	35,152	7,566	434,190
Transfers Out	-	-	(280,000)	-	-	(280,000)
Capital Contributions	7,486	5,782	-	3,012	-	16,280
Change in Net Position	91,253	125,913	(92,426)	38,164	7,566	170,470
Net Position, January 1 as restated (Note 8)	2,288,793	2,704,466	528,169	409,984	144,287	6,075,699
Net Position, December 31	\$ 2,380,046	\$ 2,830,379	\$ 435,743	\$ 448,148	\$ 151,853	\$ 6,246,169

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

City of Excelsior, Minnesota
Statement of Cash Flows (Continued on the Following Pages)
Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds		Totals
	Water	Sewer	Commercial Docks	Surface Water Management	Other Proprietary Funds	
Cash Flows from Operating Activities						
Receipts from customers and users	\$ 538,324	\$ 525,876	\$ 382,833	\$ 148,872	\$ 204,922	\$ 1,800,827
Payments to suppliers	(145,746)	(246,362)	(75,757)	(27,148)	(170,415)	(665,428)
Payments to employees	(109,083)	(118,602)	(90,792)	(59,625)	(35,797)	(413,899)
Net Cash Provided (Used) by Operating Activities	<u>283,495</u>	<u>160,912</u>	<u>216,284</u>	<u>62,099</u>	<u>(1,290)</u>	<u>721,500</u>
Cash Flows from Noncapital Financing Activities						
Receipts from advances to other funds	-	6,301	-	-	-	6,301
Payments on advances from other funds	-	-	(11,666)	-	-	(11,666)
Transfers to other funds	-	-	(280,000)	-	-	(280,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>6,301</u>	<u>(291,666)</u>	<u>-</u>	<u>-</u>	<u>(285,365)</u>
Cash Flows from Capital Financing Activities						
Connection fees	2,754	2,540	-	-	-	5,294
Intergovernmental	4,732	3,242	-	3,012	-	10,986
Acquisition of capital assets	(771,850)	(320,929)	(161,820)	(39,179)	(13,643)	(1,307,421)
Interest paid on bonds	(95,682)	(27,145)	-	(15,849)	-	(138,676)
Principal paid on bonds	(127,334)	(25,577)	-	(23,757)	-	(176,668)
Net Cash Used by Capital Financing Activities	<u>(987,380)</u>	<u>(367,869)</u>	<u>(161,820)</u>	<u>(75,773)</u>	<u>(13,643)</u>	<u>(1,606,485)</u>
Cash Flows from Investing Activities						
Interest received on investments	<u>8,127</u>	<u>7,639</u>	<u>2,043</u>	<u>1,542</u>	<u>557</u>	<u>19,908</u>
Net Decrease in Cash and Cash Equivalents	<u>(695,758)</u>	<u>(193,017)</u>	<u>(235,159)</u>	<u>(12,132)</u>	<u>(14,376)</u>	<u>(1,150,442)</u>
Cash and Cash Equivalents, January 1	<u>1,557,196</u>	<u>1,348,280</u>	<u>499,768</u>	<u>291,746</u>	<u>110,125</u>	<u>3,807,115</u>
Cash and Cash Equivalents, December 31	<u>\$ 861,438</u>	<u>\$ 1,155,263</u>	<u>\$ 264,609</u>	<u>\$ 279,614</u>	<u>\$ 95,749</u>	<u>\$ 2,656,673</u>
Reconciliation to the Proprietary Funds Statement of Net Position						
Cash and temporary investments	\$ 848,671	\$ 1,155,263	\$ 264,609	\$ 258,791	\$ 95,749	\$ 2,623,083
Restricted cash and temporary investments	<u>12,767</u>	<u>-</u>	<u>-</u>	<u>20,823</u>	<u>-</u>	<u>33,590</u>
Total Cash and Cash Equivalents	<u>\$ 861,438</u>	<u>\$ 1,155,263</u>	<u>\$ 264,609</u>	<u>\$ 279,614</u>	<u>\$ 95,749</u>	<u>\$ 2,656,673</u>

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

City of Excelsior, Minnesota
Statement of Cash Flows (Continued)
Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks	Surface Water Management	Other Proprietary Funds	Totals
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities						
Operating income	\$ 158,042	\$ 135,632	\$ 185,111	\$ 47,626	\$ 6,845	\$ 533,256
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Other income related to operations	525	558	420	285	164	1,952
Depreciation	137,956	81,429	19,080	18,659	350	257,474
(Increase) decrease in assets/deferred outflows						
Receivables						
Accounts	(25,433)	(18,929)	-	-	(2,900)	(47,262)
Special assessments	5,099	441	-	-	-	5,540
Prepaid items	(1,923)	(17,375)	450	161	(620)	(19,307)
Deferred pension resources	10,584	11,295	3,732	4,484	3,086	33,181
Increase (decrease) in liabilities/deferred inflows						
Accounts payable	26,671	(393)	1,708	1,071	(657)	28,400
Accrued salaries payable	(675)	(651)	(1,091)	(552)	(534)	(3,503)
Compensated absences payable	(378)	443	504	(178)	302	693
Due to other governments	2,766	61	-	-	737	3,564
Net pension liability	(24,489)	(26,223)	478	(7,950)	(6,681)	(64,865)
Other postemployment benefits payable	47	303	84	8	24	466
Deferred pension resources	(5,297)	(5,679)	871	(1,515)	(1,406)	(13,026)
Unearned revenue	-	-	4,937	-	-	4,937
Net Cash Provided by Operating Activities	\$ 283,495	\$ 160,912	\$ 216,284	\$ 62,099	\$ (1,290)	\$ 721,500
Schedule of Noncash Capital and Financing Activities						
Amortization of bond premium	\$ 5,507	\$ 1,530	\$ -	\$ 612	\$ -	\$ 7,649
Capital assets acquired on account	\$ 67,584	\$ 18,773	\$ -	\$ 7,509	\$ -	\$ 93,866

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

City of Excelsior, Minnesota
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2018

	<u>Agency</u>
Assets	
Cash and temporary investments	<u>\$ 99,279</u>
Liabilities	
Accounts payable	<u>\$ 99,279</u>

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Excelsior, Minnesota (the City), operates under its own Home Rule Charter. The City is governed by an elected Mayor and a four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, 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.

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*, as are the proprietary financial statements. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

The City reports the following major governmental funds:

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

The *Capital Improvement fund* accounts for capital improvement expenditures.

The *G.O. Bonds 2017A Debt Service fund* accounts for the 2017A bond debt activity.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the City's water distribution system.

The *Sewer fund* accounts for the activities of the City's sewage collection operations.

The *Commercial Docks fund* accounts for the operation and maintenance of City owned docks available for lease on Lake Minnetonka.

The *Surface Water Management fund* accounts for the activities of the City's surface water management system.

Additionally, the City reports the following fund types:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting.

The City reports the following agency funds:

The *Escrow fund* is used to account for assets that the City holds for residents and developers related to certain projects going on within the City.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Deposits and Investments

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

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

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better, revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Note 1: Summary of Significant Accounting Policies (Continued)

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

The City has the following recurring fair value measurements as of December 31, 2018:

- US Government securities of \$502,455 are valued using quoted market prices (Level 1 inputs)
- Brokered Certificates of Deposit of \$3,586,952 are valued using a matrix pricing model (Level 2 inputs)

Property Taxes

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

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

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

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

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

Asset	Cost
Land and Land Improvements	\$ 10,000
Other Improvements	25,000
Buildings	25,000
Building Improvements	25,000
Machinery and Equipment	5,000
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

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

Assets	Useful Lives in Years
Land Improvements	15 to 30
Buildings and Improvements	15 to 75
System and Improvements	20 to 60
Office Furniture and Fixtures	7 to 15
Machinery and Equipment	5 to 15
Automotive Equipment	3 to 12

Deferred Outflows of Resources

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

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

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

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is recorded for unpaid accumulated sick leave that is not vested. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund would be used to liquidate the governmental compensated absences payable.

Postemployment Benefits other than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 75, at January 1, 2017. The General Fund is typically used to liquidate governmental other postemployment benefits payable.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bond issuance costs are an expense in the period incurred.

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Furthermore, the City has additional items which qualify for reporting in this category on the statement of net position. The items, deferred pension resources and deferred other postemployment benefit resources, are reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

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

- Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.
- Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.
- Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.
- Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Manager.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds. The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

Net Position

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

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

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Manager, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the City Council. There were no budget amendments during the year.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, expenditures exceeded appropriations in the following funds:

Fund	Final Budget	Actual Amounts	Excess of Expenditures Over Appropriations
General	<u>\$ 2,062,635</u>	<u>\$ 2,174,660</u>	<u>\$ 112,025</u>

These excess expenditures were funded by excess fund balance.

C. Deficit Fund Balances

The following fund had a fund balance deficit at December 31, 2018:

Fund	Amount
TIF 1-2 Project	<u>\$ 15,218</u>

The City plans to fund this deficit with future revenue from tax increment or transfers from other funds.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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

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

Note 3: Detailed Notes on All Funds (Continued)

Carrying Amount of Deposits
Investments
Cash on Hand

\$ 3,644,170
4,174,983
200

Total

\$ 7,819,353

Statement of Net Position
Cash and Temporary Investments
Restricted Cash and Temporary Investments

\$ 7,686,484
33,590

Statement of Fiduciary Net Position
Cash and Temporary Investments

99,279

Total

\$ 7,819,353

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

- **Credit Risk.** Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments to the list on page 55 of the notes.
- **Custodial Credit Risk.** The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk.
- **Concentration of Credit Risk.** Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the City's investment policy, the City diversifies its investment portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities.
- **Interest Rate Risk.** Is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than ten (10) years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. Extended maturities may be utilized to take advantage of higher yields; however, no more than fifty (50) percent of the total investments should extend beyond five (5) years and in no circumstance should any extend beyond fifteen (15) years.

Note 3: Detailed Notes on All Funds (Continued)

Authorized collateral in lieu of a corporate surety bond includes:

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

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$3,644,170 and the bank balance was \$3,662,575. Of the bank balance, \$595,773 was covered by federal depository insurance. The remaining balance was covered by collateral held in the City's name.

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

Investments

As of December 31, 2018, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name:

Types of Investments	Credit Quality/ Rating (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Non-pooled Investments						
U.S. Government Securities	AAA	more than 3 years	\$ 502,455	\$ 502,455	\$ -	\$ -
Brokered Certificates of Deposit	N/A	less than 1 year	1,048,818	-	1,048,818	-
Brokered Certificates of Deposit	N/A	1 to 3 years	1,212,927	-	1,212,927	-
Brokered Certificates of Deposit	N/A	more than 3 years	1,325,207	-	1,325,207	-
Pooled Investments at Amortized Cost						
Broker Money Market	N/A	less than 6 months	85,576	-	-	-
Total Investments			\$4,174,983	\$ 502,455	\$3,586,952	\$ -

- (1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
(2) Interest rate risk is disclosed using the segmented time distribution method.
N/A indicate not applicable or available.

Note 3: Detailed Notes on All Funds (Continued)

B. Capital Assets

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

	Beginning Balance	Capital Transfer	Increases	Decreases	Ending Balance
Governmental Activities					
Capital Assets not being Depreciated					
Land	\$ 1,111,042	\$ -	\$ -	\$ -	\$ 1,111,042
Construction in progress	1,916,072	(668,767)	200,524	-	1,447,829
Total Capital Assets not being Depreciated	3,027,114	(668,767)	200,524	-	2,558,871
Capital Assets being Depreciated					
Buildings	748,150	-	-	-	748,150
Improvements other than buildings	3,649,489	-	-	-	3,649,489
Machinery and equipment	1,013,356	40,253	-	-	1,053,609
Infrastructure	1,152,972	382,890	-	-	1,535,862
Total Capital Assets being Depreciated	6,563,967	-	423,143	-	6,987,110
Less Accumulated Depreciation for					
Buildings	(613,689)	-	(14,822)	-	(628,511)
Improvements other than buildings	(609,732)	-	(109,772)	-	(719,504)
Machinery and equipment	(584,324)	-	(62,358)	-	(646,682)
Infrastructure	(648,284)	-	(29,571)	-	(677,855)
Total Accumulated Depreciation	(2,436,039)	-	(216,523)	-	(2,652,562)
Total Capital Assets being Depreciated, Net	4,127,928	-	206,620	-	4,334,548
Governmental Activities Capital Assets, Net	\$ 7,155,042	\$ (668,767)	\$ 407,144	\$ -	\$ 6,893,419
Depreciation expense was charged to functions/programs of the City as follows:					
Governmental Activities					
General government					\$ 13,026
Public works					154,457
Culture and recreation					49,040
Total Depreciation Expense - Governmental Activities					\$ 216,523

Note 3: Detailed Notes on All Funds (Continued)

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

	Beginning Balance	Capital Transfer	Increases	Decreases	Ending Balance
Business-type Activities					
Capital Assets not being Depreciated					
Land	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
Construction in progress	1,498,964	668,767	254,411	-	2,422,142
Total Capital Assets not being Depreciated	1,548,964	668,767	254,411	-	2,472,142
Capital Assets being Depreciated					
Buildings	8,202	-	-	-	8,202
Machinery and equipment	1,052,189	-	68,214	-	1,120,403
Infrastructure	7,483,524	-	311,225	-	7,794,749
Total Capital Assets being Depreciated	8,543,915	-	379,439	-	8,923,354
Less Accumulated Depreciation for					
Buildings	(8,202)	-	-	-	(8,202)
Machinery and equipment	(543,648)	-	(53,255)	-	(596,903)
Infrastructure	(2,504,288)	-	(204,219)	-	(2,708,507)
Total Accumulated Depreciation	(3,056,138)	-	(257,474)	-	(3,313,612)
Total Capital Assets being Depreciated, Net	5,487,777	-	121,965	-	5,609,742
Business-type Activities Capital Assets, Net	\$ 7,036,741	\$ 668,767	\$ 376,376	\$ -	\$ 8,081,884
Depreciation expense was charged to functions/programs of the City as follows:					
Business-type Activities					
Water utility					\$ 137,956
Sewer utility					81,429
Commercial docks					19,080
Surface water management					18,659
Other proprietary funds					350
Total Depreciation Expense - Business-type Activities					\$ 257,474
Construction Commitments					
2017 Street and Utility Project					\$ 2,809,652
Remaining Commitment					\$ 256,539

Note 3: Detailed Notes on All Funds (Continued)

C. Advances to and from other Funds and Transfers

The composition of advances to and from other funds as of December 31, 2018 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount	Final Maturity
General	TIF District 1-2	Cash flow	\$ 14,683	NA

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

Fund	Transfer In			Total
	General Fund	Capital Improvement Fund	Other Governmental Funds	
General	\$ -	\$ 275,377	\$ -	\$ 275,377
Capital Improvement	-	-	25,000	25,000
Other governmental	-	177,000	80,000	257,000
Commercial Docks	80,000	-	-	280,000
Total	\$ 80,000	\$ 452,377	\$ 105,000	\$ 937,377

The City annually budgets transfers for specific purposes. Annual transfers include transfers designated as a percentage of annual revenues, transfers made to cover funds annual operations, transfers made as part of capital improvement plans, transfers are made for debt service payments and other transfers made for various reasons.

The following transfers were not budgeted but were approved by council.

- There was a \$177,000 transfer from Other Governmental funds to the Capital Improvement fund and was made to fund future projects.
- There was a transfer from the General fund to the Other Governmental funds in the amount of \$100,000. This transfer was made to fund future projects.
- The General fund transferred out \$100,000 to the Capital Improvement fund to fund future projects.

Note 3: Detailed Notes on All Funds (Continued)

D. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities.

General obligation bonds are direct obligations of the City and pledge the full faith and credit of the City.

General Obligation Special Assessment Bonds

The City issued special assessment debt to provide funds for the street improvements. This bond will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City is receiving a Federal Credit for a portion of the interest paid on the bond. Special assessment debt issues are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Taxable G.O. Improvement Bonds, Series 2010A	\$ 2,795,000	0.9 - 4.7 %	10/21/10	02/01/26	\$ 1,620,000
Taxable G.O. Improvement Bonds, Series 2017A	3,970,000	2.5 - 3.0	06/14/17	02/01/33	3,970,000
Total G.O. Revenue Bonds					\$ 5,590,000

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

Year Ending December 31,	General Obligation Bonds Governmental Activities		General Obligation Bonds Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2019	\$ 175,925	\$ 74,190	\$ 250,115	\$ 224,074	\$ 326,234
2020	178,518	68,386	246,904	231,482	326,356
2021	183,518	62,167	245,685	236,482	323,605
2022	186,110	55,625	241,735	243,890	322,880
2023	196,296	48,719	245,015	253,704	324,144
2024 - 2028	819,627	138,002	957,629	1,155,374	1,375,920
2029 - 2033	550,000	42,019	592,019	955,000	1,028,200
Total	\$ 2,289,994	\$ 489,108	\$ 2,779,102	\$ 3,300,006	\$ 4,027,339

Note 3: Detailed Notes on All Funds (Continued)

General Obligation Revenue Bonds

The following bonds were issued to finance improvements to the water and sewer system. They will be repaid with revenue generated from the system.

Description	Authorized	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Bonds, Series 2007A	\$ 680,000	3.85 - 4.35 %	08/15/07	02/01/23	\$ 270,000
MPFA - 2014A Water Revenue Bonds	920,313	1.00	06/02/14	08/20/34	687,000
Total G.O. Revenue Bonds					<u>\$ 957,000</u>

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

Year Ending December 31,	General Obligation Revenue Bonds	
	Principal	Business-type Activities Interest
2019	\$ 90,000	\$ 17,373
2020	90,000	15,273
2021	96,000	12,241
2022	96,000	9,466
2023	102,000	6,555
2024 - 2028	213,000	19,920
2029 - 2033	224,000	9,520
2034	46,000	920
Total	<u>\$ 957,000</u>	<u>\$ 91,268</u>

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable					
General obligation improvement bonds	\$ 2,383,327	\$ -	\$ (93,333)	\$ 2,289,994	\$ 175,925
Bond premium	68,170	-	(4,398)	63,772	-
Compensated absences payable	16,160	39,722	(38,699)	17,183	5,727
Other postemployment benefits payable	101,365	-	(96,663)	4,702	-
Pension liability	353,687	17,326	(48,028)	322,985	-
GERF					
Governmental Activity Long-term Liabilities	<u>\$ 2,922,709</u>	<u>\$ 57,048</u>	<u>\$ (281,121)</u>	<u>\$ 2,698,636</u>	<u>\$ 181,652</u>
Business-type Activities					
Bonds payable					
General obligation revenue bonds	\$ 1,047,000	\$ -	\$ (90,000)	\$ 957,000	\$ 90,000
General obligation improvement bonds	3,386,673	-	(86,667)	3,300,006	224,074
Bond premium	116,565	-	(7,650)	110,915	-
Compensated absences payable	15,729	38,662	(37,969)	16,422	5,473
Other postemployment benefits payable	-	-	5,600	5,600	-
Pension liability	291,090	8,563	(73,428)	226,225	-
GERF					
Business-type Activity Long-term Liabilities	<u>\$ 4,859,057</u>	<u>\$ 47,225</u>	<u>\$ (290,114)</u>	<u>\$ 4,616,168</u>	<u>\$ 319,547</u>

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota 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.

GERF 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 Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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.

C. Contributions

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

GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018. The City was required to contribute 7.50 percent for Coordinated Plan members in fiscal year 2018. The City's contributions to the GERF for the years ending December 31, 2018, 2017 and 2016 were \$50,273, \$49,164, and \$47,992, respectively. The City's contributions were equal to the required contributions for each year as set by Minnesota statute.

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

D. Pension Costs

GERF Pension Costs

At December 31, 2018, the City reported a liability of \$549,210 for its proportionate share of the GERF'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 2016. 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 \$17,972. 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's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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's proportionate share was 0.0099 percent which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized negative pension expense of \$2,398 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$4,191 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERF.

At December 31, 2018, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

Deferred outflows of resources totaling \$24,609 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 14,528	\$ 14,422
Changes in Actuarial Assumptions	52,059	61,710
Net Difference between Projected and Actual Earnings on Plan Investments	-	57,062
Changes in Proportion Contributions to GERF Subsequent to the Measurement Date	24,609	-
Total	<u>\$ 91,196</u>	<u>\$ 147,286</u>
2019		\$ 13,898
2020		(34,462)
2021		(48,684)
2022		(11,451)

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities 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 after retirement for retirees are assumed to be 1.25 percent per year for GERS.

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 GERS plan was completed in 2015. 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:

GERS

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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 Real Rate of Return	%
Domestic Stocks	36.00	5.10	%
International Stocks	17.00	5.30	
Bonds (Fixed Income)	20.00	0.75	
Alternative Assets (Private Markets)	25.00	5.90	
Cash	2.00	-	
Total	100.00		%

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERS was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	City Proportionate Share of NPL	
	1 Percent Decrease (6.50%)	1 Percent Increase (8.50%)
GERS	\$ 892,539	\$ 549,210
		\$ 265,804

H. Pension Plan Fiduciary Net Position

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

Note 5: Postemployment Benefits Other than Pensions

A. Plan Description

The City provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage administered by Health Partners. Contribution requirements are established by the City, based on the contract terms with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. It is the City's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

At December 31, 2018, the following employees were covered by the benefit terms:

Active Plan Members	10
---------------------	----

B. Funding Policy

Contribution requirements are also negotiated between the City and union representatives. The City contributes a predetermined portion of the cost or current-year premiums for eligible retired plan members and their spouses based on the employment contract in effect at the time of retirement. For the year 2018, the City made no contributions to the Plan.

Note 5: Postemployment Benefits Other than Pensions (Continued)

C. Actuarial Methods and Assumptions

The City's total OPEB liability of \$10,302 was measured as of December 31, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of January 1, 2018. Roll forward procedures were used to roll forward the total OPEB liability to the measurement date.

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	4.09%
Expected Long-Term Investment Return	N/A
20-Year Municipal Bond Yield	4.09%
Inflation Rate	2.75%
Salary Increases	3.50%
Medical Trend Rate	8.5% in 2017 decreasing 0.5% per year to an ultimate rate of 5.00%
Healthcare Claims Costs	Average group premium increased for age differences at 4.00% per year

The discount rate used to measure the total OPEB liability was 4.09 percent. Expected benefit payments by year were discounted using the expected asset 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 20-year municipal bond rate. The equivalent single rate is the discount rate.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the December 31, 2018 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

D. Changes in Total OPEB Liability

Balances at December 31, 2017	\$ 9,024
Changes for the Year:	
Service cost	1,533
Interest	363
Changes in assumptions or other inputs	(618)
Net Changes	1,278
Balances at December 31, 2018	\$ 10,302

Note 5: Postemployment Benefits Other than Pensions (Continued)

E. Sensitivity of the Total OPEB Liability

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 1-percentage point lower (3.09 percent) or 1-percentage-point higher (5.09 percent) than the current discount rate:

	1 Percent Increase (3.09%)	Current (4.09%)	1 Percent Decrease (5.09%)
\$	9,417	\$ 10,302	\$ 11,266

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 Rates that is 1-percentage point lower (8.5 percent decreasing to 5.00 percent) or 1-percentage-point higher (9.50 percent increasing to 6.00 percent) than the current discount rate:

	1 Percent Decrease (7.5% Decreasing to 4%)	Healthcare Cost Trend Rates (8.5% Decreasing to 5%)	1 Percent Increase (9.5% Decreasing to 6%)
\$	8,785	\$ 10,302	\$ 12,176

F. OPEB Expense Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$1,278.

Note 6: Joint Powers Agreements

A. South Lake Minnetonka Police Department

The City participates in a joint powers agreement with the cities of Greenwood, Shorewood, and Tonka Bay, which establishes the South Lake Minnetonka Police Department (the Department) for the purpose of providing police protection within the four communities. The agreement creates a coordinating committee, comprised of the Mayor of each participating community as the governing body, which meets quarterly. Each year, the coordinating committee adopts an operating budget, which is approved by all participating cities. The cost of the budget is divided between the participating cities based upon a five-year average demand for services in each city.

Any budget shortfall is made up first from department reserves, with any excess shortfall assessed to each participating community according to the formula. The most recent year of audited information is December 31, 2017.

South Lake Minnetonka Police Department
Statement of Net Assets
December 31, 2017 and 2016

	2017	2016
Assets		
Deferred Outflows of Resources	\$ 4,954,091	\$ 4,885,721
	<u>2,929,694</u>	<u>3,653,168</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 7,883,785</u>	<u>\$ 8,538,889</u>
Liabilities		
Deferred Inflows of Resources	\$ 4,315,173	\$ 7,953,009
Net Position	3,483,091	691,931
	<u>85,521</u>	<u>(106,051)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 7,883,785</u>	<u>\$ 8,538,889</u>

Note 6: Joint Powers Agreements (Continued)

South Lake Minnetonka Police Department
Summary Statement of Activities
For the Years Ended December 31, 2017 and 2016

	2017	2016
Revenues	\$ 3,032,374	\$ 2,949,600
Expenses	2,867,866	3,351,688
Net Revenues	<u>164,508</u>	<u>(402,088)</u>
General Revenues	27,064	21,321
Change in Net Position	191,572	(380,767)
Net Position, January 1	<u>(106,051)</u>	<u>274,716</u>
Net Position, December 31	<u>\$ 85,521</u>	<u>\$ (106,051)</u>

According to a formula in the agreement, the City's share of the District's budget is 28.1 percent on operation and 14.92 percent on capital. Payments to the District in 2018 totaled \$765,324. The Department issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the South Lake Police Department, 24150 Smithtown Road, Shorewood, Minnesota 55331.

B. Excelsior Fire District

In August of 2000, the City, along with the cities of Deephaven, Greenwood, Shorewood, and Tonka Bay, entered a joint powers agreement to provide fire protection and medical response service to their residents and created an entity called the Excelsior Fire District (the District). Previously, the City had operated a fire department that provided service to these cities.

Selected financial information is shown below and on the following page for the most recent year of audited information, which is December 31, 2018:

Excelsior Fire District
Statement of Net Assets
December 31, 2018 and 2017

	2018	2017
Assets		
Deferred Outflows of Resources	\$ 9,855,170	\$ 9,407,489
	<u>425,309</u>	<u>739,512</u>
Liabilities	3,359,543	4,046,038
Deferred Inflows of Resources	<u>912,960</u>	<u>614,275</u>
Net Position	<u>\$ 6,007,976</u>	<u>\$ 5,486,688</u>

Note 6: Joint Powers Agreements (Continued)

Excelsior Fire District
Summary Statement of Activities
For the Years Ended December 31, 2018 and 2017

	2018	2017
Charges for Services	\$ 1,769,508	\$ 1,757,900
Operating Grants and Contributions	980	1,441
Expenses	(1,311,920)	(1,469,776)
Net Revenues	458,568	289,565
General Revenues	62,720	4,817
Change in Net Position	521,288	294,382
Net Position, January 1 as Restated	5,486,688	5,192,306
Net Position, December 31	\$ 6,007,976	\$ 5,486,688

According to a formula in the agreement, the City's share of the District's budget is 10.64 percent. Payments to the District in 2018 totaled \$207,621. The District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Excelsior Fire District, 24100 Smithtown Road, Shorewood, Minnesota 55331.

C. St. Alban's Bay Lake Improvement District

In February 2015, the City, along with the city of Greenwood, entered a joint powers agreement for the Lake Improvement District to be established for the management and control of Aquatic Invasive Species in St. Alban's Bay, Lake Minnetonka. The parties have determined that each City is more economically and efficiently served by establishing the Lake Improvement District together to manage and monitor the water resource.

Note 7: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$1,000,000. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

Note 7: Other Information (Continued)

B. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and, therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no outstanding debt subject to the limit.

C. Tax Increment Districts

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

The City has entered into "pay as you go" Tax Increment Financing notes within its TIF districts. These notes are payable only to the extent of the increment received. As a result they are a commitment within the district but they have not met the criteria to be reported as a liability on the statement of net position.

Note 8: Change in Accounting Principle

During fiscal year 2018, the City implemented a new accounting pronouncement issued by the Government Accounting Standards Board (GASB), Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2018 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 1.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2017 balances to the December 31, 2018 financial statements:

Fund	Net Position January 1, 2018 as Previously Reported	Prior Period Restatement	Net Position January 1, 2018 as Restated
Governmental Activities	\$ 8,801,302	\$ 97,474	\$ 8,898,776
Business-type Activities	\$ 6,080,833	\$ (5,134)	\$ 6,075,699
Business-type Activities			
Water	\$ 2,289,983	\$ (1,190)	\$ 2,288,793
Sewer	2,705,433	(1,378)	2,704,055
Street Lighting	27,188	(205)	26,983
Commercial Docks	530,325	(2,156)	528,169
Surface Water Management	410,189	(205)	409,984
Solid Waste	117,705	-	117,705
Total Business-Type Activities	\$ 6,080,833	\$ (5,134)	\$ 6,075,699

City of Excelsior, Minnesota
Required Supplementary Information
December 31, 2018

City of Excelsior, Minnesota
Required Supplementary Information (Continued)
December 31, 2018

Schedule of Changes in the City's OPEB Liability and Related Ratios

	2018
Total OPEB Liability	\$ 1,533
Service cost	363
Interest	(619)
Changes in assumptions	1,278
Net Change in Total OPEB Liability	9,024
Total OPEB Liability - Beginning	\$ 10,302
Total OPEB Liability - Ending	\$ 700,000
Covered Payroll	1.47 %
City's total OPEB liability as a percentage of covered employee payroll	1.47 %

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

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

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Covered Payroll ((a+b)/(c))	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position	City's Covered Payroll as a Percentage of the Total Pension Liability
06/30/18	0.0099 %	\$ 549,210	\$ 17,972	\$ 567,182	\$ 663,082	85.5 %		79.5 %
06/30/17	0.0101	644,777	8,104	652,881	650,346	100.4		75.9
06/30/16	0.0102	828,189	10,886	839,075	635,783	132.0		68.9
06/30/15	0.0103	533,799	-	533,799	607,741	87.8		78.2

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

Schedule of Employer's PERA Contributions - General Employees Retirement Fund

Year Ending	Contributions in Relation to the Statutorily Required Contribution			City's Covered Payroll	Contributions as a Percentage of Covered Payroll
	(a)	(b)	(a-b)		
2018	\$ 50,273	\$ 50,273	\$ -	\$ 670,307	7.50 %
2017	49,164	49,164	-	655,520	7.50
2016	47,982	47,982	-	639,893	7.50
2015	46,043	46,043	-	613,907	7.50

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

Notes to the Required Supplementary Information - General Employees Retirement Fund

Changes in Actuarial Assumptions

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

Changes in Plan Provisions

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

City of Excelsior, Minnesota
\$5,985,000* General Obligation Street Reconstruction 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 \$5,907,195) 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	_____ %	_____ %	_____ %	2031	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2032	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2033	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %	2034	_____ %	_____ %	_____ %
2025	_____ %	_____ %	_____ %	2035	_____ %	_____ %	_____ %
2026	_____ %	_____ %	_____ %	2036	_____ %	_____ %	_____ %
2027	_____ %	_____ %	_____ %	2037	_____ %	_____ %	_____ %
2028	_____ %	_____ %	_____ %	2038	_____ %	_____ %	_____ %
2029	_____ %	_____ %	_____ %	2039	_____ %	_____ %	_____ %
2030	_____ %	_____ %	_____ %	2040	_____ %	_____ %	_____ %

Designation of Term Maturities

Years of Term Maturities _____

In making this offer on the sale date of August 19, 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.