

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 2, 2019

NEW ISSUE
NOT BANK QUALIFIED

S&P Rating: Requested

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

\$33,735,000*

City of Elk River, Minnesota

General Obligation Sales Tax Revenue Bonds, Series 2019A
(the "Bonds")

(Book Entry Only)

Dated Date: Date of Delivery

Interest Due: Each June 1 and December 1,
commencing June 1, 2020

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

2020	\$605,000	2025	\$1,015,000	2030	\$1,240,000	2035	\$1,490,000	2040	\$1,740,000
2021	\$870,000	2026	\$1,060,000	2031	\$1,285,000	2036	\$1,535,000	2041	\$1,795,000
2022	\$905,000	2027	\$1,100,000	2032	\$1,340,000	2037	\$1,585,000	2042	\$1,855,000
2023	\$940,000	2028	\$1,145,000	2033	\$1,390,000	2038	\$1,630,000	2043	\$1,920,000
2024	\$980,000	2029	\$1,190,000	2034	\$1,450,000	2039	\$1,685,000	2044	\$1,985,000

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

The Bonds are general obligations of the City for which the City pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge a sales and use tax of one-half of one percent (0.50%) for repayment of the Bonds. The proceeds of the Bonds will be used to finance the acquisition and betterment of certain recreational facility improvements, park improvements, trail improvements, and dredging of Lake Orono.

Proposals shall be for not less than \$33,735,000 (Par) 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 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 19, 2019.

PROPOSALS RECEIVED: Monday, August 19, 2019 until 11:00 A.M., Central Time
CONSIDERATION OF AWARD: Council meeting commencing at 6:00 P.M., CT on Monday, August 19, 2019



now joined with
Springsted and Umbaugh

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

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 ELK RIVER, MINNESOTA

CITY COUNCIL

John Dietz	Mayor
Garrett Christianson	Council Member, Ward 1
Matthew Westgaard	Council Member, Ward 2
Nate Ovall	Council Member, Ward 3
Jennifer Wagner	Council Member, Ward 4

CITY ADMINISTRATOR

Calvin Portner

FINANCE DIRECTOR

Lori Ziemer

MUNICIPAL ADVISOR

Baker Tilly Municipal Advisors, LLC
Saint Paul, Minnesota

BOND COUNSEL

Kennedy & Graven, Chartered
Minneapolis, Minnesota

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

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

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

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

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

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

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 and State Tax Considerations.....	7
Not Bank-Qualified Tax-Exempt Obligations	7
Rating.....	8
Municipal Advisor	8
Certification	8
City Property Values.....	9
City Indebtedness.....	10
City Tax Rates, Levies and Collections	15
Funds on Hand	16
Investments	16
General Information Concerning the City	17
Governmental Organization and Services.....	22
Proposed Form of Legal Opinion	Appendix I
Continuing Disclosure Certificate.....	Appendix II
Summary of Tax Levies, Payment Provisions, and Minnesota Real Property Valuation	Appendix III
Excerpt of 2018 Comprehensive 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

\$33,735,000*

CITY OF ELK RIVER, MINNESOTA

GENERAL OBLIGATION SALES TAX REVENUE BONDS, SERIES 2019A

(BOOK ENTRY ONLY)

Proposals for the above-referenced obligations (the “Bonds”) will be received by the City of Elk River, Minnesota (the “City”) on Monday, August 19, 2019 (the “Sale Date”) until 11:00 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 6:00 P.M., Central Time, of the same day.

SUBMISSION OF PROPOSALS

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

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

OR

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

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

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

* *Preliminary; subject to change.*

DETAILS OF THE BONDS

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

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

2020	\$605,000	2025	\$1,015,000	2030	\$1,240,000	2035	\$1,490,000	2040	\$1,740,000
2021	\$870,000	2026	\$1,060,000	2031	\$1,285,000	2036	\$1,535,000	2041	\$1,795,000
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2024	\$980,000	2029	\$1,190,000	2034	\$1,450,000	2039	\$1,685,000	2044	\$1,985,000

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

SECURITY AND PURPOSE

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge a sales and use tax of one-half of one percent (0.50%) for repayment of the Bonds. The proceeds of the Bonds will be used to finance the acquisition and betterment of certain recreational facility improvements, park improvements, trail improvements, and dredging of Lake Orono.

BIDDING PARAMETERS

Proposals shall be for not less than \$33,735,000 (Par) 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 \$337,350 (the “Deposit”) no later than 2:00 P.M., Central Time on the Sale Date. The Deposit may be delivered as described herein in the form of either (i) a certified or cashier’s check payable to the City; or (ii) a wire transfer. The Purchaser shall be solely responsible for the timely delivery of its Deposit whether by check or wire transfer. Neither the City nor Baker Tilly MA have any liability for delays in the receipt of the Deposit. If the Deposit is not received by the specified time, the City may, at its sole discretion, reject the proposal of the lowest bidder, direct the second lowest bidder to submit a Deposit, and thereafter award the sale to such bidder.

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

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

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

AWARD

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

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

BOND INSURANCE AT PURCHASER’S OPTION

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

CUSIP NUMBERS

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

SETTLEMENT

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

CONTINUING DISCLOSURE

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

OFFICIAL STATEMENT

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

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

Dated July 15, 2019

BY ORDER OF THE CITY COUNCIL

/s/ Tina Allard
City Clerk

OFFICIAL STATEMENT

\$33,735,000*

CITY OF ELK RIVER, MINNESOTA

GENERAL OBLIGATION SALES TAX REVENUE BONDS, SERIES 2019A

INTRODUCTORY STATEMENT

This Official Statement contains certain information relating to the City of Elk River, Minnesota (the “City”) and its issuance of \$33,735,000* General Obligation Sales Tax Revenue Bonds, Series 2019A (the “Bonds”). The Bonds are general obligations of the City for which it pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge a sales and use tax of one-half of one percent (0.50%) for repayment of the Bonds.

Inquiries may be directed to Ms. Lori Ziemer, Finance Director, City of Elk River, 13065 Orono Parkway, Elk River, Minnesota 55330-0490, by telephoning (763) 635-1022, or by emailing lziemer@elkrivermn.gov. Inquiries may also be made to Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887, by telephoning (651) 223-3000, or by emailing bond_services@bakertilly.com.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 (the “Rule”), pursuant to the Awarding Resolution, the City has covenanted to comply with the continuing disclosure undertaking (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 the Municipal Securities Rulemaking Board annually, and to provide notices of the occurrence of certain events enumerated in the Rule to 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 City Clerk of the City.

The City believes it has complied for the past five years in all material respects with the terms of its previous continuing disclosure undertakings entered into pursuant to the Rule, except to the extent the following are deemed to be material. In reviewing its past disclosure practices, the City notes the following:

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

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 December 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 June 1 and December 1 of each year, commencing June 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 December 1, 2028, and on any day thereafter, to redeem Bonds due on or after December 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, Minnesota Laws 2019, First Special Session, Chapter 6, Article 6, Section 17 and a referendum held on November 6, 2018. The referendum passed with a vote of 6,827 in favor to 3,702 against. Voters approved the authorization to impose a sales and use tax of one-half of one percent (0.05%) for approximately 25 years for issuance of bonds to finance \$35,000,000 plus an amount equal to interest and the costs of issuance to finance the acquisition and betterment of certain recreational facility improvements, park improvements, trail improvements, and dredging of Lake Orono.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal Amount	\$33,735,000
Original Issue Premium	<u>2,247,277</u>
Total Sources of Funds	\$35,982,277
Uses of Funds:	
Deposit to Project Fund	\$35,000,000
Capitalized Interest/Working Capital	700,000
Underwriter's Compensation	168,675
Costs of Issuance	<u>113,602</u>
Total Uses of Funds	\$35,982,277

SECURITY AND FINANCING

The Bonds are general obligations of the City for which the City pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the City will pledge sales and use tax revenues for repayment of the Bonds. A portion of the Bonds in the amount of approximately \$700,000 will be available to the City, if needed, to pay debt service resulting from any shortfall of sales tax revenues, in the City's discretion, rather than levying taxes in that amount for repayment of the Bonds. Each year's collection of sales and use tax revenues and taxes, if required, will be sufficient to pay 105% of the debt service due on the Bonds in each year.

FUTURE FINANCING

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

LITIGATION

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

LEGALITY

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

TAX EXEMPTION

At closing Kennedy & Graven, Chartered, of Minneapolis, Minnesota, Bond Counsel for the Bonds, will render an opinion that, at the time of their issuance and delivery to the original purchaser, under present federal and State of Minnesota laws, regulations, rulings and decisions (which excludes any pending legislation which may have a retroactive effect), the interest on the Bonds is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, from taxable net income of individuals, estates and trusts for Minnesota income purposes, and is not a preference item for purposes of computing the federal alternative minimum tax or the Minnesota alternative minimum tax imposed on individuals, trusts, and estates. Such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. No opinion will be expressed by Kennedy & Graven regarding other federal or state tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds. Preservation of the exclusion of interest on the Bonds from federal gross income and state gross and taxable net income, however, depends upon compliance by the City with all requirements of the Internal Revenue Code of 1986, as amended, (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from federal gross income and state gross and taxable net income.

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

Original Issue Premium

Certain maturities of the Bonds (the “Premium Bonds”) may be sold to the public at an amount in excess of their stated redemption price at maturity. Such excess of the purchase price of such Premium Bonds over the stated redemption price at maturity constitutes original issue premium with respect to such Premium Bonds. A purchaser of a Premium Bond must amortize any original issue premium over the term of such Premium Bond using constant yield principles, based on the purchaser’s yield to maturity. As original issue premium is amortized, the purchaser’s basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or a decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of any Premium Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Original Issue Discount

Certain maturities of the Bonds (the “Discount Bonds”) are being sold at a discount from the principal amount payable on such Discount Bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the “Issue Price”) and the principal amount payable at maturity constitutes “original issue discount” under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under section 1288 of the Code is excluded from federal gross income to the same extent that stated interest on such Discount Bond would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under section 1288 is added to the owner’s federal tax basis in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity).

Interest in the form of original issue discount accrues under section 1288 pursuant to a constant yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased at a price that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond.

No opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Holders of Discount Bonds should consult their tax advisors with respect to the computation and accrual of original issue discount for federal income tax purposes and with respect to the state and local tax consequences of owning such Discount Bonds.

OTHER FEDERAL AND STATE TAX CONSIDERATIONS

Property and Casualty Insurance Companies

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

Foreign Insurance Companies

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

Branch Profits Tax

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

Passive Investment Income of S Corporations

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

General

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

NOT BANK-QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds will not be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations. Financial institutions are not generally entitled to a deduction for interest expenses allocable to the owners of tax-exempt obligations purchased after August 7, 1986.

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

Assessment/ Collection Year	Assessor's Estimated Market Value	Sales Ratio ^(a)	Economic Market Value ^(b)	Market Value Homestead Exclusion	Taxable Market Value	Adjusted Taxable Net Tax Capacity
2018/19	\$2,374,405,900	92.4%	\$2,575,300,087	\$106,450,305	\$2,239,636,472	\$26,006,616
2017/18	2,184,397,000	91.2	2,391,453,705	115,921,988	2,045,513,575	24,046,382
2016/17	2,071,949,400	94.5	2,193,023,667	120,881,186	1,929,048,470	22,868,723
2015/16	1,989,809,400	93.1	2,135,463,610	123,575,100	1,846,328,700	22,031,258
2014/15	1,900,894,800	91.2	2,077,854,452	129,006,800	1,754,483,500	21,227,938

(a) 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>.

(b) 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: Sherburne County, Minnesota, July 2019, except as otherwise noted.

2018/19 Adjusted Taxable Net Tax Capacity: \$26,006,616

Real Estate:		
Residential Homestead	\$15,654,312	59.7%
Commercial/Industrial, Railroad and Public Utility	7,394,379	28.2
Residential Non-Homestead	2,392,401	9.1
Agricultural, Seasonal Recreational and Other	355,886	1.4
Personal Property	<u>408,699</u>	<u>1.6</u>
2018/19 Net Tax Capacity	\$26,205,677	100.0%
Less: Captured Tax Increment	<u>(199,061)</u>	
2018/19 Adjusted Taxable Net Tax Capacity	\$26,006,616	

Ten of the Largest Taxpayers in the City

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018/19 Net Tax Capacity</u>
Great River Energy	Utility	\$ 925,325
JPM Capital Corporation	Commercial	364,100
Target Corporation	Commercial	252,326
Bre Retail Residual Owner 5 LLC	Commercial	235,078
Minnegasco Property Accounting	Utility	222,964
Wal Mart Stores, Inc.	Commercial	199,136
Broadstone STI Minnesota LLC	Commercial	135,018
Menards, Inc.	Commercial	132,604
Home Depot USA Inc	Commercial	110,342
Meritex Elk River LLC	Commercial	<u>106,244</u>
Total		\$2,683,137*

* Great River Energy represents 3.5% of the City's 2018/19 adjusted taxable net tax capacity. The remaining nine taxpayers represent 6.7% 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)	\$71,232,177
Less: Outstanding Debt Subject to Limit	<u>(13,531,667)</u>
Legal Debt Margin as of September 19, 2019	\$57,700,510

* 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.

General Obligation Debt Supported Solely by Taxes*

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
4-21-10	\$7,370,000	Capital Improvements	2-1-2023	\$2,595,000
3-15-12	6,975,000	Capital Improvements	2-1-2033	<u>5,160,000</u>
Total				\$7,755,000

* These issues are subject to the legal debt limit.

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 9-19-19</u>
2-20-08	\$ 3,085,000	Water Revenue Refunding	2-1-2022	\$ 780,000
8-21-14	10,000,000	Sewer Revenue	2-1-2035	<u>8,360,000</u>
Total				\$9,140,000

General Obligation Sales Tax Revenue Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
9-19-19	\$33,735,000	Improvements (the Bonds)	12-1-2044	\$33,735,000

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 9-19-19</u>
7-14-16	\$9,755,000	Electric Revenue	2-1-2036	\$ 9,345,000
7-14-16	1,370,000	Electric Revenue Refunding	2-1-2022	705,000
9-26-18	10,000,000	Electric Revenue	8-1-2048	<u>9,775,000</u>
Total				\$19,825,000

Estimated Calendar Year Debt Service Payments Including the Bonds

<u>Year</u>	<u>G.O. Debt Supported Solely by Taxes</u>		<u>G.O. Utility Revenue Debt</u>	
	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal</u>	<u>Principal & Interest</u>
2019 (at 9-19)	(Paid)	(Paid)	(Paid)	(Paid)
2020	\$ 930,000	\$1,134,975	\$ 680,000	\$ 942,703
2021	960,000	1,133,625	700,000	945,075
2022	995,000	1,136,125	720,000	946,633
2023	1,030,000	1,137,375	455,000	666,518
2024	350,000	436,675	465,000	665,018
2025	355,000	434,625	480,000	668,205
2026	360,000	432,025	490,000	665,468
2027	370,000	433,813	500,000	661,230
2028	380,000	435,138	520,000	665,930
2029	385,000	430,813	530,000	660,180
2030	395,000	431,063	550,000	663,293
2031	405,000	431,063	570,000	664,665
2032	415,000	430,813	585,000	660,030
2033	425,000	430,313	610,000	664,715
2034			630,000	663,635
2035			655,000	666,463
Total	\$7,755,000^(a)	\$8,868,441	\$9,140,000^(b)	\$11,469,761

(a) 78.9% of this debt will be retired within ten years.

(b) 60.6% of this debt will be retired within ten years.

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

Year	G.O. Sales Tax Revenue Debt		Utility Revenue Debt	
	Principal	Principal & Interest	Principal	Principal & Interest
2019 (at 9-19)	-0-	-0-	(Paid)	(Paid)
2020	\$ 605,000	\$ 2,057,015	\$ 840,000	\$ 1,492,431
2021	870,000	2,055,813	865,000	1,486,431
2022	905,000	2,056,013	900,000	1,489,081
2023	940,000	2,054,813	680,000	1,240,531
2024	980,000	2,057,213	705,000	1,240,906
2025	1,015,000	2,053,013	730,000	1,240,331
2026	1,060,000	2,057,413	760,000	1,246,431
2027	1,100,000	2,055,013	785,000	1,249,031
2028	1,145,000	2,056,013	805,000	1,245,881
2029	1,190,000	2,055,213	825,000	1,243,881
2030	1,240,000	2,057,613	855,000	1,250,513
2031	1,285,000	2,053,013	875,000	1,245,531
2032	1,340,000	2,056,613	900,000	1,244,119
2033	1,390,000	2,053,013	930,000	1,246,163
2034	1,450,000	2,057,413	955,000	1,240,656
2035	1,490,000	2,053,913	990,000	1,243,456
2036	1,535,000	2,054,213	1,030,000	1,249,906
2037	1,585,000	2,057,395	365,000	560,706
2038	1,630,000	2,053,260	380,000	561,106
2039	1,685,000	2,056,100	395,000	560,906
2040	1,740,000	2,056,338	410,000	562,081
2041	1,795,000	2,053,918	425,000	562,731
2042	1,855,000	2,053,785	440,000	562,856
2043	1,920,000	2,055,715	455,000	562,456
2044	1,985,000	2,054,475	470,000	561,531
2045			485,000	559,494
2046			505,000	561,913
2047			525,000	563,606
2048			540,000	559,575
Total	\$33,735,000^(b)	\$51,384,309	\$19,825,000^(c)	\$28,634,240

(a) Includes debt service on the Bonds based on an assumed average annual interest rate of 3.46%.

(b) 29.1% of this debt will be retired within ten years.

(c) 39.8% of this debt will be retired within ten years.

**Elk River Economic Development Authority
General Obligation Debt Supported by Taxes***

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
2-12-13	\$9,685,000	Refunding	2-1-2033	\$8,665,000

* *This issue was issued by the Elk River Economic Development Authority (the "Authority"), but is secured by the City's full faith and credit and taxing powers. Two-thirds of the debt is paid by taxes and is subject to the to the City's legal debt limit. The remaining one-third of the debt is paid by The Young Men's Christian Association of Metropolitan Minneapolis ("YMCA") and is not subject to the legal debt limit. The total aggregate principal amount subject to the debt limit as of September 19, 2019 is \$5,776,667.*

**Elk River Economic Development Authority
Estimated Calendar Year Debt Service Payments**

<u>Year</u>	<u>G.O. Debt Supported by Taxes</u>	
	<u>Principal</u>	<u>Principal & Interest</u>
2019 (at 9-19)	(Paid)	(Paid)
2020	\$ 525,000	\$ 724,988
2021	540,000	729,338
2022	550,000	728,438
2023	565,000	732,288
2024	575,000	730,888
2025	590,000	734,238
2026	605,000	737,288
2027	615,000	734,318
2028	630,000	734,919
2029	650,000	739,313
2030	675,000	746,906
2031	690,000	743,138
2032	715,000	747,925
2033	<u>740,000</u>	<u>751,100</u>
Total	\$8,665,000*	\$10,315,085

* *67.5% of this debt will be retired within ten years.*

Overlapping Debt

Taxing Unit ^(a)	2018/19 Adjusted Taxable Net Tax Capacity	Est. G.O. Debt As of 9-19-19 ^(b)	Debt Applicable to Tax Capacity in City	
			Percent	Amount
Sherburne County	\$100,643,215	\$ 43,200,000	25.8%	\$ 11,145,600
I.S.D. No. 728 (Elk River)	86,459,044	207,155,000	30.1	<u>62,353,655</u>
Total				\$73,499,255

(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. Includes certificates of participation and lease obligations.

Debt Ratios*

	G.O. Direct Debt	G.O. Direct & Overlapping Debt
To 2018/19 Estimated Market Value (\$2,374,405,900)	0.57%	3.67%
Per Capita - (24,845 – 2018 U.S. Census Bureau Estimate)	\$545	\$3,503

* Excludes general obligation revenue debt, general obligation sales tax revenue debt, and utility revenue debt. Includes the portion of the Elk River Economic Development Authority's general obligation debt that is subject to the legal debt limit.

CITY TAX RATES, LEVIES AND COLLECTIONS

Tax Capacity Rates for a Resident in the City

	2014/15	2015/16	2016/17	2017/18	2018/19	
					Total	For Debt Only
Sherburne County	51.979%	50.478%	50.460%	49.356%	47.928%	2.765%
City of Elk River ^(a)	47.190	46.170	46.193	46.011	45.907	1.808
I.S.D. No. 728 (Elk River) ^(b)	42.483	39.268	36.659	36.137	32.865	26.255
Special Districts ^(c)	<u>4.779</u>	<u>4.778</u>	<u>4.509</u>	<u>4.269</u>	<u>2.496</u>	<u>-0-</u>
Total	146.431%	140.694%	137.821%	135.773%	129.196%	30.828%

(a) In addition, the City has a 2018/19 market value tax rate of 0.21645% spread across the market value of property in support of debt service.

(b) In addition, Independent School District No. 728 (Elk River) has a 2018/19 market value tax rate of 0.19430% spread across the market value of property in support of an excess operating levy.

(c) Special districts include the City of Elk River Housing and Redevelopment Authority and the City of Elk River Economic Development Authority.

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

Tax Levies and Collections

<u>Levy/Collect</u>	Net <u>Levy*</u>	<u>Collected During Collection Year</u>		<u>Collected and/or Abated as of 6-30-19</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2018/19	\$11,938,765				
2017/18	11,058,188	\$11,015,765	99.6%	\$11,038,613	99.8%
2016/17	10,558,011	10,495,523	99.4	10,548,095	99.9
2015/16	10,166,095	10,097,125	99.3	10,160,712	99.9
2014/15	10,012,038	9,901,547	98.9	10,009,104	99.9

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

FUNDS ON HAND As of June 30, 2019

General Fund	\$ 5,933,657
Special Revenue Funds	3,855,983
Debt Service Funds	545,377
Capital Project Funds	15,862,358
Enterprise Fund	10,277,278
Agency Funds	<u>643,052</u>
Total Cash and Investments	<u>\$37,117,705</u>

INVESTMENTS

The City has a formal investment policy and all investments are made in accordance with Minnesota Statutes. The primary objectives of the City's investment policy, in priority order, include safety, liquidity, return on investment, and maintaining the public's trust. Permitted investments include repurchase agreements, United States securities (excluding high-risk mortgage-backed securities), the Minnesota Joint Powers Investment Trust, State and local securities, commercial paper, and time deposits. Guaranteed investment contracts and reverse repurchase agreements have specifically been excluded from the City's investment policy. As per the City's investment policy, the Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

As of June 30, 2019, the City had investments totaling \$32,129,182 (includes money market funds).

GENERAL INFORMATION CONCERNING THE CITY

General Information

The City is the Sherburne County seat and is located approximately 30 miles northwest of the Minneapolis/Saint Paul metropolitan area. The City encompasses an area of approximately 43.75 square miles (28,000 acres).

Population

The City's population trend is shown below.

	<u>Population</u>	<u>Percent Change</u>
2018 U.S. Census Estimate	24,845	8.1%
2010 U.S. Census	22,974	39.7
2000 U.S. Census	16,447	47.6
1990 U.S. Census	11,143	64.2
1980 U.S. Census	6,785	--

Sources: United States Census Bureau, <http://www.census.gov/>.

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

<u>Data Year/ Report Year</u>	<u>0-17</u>	<u>18-34</u>	<u>35-64</u>	<u>65 and Over</u>
2018/19	6,531	5,213	10,094	3,083
2017/18	6,500	5,194	10,145	3,011
2016/17	6,367	5,111	9,845	2,860
2015/16	6,385	5,076	9,788	2,728
2014/15	6,447	5,046	9,632	2,570

Sources: Environics Analytics, Claritas, Inc. and The Nielsen Company.

Transportation

U.S. Highways 10 and 169, State Highway 101, and Interstate 94 run through and/or adjacent to the City. City residents are served by the Anoka County/Blaine Airport, St. Cloud Regional Airport, and the Minneapolis/Saint Paul Regional Airport. Rail service is provided by Burlington Northern Santa Fe Railroad and the Northstar Commuter Rail, which has a station located in the City and provides a convenient connection to downtown Minneapolis and other communities throughout the region. Bus services are provided to City residents by Northstar Link Commuter Bus, Speco Charter Services, Vision of Elk River, and TriCAP. The Sherburne County Veteran's Office also coordinates a transportation program, Sherburne County VA Medical Center Transportation, which provides veterans transportation to the Minneapolis and St. Cloud VA Medical Centers free of charge.

Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number of Employees</u>
Independent School District No. 728 (Elk River)	Education	2,005
Sherburne County	County government	675
Guardian Angels Care Center	Skilled nursing facility	386
Wal-Mart Stores, Inc.	Retail store	354
Coborn's (Elk River/Big Lake/Princeton)	Grocery store	265
Great River Energy	Electric power distributor	210
Sportech, Inc.	Thermoformed plastic products	185
Menards	Retail home improvement	173
Emerson Processing Management (Tescom Corporation)	Pressure control devices/industrial valves	170
City of Elk River	City government	148
First National Financial Services	Financial services	142
Morrell Companies	Freight trucking	112
Avalon Home Care	Home health	110
E&O Tools & Plastics, Inc.	Plastic injection molding manufacturer	110
Cretex, Inc	Precast concrete products	109
The Bank of Elk River	Financial services	107
Metal Craft	Surgical & medical instruments	105
Cub Foods	Grocery store	100
Home Depot	Lumber and home improvement	100
Alltool Pinnacle Design & Manufacturing	Metal stampings	99
Cornerstone Auto Group	Automobile dealership	94

Source: This does not purport to be a comprehensive list and is based on a July 2019 telephone survey of individual employers and Sherburne County, <https://www.co.sherburne.mn.us/246/Major-Industries-Employers>. Some employers do not respond to inquiries.

Labor Force Data

	<u>Annual Average</u>				<u>June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Labor Force:					
Sherburne County	49,462	50,837	51,363	51,700	52,360
State of Minnesota	2,997,748	3,033,406	3,057,014	3,070,223	3,133,128
Unemployment Rate:					
Sherburne County	4.0%	4.1%	3.7%	3.2%	3.3%
State of Minnesota	3.7	3.9	3.4	2.9	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 Elk River

<u>Data Year/ Report Year</u>	<u>Total Retail Sales (\$000)</u>	<u>Total EBI (\$000)</u>	<u>Median Household EBI</u>
2018/19	\$515,409	\$743,125	\$75,458
2017/18	494,983	691,908	70,030
2016/17	637,893	697,764	68,376
2015/16	676,924	607,853	63,072
2014/15	461,135	558,758	58,966

Sherburne 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	\$1,188,828	\$2,748,858	\$82,687
2017/18	1,063,365	2,519,649	67,255
2016/17	1,101,277	2,502,175	66,377
2015/16	1,475,728	2,279,505	63,755
2014/15	1,052,144	2,024,570	57,782

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, Claritas, Inc. and The Nielsen Company.*

Building Permits

<u>Year</u>	<u>New Single Family Residential</u>		<u>New Commercial/Industrial</u>		<u>Total Value (All Permits)</u>
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	
2019 (to 6-30)	72	\$17,748,006	1	\$ 131,557	\$ 23,974,494
2018	152	37,723,512	5	7,545,450	66,048,488
2017	113	23,851,938	8	53,925,200	106,982,873
2016	73	15,808,688	4	667,171	51,368,317
2015	74	15,941,551	8	16,299,690	57,694,602
2014	68	13,792,869	7	6,988,939	49,037,206
2013	82	15,182,066	2	4,225,000	38,440,129
2012	36	6,588,264	3	1,936,650	25,585,264
2011	11	2,264,011	0	-0-	20,719,402
2010	15	3,098,919	3	5,120,272	22,311,703

Source: *City of Elk River.*

Recent Development

Elk River Senior Living completed the construction of a 94,410 square-foot senior living facility. The facility features a total of 94 units. Seventy four of units are comprised of independent care and assisted living, while the remaining 24 units are designated for memory care.

Construction completed in 2019 on Jackson Hills, LLC, a 40-unit, mixed-income apartment complex (32 units are market-rate and 8 units are affordable housing). The City Council approved 15 years of Tax Increment Financing (“TIF”) assistance through the establishment of a Housing TIF District to finance the portion associated with affordable housing.

Casey’s Retail Company completed construction of a 4,810 square-foot gasoline/convenience store on a previously vacant property along east Highway 10. The project added \$483,000 in taxable value.

Menards completed a 13,000 square-foot addition to their existing facility adding over \$245,000 in taxable value.

Sharp & Associates are constructing four individual mini-storage and office facilities that will total 56,632 square feet in size. The project will add an estimated \$1,259,000 in taxable value.

CPK Investments constructed an 18,000 square-foot shop and showroom for its custom fabricated premium stone products. The project will add approximately \$665,000 in taxable value.

The Truck Shop Project was a City-led redevelopment project that removed several sub-standard residential structures. Beaudry Oil constructed a 7,200 square-foot light maintenance facility for their fleet trucks on 2.5 acres with the anticipation of creating five new full-time jobs.

Lefebvre Trucking completed construction of a 2,050 square-foot office addition to their existing facility adding about \$185,000 in taxable value.

Financial Institutions*

The following full service banks are located in the City:

	<u>Deposits as of</u> <u>March 31, 2019</u>
The Bank of Elk River	\$394,418,000
The First National Bank of Elk River	<u>209,754,000</u>
Total	\$604,172,000

In addition, branch offices of American National Bank of Minnesota; MidwestOne Bank; Pine River State Bank; TCF National Bank; U.S. Bank National Association; and Wells Fargo Bank, National Association are located throughout the City.

* *This does not purport to be a comprehensive list.*

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

Health Care Services

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

<u>Facility</u>	<u>Location</u>	<u>No. of Beds</u>
Guardian Angels Care Center (Nursing Home)	City of Elk River	120

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

Education

Public Education

The following district serves the residents of the City:

<u>District</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
I.S.D. No. 728 (Elk River)	City of Elk River	K-12	13,670
Spectrum High School (Charter)	City of Elk River	6-12	745

Source: Minnesota Department of Education, <http://education.state.mn.us/mde/index.html>.

Non-Public Education

City residents are also served by the following private schools:

<u>School</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
St. Andrew's Catholic School	City of Elk River	K-5	126
St. John's Lutheran	City of Elk River	K-8	88
Mary Queen of Peace Catholic School	City of Elk River	K-5	44
Solid Rock Christian Academy	City of Elk River	K-12	18
My Own Montessori	City of Elk River	K	4

Source: The City and Minnesota Department of Education, <http://education.state.mn.us/mde/index.html>.

Post-Secondary Education

City residents have access to various colleges and universities located throughout the Minneapolis/Saint Paul metropolitan area approximately 30 miles southeast of the City. In addition, higher education opportunities are available at Saint Cloud Technical and Community College and Saint Cloud State University in the City of Saint Cloud, Minnesota, located approximately 40 miles northwest of the City.

GOVERNMENTAL ORGANIZATION AND SERVICES

Organization

The City of Elk River was organized as a municipality in 1977 and is a statutory city. The City's governing body is the City Council, comprised of the Mayor and four Council members. The Mayor serves a four-year term of office; Council members are elected by ward to serve overlapping four-year terms. The following individuals comprise the current City Council:

		<u>Expiration of Term</u>
John Dietz	Mayor	December 31, 2022
Garrett Christianson	Council Member, Ward 1	December 31, 2022
Matthew Westgaard	Council Member, Ward 2	December 31, 2020
Nate Ovall	Council Member, Ward 3	December 31, 2020
Jennifer Wagner	Council Member, Ward 4	December 31, 2022

The daily administration of City operations is the responsibility of the City Administrator, Calvin Portner, who has served in this position since October 2011. Ms. Lori Ziemer is the City's Finance Director and has served in this position since May 2016. The City has 148 employees.

Services

In addition to providing general governmental services, the City provides a full range of other services, including (but not limited to) police and fire protection, building and other safety inspections, planning and zoning, economic development, environmental services, parks and recreation, library, street, snow removal, and infrastructure maintenance and repair. The City also provides municipal water, sewer, storm water, garbage, and electric services, and operates two off-sale liquor stores.

Labor Contracts

The status of labor contracts in City is as follows:

<u>Bargaining Unit</u>	<u>No. of Employees</u>	<u>Expiration Date of Current Contract</u>
LELS, Local 231 (Police)	25	December 31, 2020
LELS, Local 271 (Police Sergeants)	6	December 31, 2021
IUOE, Local 49*	<u>21</u>	December 31, 2021
Subtotal	52	
Non-unionized employees	<u>96</u>	
Total employees	148	

* *Labor contract for street, park, and building maintenance employees.*

Employee Pensions

All full-time employees and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing multiple-employer retirement plans. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers who qualify for membership by statute are covered by PEPFF. PERA provides retirement and disability benefits to its members, and to survivors upon death of eligible members. Benefits are established by State statute; vest after three years of service; and are based on a member's highest average salary for any five successive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

The City's contributions to GERF and PEPFF are equal to the contractually required contributions for each year as set by State Statute, and are as follows for the past five years:

	<u>GERF</u>	<u>PEPFF</u>
2018	\$736,804	\$533,296
2017	706,711	508,774
2016	684,325	495,478
2015	662,664	478,192
2014	609,362	418,280

Three Council members of the City are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax-qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until the time of withdrawal. Plan benefits depend solely on the amounts contributed to the plan plus investment earnings less administrative expenses. An eligible elected official who chooses to participate in the plan contributes 5% of their salary, which is matched by the elected official's employer. For salaried employees, employer contributions are determined by the employer and must be a fixed percentage of salary. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. PERA receives 2% of employer contributions and 0.025% of the assets in each member's account annually for administering the plan. The City's contributions to PEDCP for the past three years are as follows:

	<u>PEDCP</u>
2018	\$1,405
2017	1,405
2016	1,405
2015	1,380
2014	940

The Elk River Fire Relief Association (the "Association") is the administrator of a single employer public employee defined benefit retirement system established to provide benefits for members of the Elk River Fire Department (the "Fire Department"). The Association maintains a separate special fund to accumulate assets to fund the retirement benefits earned by the Fire Department's membership. Funding for the Association is derived primarily from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes 1980). Funds are also derived from investment income.

The financial requirements of the special fund are determined in accordance with Minnesota Statutes, which requires the payment of pension benefits in a lump sum or optionally in annual installments. The Association is comprised of volunteers and, therefore, members do not have any contribution requirements, but the City has voluntarily contributed \$30,000 for the past five years in addition to contributions made by the State of Minnesota.

The total payments for the past five years are as follows:

	<u>State Contribution</u>	<u>City Contribution</u>	<u>Total</u>
2018	\$189,502	\$30,000	\$219,502
2017	182,297	30,000	212,297
2016	179,192	30,000	209,192
2015	174,826	30,000	204,826
2014	164,825	30,000	194,825

For more information regarding the liability of the City with respect to its employees, please reference “Note 9, Defined Pension Plans – State-Wide,” “Note 10, Defined Contribution Plan,” “Note 11, Defined Benefit Pension Plans – Fire Relief Association,” and “Required Supplementary Information” of the City’s Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix IV of this Official Statement.

GASB 68

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

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

	<u>GERF</u>		<u>PEPFF</u>	
	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>	<u>Proportionate Share of Pension Costs</u>	<u>Net Pension Liability</u>
2018	0.1435%	\$ 7,958,885	0.3045%	\$3,245,656
2017	0.1506	9,611,075	0.3140	4,239,374
2016	0.1426	11,604,537	0.3060	12,280,312
2015	0.1428	7,405,496	0.3040	3,454,151
2014	0.1577	7,407,964	0.2990	3,229,323

For more information regarding GASB 68 with respect to the City, please reference please reference “Note 9, Defined Pension Plans – State-Wide” and “Required Supplementary Information” of the City’s Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix IV of this Official Statement.

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

Sources: City’s Comprehensive Annual Financial Reports.

Other 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 15 – Change in Accounting Standards” in the City’s Comprehensive Annual Financial Report for the fiscal year ended December 31, 2018 for this calculation.

The City provides other postemployment health insurance benefits for retired employees through two defined benefit plans: Municipal Retirees Health Plan (MRHP), a single-employer plan, and Utilities Retirees Health Plan (URHP), a multi-employer plan. Each plan provides benefits for eligible retirees and their dependents through the City’s group health insurance plans, which cover both active and retired members. Since the premium is a blended rate determined on the active and retiree population, the retirees are receiving an implicit rate subsidy. The MRHP and URHP do not issue publicly available financial reports. The following employees were covered by the benefit terms as of December 31, 2018:

	<u>MRHP</u>	<u>URHP</u>
Active plan members	123	38
Inactive members receiving benefits	9	0
Inactive members waiving benefits	<u>0</u>	<u>5</u>
Total plan members	132	43

The City’s (MRHP) total OPEB liability was measured as of January 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. The Utilities (URHP) total OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018. The Schedule of Changes in the Total OPEB Liability and Related Ratios, Municipal Retirees Health Plan, for the fiscal year ended December 31, 2018 are as follows:

	<u>MRHP</u>	<u>URHP</u>
Total OPEB Liability:		
Service cost	\$ 58,939	\$ 11,084
Interest	30,051	3,526
Benefit payments	(47,958)	0
Assumption changes	<u>0</u>	<u>4,509</u>
Net change in total OPEB liability	41,032	19,119
Total OPEB liability – beginning	<u>875,478</u>	<u>81,453</u>
Total OPEB liability – ending	<u>\$ 916,510</u>	<u>\$ 100,572</u>
Covered payroll	\$8,658,239	\$3,584,096
Total OPEB liability as a percentage of covered payroll	10.59%	2.81%

Notes to Schedule:

The City and the Utilities implemented GASB 75 in fiscal year 2018. The schedule is provided prospectively beginning with the City's and Utilities' fiscal year ended December 31, 2018. Additional years will be added as they become available. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in Benefit Terms:

There were no significant changes in benefit terms.

Changes in Assumptions:

The City's MRHP discount rate was changed from 3.50% to 3.30%. The Utilities' URHP discount rate was changed from 3.81% to 3.31%.

For more information regarding GASB 75 with respect to the City and the Utilities, please reference "Note 12, Post Employment Benefits Other Than Pensions," "Note 15 – Change in Accounting Standards," and "Required Supplementary Information" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix IV of this Official Statement.

General Fund Budget Summary

	<u>2018 Amended Budget</u>	<u>2018 Actual</u>	<u>2019 Budget</u>
<u>Revenues & Other Sources</u>			
Taxes	\$ 10,647,800	\$ 10,646,232	\$ 11,337,400
Intergovernmental Revenues	551,500	578,324	571,500
Charges for Services	967,900	960,294	1,000,700
Fines & Forfeitures	151,000	137,114	154,500
Licenses & Permits	877,900	790,831	857,000
Other Revenue	226,500	275,751	259,500
Transfers In	<u>2,033,950</u>	<u>2,028,314</u>	<u>2,040,600</u>
Total	\$15,456,550	\$15,416,860	\$16,221,200
<u>Expenditures and Other Uses</u>			
General Government	\$ 3,779,150	\$ 3,631,936	\$ 3,882,100
Public Safety	7,337,250	7,269,887	7,872,200
Public Works	1,986,550	1,796,844	2,276,900
Culture & Recreation	2,043,600	2,044,286	2,190,000
Other- Transfers Out	<u>310,000</u>	<u>310,000</u>	<u>0</u>
Total	\$15,456,550	\$15,052,953	\$16,221,200
Change in Fund Balance	-0-	\$ 363,907	-0-

Sources: *The City, the City's Comprehensive Annual Financial Reports and 2019 Budget.*

Major General Fund Revenue Sources

<u>Revenue</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Taxes	\$9,391,373	\$9,648,215	\$9,745,220	\$10,087,400	\$10,646,232
Transfers in	1,625,550	1,684,650	1,769,750	1,872,050	2,028,314
Charges for services	816,556	867,211	922,478	1,033,053	960,294
Licenses and permits	559,286	639,791	655,607	1,007,543	790,831
Intergovernmental revenue	286,851	297,669	517,177	546,362	578,324

Sources: *City's Comprehensive Annual Financial Reports.*

PROPOSED FORM OF LEGAL OPINION



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

\$33,385,000
 General Obligation Sales Tax Revenue Bonds
 Series 2019A
 City of Elk River
 Sherburne County, Minnesota

We have acted as bond counsel to the City of Elk River, Sherburne County, Minnesota (the “Issuer”) in connection with the issuance by the Issuer of its General Obligation Sales Tax Revenue Bonds, Series 2019A (the “Bonds”), originally dated the date hereof, and issued in the original aggregate principal amount of \$33,385,000. In such capacity and for the purpose of rendering this opinion we have examined certified copies of certain proceedings, certifications and other documents, and applicable laws as we have deemed necessary. Regarding questions of fact material to this opinion, we have relied on certified proceedings and other certifications of public officials and other documents furnished to us without undertaking to verify the same by independent investigation. Under existing laws, regulations, rulings and decisions in effect on the date hereof, and based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and executed, and are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.
2. The Bonds are payable primarily from sales tax revenues pledged under the terms of the resolution adopted by the City Council of the Issuer on August 19, 2019, but the City is required to levy general ad valorem taxes on all taxable property within the City without limitation as to rate or amount, if necessary to pay the principal of and interest on the Bonds when due.
3. Interest on the Bonds is excludable from gross income of the recipient for federal income tax purposes and, to the same extent, is excludable from taxable net income of individuals, trusts, and estates for Minnesota income tax purposes, and is not a preference item for purposes of the computation of the federal alternative minimum tax, or the computation of the Minnesota alternative minimum tax imposed on individuals, trusts and estates. However, such interest is subject to Minnesota franchise taxes on corporations (including financial institutions) measured by income. The opinion set forth in this paragraph is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes and from taxable net income for Minnesota income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes and taxable net income for Minnesota income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

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

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

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

Dated _____, 2019 at Minneapolis, Minnesota.

CONTINUING DISCLOSURE UNDERTAKING

\$33,385,000
Elk River, Minnesota
General Obligation Sales Tax Revenue Bonds
Series 2019A

CONTINUING DISCLOSURE CERTIFICATE

_____, 2019

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Elk River, Minnesota (the “Issuer”) in connection with the issuance of its General Obligation Sales Tax Revenue Bonds, Series 2019A (the “Bonds”) in the original aggregate principal amount of \$33,385,000. The Bonds are being issued pursuant to resolutions adopted by the City Council of the Issuer (the “Resolutions”). The Bonds are being delivered to _____ in _____, _____ (the “Purchaser”) on the date hereof. Pursuant to the Resolutions, the Issuer has covenanted and agreed to provide continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events. The Issuer hereby covenants and agrees as follows:

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

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

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

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

“Bonds” means the General Obligation Sales Tax Revenue Bonds, Series 2019A, issued by the Issuer in the original aggregate principal amount of \$33,385,000.

“Disclosure Certificate” means this Continuing Disclosure Certificate.

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

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

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

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

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

“GASB” means the Governmental Accounting Standards Board.

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

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

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

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

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

“Purchaser” means _____, in _____, _____.

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

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

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

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

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

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

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

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

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

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

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

Section 5. Reporting of Material Events.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF ELK RIVER, MINNESOTA

Mayor

City Clerk

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.

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

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

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

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

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

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

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

EXCERPT OF 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Data on the following pages was extracted from the City's Comprehensive Annual Financial Report ("CAFR") 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.

The City's CAFR for the year ending 2017 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). This was the 29th consecutive year that the City has received this award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. The City has submitted its CAFR for the 2018 fiscal year to GFOA.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Elk River
Elk River, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Elk River, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Electric and Water proprietary funds, which represent 63% of the assets and deferred outflows, 58% of the net position, and 83% of the revenues of the proprietary funds and business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the proprietary funds and business-type activities, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Elk River 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.

Emphasis of Matter

For the year ended December 31, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. As a result of the implementation of this standard, the City reported a restatement for the change in accounting principle (see Note 15). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of proportionate share of net pension liability, schedules of City's pension contributions, schedule of changes in the net pension liability and related ratios - fire relief, schedule of city contributions - fire relief, and the schedule of changes in the total OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relates 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 statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 June 7, 2019, on our consideration of the City of Elk River's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of City of Elk River's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Elk River's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 7, 2019

Management's Discussion and Analysis

As management of the City of Elk River, 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. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 - 3 of this report.

Financial Highlights

The assets and deferred outflows of resources of the City of Elk River exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$209,688,313 (net position). Of this amount, \$41,994,114 (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 \$5,194,969, an increase of \$1,349,424 in the governmental activities attributable to grants and contributions in public works and an increase of \$3,845,545 in the business-type activities attributable to revenues in excess of expenses of \$3,823,092 in the Electric fund due to increased usage impacted by additional territory acquisition.

As of the close of the current fiscal year, the City of Elk River's governmental funds reported combined ending fund balances of \$30,777,279.

	General	Special Revenue	Debt Service	Capital Projects	Total
Nonspendable	\$ 124,064	\$ 114,976	\$ -	\$ -	\$ 239,040
Restricted	-	1,358,784	1,473,230	318,729	3,150,743
Committed	-	7,278,866	-	4,789,748	12,068,614
Assigned	237,813	-	-	10,716,044	10,953,857
Unassigned	7,299,540	-	-	(2,934,515)	4,365,025
	<u>\$ 7,661,417</u>	<u>\$ 8,752,626</u>	<u>\$ 1,473,230</u>	<u>\$ 12,890,006</u>	<u>\$ 30,777,279</u>

The City of Elk River's total long-term liabilities increased \$7,279,785 during the current fiscal year, from \$45,167,589 to \$52,447,374.

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
Bonds payable	\$ 19,247,312	\$ -	\$ (1,615,296)	\$ 17,632,016
Compensated absences	1,555,037	611,591	(586,661)	1,579,967
Total governmental activities	20,802,349	611,591	(2,201,957)	19,211,983
Business-type activities:				
Bonds payable	22,914,706	10,435,104	(1,439,474)	31,910,336
Notes payable	1,018,860	-	(198,252)	820,608
Compensated absences	431,674	281,904	(209,131)	504,447
Total business-type activities	24,365,240	10,717,008	(1,846,857)	33,235,391
Total City long-term liabilities	<u>\$ 45,167,589</u>	<u>\$ 11,328,599</u>	<u>\$ (4,048,814)</u>	<u>\$ 52,447,374</u>

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Elk River'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 supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

The statement of net position presents information on all of the City of Elk River's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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 of Elk River 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 of Elk River that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Elk River include general government, public safety, public works, culture and recreation, economic development and interest on long-term debt. The business-type activities of the City of Elk River include municipal liquor, garbage, sewer, storm water, water, and electric.

The government-wide financial statements include not only the City of Elk River itself (known as the primary government), but also a legally separate Housing & Redevelopment Authority (HRA) for which the City of Elk River is financially accountable. Financial information for the HRA is reported separately from the financial information presented for the primary government itself. The Elk River Municipal Utilities, although also legally separate, functions for all practical purposes as a department of the City of Elk River, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found starting on page 20 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Elk River, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Elk River 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 of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Elk River maintains two individual major 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 Pavement Management funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements elsewhere in this report.

The City of Elk River adopts an annual budget for its General Fund and some special revenue funds. A budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 22 of this report.

Proprietary Funds. When the City of Elk River charges customers for the services it provides - whether to outside customers or to other departments of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of revenues, expenses, and changes in net position. The enterprise funds are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City of Elk River uses enterprise funds to account for its municipal liquor, garbage, sewer, storm water, water, and electric operations.

The basic proprietary fund financial statements can be found starting on page 27 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Elk River'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 35 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 36 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Elk River's share of net pension liabilities (assets) for defined benefit plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 75 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found starting on page 82 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 of Elk River, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$209,688,313 at the close of the most recent fiscal year.

By far, the largest portion of the City of Elk River's net position (77 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 of Elk River uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Elk River'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 Elk River Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$35,189,365	\$32,661,895	\$35,963,873	\$33,385,869	\$71,153,238	\$66,047,764
Capital assets	94,574,550	98,020,134	117,800,871	107,809,725	212,375,421	205,829,859
Total assets	129,763,915	130,682,029	153,764,744	141,195,594	283,528,659	271,877,623
Deferred outflows of resources	6,294,084	8,677,833	828,823	1,373,281	7,122,907	10,051,114
Long-term liabilities	27,502,045	30,660,026	37,166,952	28,982,292	64,668,997	59,642,318
Other liabilities	1,758,155	2,015,482	5,689,316	5,689,085	7,447,471	7,704,567
Total liabilities	29,260,200	32,675,508	42,856,268	34,671,377	72,116,468	67,346,885
Deferred inflows of resources	7,784,239	8,778,520	1,062,545	1,028,211	8,846,784	9,806,731
Net Position:						
Net investment in capital assets	77,092,055	78,958,608	85,104,737	83,919,324	162,196,792	162,877,932
Restricted	4,236,048	2,925,562	1,261,359	997,660	5,497,407	3,923,222
Unrestricted	17,685,456	16,021,664	24,308,658	21,952,303	41,994,114	37,973,967
Total net position	\$99,013,559	\$97,905,834	\$110,674,754	\$106,869,287	\$209,688,313	\$204,775,121

An additional portion of the City of Elk River's net position (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$41,994,114) may be used to meet the City of Elk River's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Elk River 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.

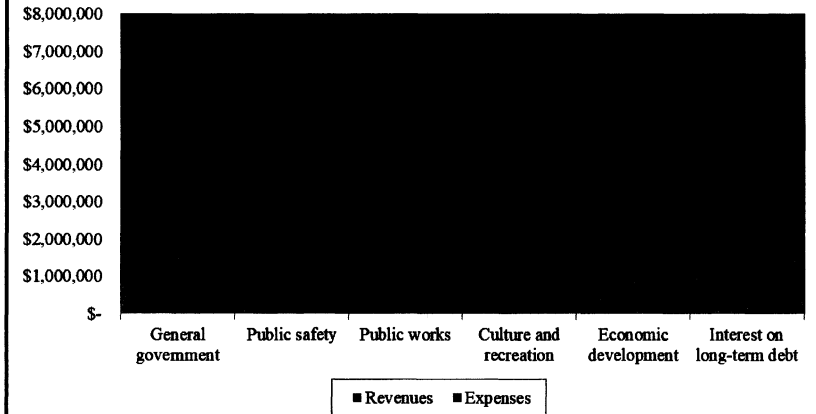
City of Elk River Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 3,143,111	\$ 3,544,605	\$ 53,452,010	\$ 49,950,014	\$ 56,595,121	\$ 53,494,619
Operating grants and contributions	1,381,151	1,319,377	-	-	1,381,151	1,319,377
Capital grants and contributions	1,721,638	3,187,830	2,295,004	2,196,626	4,016,642	5,384,456
General revenues:						
Property taxes	12,192,911	11,645,328	-	-	12,192,911	11,645,328
Other taxes	1,591,663	1,543,086	-	-	1,591,663	1,543,086
Unrestricted investment earnings	430,642	498,235	467,294	231,599	897,936	729,834
Miscellaneous revenue	1,754,373	1,720,932	-	-	1,754,373	1,720,932
Gain on disposal of capital assets	-	116,012	2,462	17,500	2,462	133,512
Total revenues	22,215,489	23,575,405	56,216,770	52,395,739	78,432,259	75,971,144
Expenses:						
General government	3,981,134	3,932,100	-	-	3,981,134	3,932,100
Public safety	7,398,041	7,670,839	-	-	7,398,041	7,670,839
Public works	5,619,836	6,803,504	-	-	5,619,836	6,803,504
Culture and recreation	4,474,619	4,157,960	-	-	4,474,619	4,157,960
Economic development	969,443	1,221,761	-	-	969,443	1,221,761
Interest on long-term debt	486,630	549,303	-	-	486,630	549,303
Municipal liquor	-	-	6,233,700	6,030,973	6,233,700	6,030,973
Garbage	-	-	1,588,956	1,521,803	1,588,956	1,521,803
Sewer	-	-	3,504,489	3,377,828	3,504,489	3,377,828
Storm Water	-	-	634,073	774,805	634,073	774,805
Water	-	-	2,666,149	2,856,343	2,666,149	2,856,343
Electric	-	-	35,680,220	33,688,690	35,680,220	33,688,690
Total expenses	22,929,703	24,335,467	50,307,587	48,250,442	73,237,290	72,585,909
Change in net position before transfers	(714,214)	(760,062)	5,909,183	4,145,297	5,194,969	3,385,235
Transfers	2,063,638	1,971,250	(2,063,638)	(1,971,250)	-	-
Change in net position	1,349,424	1,211,188	3,845,545	2,174,047	5,194,969	3,385,235
Net position - beginning, as restated (Note 15)	97,664,135	96,694,646	106,829,209	104,695,240	204,493,344	201,389,886
Net position - ending	\$ 99,013,559	\$ 97,905,834	\$ 110,674,754	\$ 106,869,287	\$ 209,688,313	\$ 204,775,121

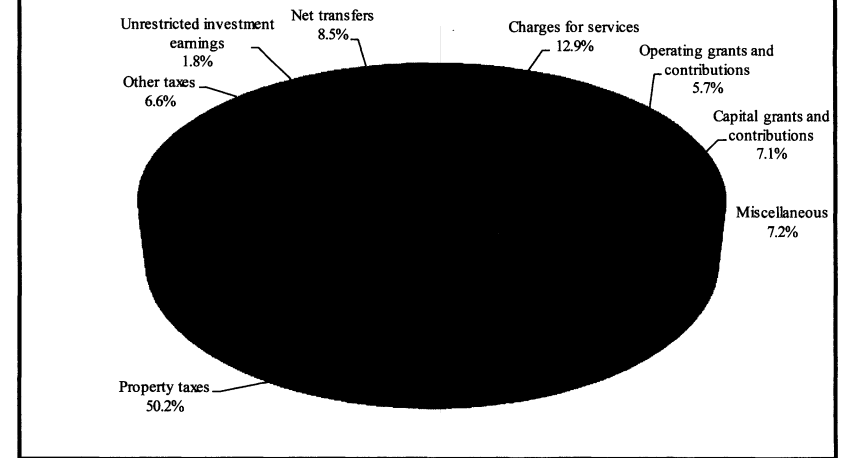
Governmental Activities. Governmental activities account for 47 percent of the City of Elk River's net position. Governmental activities increased the City's net position by \$1,349,424. Key elements of the relevant changes are as follows:

- Program expenses decreased \$1,405,764 or 6%, program revenues decreased \$1,805,912 or 22%, and general revenues increased \$445,996 or 3%.
- The decrease in public works expenses is due to the establishment of a quiet zone along the railroad corridor through Elk River that was completed in 2017.
- The City's pension expense decreased \$920,187 compared to the expense in the prior year due to a change in actuarial assumptions in 2018.
- The charges for services decrease is related to larger commercial building projects in 2017 than in 2018.
- The decrease in grants and contributions is related to state aid reimbursement in 2017 for street improvement projects. The City plans for major street improvement projects every odd year.
- Property taxes increased by \$547,583 due to the increased tax levy from the prior year and the related additional collections.

Expenses and Program Revenues - Governmental Activities

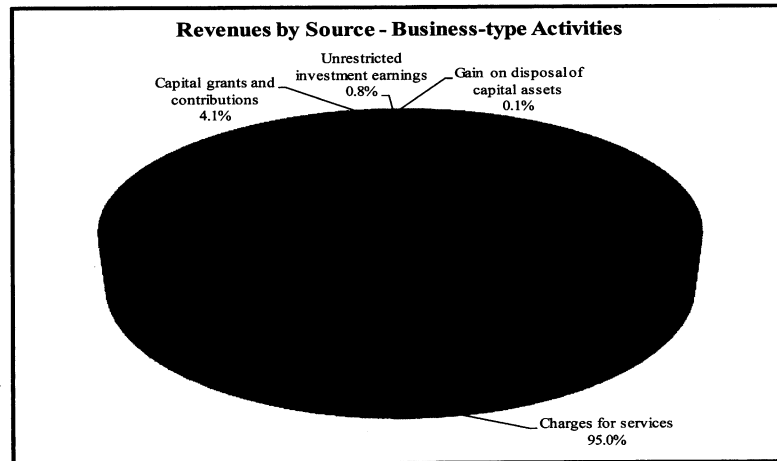
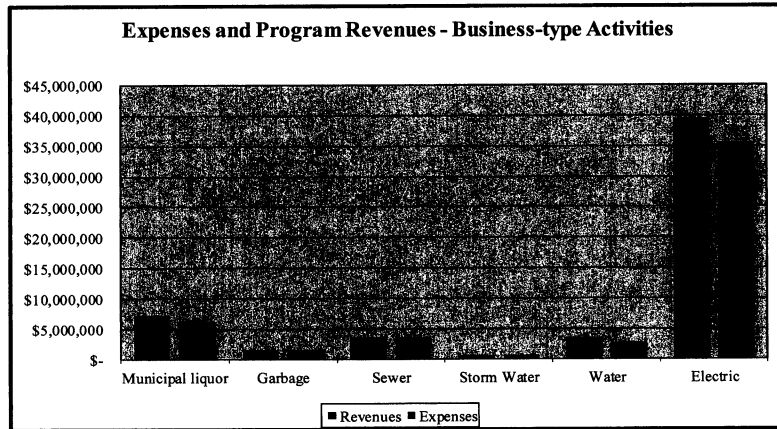


Revenues by Source - Governmental Activities



Business-type Activities. Business-type activities increased the City of Elk River's net position by \$3,845,545. Key elements of this increase are as follows:

- Charges for services for business-type activities increased \$3.5 million due largely to an increase in electric revenues impacted by increased electric usage due in part by territory acquisition. The electric utility accounts for 73% of the total charges for services.
- Garbage rates were restructured and increased an average of 10% to offset the increased garbage hauling and disposal fees.
- Investment income increased \$235,695 during 2018 due to investment market conditions.



Financial Analysis of the Government's Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$30,777,279. Approximately 14 percent of this total amount (\$4,365,025) constitutes unassigned fund balance. The remainder of fund balance (\$26,412,254) is not available for new spending because it is either 1) non-spendable (\$239,040), 2) restricted (\$3,150,743), 3) committed (\$12,068,614) or 4) assigned (\$10,953,857) for other purposes.

The General Fund is the chief operating fund of the City of Elk River. The total fund balance of the General Fund increased \$363,907 during the current year, resulting primarily from property taxes.

The Pavement Management fund increased \$1,651,191 due to the collection of franchise fees and intergovernmental revenues in excess of current year street project expenditures.

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

Unrestricted net position in the respective proprietary funds are Municipal Liquor - \$4,296,260, Garbage - \$196,078, Sewer - \$4,529,146, Storm Water - \$723,564, Water - \$6,163,714 and Electric - \$8,399,896. The Garbage fund net position decreased \$32,343 due to an increase in garbage disposal fees. The Sewer fund net position decreased \$116,234 due to budgeted transfers to other funds for administrative expenses. The Storm Water fund net position decreased \$142,576 due mainly to depreciation expense. All other proprietary funds had increases in net position.

General Fund Budgetary Highlights

The original budget for the General Fund was amended to reflect an increase in public safety state aid revenue with a corresponding increase in public safety expenditures. Key factors are as follows:

- Total revenue collections were 99.8% of final budget. Licenses and permits were under budget \$87,069 and interest income was over \$40,484.
- Expenditures were under budget by \$403,597 due mainly to personnel vacancies and sound fiscal control by City departments.

Capital Asset and Debt Administration

Capital Assets. The City of Elk River's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$212,375,421 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure. The total increase in the City of Elk River's investment in capital assets for the current year was \$6,545,562 or 3 percent.

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

- \$740,000 in public safety equipment, \$493,000 in public works equipment, and \$270,000 in parks equipment.
- Improvements to various parks totaled \$313,000.
- The Electric utility acquired additional infrastructure territory and completed the MMPA membership buy-in increasing intangibles.

**City of Elk River Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 40,927,633	\$ 40,984,633	\$ 1,843,977	\$ 1,843,977	\$ 42,771,610	\$ 42,828,610
Construction in progress	-	23,415	467,470	736,872	467,470	760,287
Buildings	23,013,163	24,559,757	18,022,254	18,867,534	41,035,417	43,427,291
Other improvements	2,309,751	2,240,194	-	-	2,309,751	2,240,194
Equipment	4,483,814	3,852,427	7,723,803	8,070,109	12,207,617	11,922,536
Intangible assets	-	-	23,114,072	10,375,677	23,114,072	10,375,677
Infrastructure	23,840,189	26,359,708	66,629,295	67,915,556	90,469,484	94,275,264
Total	\$ 94,574,550	\$ 98,020,134	\$ 117,800,871	\$ 107,809,725	\$ 212,375,421	\$ 205,829,859

Additional information on the City's capital assets can be found in Note 5 starting on page 48 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$64,668,997, an increase of \$5,026,679 from 2017. General obligation improvement bonds (\$17,280,000) financed the construction of a recreation facility, a public safety/city hall facility, and a public works facility. General obligation revenue bonds (\$10,355,000) were used to finance sewer and water systems. Revenue bonds (\$20,685,000) were used to finance electric system improvements.

City of Elk River Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Bonds payable:						
General obligation bonds	\$ 17,280,000	\$ 18,560,000	\$ -	\$ -	\$ 17,280,000	\$ 18,560,000
G.O. revenue bonds	-	-	10,355,000	11,105,000	10,355,000	11,105,000
Revenue bonds	-	-	20,685,000	11,325,000	20,685,000	11,325,000
Special assessment bonds	-	295,000	-	-	-	295,000
Issuance premium	352,016	392,312	870,336	484,706	1,222,352	877,018
Total bonds payable, net	17,632,016	19,247,312	31,910,336	22,914,706	49,542,352	42,162,018
Notes payable	-	-	820,608	1,018,860	820,608	1,018,860
Compensated absences	1,579,967	1,555,037	504,447	431,674	2,084,414	1,986,711
Net OPEB obligation	813,033	468,119	204,048	156,161	1,017,081	624,280
Net pension liability	7,477,029	9,389,558	3,727,513	4,460,891	11,204,542	13,850,449
Total	\$ 27,502,045	\$ 30,660,026	\$ 37,166,952	\$ 28,982,292	\$ 64,668,997	\$ 59,642,318

Additional long-term debt in the amount of \$820,608 is for notes payable, \$2,084,414 is for compensated absences, \$1,017,081 is for other postemployment benefits obligations, and \$11,204,542 is for net pension liability.

The City maintains a bond rating of AA+ from Standard & Poor's for general obligation debt.

State statutes limit the amount of general obligation debt a Minnesota City may issue to 3% of total Estimated Taxable Market Value. The current debt limitation for the City of Elk River is \$65,358,630. \$12,762,883 of the City's net outstanding debt is counted within the statutory limitation.

Additional information on the City's long-term debt can be found in Note 7 starting on page 52 of this report.

Economic Factors and Next Year's Budget

The City of Elk River estimates that the demand for City services will continue at stable growth levels due to the improved economy and recent building activity. This was taken into consideration in preparation of the City's 2019 budget. The property tax levy is set annually and is adjusted as necessary to fund the cost of providing services to our citizens and customers. Charges for services are evaluated each year and adjusted if warranted. The City expects to keep the tax levy consistent in upcoming years.

Requests for Information

This financial report is designed to provide a general overview of the City of Elk River'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 City of Elk River, Attn: Finance Director, 13065 Orono Pkwy, Elk River, Minnesota 55330 or by calling (763) 635-1000.

**CITY OF ELK RIVER, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government			Component Unit - HRA
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 28,964,224	\$ 30,263,783	\$ 59,228,007	\$ 893,978
Restricted cash and investments	-	1,261,359	1,261,359	-
Receivables:				
Interest	132,030	45,868	177,898	-
Taxes	256,578	-	256,578	6,279
Accounts	449,945	2,351,840	2,801,785	-
Special assessments	355,487	-	355,487	-
Notes, net	1,969,512	-	1,969,512	623,206
Due from other governments	1,330,625	-	1,330,625	-
Due from primary government	-	-	-	195,682
Internal balances	170,202	(170,202)	-	-
Inventories	-	2,012,308	2,012,308	-
Prepaid items	239,040	198,917	437,957	-
Property held for resale	175,000	-	175,000	174,100
Pension asset	1,146,722	-	1,146,722	-
Capital assets:				
Nondepreciable	40,927,633	2,311,447	43,239,080	257,100
Depreciable (net)	53,646,917	115,489,424	169,136,341	103,607
Total assets	129,763,915	153,764,744	283,528,659	2,253,952
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pensions	6,108,495	788,033	6,896,528	10,241
Deferred outflows - other postemployment benefits	36,068	5,980	42,048	-
Deferred charge on refunding	149,521	34,810	184,331	-
Total deferred outflows of resources	6,294,084	828,823	7,122,907	10,241
LIABILITIES				
Accounts payable	503,323	3,783,510	4,286,833	31,333
Salaries payable	243,610	169,648	413,258	2,959
Due to other governments	17,678	222,652	240,330	-
Due to primary government	-	-	-	-
Due to component unit	195,682	-	195,682	-
Accrued interest payable	184,755	356,718	541,473	-
Customer deposits payable	-	1,056,735	1,056,735	-
Unearned revenue	613,108	100,053	713,161	-
Non-current liabilities:				
Other due within one year	1,932,411	2,068,097	4,000,508	-
Other due in more than one year	17,279,572	31,167,294	48,446,866	-
Net OPEB liability due in more than one year	813,033	204,048	1,017,081	-
Net pension liability due in more than one year	7,477,029	3,727,513	11,204,542	51,835
Total liabilities	29,260,201	42,856,268	72,116,469	86,127
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions	7,784,239	1,062,545	8,846,784	15,585
NET POSITION				
Net investment in capital assets	77,092,055	85,104,737	162,196,792	360,707
Restricted for:				
Debt service	1,294,423	1,261,359	2,555,782	-
Landfill mitigation	76,896	-	76,896	-
Economic development	1,263,463	-	1,263,463	-
Law enforcement	20,742	-	20,742	-
Park improvements	318,729	-	318,729	-
Streets	1,261,795	-	1,261,795	-
Housing and redevelopment	-	-	-	1,801,774
Unrestricted	17,685,456	24,308,658	41,994,114	-
Total net position	\$ 99,013,559	\$ 110,674,754	\$ 209,688,313	\$ 2,162,481

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

**CITY OF ELK RIVER, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit - HRA
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 3,981,134	\$ 648,183	\$ 7,250	\$ -	\$ (3,325,701)	\$ -	\$ (3,325,701)	\$ -
Public safety	7,398,041	1,219,783	561,614	-	(5,616,644)	-	(5,616,644)	-
Public works	5,619,836	111,740	432,307	1,498,522	(3,577,267)	-	(3,577,267)	-
Culture and recreation	4,474,619	1,071,902	336,428	223,116	(2,843,173)	-	(2,843,173)	-
Economic development	969,443	91,503	43,552	-	(834,388)	-	(834,388)	-
Interest and fiscal charges	486,630	-	-	-	(486,630)	-	(486,630)	-
Total governmental activities	<u>22,929,703</u>	<u>3,143,111</u>	<u>1,381,151</u>	<u>1,721,638</u>	<u>(16,683,803)</u>	<u>-</u>	<u>(16,683,803)</u>	<u>-</u>
Business-type Activities:								
Municipal liquor	6,233,700	7,203,155	-	-	-	969,455	969,455	-
Garbage	1,588,956	1,553,498	-	-	-	(35,458)	(35,458)	-
Sewer	3,504,489	2,301,428	-	1,188,777	-	(14,284)	(14,284)	-
Storm water	634,073	485,484	-	37,313	-	(111,276)	(111,276)	-
Water	2,666,149	2,757,237	-	716,810	-	807,898	807,898	-
Electric	35,680,220	39,151,208	-	352,104	-	3,823,092	3,823,092	-
Total business-type activities	<u>50,307,587</u>	<u>53,452,010</u>	<u>-</u>	<u>2,295,004</u>	<u>-</u>	<u>5,439,427</u>	<u>5,439,427</u>	<u>-</u>
Total primary government	<u>\$ 73,237,290</u>	<u>\$ 56,595,121</u>	<u>\$ 1,381,151</u>	<u>\$ 4,016,642</u>	<u>(16,683,803)</u>	<u>5,439,427</u>	<u>(11,244,376)</u>	<u>-</u>
Component Unit:								
Housing and Redevelopment Authority	<u>\$ 544,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(544,126)</u>
General revenues:								
Property taxes:								
Levies for general purposes					11,061,184	-	11,061,184	289,461
Levies for debt service					879,555	-	879,555	-
Tax increments					252,172	-	252,172	-
Other taxes					1,591,663	-	1,591,663	-
Grants and contributions not restricted					1,754,373	-	1,754,373	152
Unrestricted investment earnings					430,642	467,294	897,936	10,200
Gain on disposal of capital assets					-	2,462	2,462	-
Transfers					2,063,638	(2,063,638)	-	-
Total general revenues and transfers					<u>18,033,227</u>	<u>(1,593,882)</u>	<u>16,439,345</u>	<u>299,813</u>
Change in net position					1,349,424	3,845,545	5,194,969	(244,313)
Net position - beginning, as restated (Note 15)					<u>97,664,135</u>	<u>106,829,209</u>	<u>204,493,344</u>	<u>2,406,794</u>
Net position - ending					<u>\$ 99,013,559</u>	<u>\$ 110,674,754</u>	<u>\$ 209,688,313</u>	<u>\$ 2,162,481</u>

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

**CITY OF ELK RIVER, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2018**

	General Fund	Pavement Management	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 7,573,318	\$ 4,393,545	\$ 16,997,361	\$ 28,964,224
Receivables:				
Interest	36,215	21,107	74,708	132,030
Taxes	225,837	-	30,741	256,578
Accounts	8,677	140,153	301,115	449,945
Special assessments	-	-	355,487	355,487
Notes, net	-	-	1,969,512	1,969,512
Due from other governments	68,816	1,261,795	14	1,330,625
Due from other funds	209,216	275,286	1,840,269	2,324,771
Due from component unit	6,622	-	-	6,622
Prepaid items	124,064	-	114,976	239,040
Property held for resale	-	-	175,000	175,000
Total assets	<u>\$ 8,252,765</u>	<u>\$ 6,091,886</u>	<u>\$ 21,859,183</u>	<u>\$ 36,203,834</u>
LIABILITIES				
Accounts payable	\$ 278,174	\$ 40,343	\$ 184,806	\$ 503,323
Salaries payable	229,223	-	14,387	243,610
Due to other governments	15,643	-	2,035	17,678
Due to other funds	2,515	-	2,152,054	2,154,569
Due to component unit	-	-	202,304	202,304
Unearned revenue	-	-	613,108	613,108
Total liabilities	<u>525,555</u>	<u>40,343</u>	<u>3,168,694</u>	<u>3,734,592</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	65,793	-	10,100	75,893
Unavailable revenue - special assessments	-	-	354,275	354,275
Unavailable revenue - other	-	1,261,795	-	1,261,795
Total deferred inflows of resources	<u>65,793</u>	<u>1,261,795</u>	<u>364,375</u>	<u>1,691,963</u>
FUND BALANCES				
Nonspendable	124,064	-	114,976	239,040
Restricted	-	-	3,150,743	3,150,743
Committed	-	4,789,748	7,278,866	12,068,614
Assigned	237,813	-	10,716,044	10,953,857
Unassigned	7,299,540	-	(2,934,515)	4,365,025
Total fund balances	<u>7,661,417</u>	<u>4,789,748</u>	<u>18,326,114</u>	<u>30,777,279</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,252,765</u>	<u>\$ 6,091,886</u>	<u>\$ 21,859,183</u>	<u>\$ 36,203,834</u>

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

**CITY OF ELK RIVER, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 30,777,279
Amounts reported for governmental activities in the statement of net position are different because:		
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$176,820,497	
Less accumulated depreciation	<u>(82,245,947)</u>	94,574,550
2. Long-term assets for pensions reported in governmental activities are not financial resources and therefore are not reported as assets in the funds.		
		1,146,722
3. Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.		
		1,691,963
4. Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds payable	(17,280,000)	
Deferred charge on refunding	149,521	
Issuance premium	(352,016)	
Accrued interest payable	(184,755)	
Compensated absences	(1,579,967)	
Net pension liability	(7,477,029)	
Net OPEB liability	<u>(813,033)</u>	(27,537,279)
5. Governmental funds do not report long-term amounts related to pensions.		
Deferred outflows of pension resources	6,108,495	
Deferred inflows of pension resources	<u>(7,784,239)</u>	(1,675,744)
6. Governmental funds do not report long-term amounts related to other postemployment benefits.		
Deferred outflows of other postemployment benefits resources		<u>36,068</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 99,013,559</u>

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

CITY OF ELK RIVER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Pavement Management	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes	\$ 10,508,700	\$ -	\$ 1,706,002	\$ 12,214,702
Other taxes	137,532	1,454,131	-	1,591,663
Licenses and permits	790,831	-	-	790,831
Intergovernmental revenue	578,324	390,620	436,987	1,405,931
Charges for services	960,294	-	1,222,623	2,182,917
Fines and forfeits	137,114	-	20,378	157,492
Special assessments	-	-	379,054	379,054
Interest income	130,484	16,143	284,015	430,642
Miscellaneous:				
Landfill expansion fee	-	-	1,107,321	1,107,321
Refunds and reimbursements	114,548	180,091	90,203	384,842
Contributions	21,335	-	626,297	647,632
Other	9,384	-	63,639	73,023
Total revenues	<u>13,388,546</u>	<u>2,040,985</u>	<u>5,936,519</u>	<u>21,366,050</u>
EXPENDITURES				
Current:				
General government	3,631,936	-	101,810	3,733,746
Public safety	7,269,887	-	55,837	7,325,724
Public works	1,796,844	-	78,801	1,875,645
Culture and recreation	2,044,286	-	1,393,817	3,438,103
Economic development	-	-	964,926	964,926
Capital outlay:				
General government	-	-	79,173	79,173
Public safety	-	-	740,275	740,275
Public works	-	389,794	646,810	1,036,604
Culture and recreation	-	-	575,051	575,051
Debt service:				
Principal	-	-	1,575,000	1,575,000
Interest and service charges	-	-	507,661	507,661
Total expenditures	<u>14,742,953</u>	<u>389,794</u>	<u>6,719,161</u>	<u>21,851,908</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,354,407)</u>	<u>1,651,191</u>	<u>(782,642)</u>	<u>(485,858)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,028,314	-	1,325,721	3,354,035
Transfers out	(310,000)	-	(980,397)	(1,290,397)
Sale of capital assets	-	-	86,586	86,586
Total other financing sources (uses)	<u>1,718,314</u>	<u>-</u>	<u>431,910</u>	<u>2,150,224</u>
Net change in fund balances	363,907	1,651,191	(350,732)	1,664,366
Fund balances - January 1	<u>7,297,510</u>	<u>3,138,557</u>	<u>18,676,846</u>	<u>29,112,913</u>
Fund balances - December 31	<u>\$ 7,661,417</u>	<u>\$ 4,789,748</u>	<u>\$ 18,326,114</u>	<u>\$ 30,777,279</u>

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

**CITY OF ELK RIVER, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,664,366

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlay	\$ 1,829,054	
Capital contributions	142,936	
Proceeds from the sale of capital assets	(86,586)	
Loss on disposal of capital assets	(41,362)	
Depreciation expense	<u>(5,289,626)</u>	(3,445,584)

- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Property taxes	(21,791)	
Special assessments	(366,412)	
Other revenue	<u>1,094,704</u>	706,501

- The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the 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. The amounts below are the effects of these differences in the treatment of long-term debt and related items.

Repayment of principal of long-term debt	1,575,000	
Amortization of issuance premium	40,296	
Amortization of deferred charge from refunding	(36,265)	
Accrued interest payable	<u>17,000</u>	1,596,031

- Some expenses reported in the statement of activities do not require use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(24,930)	
Net OPEB obligation	<u>(67,147)</u>	(92,077)

- Long-term pension activity is not reported in governmental funds. 920,187

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,349,424

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

**CITY OF ELK RIVER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 10,497,800	\$ 10,497,800	\$ 10,508,700	\$ 10,900
Other taxes	150,000	150,000	137,532	(12,468)
Licenses and permits	877,900	877,900	790,831	(87,069)
Intergovernmental revenue	324,500	551,500	578,324	26,824
Charges for services	967,900	967,900	960,294	(7,606)
Fines and forfeits	151,000	151,000	137,114	(13,886)
Interest income	90,000	90,000	130,484	40,484
Miscellaneous revenue:				
Refunds and reimbursements	110,000	110,000	114,548	4,548
Contributions	20,000	20,000	21,335	1,335
Other	6,500	6,500	9,384	2,884
Total revenues	<u>13,195,600</u>	<u>13,422,600</u>	<u>13,388,546</u>	<u>(34,054)</u>
EXPENDITURES				
Current:				
General government	3,821,100	3,779,150	3,631,936	147,214
Public safety	7,110,250	7,337,250	7,269,887	67,363
Public works	1,959,600	1,986,550	1,796,844	189,706
Culture and recreation	2,028,600	2,043,600	2,044,286	(686)
Total expenditures	<u>14,919,550</u>	<u>15,146,550</u>	<u>14,742,953</u>	<u>403,597</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,723,950)</u>	<u>(1,723,950)</u>	<u>(1,354,407)</u>	<u>369,543</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,033,950	2,033,950	2,028,314	(5,636)
Transfers out	(310,000)	(310,000)	(310,000)	-
Total other financing sources (uses)	<u>1,723,950</u>	<u>1,723,950</u>	<u>1,718,314</u>	<u>(5,636)</u>
Net change in fund balance	-	-	363,907	363,907
Fund balance - January 1	<u>7,297,510</u>	<u>7,297,510</u>	<u>7,297,510</u>	<u>-</u>
Fund balance - December 31	<u>\$ 7,297,510</u>	<u>\$ 7,297,510</u>	<u>\$ 7,661,417</u>	<u>\$ 363,907</u>

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

**CITY OF ELK RIVER, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	Municipal Liquor	Garbage	Sewer	Storm Water	Water	Electric	Total
ASSETS							
Current assets:							
Cash and investments	\$ 4,150,475	\$ 201,306	\$ 4,383,877	\$ 791,886	\$ 6,718,151	\$ 14,018,088	\$ 30,263,783
Restricted cash and investments	-	-	-	-	-	1,261,359	1,261,359
Receivables (net):							
Interest	19,939	751	21,106	2,801	254	1,017	45,868
Accounts	-	4,765	363,494	570	177,966	1,805,045	2,351,840
Due from other funds	-	130,039	345,343	40,862	129,289	13,392	658,925
Inventories	1,192,258	-	-	-	15,115	804,935	2,012,308
Prepaid items	-	-	-	-	24,632	174,285	198,917
Total current assets	<u>5,362,672</u>	<u>336,861</u>	<u>5,113,820</u>	<u>836,119</u>	<u>7,065,407</u>	<u>18,078,121</u>	<u>36,793,000</u>
Noncurrent assets:							
Capital assets:							
Nondepreciable	753,961	-	411,095	-	458,926	687,465	2,311,447
Depreciable	3,021,987	-	52,797,991	18,187,777	37,160,524	79,817,637	190,985,916
Accumulated depreciation	<u>(2,117,714)</u>	<u>-</u>	<u>(19,273,446)</u>	<u>(8,565,452)</u>	<u>(17,613,963)</u>	<u>(27,925,917)</u>	<u>(75,496,492)</u>
Total noncurrent assets	<u>1,658,234</u>	<u>-</u>	<u>33,935,640</u>	<u>9,622,325</u>	<u>20,005,487</u>	<u>52,579,185</u>	<u>117,800,871</u>
Total assets	<u>7,020,906</u>	<u>336,861</u>	<u>39,049,460</u>	<u>10,458,444</u>	<u>27,070,894</u>	<u>70,657,306</u>	<u>154,593,871</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows - pensions	87,618	2,969	65,376	10,559	97,897	523,614	788,033
Deferred outflows - other postemployment benefits	2,837	-	2,957	186	-	-	5,980
Deferred charge on refunding	-	-	-	-	6,962	27,848	34,810
Total deferred outflows of resources	<u>90,455</u>	<u>2,969</u>	<u>68,333</u>	<u>10,745</u>	<u>104,859</u>	<u>551,462</u>	<u>828,823</u>
LIABILITIES							
Accounts and contracts payable	366,510	122,139	27,837	29,404	75,962	3,161,658	3,783,510
Salaries payable	16,551	547	12,625	1,892	21,283	116,750	169,648
Due to other governments	69,982	-	-	-	2,863	149,807	222,652
Due to other funds	-	1,525	523	9,268	23,598	794,213	829,127
Unearned revenue	2,984	-	-	-	97,069	-	100,053
Accrued interest	-	-	105,002	-	16,796	234,920	356,718
Customer deposits payable	-	-	-	-	110,275	946,460	1,056,735
Compensated absences payable - current	29,748	-	18,378	1,923	27,757	169,375	247,181
Notes payable - current	-	-	-	-	-	200,916	200,916
Bonds payable - current	-	-	420,000	-	260,000	940,000	1,620,000
Total current liabilities	<u>485,775</u>	<u>124,211</u>	<u>584,365</u>	<u>42,487</u>	<u>635,603</u>	<u>6,714,099</u>	<u>8,586,540</u>
Noncurrent liabilities:							
Compensated absences payable	42,588	-	13,940	3,919	23,988	172,831	257,266
Net other postemployment benefits obligation	51,738	-	44,347	7,391	18,159	82,413	204,048
Net pension liability	443,436	15,024	330,870	53,436	454,388	2,430,359	3,727,513
Notes payable	-	-	-	-	-	619,692	619,692
Bonds payable	-	-	8,360,000	-	874,455	21,055,881	30,290,336
Total noncurrent liabilities	<u>537,762</u>	<u>15,024</u>	<u>8,749,157</u>	<u>64,746</u>	<u>1,370,990</u>	<u>24,361,176</u>	<u>35,098,855</u>
Total liabilities	<u>1,023,537</u>	<u>139,235</u>	<u>9,333,522</u>	<u>107,233</u>	<u>2,006,593</u>	<u>31,075,275</u>	<u>43,685,395</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows - pensions	133,330	4,517	99,485	16,067	127,452	681,694	1,062,545
NET POSITION							
Net investment in capital assets	1,658,234	-	25,155,640	9,622,325	18,877,994	29,790,544	85,104,737
Restricted for debt service	-	-	-	-	-	1,261,359	1,261,359
Unrestricted	<u>4,296,260</u>	<u>196,078</u>	<u>4,529,146</u>	<u>723,564</u>	<u>6,163,714</u>	<u>8,399,896</u>	<u>24,308,658</u>
Total net position	<u>\$ 5,954,494</u>	<u>\$ 196,078</u>	<u>\$ 29,684,786</u>	<u>\$ 10,345,889</u>	<u>\$ 25,041,708</u>	<u>\$ 39,451,799</u>	<u>\$ 110,674,754</u>

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

CITY OF ELK RIVER, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Municipal Liquor	Garbage	Sewer	Storm Water	Water	Electric	Total
Sales and cost of sales:							
Sales	\$ 7,201,031	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,201,031
Cost of sales	(5,119,654)	-	-	-	-	-	(5,119,654)
Gross profit	<u>2,081,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,081,377</u>
Operating revenues:							
User charges	-	1,550,274	2,116,555	485,087	2,445,688	39,039,573	45,637,177
Delinquency collections	-	2,674	1,242	397	18,081	199,753	222,147
Other	2,124	550	128,997	-	52,052	(459,421)	(275,698)
Total operating revenues	<u>2,124</u>	<u>1,553,498</u>	<u>2,246,794</u>	<u>485,484</u>	<u>2,515,821</u>	<u>38,779,905</u>	<u>45,583,626</u>
Operating expenses:							
Personal services	716,243	25,887	536,657	95,117	602,831	2,615,460	4,592,195
Supplies	15,850	16,169	244,354	174	237,888	124,830	639,265
Purchased power	-	-	-	-	-	26,710,514	26,710,514
Other service charges	262,767	1,546,900	830,820	81,304	589,820	3,453,253	6,764,864
Depreciation	119,186	-	1,639,461	457,478	1,193,745	2,297,349	5,707,219
Total operating expenses	<u>1,114,046</u>	<u>1,588,956</u>	<u>3,251,292</u>	<u>634,073</u>	<u>2,624,284</u>	<u>35,201,406</u>	<u>44,414,057</u>
Operating income (loss)	<u>969,455</u>	<u>(35,458)</u>	<u>(1,004,498)</u>	<u>(148,589)</u>	<u>(108,463)</u>	<u>3,578,499</u>	<u>3,250,946</u>
Nonoperating revenues (expenses):							
Interest income	55,235	4,865	48,050	3,700	25,334	330,110	467,294
Miscellaneous revenue	-	-	54,634	-	241,416	371,303	667,353
Interest expense	-	-	(253,197)	-	(41,865)	(478,814)	(773,876)
Gain (loss) on disposal of capital assets	-	-	-	-	7,425	(4,963)	2,462
Total nonoperating revenues (expenses)	<u>55,235</u>	<u>4,865</u>	<u>(150,513)</u>	<u>3,700</u>	<u>232,310</u>	<u>217,636</u>	<u>363,233</u>
Income (loss) before contributions and transfers	1,024,690	(30,593)	(1,155,011)	(144,889)	123,847	3,796,135	3,614,179
Capital contributions	-	-	1,188,777	37,313	716,810	352,104	2,295,004
Transfers in	-	45,000	-	-	-	-	45,000
Transfers out	<u>(689,174)</u>	<u>(46,750)</u>	<u>(150,000)</u>	<u>(35,000)</u>	<u>-</u>	<u>(1,187,714)</u>	<u>(2,108,638)</u>
Change in net position	335,516	(32,343)	(116,234)	(142,576)	840,657	2,960,525	3,845,545
Net position - beginning, as restated (Note 15)	<u>5,618,978</u>	<u>228,421</u>	<u>29,801,020</u>	<u>10,488,465</u>	<u>24,201,051</u>	<u>36,491,274</u>	<u>106,829,209</u>
Net position - ending	<u>\$ 5,954,494</u>	<u>\$ 196,078</u>	<u>\$ 29,684,786</u>	<u>\$ 10,345,889</u>	<u>\$ 25,041,708</u>	<u>\$ 39,451,799</u>	<u>\$ 110,674,754</u>

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

CITY OF ELK RIVER, MINNESOTA
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Municipal Liquor	Garbage	Sewer	Storm Water	Water	Electric	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 7,201,836	\$ 1,536,303	\$ 2,076,989	\$ 483,295	\$ 2,550,717	\$ 40,429,994	\$ 54,279,134
Other operating cash receipts	2,124	550	183,630	-	252,622	387,970	826,896
Payments to suppliers	(5,435,336)	(1,560,142)	(1,415,964)	(43,735)	(886,313)	(30,616,974)	(39,958,464)
Payments to employees	(736,746)	(23,831)	(578,629)	(83,825)	(539,466)	(2,326,410)	(4,288,907)
Net cash provided (used) by operating activities	<u>1,031,878</u>	<u>(47,120)</u>	<u>266,026</u>	<u>355,735</u>	<u>1,377,560</u>	<u>7,874,580</u>	<u>10,858,659</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers from other funds	-	45,000	-	-	-	-	45,000
Transfers to other funds	(689,174)	(46,750)	(150,000)	(35,000)	-	(1,187,714)	(2,108,638)
Decrease (increase) in due from other funds	-	-	-	-	60	(2,517)	(2,457)
Increase (decrease) in due to other funds	-	-	-	-	(3,566)	3,755	189
Net cash provided (used) by noncapital financing activities	<u>(689,174)</u>	<u>(1,750)</u>	<u>(150,000)</u>	<u>(35,000)</u>	<u>(3,506)</u>	<u>(1,186,476)</u>	<u>(2,065,906)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Connection fees received	-	-	1,156,466	37,313	716,810	-	1,910,589
Grants received	-	-	32,311	-	-	-	32,311
Acquisition of capital assets	-	-	(73,478)	-	(442,368)	(14,657,362)	(15,173,208)
Proceeds from sale of capital assets	-	-	-	-	7,425	16,000	23,425
Principal paid on capital debt	-	-	(415,000)	-	(255,000)	(720,000)	(1,390,000)
Proceeds of bonds issued, net of issuance costs and premium on bonds	-	-	-	-	-	10,338,289	10,338,289
Interest paid on capital debt	-	-	(256,655)	-	(44,587)	(326,785)	(628,027)
Principal paid on promissory note	-	-	-	-	-	(198,252)	(198,252)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>443,644</u>	<u>37,313</u>	<u>(17,720)</u>	<u>(5,548,110)</u>	<u>(5,084,873)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	53,712	5,100	45,479	3,755	26,747	335,761	470,554
Net increase (decrease) in cash and cash equivalents	396,416	(43,770)	605,149	361,803	1,383,081	1,475,755	4,178,434
Cash and cash equivalents, January 1	3,754,059	245,076	3,778,728	430,083	5,335,070	13,803,692	27,346,708
Cash and cash equivalents, December 31	<u>\$ 4,150,475</u>	<u>\$ 201,306</u>	<u>\$ 4,383,877</u>	<u>\$ 791,886</u>	<u>\$ 6,718,151</u>	<u>\$ 15,279,447</u>	<u>\$ 31,525,142</u>
Reconciliation of cash and cash equivalents to the statement of net position:							
Cash and investments	\$ 4,150,475	\$ 201,306	\$ 4,383,877	\$ 791,886	\$ 6,718,151	\$ 14,018,088	\$ 30,263,783
Restricted cash and investments	-	-	-	-	-	1,261,359	1,261,359
Total cash and cash equivalents	<u>\$ 4,150,475</u>	<u>\$ 201,306</u>	<u>\$ 4,383,877</u>	<u>\$ 791,886</u>	<u>\$ 6,718,151</u>	<u>\$ 15,279,447</u>	<u>\$ 31,525,142</u>

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

**CITY OF ELK RIVER, MINNESOTA
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Municipal Liquor	Garbage	Sewer	Storm Water	Water	Electric	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ 969,455	\$ (35,458)	\$ (1,004,498)	\$ (148,589)	\$ (108,463)	\$ 3,578,499	\$ 3,250,946
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Other revenue related to operations	-	-	54,633	-	241,416	371,303	667,352
Depreciation expense	119,186	-	1,639,461	457,478	1,193,745	2,297,349	5,707,219
(Increase) decrease in assets and deferred outflows:							
Accounts receivable	-	-	(40,601)	187	14,827	1,526,245	1,500,658
Due from other funds	-	(17,175)	(207)	(2,376)	-	-	(19,758)
Due from other governments	-	530	-	-	-	-	530
Inventories	(58,753)	-	-	-	1,161	144,759	87,167
Prepaid items	-	-	-	-	7,943	17,798	25,741
Deferred outflows - pensions	56,845	1,143	47,525	6,369	71,948	358,253	542,083
Deferred outflows - other postemployment benefits	399	-	416	27	-	-	842
Increase (decrease) in liabilities and deferred inflows:							
Accounts payable	19,858	6,225	(340,796)	29,351	21,283	(123,403)	(387,482)
Salaries payable	5,599	154	2,744	8,392	6,720	15,179	38,788
Due to other funds	-	(3,298)	6	483	-	-	(2,809)
Due to other governments	1,830	-	-	-	861	(13,222)	(10,531)
Unearned revenue	805	-	-	-	5,333	77,059	83,197
OPEB liability	(7,332)	-	(17,227)	3,511	16,765	5,270	987
Compensated absences payable	7,162	-	9,975	1,732	4,379	49,525	72,773
Net pension liability	(86,133)	(48)	(83,000)	(1,620)	(102,335)	(460,242)	(733,378)
Deferred inflows - pensions	2,957	807	(2,405)	790	1,977	30,208	34,334
Net cash provided (used) by operating activities	\$ 1,031,878	\$ (47,120)	\$ 266,026	\$ 355,735	\$ 1,377,560	\$ 7,874,580	\$ 10,858,659
Noncash capital and related financing activities:							
Amortization of bond premium	-	-	-	-	829	48,645	49,474
Amortization of deferred charges on refunding	-	-	-	-	1,671	6,684	8,355
Contribution of capital assets	-	-	-	-	-	352,104	352,104
Capital assets purchased on account	-	-	-	-	7,652	757,087	764,739
Loss on disposal of capital assets	-	-	-	-	-	(20,961)	(20,961)

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

**CITY OF ELK RIVER, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2018**

ASSETS	
Cash	\$ 690,556
Accounts receivable	22,109
Prepaid items	<u>428</u>
Total assets	<u><u>\$ 713,093</u></u>
LIABILITIES	
Accounts payable	\$ 15,792
Refundable deposits payable	<u>697,301</u>
Total liabilities	<u><u>\$ 713,093</u></u>

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

CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The City of Elk River operates under the "Optional Plan A" form of government as defined in the State of Minnesota statutes. Under this plan, the City Council is composed of an elected mayor and four elected Council Members. The Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The financial statements and the accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Elk River (the primary government) and its component units. The Elk River Municipal Utilities is considered to be part of the primary government.

The Elk River Municipal Utilities was established and statutory authority is provided in accordance with Chapter 412.321 of the Minnesota statutes and is considered to be part of the City. The Utilities Commission has five council approved members who serve overlapping three-year terms. The statutes provide the City Council all the discretionary authority necessary to operate the Utilities, except as its powers have been delegated to the Commission. The Utility funds are included with the enterprise funds of this report. Separate financial statements for the Utilities may be obtained at the Elk River Municipal Utilities, 13069 Orono Pkwy, Elk River, MN 55330.

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. Based upon the application of these criteria, the City has the following component units:

Blended Component Unit

The Economic Development Authority (EDA) was created to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The seven-member board consists of three Council Members, the Mayor and three other Council-approved members. The EDA may not exercise any of its authorized powers without prior approval of the City Council. The City has operational responsibility and it is this criterion that results in the EDA being reported as a blended component unit. The EDA is reported as a special revenue fund and does not issue separate financial statements.

Discretely Presented Component Unit

The Housing and Redevelopment Authority (HRA) is a legally separate entity created to carry out community development consistent with policies established by the City Council. The HRA is governed by five Council-appointed members, one of which is a Council Member; however, the City does not have a financial benefit or burden relationship and does not have operational responsibility. The criterion that results in the HRA being reported as a discretely presented component unit include 1) the five-member Council-appointed board and 2) the ability of the City to impose its will on the HRA by significantly influencing the programs, projects, activities or level of service performed by the HRA by approving the HRA's budget. The HRA does not issue separate financial statements and they are included in the financial section of this report.

CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Government-Wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City, except fiduciary funds. Since, by definition, fiduciary fund assets are held for the benefit of a third party and cannot be used for activities or obligations of the City, these funds are excluded from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, 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. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes and special assessments are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all eligibility and time requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense can be specifically identified by function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities.

D. Fund Financial Statement Presentation

The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 government 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 government.

CITY OF ELK RIVER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Financial Statement Presentation (Continued)

Proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting, similar to the government-wide financial statements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The operating expenses for the 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.

Fiduciary fund financial statements use the accrual basis of accounting. Agency funds, the City's only fiduciary type, are custodial in nature (assets equal liabilities) and do not have a measurement focus.

The government reports the following major governmental funds:

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

The *Pavement Management fund* is used to account for franchise taxes collected to fund expenditures for the ongoing maintenance and repair of City streets.

The government reports the following major enterprise funds:

The *Municipal Liquor fund* accounts for the operations of the City's off-sale liquor stores.

The *Garbage fund* accounts for the activities of the garbage and recycling collection programs.

The *Sewer fund* accounts for the activities of the sanitary sewer treatment system.

The *Storm Water fund* accounts for the activities of the storm water collection system.

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

The *Electric fund* accounts for the activities of the electric distribution system.

Additionally, the government reports the following fund types:

The *Developer Escrow agency fund* is used to account for resources received from developers for the payment of expenses incurred by the City for private development projects.

The *FSA Plans agency fund* is used to account for resources received from employees for the City's self-administered medical and dependent care FSA plans.

CITY OF ELK RIVER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General fund and the Library, Ice Arena, and Economic Development Authority special revenue funds. Project-length financial plans are adopted for all capital projects funds. All annual appropriations lapse at fiscal year-end.

On or before July 1 of each year, all departments and agencies of the City submit requests for appropriation to the City's administrator so that a budget may be prepared. Before September 30, the proposed budget is presented to the City Council for review and approval. The City Council holds public hearings and may add to, subtract from, or change appropriations. Any changes in the budget must be within the revenue and reserves estimated as available or the revenue estimates must be changed by an affirmative vote by a majority of the City Council.

The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. Expenditures may not legally exceed budgeted appropriations at the fund level without Council approval. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at the department level. Reported budget amounts are as originally adopted or as amended by Council approved supplemental appropriations and budget transfers.

F. Cash 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. Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation of each fund. Investments are generally reported at fair value or amortized cost, based upon quoted market prices. The Minnesota Municipal Money Market (4M) is an external investment pool regulated by Minnesota statutes that is not registered with the Securities and Exchange Commission (SEC). The City's investment in this fund is measured based on the amortized cost method that approximates fair value.

G. Accounts Receivable

Accounts receivable include amounts billed for services provided before year-end. It is the City's policy to charge uncollectibles directly to operations as accounts become worthless. The Utilities has established a reserve for uncollectible accounts which is adjusted annually based on the receivable activity. No substantial losses from present receivable balances are anticipated. A summary of the Utilities' uncollectible account balances at December 31, 2018 is as follows:

	2018
Electric	\$ 25,355
Water	250
Total	\$ 25,605

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. Property Taxes

The City Council annually adopts a tax levy and certifies it to the County in December each year for collection the following year. The County is responsible for collecting all property taxes for the City. Property tax levies are based on property values assessed on January 2 of the preceding year. The County spreads all levies over all taxable property. These taxes attach an enforceable lien on taxable property as of January 1 and are payable by the property owner in May and October each year. The taxes are collected by the County Treasurer and tax settlements are made to the City three times a year, in January, July and December.

In the fund financial statements, taxes that remain unpaid at December 31 are classified as delinquent taxes and are offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end. Deferred inflows of resources for taxes in governmental activities is susceptible to full accrual on the government-wide statements.

I. Special Assessments

Special assessments receivable includes the following components:

- Delinquent - includes amounts billed to property owners but not paid.
- Unavailable - includes assessment installments that will be billed to property owners in future years.

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. In governmental fund financial statements, special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable not received within 60 days after year end are offset by a deferred inflow of resources in the governmental fund financial statements.

J. Notes Receivable

Notes receivable consists primarily of loans made by the City to area businesses for development purposes. The terms and interest rates of the individual loans vary.

K. Inventories and Prepaid Items

For the proprietary funds, inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. Inventories are recorded as an expense when sold or consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

L. Property Held for Resale

These assets are recorded at the lower of original cost or current net realizable value in the governmental fund which purchased them.

M. Restricted Assets

The amounts in the restricted cash account are set aside in accordance with the issuing resolution for specific bond issues. They will be used for future debt service.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

N. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation.

With the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date. The City was able to obtain historical costs for the initial reporting of these assets through public works project records. Major expenditures for improvements or capital asset projects are capitalized as projects are constructed.

Property, plant, and equipment of the City, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 - 40
Other park improvements	10 - 20
Machinery and equipment	3 - 20
Public domain infrastructure	15 - 50
System infrastructure	4 - 50

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 three items that qualify for reporting in this category. A deferred charge on refunding, reported only in the statements of net position, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred pension resources, reported only in the statements of net position, result from actuarial calculations and current year pension contributions made subsequent to the measurement date. Deferred other postemployment benefits, reported only in the statements of net position, result from actuarial calculations involving participant and financial data of the benefit plans.

In addition to liabilities, the statement of financial 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 two types of items that qualify for reporting in this category. Accordingly, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Furthermore, the City has one additional item which qualifies for reporting in this category on the statements of net position. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

P. Pensions

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

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

Q. Unearned Revenue

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. At December 31, 2018, the balance reported in the governmental fund financial statements consists of \$613,108 from unearned park dedication credits.

R. Long-Term Liabilities

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. Bond premiums and discounts, if material, are amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed as incurred.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

S. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Unused vacation can be accrued by the employees up to a maximum of 240 hours, the limit of which is determined by years of service. 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. In the event a liability is recorded in the governmental funds, the General fund would be used to liquidate the compensated absences payable.

Employees can also accrue an unlimited amount of unused sick leave. Employees with two or more years of service are entitled to receive severance pay equal to 50 percent of unused sick leave, up to a maximum of 480 hours. The liability for severance pay is accounted for the same as accrued vacation pay.

CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

T. 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 governmental funds. These classifications are as follows:

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

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

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council Resolution, the City's Finance Director or City Administrator is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund and also reflects 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 Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance of 40-45% of budgeted operating expenditures for cash-flow timing needs.

U. Net Position

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

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

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

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

V. Interfund Receivables and Payables

Activity between funds that is representative of lending or borrowing arrangements is reported as either “due to/from other funds” (current portion) or “advances 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”.

W. Revenues and Expenditures/Expenses

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

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

NOTE 2: STEWARDSHIP AND ACCOUNTABILITY

A. Expenditures in Excess of Appropriations

For the year ended December 31, 2018, expenditures exceeded appropriations in the Ice Arena fund by \$30,168, which was funded by available fund balance.

B. Deficit Fund Balance

The following funds had deficit fund balances at December 31, 2018:

Primary Government:	
Park Dedication – capital projects fund	\$ 284,335
TIF Districts – capital projects fund	\$2,331,451

The City plans to eliminate these deficits through future park dedication and tax increment fund revenues.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3: DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

	<u>Primary Government</u>	<u>Component Unit - HRA</u>
Deposits	\$ 19,684,436	\$ 893,978
Investments	41,476,911	-
Cash on Hand	18,575	-
Total	<u>\$ 61,179,922</u>	<u>\$ 893,978</u>

Cash and investments are presented in the financial statements as follows:

	<u>Primary Government</u>	<u>Component Unit - HRA</u>
Statement of Net Position		
Cash and investments	\$ 59,228,007	\$ 893,978
Restricted cash and investments	1,261,359	-
Statement of Fiduciary Net Position		
Cash and investments - Agency Funds	690,556	-
Total	<u>\$ 61,179,922</u>	<u>\$ 893,978</u>

B. Deposits

In accordance with applicable Minnesota statutes, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposits. The following is considered the most significant risk associated with deposits:

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may be lost.

Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “A” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The City (including Elk River Municipal Utilities) has an investment policy in place to address custodial credit risk for deposits, stating all deposits and investments must be in compliance with Minnesota Statutes 118A, with collateralization levels of 110% of the market value of the principal and accrued interest.

At year-end, the carrying amount of the City’s deposits was \$19,684,436 while the balance on the bank records was \$19,499,441. At December 31, 2018, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City’s agent in the City’s name.

At year-end, the carrying amount of deposits for the HRA, a discretely presented component unit, was \$893,978 and the bank balance was \$893,495. At December 31, 2018, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City’s agent in the City’s name.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3: DEPOSITS AND INVESTMENTS – CONTINUED

C. Investments

Minnesota statutes and the City’s investment policy authorize the City to invest in the following:

- a. Direct obligations or obligations guaranteed by the United States or its agencies.
- b. Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- c. General obligations of the State of Minnesota or any of its municipalities.
- d. Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e. Commercial paper of the highest quality issued by United States corporations or their Canadian subsidiaries and maturing in 270 days or less.

The City has the following investments at year-end:

Investment Type	Rating	Fair Value Measurement Using	Maturity Duration in Years			Total
			Less than 1	1 to 5	More than 5	
Investments Measured at Fair Value						
Negotiable Certificates of Deposit	Not Rated	Level 2	\$ 2,670,575	\$ 6,523,850	\$ 461,573	\$ 9,655,998
FNMA & FHLM	AAA	Level 2	-	494,880	2,232,400	2,727,280
Municipal Bonds	AA- to AAA	Level 2	1,149,720	12,911,108	5,042,599	19,103,427
Total Investments Measured at Fair Value			3,820,295	19,929,838	7,736,572	31,486,705
Investments Measured at Amortized Cost						
UBS Select Prime Institutional Money Market	Not Rated					5,298,719
4M Fund	Not Rated					4,675,057
Other Money Market Funds	Not Rated					16,430
Total Investments Measured at Amortized Cost						9,990,206
Total Investments						<u>\$ 41,476,911</u>

Investments are subject to various risks, the following of which are considered the most significant:

Custodial credit risk - For investments, the custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities. As of December 31, 2018, all investments were insured or registered, or securities were held by the City or its agent in the City’s name.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota statutes limit the City’s investments in certain types of investments. The City’s investment policy does not further limit the ratings of their investments.

Concentration risk – This is the risk associated with investing a significant portion of the City’s investment (considered 5% or more) in the securities of a single issuer and no more than 50% of the City’s total investment portfolio may be invested in certificates of deposit or commercial paper.

At December 31, 2018, the following is a list of investments which individually comprise more than 5% of the City’s total investments:

UBS Select Prime Institutional Money Market	\$5,298,719	12.8%
4M Fund	\$4,675,057	11.3%

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3: DEPOSITS AND INVESTMENTS – CONTINUED

C. Investments (Continued)

Interest rate risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City’s investment policy uses diversification of maturity dates as a means of managing exposure to fair value by stating that no more the 30% of the City’s investments may extend beyond a five-year maturity.

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

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

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

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

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

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

NOTE 4: NOTES RECEIVABLE

The City has made several business subsidy loans to local businesses, some of which were funded with grant proceeds received from the state and federal governments. The terms of repayment vary with each loan and will be repaid over a period of ten years. Under the terms of the grant agreement, the City retains the grant repayments. Notes receivable of \$456,945 in the State Deed fund and \$403,919 in the Revolving Loan fund are outstanding at December 31, 2018.

In 2015, the City issued a \$1,288,589 long-term note receivable related to the sale of property to a developer under an abatement agreement. The note shall be payable in semiannual installments as tax abatement revenues are received, commencing on August 1, 2017, and maturing February 1, 2037. A note receivable of \$1,108,648 in the Development fund is outstanding at December 31, 2018.

In 2006, the HRA issued a loan to a developer to assist in the financing of a housing development for the benefit of low and moderate income residents which was funded with state grant proceeds. Repayment of the loan is deferred for 30 years, payable in one lump sum at an interest rate of one percent. Notes receivable of \$400,000 in the HRA is outstanding at December 31, 2018.

Since 2015, the HRA has issued loans to applicants under the rehabilitation loan program. The terms of each loan vary and are payable over 5-15 years with rates from 1.25% -3.25%. Note receivables of \$223,206 in the HRA are outstanding at December 31, 2018.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5: CAPITAL ASSETS

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

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 40,984,633	\$ -	\$ (57,000)	\$ 40,927,633
Construction in progress	23,415	103,358	(126,773)	-
Total capital assets not being depreciated	41,008,048	103,358	(183,773)	40,927,633
Capital assets being depreciated:				
Buildings	45,048,097	-	-	45,048,097
Other improvements	6,244,291	313,480	-	6,557,771
Equipment	13,110,395	1,538,989	(800,244)	13,849,140
Infrastructure	70,294,922	142,936	-	70,437,858
Total capital assets being depreciated	134,697,705	1,995,405	(800,244)	135,892,866
Less accumulated depreciation for:				
Buildings	20,488,340	1,546,594	-	22,034,934
Other improvements	4,004,097	243,923	-	4,248,020
Equipment	9,257,968	836,654	(729,296)	9,365,326
Infrastructure	43,935,214	2,662,455	-	46,597,669
Total accumulated depreciation	77,685,619	5,289,626	(729,296)	82,245,949
Total capital assets being depreciated, net	57,012,086	(3,294,221)	(70,948)	53,646,917
Governmental activities capital assets, net	<u>\$ 98,020,134</u>	<u>\$ (3,190,863)</u>	<u>\$ (254,721)</u>	<u>\$ 94,574,550</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,843,977	\$ -	\$ -	\$ 1,843,977
Construction in progress	736,872	3,118,367	(3,387,769)	467,470
Total capital assets not being depreciated	2,580,849	3,118,367	(3,387,769)	2,311,447
Capital assets being depreciated:				
Buildings	27,277,857	67,725	-	27,345,582
Equipment	11,035,823	338,843	(36,366)	11,338,300
Intangible assets	10,375,677	12,904,278	-	23,279,955
Collection and distribution	126,377,449	2,677,882	(33,252)	129,022,079
Total capital assets being depreciated	175,066,806	15,988,728	(69,618)	190,985,916
Less accumulated depreciation for:				
Buildings	8,410,323	913,005	-	9,323,328
Equipment	2,965,714	685,149	(36,366)	3,614,497
Intangible assets	-	165,883	-	165,883
Collection and distribution	58,461,893	3,943,182	(12,291)	62,392,784
Total accumulated depreciation	69,837,930	5,707,219	(48,657)	75,496,492
Total capital assets being depreciated, net	105,228,876	10,281,509	(20,961)	115,489,424
Business-type activities capital assets, net	<u>\$ 107,809,725</u>	<u>\$ 13,399,876</u>	<u>\$ (3,408,730)</u>	<u>\$ 117,800,871</u>

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5: CAPITAL ASSETS - CONTINUED

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

Component Unit	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 257,100	\$ -	\$ -	\$ 257,100
Capital assets being depreciated:				
Other improvements	174,290	-	-	174,290
Less accumulated depreciation for:				
Other improvements	59,065	11,618	-	70,683
Total capital assets being depreciated, net	115,225	(11,618)	-	103,607
Component unit capital assets, net	<u>\$ 372,325</u>	<u>\$ (11,618)</u>	<u>\$ -</u>	<u>\$ 360,707</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 269,353
Public safety	666,601
Public works	3,273,313
Culture and recreation	1,080,359
Total depreciation expense - governmental activities	<u>\$ 5,289,626</u>
Business-type activities:	
Municipal liquor	\$ 119,186
Sewer	1,639,461
Storm Water	457,478
Water	1,193,745
Electric	2,297,349
Total depreciation expense - business-type activities	<u>\$ 5,707,219</u>

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 11,135
General	Water	23,598
General	Electric	174,483
Pavement Management	Electric	275,286
Nonmajor governmental funds	Nonmajor governmental funds	1,840,269
Sewer	Nonmajor governmental funds	171,800
Sewer	Electric	173,543
Garbage	Electric	130,039
Storm Water	Electric	40,862
Electric	General	2,076
Water	General	439
Water	Nonmajor governmental funds	128,850
Electric	Garbage	1,525
Electric	Sewer	523
Electric	Storm Water	9,268
Total		<u>\$ 2,983,696</u>

The interfund receivable/payable balances result from the distribution of utility collections and the lending/borrowing arrangements between funds for operating or capital purposes.

Due to/from component unit:

Receivable Entity	Payable Entity	Amount
Primary government - General Fund	Component unit - HRA	\$ 6,622
Component unit - HRA	Primary government - TIF Districts	202,304

The outstanding balance between the primary government and the component unit represents the transfer for administrative services and the lending/borrowing arrangement to finance construction costs. The \$202,304 payable to the HRA will be paid with the collection of tax increment revenue and will not be repaid within one year.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - CONTINUED

Interfund transfers:

Governmental funds:	Transfer In	Transfer Out
Major fund - General	\$ 2,028,314	\$ 310,000
Nonmajor funds	1,325,721	980,397
Total governmental funds	<u>3,354,035</u>	<u>1,290,397</u>
Proprietary funds:		
Municipal liquor	-	689,174
Garbage	45,000	46,750
Sewer	-	150,000
Storm Water	-	35,000
Electric	-	1,187,714
Total proprietary funds	<u>45,000</u>	<u>2,108,638</u>
Total	<u>\$ 3,399,035</u>	<u>\$ 3,399,035</u>

Interfund transfers are used to provide additional capital funding or to move revenues from the fund with collection authorization to debt service funds as principal and interest payments come due. In addition, interfund transfers are occasionally authorized to allow redistribution of resources between funds for the most efficient use of funds.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7: LONG-TERM DEBT

A. Components of Long-term Debt

The City had the following long-term liabilities outstanding at December 31, 2018:

PRIMARY GOVERNMENT	Issue Date	Maturity Date	Interest Rate	Original Issue	Payable 12/31/18
GOVERNMENTAL ACTIVITIES:					
General Obligation Bonds:					
2010A G.O. Capital Improvement Bonds	4/21/2010	2/1/2023	2.00-4.00%	\$ 6,105,000	\$ 2,625,000
2012A G.O. Capital Improvement Bonds	3/15/2012	2/1/2033	1.00-2.50%	6,975,000	5,475,000
2013A EDA G.O. Refunding Bonds	2/12/2013	2/1/2033	2.00-3.00%	9,685,000	9,180,000
Total General Obligation Bonds					<u>17,280,000</u>
Unamortized bond premiums					352,016
Compensated absences payable					<u>1,579,967</u>
Total Governmental Activities					<u>\$ 19,211,983</u>
BUSINESS-TYPE ACTIVITIES:					
General Obligation Revenue Bonds:					
2008A G.O. Water Revenue Refunding Bonds	2/20/2008	2/1/2022	2.50-3.65%	\$ 3,085,000	\$ 1,020,000
2010A G.O. Capital Improvement Bonds	4/21/2010	8/1/2023	2.00-4.00%	1,265,000	555,000
2014B G.O. Sewer Revenue Bonds	8/21/2014	2/1/2035	2.00-3.50%	10,000,000	8,780,000
Total General Obligation Revenue Bonds					<u>10,355,000</u>
Revenue Bonds:					
2016A Electric Revenue Bonds	7/14/2016	2/1/2036	2.00-4.00%	9,755,000	9,755,000
2016B Electric Revenue Refunding Bonds	7/14/2016	2/1/2022	2.00-4.00%	1,370,000	930,000
2018A Electric Revenue Bonds	7/14/2016	2/1/2022	2.00-4.00%	1,370,000	10,000,000
Total Revenue Bonds					<u>20,685,000</u>
Total Bonds					31,040,000
Unamortized bond premiums					870,336
Promissory note	3/19/2002	2/19/2022	-%	3,521,000	820,608
Compensated absences payable					<u>504,447</u>
Total Business-type Activities					<u>\$ 33,235,391</u>
Total Primary Government					<u>\$ 52,447,374</u>

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7: LONG-TERM DEBT – CONTINUED

A. Components of Long-term Debt (Continued)

For the governmental activities, bonds payable can be summarized in the following categories:

The general obligation bonds were used to construct a recreation facility, a public safety facility, and a public works facility. The recreation facility is leased to the YMCA, which has pledged to pay one-third of the bonds outstanding. The bonds are general obligations of the City and are backed by its full faith and credit.

For the business-type activities, the general obligation revenue bonds were issued to finance capital improvements. The bonds are payable from future revenues pledged from the Sewer and Water funds and are backed by the full faith and credit of the City. Annual principal and interest payments on the bonds are expected to require about 30% and 12% of revenues from the Sewer and Water funds, respectively.

The revenue bonds were issued to finance the acquisition and construction of major capital facilities and are to be repaid from future revenues pledged from the Electric fund. Annual principal and interest payment on the bonds require about 3% of revenues from the Electric fund.

The City also issued a promissory note to provide for the construction of a landfill gas generator. The note is to be paid from revenue of the system and is secured by the facility.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7: LONG-TERM DEBT – CONTINUED

B. Changes in Long-Term Debt

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

PRIMARY GOVERNMENT	Beginning			Ending	Due Within
GOVERNMENTAL ACTIVITIES:	Balance	Additions	Reductions	Balance	One Year
Bonds payable:					
General obligation bonds	\$ 18,560,000	\$ -	\$ (1,280,000)	\$ 17,280,000	\$ 1,315,000
Special assessment bonds	295,000	-	(295,000)	-	-
Issuance premium	392,312	-	(40,296)	352,016	-
Total bonds payable	19,247,312	-	(1,615,296)	17,632,016	1,315,000
Compensated absences	1,555,037	611,591	(586,661)	1,579,967	617,411
Total Governmental Activities	20,802,349	611,591	(2,201,957)	19,211,983	1,932,411
BUSINESS-TYPE ACTIVITIES:					
Bonds payable					
General obligation revenue bonds	11,105,000	-	(750,000)	10,355,000	760,000
Revenue bonds	11,325,000	10,000,000	(640,000)	20,685,000	860,000
Issuance premium	484,706	435,104	(49,474)	870,336	-
Total bonds payable	22,914,706	10,435,104	(1,439,474)	31,910,336	1,620,000
Notes payable	1,018,860	-	(198,252)	820,608	200,916
Compensated absences	431,674	281,904	(209,131)	504,447	247,181
Total Business-type Activities	24,365,240	10,717,008	(1,846,857)	33,235,391	2,068,097
Total Primary Government	\$ 45,167,589	\$ 11,328,599	\$ (4,048,814)	\$ 52,447,374	\$ 4,000,508

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 7: LONG-TERM DEBT – CONTINUED

C. Future Minimum Debt Payments

Annual debt service requirements to maturity for long-term obligations are as follows:

	Primary Government - Governmental Activities	
	General Obligation Bonds	
	Principal	Interest
2019	\$ 1,315,000	\$ 425,413
2020	1,350,000	388,862
2021	1,390,000	351,163
2022	1,430,000	312,262
2023	1,470,000	262,163
2024 - 2028	4,830,000	1,013,925
2029 - 2033	5,495,000	387,444
Total	<u>\$ 17,280,000</u>	<u>\$ 3,141,232</u>

	Primary Government - Business-Type Activities					
	G.O. Revenue Bonds		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 760,000	\$ 299,795	\$ 860,000	\$ 624,210	\$ 200,916	\$ -
2020	785,000	278,803	840,000	652,431	203,952	-
2021	810,000	256,875	865,000	621,431	206,616	-
2022	835,000	233,933	900,000	589,081	209,124	-
2023	580,000	214,017	680,000	560,531	-	-
2024 - 2028	2,455,000	870,850	3,785,000	2,437,581	-	-
2029 - 2033	2,845,000	467,883	4,385,000	1,845,206	-	-
2034 - 2038	1,285,000	45,097	3,720,000	1,135,831	-	-
2039 - 2043	-	-	2,125,000	686,033	-	-
2044 - 2048	-	-	2,525,000	281,119	-	-
Total	<u>\$ 10,355,000</u>	<u>\$ 2,667,253</u>	<u>\$ 20,685,000</u>	<u>\$ 9,433,454</u>	<u>\$ 820,608</u>	<u>\$ -</u>

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8: FUND BALANCES

At December 31, 2018, a summary of the governmental fund balance classifications are as follows:

	General Fund	Pavement Management	Other Governmental Funds	Total
Nonspendable:				
Prepaid items	\$ 124,064	\$ -	\$ 114,976	\$ 239,040
Restricted for:				
Debt service	\$ -	\$ -	\$ 1,473,230	\$ 1,473,230
Landfill mitigation	-	-	76,896	76,896
Law enforcement	-	-	20,742	20,742
Economic development	-	-	1,261,146	1,261,146
Park improvements	-	-	318,729	318,729
Total restricted	\$ -	\$ -	\$ 3,150,743	\$ 3,150,743
Committed to:				
Library operations	\$ -	\$ -	\$ 430,472	\$ 430,472
Ice arena	-	-	613,679	613,679
Golf course	-	-	387	387
Landfill mitigation	-	-	869,961	869,961
Law enforcement	-	-	2,880	2,880
Economic development	-	-	5,313,630	5,313,630
Insurance reserve	-	-	47,857	47,857
Street improvements	-	4,789,748	-	4,789,748
Total committed	\$ -	\$ 4,789,748	\$ 7,278,866	\$ 12,068,614
Assigned to:				
Capital equipment	\$ 237,813	\$ -	\$ 1,388,845	\$ 1,626,658
Building construction/improvements	-	-	2,396,403	2,396,403
Street improvements	-	-	717,646	717,646
Other improvement projects	-	-	6,193,644	6,193,644
Park improvements	-	-	19,506	19,506
Total assigned	\$ 237,813	\$ -	\$ 10,716,044	\$ 10,953,857

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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 under section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City of Elk River are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPPF)

The PEPPF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPPF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.

1. 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year 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.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE - CONTINUED

B. Benefits Provided (Continued)

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF member first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2018. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2018. The City and HRA contributions to the GERF for the year ended December 31, 2018 were \$736,804 and \$4,810, respectively. Both the City and HRA contributions were equal to the required contributions set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2018. The City was required to contribute 16.20% of pay for members in calendar year 2018. The City contributions to the PEPFF for the year ended December 31, 2018 were \$533,296. The City contributions were equal to the required contributions set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2018, the City and HRA reported liabilities of \$7,958,885 and \$51,835, respectively, for its proportionate share of the GERF's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City and the HRA totaled \$261,004 and \$1,698, respectively. 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 and HRA's proportions of the net pension liability was based on their respective 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 and HRA's combined proportion was .1444%, an increase of .0071% from its proportion measured as of June 30, 2017.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE - CONTINUED

D. Pension Costs (Continued)

For the year ended December 31, 2018, the City and HRA recognized pension expense of \$224,874 and \$640, respectively, for its proportionate share of the GERF's pension expense. In addition, the City and HRA recognized an additional \$60,865 and \$396, respectively, for its proportionate share of the State of Minnesota's contribution of \$16 million to GERF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 210,914	\$ 218,272
Changes in actuarial assumptions	758,465	894,267
Net difference between projected and actual earnings on plan investments	-	836,618
Changes in proportion	283,923	385,662
Contributions to GERF subsequent to the measurement date	370,798	-
Total	\$ 1,624,100	\$ 2,334,819

A total of \$370,798 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2019	\$ 278,813
2020	(425,931)
2021	(768,282)
2022	(166,117)

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE - CONTINUED

D. Pension Costs (Continued)

1. GERF Pension Costs

At December 31, 2018, the HRA reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,372	\$ 1,512
Changes in actuarial assumptions	4,952	5,824
Net difference between projected and actual earnings on plan investments	-	5,297
Changes in proportion	1,480	2,953
Contributions to GERF subsequent to the measurement date	<u>2,436</u>	<u>-</u>
Total	<u>\$ 10,240</u>	<u>\$ 15,586</u>

A total of \$2,436 reported as deferred outflows of resources related to pensions resulting from HRA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 1,230
2020	(2,894)
2021	(5,036)
2022	(1,082)

2. PEPFF Pension Costs

At December 31, 2018, the City reported a liability of \$3,245,656 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City'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 .3045%, an increase of .0095% from its proportion measured as of June 30, 2017. The City also recognized \$27,405 for the year ended December 31, 2018 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE - CONTINUED

D. Pension Costs (Continued)

For the year ended December 31, 2018, the City recognized pension expense of \$237,279 for its proportionate share of PEPFF's of the PEPFF pension expense. At December 31, 2018, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 131,737	\$ 796,242
Changes in actuarial assumptions	4,199,560	4,778,031
Net difference between projected and actual earnings on plan investments	-	679,812
Changes in proportion	435,691	145,352
Contributions to PEPFF subsequent to the measurement date	<u>284,551</u>	<u>-</u>
Total	<u>\$ 5,051,539</u>	<u>\$ 6,399,437</u>

A total of \$284,551 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 198,648
2020	(117,379)
2021	(369,534)
2022	(1,304,411)
2023	(39,774)

The City's and HRA's total pension expense for the year ended December 31, 2018 for all of the defined benefit pension plans in which it participates, including the Fire Relief Association plan found in Note 11, was \$356,980 and \$640, respectively.

E. Actuarial Assumptions

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

Inflation	2.5% 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 disabled members were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.25% per year for GERP and 1.0% per year for PEPFF.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE - CONTINUED

E. Actuarial Assumptions (Continued)

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 was completed in 2015. The most recent four-year experience study for PEPFF was completed in 2016.

There following changes in actuarial assumptions occurred in 2018:

General Employees Fund

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

Police and Fire Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic stocks	36.00 %	5.10 %
International stocks	17.00	5.30
Bonds	20.00	0.75
Alternative assets	25.00	5.90
Cash	2.00	0.00
Totals	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the GERS and PEPFF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLANS – STATE-WIDE - CONTINUED

G. Pension Liability Sensitivity

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

		<u>City Proportionate Share of NPL</u>		
		<u>Current Discount Rate (7.5%)</u>		
		<u>1% Lower (6.5%)</u>	<u>Rate (7.5%)</u>	<u>1% Higher (8.5%)</u>
Primary Government:	GERS - City	\$ 12,934,309	\$ 7,958,885	\$ 3,851,929
	PEPFF	6,958,891	3,245,656	174,966
Component Unit:	GERS - HRA	84,137	51,835	25,056

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

NOTE 10: DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent (.0025) of the assets in each member's account annually.

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

<u>Contribution Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required Rate</u>
<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	
\$1,405	\$1,405	5.0%	5.0%	5.0%

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

A. Plan Description

All members of the Elk River Fire Department (the Department) are covered by a defined benefit plan administered by the Elk River Fire Department Relief Association (the Association). As of December 31, 2018, the plan covered 42 active firefighters and 6 vested terminated fire fighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, Chapter 69.

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

B. Benefits Provided

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

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with a minimum of 5 years of service, shall be equal to 40% of the pension as prescribed by the bylaws. This percentage increases 4% per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 5 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions

Minnesota Statutes, Chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes and voluntary City contributions (if applicable). The state of Minnesota contributed \$188,502 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2018, which was recorded as revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-require contribution to the plan for the year ended December 31, 2018 was \$0 but the City voluntarily contributed \$30,000.

D. Pension Costs

At December 31, 2018, the City reported a net pension asset of \$1,146,722 for the plan. The net pension liability (asset) was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by VanIwaarden Associates applying an actuarial formula to specific census data certified by the Department as of December 31, 2017.

For the year ended December 31, 2018, the City recognized pension expense of (\$222,651).

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION - CONTINUED

D. Pension Costs (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources, including its contributions subsequent to the measurement date, related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions	\$ 190,887	\$ -
Net difference between projected and actual earnings on plan investments	-	112,530
Contributions to plan subsequent to the measurement date	<u>30,000</u>	<u>-</u>
Total	<u>\$ 220,887</u>	<u>\$ 112,530</u>

Deferred outflows of resources totaling \$30,000 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 33,791
2020	(17,255)
2021	(80,820)
Thereafter	142,641

E. Actuarial Assumptions

The total pension liability at December 31, 2018 was determined using the entry age normal actuarial cost and level dollar closed amortization methods with the following actuarial assumptions:

Retirement eligibility	
Age 50 or after 20 years of service	
If both age 50 and minimum 5 years of service but not 20 years, pension reduced 4% for each year less than 20 years	
Inflation	2.75% per year
Discount rate	5.75% per year
Investment rate of return	5.75% per year
20-year municipal bond yield	3.31% per year

The 5.75% long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION - CONTINUED

E. Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic 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 equities	42.59 %	5.39 %
International equities	10.87	5.20
Fixed income	32.39	1.98
Real estate and alternative	1.18	4.25
Cash and cash equivalents	12.97	0.79
Total	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Lower (4.75%)	Current (5.75%)	1% Higher (6.75%)
Net pension liability (asset)	(\$1,101,139)	(\$1,146,722)	(\$1,191,022)

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 11: DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION - CONTINUED

F. Pension Plan Fiduciary Net Position

The following presents changes in the total pension liability, plan fiduciary net position, and the net pension asset:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Changes for the year:			
Service cost	\$ 101,600	\$ -	\$ 101,600
Interest	146,894	-	146,894
Assumption changes	11,196	-	11,196
Plan changes	-	-	-
Contributions (employer)	-	30,000	(30,000)
Contributions (state)	-	182,297	(182,297)
Difference between expected and actual experience	-	-	-
Benefit payments	-	-	-
Net investment income	-	457,331	(457,331)
Administrative costs	-	(13,009)	13,009
Total net changes	<u>259,690</u>	<u>656,619</u>	<u>(396,929)</u>
Total - beginning	<u>2,346,626</u>	<u>3,096,419</u>	<u>(749,793)</u>
Total - ending	<u>\$ 2,606,316</u>	<u>\$ 3,753,038</u>	<u>\$ (1,146,722)</u>

The Association issues a publicly available financial report. The report may be obtained by writing to the Elk River Fire Department Relief Association, 13073 Orono Parkway, Elk River, MN 55330.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 12: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

At December 31, 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

A. Plan Description

The City provides other postemployment health insurance benefits for retired employees through two defined benefit plans: Municipal Retirees Health Plan (MRHP), a single-employer plan, and Utilities Retirees Health Plan (URHP), a multi-employer plan. Each plan provides benefits for eligible retirees and their dependents through the City's group health insurance plans, which cover both active and retired members. Since the premium is a blended rate determined on the active and retiree population, the retirees are receiving an implicit rate subsidy. The MRHP and URHP do not issue publicly available financial reports.

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

	Municipal Retiree Health Plan	Utility Retiree Health Plan
Active plan members	123	38
Inactive members receiving benefits	9	-
Inactive members waiving benefits	-	5
Total plan members	<u>132</u>	<u>43</u>

B. Funding Policy

Contribution requirements are reviewed at the time changes are made to the plans. Benefit provisions for MRHP are established and amended by the City. The Utilities has been delegated authority to establish and amend benefit provisions for URHP. Eligible retirees receiving benefits are required to pay 100% of the total premium.

C. Total OPEB Liability

The City's (MRHP) total OPEB liability was measured as of January 1, 2018.

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:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Amortization period	Investment gains/losses are amortized over 5 years and liability gains/losses are amortized over Average Working Lifetime
Inflation	2.50%
Healthcare cost trend rate	6.25% in 2018 grading to 5.00% over 5 years
Salary increases	3.00%
Discount rate	3.30%
Retirement age	Age 55 for Police and Fire, Age 63 for all others (based on PERA average rates)
Mortality	RP-2014 with MP-2016 generational improvements

C. Total OPEB Liability (Continued)

The City's OPEB plan is not funded by a trust, and therefore, the City uses the 20-year municipal bond index rate to develop its long-term rate of return and discount rate. This rate was 3.30% in the current actuarial valuation, which was updated from the 3.50% used in the prior actuarial valuation.

The Utilities (URHP) total OPEB liability was measured as of December 31, 2018.

The total OPEB liability in the January 1, 2018 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.31%
Inflation rate	2.75%
Salary increases	3.25%
Healthcare cost trend rate	6.9% in 2018 grading to 5.2% over 3 years until 2055 grading down to 4.4% ultimate rate in 2074
Mortality	RP-2014 with MP-2016 generational improvements

The discount rate used to measure the total OPEB liability of 3.31%. The actuarial assumption 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 the Total OPEB Liability

	MRHP Total OPEB Liability (a)	URHP Total OPEB Liability (a)
Balances at December 31, 2017	\$ 875,478	\$ 81,453
Changes for the Year:		
Service cost	58,939	11,084
Interest	30,051	3,526
Benefit payments	(47,958)	-
Changes in assumptions or other inputs	-	4,509
Net Changes	<u>41,032</u>	<u>19,119</u>
Balances at December 31, 2018	<u>\$ 916,510</u>	<u>\$ 100,572</u>

The following changes in assumptions occurred between the current and prior actuarial valuations:

City - MRHP

- The discount rate was changed from 3.50% to 3.30%.
- The withdrawal and retirement tables for all employees were updated.
- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from the projection of RP 2000 rates to 2014 (with Blue collar adjustment for Police and Fire personnel) to the RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale (Blue Collar Tables for Police and Fire personnel).
- The percentage of future retirees assumed to elect spouse medical coverage post-employment was increased from 15% to 25% to better reflect actual plan experience.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

D. Changes in the Total OPEB Liability (Continued)

Utility - URHP

- The discount rate was changed from 3.81% to 3.31%.
- Withdrawal rates were updated from the Small Plan age-based table in the 2003 SOA Turnover, adjusted by 50% to the rate used in the 7/1/17 PERA General Employees Retirement Plan valuation.
- The health care trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims cost were updated to reflect recent experience.
- The salary scale assumption was changed from a flat rate of 3.25% to the rates used in the 7/1/2017 PERA General Employees Retirement Plan valuation.

E. Sensitivity of Total OPEB Liability

The following presents the total OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate the 1-percentage point lower or 1-percentage point higher than the current discount rate:

City - MRHP

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Net OPEB Liability	\$ 987,172	\$ 916,510	\$ 850,859

Utility - URHP

	1% Decrease (2.31%)	Discount Rate (3.31%)	1% Increase (4.31%)
Net OPEB Liability	\$ 110,190	\$ 100,572	\$ 91,750

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

City - MRHP

	1% Decrease (5.25% decreasing to 4%)	Healthcare Cost Trend Rates (6.25% decreasing to 5%)	1% Increase (7.25% decreasing to 6%)
Net OPEB Liability	\$ 819,491	\$ 916,510	\$ 1,030,114

Utility - URHP

	1% Decrease (5.9% decreasing to 3.4%)	Healthcare Cost Trend Rates (6.9% decreasing to 4.4%)	1% Increase (7.9% decreasing to 5.4%)
Net OPEB Liability	\$ 87,443	\$ 100,572	\$ 116,283

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 12: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

F. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$88,990. At December 31, 2018, the City reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Contributions subsequent to the measurement date	42,048	-
Total	<u>\$ 42,048</u>	<u>\$ -</u>

A total of \$42,048 reported as deferred outflows or resources related to OPEB resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019.

NOTE 13: OTHER INFORMATION

A. Risk Management

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

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

B. Contingent Liabilities

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

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. The City's management is not aware of any instances of noncompliance which would have a material effect on the financial statements.

CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13: OTHER INFORMATION – CONTINUED

C. Territorial Acquisition Agreement

In 1991, the Utilities entered into a 20 year agreement to transfer ownership of electric plant and electric service to customers in certain areas receiving electric service from Anoka Electric Cooperative, Inc. (AEC). In 2010 the Utility completed the final purchase under this agreement.

The agreed cost of property purchased from AEC is net book value. The Utilities also pays AEC for loss of revenue for each area acquired based on a formula outlined in the agreement.

In addition, the Utilities will compensate AEC for the loss of revenue from the future sale of electricity to electric customers in the areas acquired from AEC for a period of ten years from the date of sale of each individual area.

The Utilities paid \$0 in 2018 for loss of revenues under this agreement. All amounts paid are included in property and equipment.

In 2015, the Utilities entered into an agreement to transfer ownership of electric plant and electric service to customers in eight designated areas receiving service from Connexus Energy. Specific payment terms have been negotiated for 5 years, and if any of the eight areas are not acquired within this timeframe, the payment terms may be renegotiated.

The agreed cost of property purchased from Connexus Energy is net book value, integration expenses, and a loss of revenue payment. The loss of revenue payment for each area acquired is based on a formula outlined in the agreement, payable for the subsequent ten years after initial purchase.

The Utilities acquired designated service area 1 in 2015 for \$877,807 and service area 2 in 2016 for \$663,586. Service areas 3 and 4 were acquired in 2017 for \$276,776, and service areas 5 and 6 were acquired in 2018 for \$298,736. The loss of revenue payments made were \$411,157 in 2017, \$570,725 in 2018, and will be \$751,860 in 2019. All amounts paid are included in property and equipment, and loss of revenue payments are included in intangible assets.

D. Conduit Debt Obligations

From time to time, the City has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial, multi-family and educational facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payment received from the benefited entity. Neither the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2018, there were two series of revenue bonds outstanding, with an aggregate principal payable amount of \$5,165,000.

E. Commitments

The Utilities has received notice from their power supplier exercising their right to give ten years notice to cancel the existing power contract. The cancellation date was effective September 30, 2018. On May 14, 2013 the Utilities signed a new agreement with Minnesota Municipal Power Agency (MMPA), and started taking power on October 1, 2018.

The Utilities entered into an agreement in 2007 with Central Municipal Power Agency/Services (CMPAS) to acquire an interest in the CAPX Initiative Brookings Project, a power transmission line in Minnesota. The project is a 250 mile, 345 kV AC transmission line with a rating of 2,300 MW, between Brookings, South Dakota, and the Southeast Twin Cities. In 2011 there was increased opportunity for investment, and subsequent agreements provide the Utilities with an ownership share of \$5.6 million or 18.89 percent. The return on this investment through CMPAS is designed to provide approximately \$124,000 annually over the 40-year project life. To ensure bond payment obligations, cash distributions for 2018 were curtailed. In 2018, the principal bond payment increased approximately by \$700,000. This increase remains in effect through 2020. In 2021, the bond payment drops nearly \$1,000,000. A contributing factor in reduced

CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 13: OTHER INFORMATION – CONTINUED

E. Commitments (Continued)

participant cash distributions in 2018 is under recovery. The projected under recovery in 2018 is estimated to be \$250,000 - \$300,000. The bond obligations are satisfied first and distributions to participants are directly affected by under recovery. The under recovery is rolled forward under the true-up. However, the estimated under recovery in 2018 would be included in the recovery requirements in 2020. The transmission payments for 2018 were \$13,766, of which \$3,306 was receivable at December 31, 2018.

F. Joint Ventures

The City has agreements with government and other entities which provide reduced costs, better service and additional benefits to the participants. In 2007, the City and neighboring municipalities formed the Sherburne/Wright Cable Communications Commission (the "Commission"). The purpose of the organization is to monitor the operation and activities of cable communications of the member municipalities. The Commission also provides coordination, administration and enforcement of the franchises for the cable communication system. Financial statements for the Commission can be obtained by writing to: Sherburne/Wright Cable Communications Commission at 444 Cedar St, Suite 950, St. Paul, MN 55101.

NOTE 14: TAX ABATEMENTS

The City of Elk River has established a tax abatement program pursuant to Minnesota Statutes, Sections 469.1812 through 469.1815. As part of the program the City enters into agreements through the use of tax increment financing districts under Minnesota Statutes Section 469.174 to 469.179 (the Tax Increment Act). Under these statutes the City annually abates taxes collected above the district's base tax capacity which is established during adoption of the Tax increment district. These agreements are established to foster economic development and redevelopment through creating jobs, removing blight and providing affordable housing.

For fiscal year ending December 31, 2018, the City has three agreements established under Minnesota Statutes Section 469.174 to 469.179 which resulted in property taxes totaling \$265,184 being abated. Individual abatement payments which constituted more than 1% of the City's 2018 tax levy include:

- A pay-as-you-go note resulting in an abatement amount of \$131,083 for a financial institution.
- A pay-as-you-go note resulting in an abatement amount of \$134,101 for an industrial developer.

As part of the City's tax abatement program, the City also enters into agreements with local businesses in the form of business subsidy agreement established under Minnesota Statutes Section 116J.993 through 116J.995. These agreements must meet a public purpose which may include, by may not be limited to, increasing the tax base.

In 2018 the City of Elk River had eight business subsidy agreements in place which resulted in property taxes totaling \$171,290 being abated. Individual agreements which result in taxes abated in excess of 1% of the City's total tax levy would be disclosed individually. There were no such payments made in 2018 in excess of this amount.

**CITY OF ELK RIVER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 15: CHANGE IN ACCOUNTING STANDARDS

During 2018, the City implemented new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for the year ended December 31, 2018. 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 12.

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:

	December 31, 2018		
	Net Position January 1, 2018		Net Position January 1, 2018 as Restated
	as Previously Reported	Prior Period Restatement (1)	
Primary Government			
Governmental activities	\$ 97,905,834	\$ (241,699)	\$ 97,664,135
Business-type activities			
Municipal Liquor	\$ 5,637,990	\$ (19,012)	\$ 5,618,978
Garbage	228,421	-	228,421
Sewer	29,820,838	(19,818)	29,801,020
Storm Water	10,489,713	(1,248)	10,488,465
Water	24,201,051	-	24,201,051
Electric	36,491,274	-	36,491,274
Total business-type activities	\$ 106,869,287	\$ (40,078)	\$ 106,829,209

(1) To record net other postemployment benefits liability and deferred outflows of resources at December 31, 2017.

**CITY OF ELK RIVER, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS - PERA
DECEMBER 31, 2018**

Primary Government:

Year Ending	General Employees Retirement Fund				
	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b - a)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/18	\$ 736,804	\$ 736,804	-	\$ 9,824,053	7.5%
12/31/17	706,711	706,711	-	9,422,813	7.5%
12/31/16	684,325	684,325	-	9,124,333	7.5%
12/31/15	662,664	662,664	-	8,835,520	7.5%
12/31/14	609,362	609,362	-	8,124,827	7.5%

Public Employees Police and Fire Fund

Year Ending	Public Employees Police and Fire Fund				
	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b - a)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/18	\$ 533,296	\$ 533,296	-	\$ 3,291,950	16.2%
12/31/17	508,774	508,774	-	3,140,580	16.2%
12/31/16	495,478	495,478	-	3,058,506	16.2%
12/31/15	478,192	478,192	-	2,951,802	16.2%
12/31/14	418,280	418,280	-	2,581,975	16.2%

Component Unit:

Year Ending	General Employees Retirement Fund				
	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (b - a)	HRA's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/18	\$ 4,810	\$ 4,810	-	\$ 64,133	7.5%
12/31/17	4,494	4,494	-	59,920	7.5%
12/31/16	4,352	4,352	-	58,027	7.5%
12/31/15	4,212	4,212	-	56,160	7.5%
12/31/14	3,877	3,877	-	51,693	7.5%

Ten years of data will eventually be presented when available.

**CITY OF ELK RIVER, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
ELK RIVER FIRE RELIEF
DECEMBER 31, 2018**

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/18	\$ 189,502	\$ 219,502	\$ (30,000)
12/31/17	182,297	212,297	(30,000)
12/31/16	179,192	209,192	(30,000)
12/31/15	174,826	204,826	(30,000)
12/31/14	164,825	194,825	(30,000)
12/31/13	167,103	197,103	(30,000)

Ten years of data will eventually be presented when available.

**CITY OF ELK RIVER, MINNESOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY - PERA
DECEMBER 31, 2018**

Primary Government:

General Employees Retirement Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.1435%	\$ 7,958,885	\$ 261,004	\$ 8,219,889	\$ 9,702,980	84.7%	79.5%
06/30/17	0.1506%	9,611,075	120,624	9,731,699	9,695,118	100.4%	75.9%
06/30/16	0.1426%	11,604,537	152,173	11,756,710	8,847,114	132.9%	68.9%
06/30/15	0.1428%	7,405,496	-	7,405,496	8,659,539	85.5%	78.2%
06/30/14	0.1577%	7,407,964	-	7,407,964	8,279,769	89.5%	78.7%

Public Employees Police and Fire Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.3045%	\$ 3,245,656	\$ -	\$ 3,245,656	\$ 3,220,233	100.8%	88.8%
06/30/17	0.3140%	4,239,374	43,337	4,282,711	3,211,726	133.3%	85.4%
06/30/16	0.3060%	12,280,312	53,870	12,334,182	2,952,673	417.7%	63.9%
06/30/15	0.3040%	3,454,151	-	3,454,151	2,788,952	123.9%	86.6%
06/30/14	0.2990%	3,229,323	-	3,229,323	2,440,932	132.3%	87.1%

Component Unit:

General Employees Retirement Fund

Fiscal Year Ending	HRA's Proportion of the Net Pension Liability	HRA's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the HRA (b)	Total (a+b)	HRA's Covered Payroll (c)	HRA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/18	0.0009%	\$ 51,835	\$ 1,698	\$ 53,533	\$ 62,892	85.1%	79.5%
06/30/17	0.0010%	60,586	1,170	61,756	61,433	100.4%	75.9%
06/30/16	0.0009%	73,404	959	74,363	56,083	132.6%	68.9%
06/30/15	0.0009%	46,951	-	46,951	54,886	85.5%	78.2%
06/30/14	0.0010%	46,966	-	46,966	52,493	89.5%	78.7%

Ten years of data will eventually be presented when available.

**CITY OF ELK RIVER, MINNESOTA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND
RELATED RATIOS - ELK RIVER FIRE RELIEF
DECEMBER 31, 2018**

**CITY OF ELK RIVER, MINNESOTA
SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS
MUNICIPAL RETIREES HEALTH PLAN
DECEMBER 31, 2018**

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 101,600	\$ 107,095	\$ 99,459	\$ 93,312
Interest	146,894	142,222	127,413	126,522
Assumption changes	11,196	-	297,706	-
Plan changes	-	55,532	-	62,318
Difference between expected and actual experience	-	(147,992)	-	-
Benefit payments	-	(147,015)	(423,760)	-
Net change in pension liability	<u>259,690</u>	<u>9,842</u>	<u>100,818</u>	<u>282,152</u>
Total pension liability - beginning	<u>2,346,626</u>	<u>2,336,784</u>	<u>2,235,966</u>	<u>1,953,814</u>
Total pension liability - ending (a)	<u><u>\$ 2,606,316</u></u>	<u><u>\$ 2,346,626</u></u>	<u><u>\$ 2,336,784</u></u>	<u><u>\$ 2,235,966</u></u>
Plan fiduciary net position				
Contributions - employer	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Contributions - state	182,297	179,192	177,826	164,825
Net investment income	54,007	55,756	54,358	77,412
Net gain (loss) on investments	403,324	173,668	(197,938)	46,697
Benefite payments	-	(147,015)	(423,760)	-
Administrative expense	(13,009)	(12,884)	(13,663)	(8,634)
Net change in plan fiduciary net position	<u>656,619</u>	<u>278,717</u>	<u>(373,177)</u>	<u>310,300</u>
Plan fiduciary net position - beginning	<u>3,096,419</u>	<u>2,817,702</u>	<u>3,190,879</u>	<u>2,880,579</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,753,038</u></u>	<u><u>\$ 3,096,419</u></u>	<u><u>\$ 2,817,702</u></u>	<u><u>\$ 3,190,879</u></u>
Fire Relief's net pension liability (asset) - (a-b)	<u><u>\$(1,146,722)</u></u>	<u><u>\$ (749,793)</u></u>	<u><u>\$ (480,918)</u></u>	<u><u>\$ (954,913)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	144.0%	132.0%	120.6%	142.7%
Covered payroll	N/A	N/A	N/A	N/A
Fire relief's net pension liability (asset) as a percentage of covered payroll	N/A	N/A	N/A	N/A

Notes to Schedule:

Changes of assumptions.

The expected investment return and discount rate decreased from 6.00% to 5.75% to reflect updated capital market assumptions.

Ten years of data will eventually be presented when available.

	2018
Total OPEB Liability:	
Service cost	\$ 58,939
Interest	30,051
Benefit payments	(47,958)
Net change in total OPEB liability	<u>41,032</u>
Total OPEB liability - beginning	<u>875,478</u>
Total OPEB liability - ending (a)	<u><u>\$ 916,510</u></u>
Covered payroll	\$ 8,658,239
Total OPEB liability as a percentage of covered payroll	10.59%

Notes to Schedule:

The City implemented GASB 75 in fiscal year 2018. The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2018. Additional years will be added as they become available.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in Benefit Terms:

There were no significant changes in benefit terms.

Changes in Assumptions:

The discount rate was changed from 3.50% to 3.30%.

**CITY OF ELK RIVER, MINNESOTA
SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS
UTILITIES RETIREES HEALTH PLAN
DECEMBER 31, 2018**

	2018
Total OPEB Liability:	
Service cost	\$ 11,084
Interest	3,526
Assumption changes	4,509
Net change in total OPEB liability	19,119
 Total OPEB liability - beginning	 81,453
Total OPEB liability - ending (a)	\$ 100,572
 Covered payroll	\$ 3,584,096
 Total OPEB liability as a percentage of covered payroll	2.81%

Notes to Schedule:

The Utilities implemented GASB 75 in fiscal year 2018. The schedule is provided prospectively beginning with the Utilities's fiscal year ended December 31, 2018. Additional years will be added as they become available.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in Benefit Terms:

There were no significant changes in benefit terms.

Changes in Assumptions:

The discount rate was changed from 3.81% to 3.31%.

City of Elk River, Minnesota
\$33,735,000* General Obligation Sales Tax Revenue 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 \$33,735,000 (Par)) 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>
2020	_____ %	_____ %	_____ %	2033	_____ %	_____ %	_____ %
2021	_____ %	_____ %	_____ %	2034	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2035	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2036	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %	2037	_____ %	_____ %	_____ %
2025	_____ %	_____ %	_____ %	2038	_____ %	_____ %	_____ %
2026	_____ %	_____ %	_____ %	2039	_____ %	_____ %	_____ %
2027	_____ %	_____ %	_____ %	2040	_____ %	_____ %	_____ %
2028	_____ %	_____ %	_____ %	2041	_____ %	_____ %	_____ %
2029	_____ %	_____ %	_____ %	2042	_____ %	_____ %	_____ %
2030	_____ %	_____ %	_____ %	2043	_____ %	_____ %	_____ %
2031	_____ %	_____ %	_____ %	2044	_____ %	_____ %	_____ %
2032	_____ %	_____ %	_____ %				

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 August 2, 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.