

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 1, 2019

NEW ISSUE
BANK QUALIFIED

Moody's Rating: Requested

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

\$3,065,000*

City of Stillwater, Minnesota

General Obligation Capital Outlay Bonds, Series 2019A

(Book Entry Only)

Dated Date: Date of Delivery

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

The Bonds (as defined herein) will mature on February 1 in the years and amounts* as follows:

2020	\$360,000	2022	\$355,000	2024	\$370,000	2026	\$385,000	2028	\$60,000
2021	\$350,000	2023	\$360,000	2025	\$375,000	2027	\$390,000	2029	\$60,000

Proposals for the Bonds may contain a maturity schedule 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 Bonds will not be subject to redemption in advance of their respective stated maturity dates.

The Bonds will be general obligations of the City for which the City pledges its full faith and credit and power to levy direct general ad valorem taxes. The proceeds of the Bonds will be used to finance (i) the 2019 Capital Outlay needs of various City departments; and (ii) various street improvement projects.

Proposals shall be for not less than \$3,040,480 plus accrued interest, if any, on the total principal amount of the Bonds. Proposals shall specify rates in integral multiples of 1/100 or 1/8 of 1%. The initial price to the public for each maturity as stated on the proposal must be 98.0% or greater. Following receipt of proposals, a good faith deposit will be required to be delivered to the City by the lowest bidder as described in the "Terms of Proposal" herein. Award of the Bonds will be made on the basis of True Interest Cost (TIC).

The City will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, and the Bonds will not be subject to the alternative minimum tax for individuals.

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:

Tuesday, August 20, 2019 until 10:30 A.M., Central Time

CONSIDERATION OF AWARD:

Council meeting commencing at 7:00 P.M., Central Time on Tuesday, August 20, 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.

* Preliminary; subject to change.

CITY OF STILLWATER, MINNESOTA

CITY COUNCIL

Ted Kozlowski	Mayor
Ryan Collins	Council Member (Ward 1)
David Junker	Council Member (Ward 2)
Tom Weidner	Council Member (Ward 3)
Mike Polehna	Council Member (Ward 4)

CITY ADMINISTRATOR/TREASURER

J. Thomas McCarty

FINANCE DIRECTOR

Sharon Provos

MUNICIPAL ADVISOR

Baker Tilly Municipal Advisors, LLC
Saint Paul, Minnesota

BOND COUNSEL

Briggs and Morgan, Professional Association
Minneapolis, Minnesota

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

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

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

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

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

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

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

TERMS OF PROPOSAL

\$3,065,000*

CITY OF STILLWATER, MINNESOTA

GENERAL OBLIGATION CAPITAL OUTLAY BONDS, SERIES 2019A

(BOOK ENTRY ONLY)

Proposals for the above-referenced obligations (the “Bonds”) will be received by the City of Stillwater, Minnesota (the “City”) on Tuesday, August 20, 2019 (the “Sale Date”) until 10:30 A.M., Central Time at the offices of Baker Tilly Municipal Advisors, LLC (“Baker Tilly MA”), 380 Jackson Street, Suite 300, Saint Paul, Minnesota, 55101, after which time proposals will be opened and tabulated. Consideration for award of the Bonds will be by the City Council at its meeting commencing at 7:00 P.M., Central Time, of the same day.

SUBMISSION OF PROPOSALS

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

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

OR

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

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

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

* *Preliminary; subject to change.*

DETAILS OF THE BONDS

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

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

2020	\$360,000	2022	\$355,000	2024	\$370,000	2026	\$385,000	2028	\$60,000
2021	\$350,000	2023	\$360,000	2025	\$375,000	2027	\$390,000	2029	\$60,000

* *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 Bonds will not be subject to redemption in advance of their respective stated maturity dates.

SECURITY AND PURPOSE

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. The proceeds of the Bonds will be used to finance (i) the 2019 Capital Outlay needs of various City departments; and (ii) various street improvement projects.

BIDDING PARAMETERS

Proposals shall be for not less than \$3,040,480 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 \$30,650 (the "Deposit") no later than 1:30 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 Briggs and Morgan, Professional Association, of Minneapolis, Minnesota, and of customary closing papers, including a no-litigation certificate. On the date of settlement, payment for the Bonds shall be made in federal, or equivalent, funds that shall be received at the offices of the City or its designee not later than 12:00 Noon, Central Time. Unless compliance with the terms of payment for the Bonds has been made impossible by action of the City, or its agents, the Purchaser shall be liable to the City for any loss suffered by the City by reason of the Purchaser's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

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

OFFICIAL STATEMENT

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

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

Dated July 16, 2019

BY ORDER OF THE CITY COUNCIL

/s/ Beth Wolf
City Clerk

OFFICIAL STATEMENT

\$3,065,000*

**CITY OF STILLWATER, MINNESOTA
GENERAL OBLIGATION CAPITAL OUTLAY BONDS, SERIES 2019A
(BOOK ENTRY ONLY)**

INTRODUCTORY STATEMENT

This Official Statement contains certain information relating to the City of Stillwater, Minnesota (the “City”) and its issuance of \$3,065,000* General Obligation Capital Outlay Bonds, Series 2019A (the “Bonds”). 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.

Inquiries may be directed to Mr. J. Thomas McCarty, City Administrator/Treasurer, City of Stillwater, 216 North Fourth Street, Stillwater, Minnesota 55082-4898, by telephoning (651) 430-8801, or by emailing tmccarty@ci.stillwater.mn.us. Inquiries may also be made to Baker Tilly Municipal Advisors, LLC, 380 Jackson Street, Suite 300, Saint Paul, Minnesota 55101-2887, by telephoning (651) 223-3000, or by e-mailing bond_services@bakertilly.com. If information of a specific legal nature is desired, requests may be directed to Ms. Mary Ippel, Briggs and Morgan, Professional Association of Minneapolis, Minnesota, Bond Counsel, by telephoning (612) 977-8122, or by emailing mippel@briggs.com.

CONTINUING DISCLOSURE

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

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

* *Preliminary; subject to change.*

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.

THE BONDS

The Bonds are dated as of the date of delivery and will mature annually on February 1 as set forth on the front cover of this Official Statement. The Bonds are issued in book entry form. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 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 Bonds will not be subject to redemption in advance of their respective stated maturity dates.

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 and the City's Home Rule Charter. The proceeds of the Bonds will be used to finance (i) the 2019 Capital Outlay needs of various City departments; and (ii) various street improvement projects.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Principal Amount	<u>\$3,065,000</u>
Total Sources of Funds	\$3,065,000
Uses of Funds:	
Deposit to Project Fund	\$2,992,875
Estimated Costs of Issuance	47,605
Allowance for Discount Bidding	<u>24,520</u>
Total Uses of Funds	\$3,065,000

SECURITY AND FINANCING

The Bonds will be general obligations of the City for which the City will pledge its full faith and credit and power to levy direct general ad valorem taxes. The City made its first levy for the Bonds in 2018 for collection in 2019 which will be applied to make the February 1, 2020 principal and interest payment due on the Bonds. Thereafter, each year's collection of taxes, if collected in full, will be sufficient to pay 105% of the interest payment due August 1 of the collection year and the principal and interest payment due February 1 of the following year.

FUTURE FINANCING

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

LITIGATION

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

LEGALITY

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

TAX EXEMPTION

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

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

OTHER FEDERAL TAX CONSIDERATIONS

Property and Casualty Insurance Companies

Property and casualty insurance companies are required to reduce the amount of their loss reserve deduction by 15% of the amount of tax-exempt interest received or accrued during the taxable year on certain obligations acquired after August 7, 1986, including interest on the Bonds.

Foreign Insurance Companies

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

Branch Profits Tax

A foreign corporation is subject to a branch profits tax equal to 30% of the “dividend equivalent amount” for the taxable year. The “dividend equivalent amount” is the foreign corporation's “effectively connected earnings and profits” adjusted for increase or decrease in “U.S. net equity.” A branch's earnings and profits may include tax-exempt municipal bond interest, such as interest on the Bonds.

Passive Investment Income of S Corporations

Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporation is passive investment income.

Financial Institutions

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

General

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

BANK-QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

RATING

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

There is no assurance that a rating, if assigned, will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of Moody's, circumstances so warrant. A revision 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 and the date of such certificate, each document did not and does not contain any untrue statement of material fact or omit to state a material fact necessary, in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

CITY PROPERTY VALUES

Trend of Values^(a)

Assessment/ Collection Year	Assessor's Estimated Market Value	Sales Ratio ^(b)	Economic Market Value ^(c)	Market Value Homestead Exclusion	Taxable Market Value	Adjusted Taxable Net Tax Capacity
2018/19	\$2,447,760,700	95.0%	\$2,577,398,939	\$65,375,000	\$2,372,792,800	\$25,548,617
2017/18	2,305,780,800	95.2	2,422,481,931	72,286,800	2,223,178,500	24,121,217
2016/17	2,137,240,800	93.8	2,278,493,553	80,231,200	2,050,939,500	22,311,424
2015/16	2,093,975,600	96.1	2,179,009,589	81,236,100	2,005,496,200	21,474,673
2014/15	2,002,273,500	97.8	2,047,689,816	85,349,900	1,911,185,700	20,551,164

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

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

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

Source: Washington County, Minnesota, July 2019, except as otherwise noted.

2018/19 Adjusted Taxable Net Tax Capacity: \$25,548,617

Real Estate:		
Residential Homestead	\$16,921,929	62.8%
Commercial & Industrial	6,037,812	22.4
Non-homestead Residential	3,538,581	13.1
Agricultural and Seasonal Recreational-Residential	175,267	0.6
Personal Property	<u>285,005</u>	<u>1.1</u>
2018/19 Net Tax Capacity	\$26,958,954	100.0%
Less: Captured Tax Increment	(1,630,848)	
Less: Contribution to Fiscal Disparities	(2,343,924)	
Plus: Distribution from Fiscal Disparities	<u>2,564,795</u>	
2018/19 Adjusted Taxable Net Tax Capacity	\$25,548,617	

Ten of the Largest Taxpayers in the City

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018/19 Net Tax Capacity</u>
Stillwater Health System	Commercial	\$ 388,568
Xcel Energy	Utility	279,432
Target Corporation	Retail	186,408
Valley Ridge Holding LLC	Retail	171,844
Cub Stores LLC	Commercial/Industrial/Public Utility	162,260
DiaSorin Inc.	Industrial	128,876
Stillwater MP I LLC	Commercial	124,146
Stillwater MP II LLC	Commercial	122,630
Curve Crest Professional Building	Commercial	111,120
Lakeview Memorial Hospital Assoc. Inc.	Hospital	<u>111,037</u>
Total		\$1,786,321*

* Represents 7.0% 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)	\$ 73,432,821
Less: Outstanding Debt Subject to Limit (Including the Bonds)	<u>(25,910,000)</u>
Legal Debt Margin as of September 19, 2019	\$ 47,522,821

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

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

General Obligation Debt Supported Solely By Taxes*

<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>
2-15-09	\$4,095,000	Capital Outlay Refunding	2-1-2022	\$ 830,000
4-1-12	6,355,000	Capital Outlay and Refunding	2-1-2026	2,415,000
4-8-14	9,215,000	Capital Outlay	2-1-2040	7,525,000
4-14-16	6,505,000	Capital Outlay and Refunding	2-1-2031	3,810,000
6-29-17	3,405,000	Capital Outlay	2-1-2032	2,715,000
9-20-18	5,935,000	Capital Outlay	2-1-2039	5,550,000
9-19-19	3,065,000	Capital Outlay (the Bonds)	2-1-2029	<u>3,065,000</u>
Total				\$25,910,000

* These issues are subject to the legal debt limit.

General Obligation Tax Increment Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
4-14-16	\$2,450,000	Tax Increment Refunding	2-1-2030	\$2,450,000

General Obligation Revenue Debt

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Est. Principal Outstanding As of 9-19-19</u>
2-15-09	\$1,420,000	Sports Facilities	6-1-2020	\$ 160,000
7-1-13	1,450,000	Water Revenue	2-1-2029	<u>1,010,000</u>
Total				\$1,170,000

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>
7-28-16	\$6,585,000	Tax Increment Revenue Refunding	2-1-2030	\$5,395,000*

* *These bonds are payable solely from tax increment revenues derived from the Lofts of Stillwater Project, which consists of 66 condominium housing units in a single five-story brick building, and related improvements located in the City's downtown, and are not a general or moral obligation of the City.*

Estimated Calendar Year Debt Service Payments Including the Bonds

Year	G.O. Debt Supported Solely by Taxes		G.O. Tax Increment Debt	
	Principal	Principal & Interest ^(a)	Principal	Principal & Interest
2019 (at 9-19)	(Paid)	(Paid)	(Paid)	(Paid)
2020	\$ 2,965,000	\$ 3,664,266	\$ 190,000	\$ 251,169
2021	2,850,000	3,482,549	200,000	255,319
2022	2,640,000	3,198,814	205,000	254,244
2023	2,435,000	2,922,289	210,000	253,019
2024	2,275,000	2,695,346	215,000	251,644
2025	2,025,000	2,387,650	220,000	250,119
2026	1,880,000	2,190,746	230,000	253,369
2027	1,155,000	1,423,788	240,000	257,519
2028	775,000	1,017,811	240,000	252,719
2029	745,000	966,731	245,000	252,869
2030	700,000	900,708	255,000	257,709
2031	720,000	898,914		
2032	610,000	767,546		
2033	540,000	678,329		
2034	475,000	595,635		
2035	495,000	598,541		
2036	515,000	600,876		
2037	535,000	602,188		
2038	555,000	602,788		
2039	575,000	602,410		
2040	445,000	453,455		
Total	\$25,910,000^(b)	\$31,251,380	\$2,450,000^(c)	\$2,789,699

^(a) Includes the Bonds at an assumed average annual interest rate of 1.79%.

^(b) 76.2% of this debt will be retired within ten years.

^(c) 89.6% of this debt will be retired within ten years.

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

<u>Year</u>	<u>G.O. Revenue Debt</u>		<u>Revenue Debt</u>	
	<u>Principal</u>	<u>Principal & Interest</u>	<u>Principal</u>	<u>Principal & Interest</u>
2019 (at 9-19)	(Paid)	\$ 2,800	(Paid)	(Paid)
2020	\$ 250,000	282,975	\$ 400,000	\$ 572,450
2021	90,000	117,925	410,000	572,300
2022	95,000	120,150	420,000	569,850
2023	95,000	117,300	435,000	572,025
2024	100,000	119,375	445,000	568,825
2025	100,000	116,375	460,000	570,250
2026	105,000	118,300	475,000	571,225
2027	110,000	119,800	490,000	571,750
2028	110,000	115,950	500,000	564,400
2029	115,000	117,013	525,000	568,900
2030			835,000	851,700
Total	\$1,170,000^(a)	\$1,347,963	\$5,395,000*	\$6,553,675

* 84.5% of this debt will be retired within ten years.

Other Debt Obligations

Operating Leases

The City has various outstanding operating leases for police and fire vehicles. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31</u>	
2019	\$20,161
2020	<u>3,836</u>
Total	\$23,997

Overlapping Debt

<u>Taxing Unit^(a)</u>	2018/19		Debt Applicable to	
	<u>Adjusted Taxable Net Tax Capacity</u>	<u>Est. G.O. Debt As of 9-19-19^(b)</u>	<u>Tax Capacity in City Percent</u>	<u>Amount</u>
Washington County	\$ 366,693,430	\$138,870,000	7.0%	\$ 9,720,900
ISD No. 834 (Stillwater)	108,002,684	93,370,000	23.7	22,128,690
Metropolitan Council	4,281,620,797	5,735,000 ^(c)	0.6	34,410
Metropolitan Transit District	3,433,535,041	262,085,000	0.7	<u>1,834,595</u>
Total				\$33,718,595

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

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

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

Debt Ratios*

	<u>G.O. Direct Debt</u>	<u>G.O. Direct & Overlapping Debt</u>
To 2019/19 Estimated Market Value (\$2,447,760,700)	1.16%	2.54%
Per Capita (19,915 – 2018 Metropolitan Council Estimate)	\$1,424	\$3,117

* Excludes general obligation revenue debt, revenue debt, and other debt obligations.

CITY TAX RATES, LEVIES AND COLLECTIONS

Tax Capacity Rates for a Resident in I.S.D. No. 834 (Stillwater)

	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	
					<u>Total</u>	<u>For Debt Only</u>
Washington County	27.447%	27.811%	27.792%	27.290%	26.997	3.746%
City of Stillwater (Urban)	54.916	57.016	56.927	53.421	54.629	9.174
ISD No. 834 (Stillwater) ^(a)	21.124	19.849	20.390	19.349	18.442	14.967
Special Districts ^(b)	<u>8.952</u>	<u>9.679</u>	<u>9.620</u>	<u>9.196</u>	<u>8.258</u>	<u>1.622</u>
Total	112.439%	114.355%	114.729%	109.256%	108.326%	29.509%

(a) Independent School District No. 834 (Stillwater) also has a 2018/19 tax rate of 0.19352069% spread on the market value of property in support of an excess operating levy.

(b) Special Districts include Metropolitan Council, Metropolitan Transit District, Washington County Community Development Authority, Metropolitan Mosquito Control District, Browns Creek Watershed, and the Regional Rail Authority.

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

Tax Collections for the City

<u>Levy/Collect</u>	<u>Net Levy*</u>	<u>Collected During Collection Year</u>		<u>Collected and/or Abated As of 5-24-19</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2018/19	\$13,729,464		(In Process of Collection)		
2017/18	12,859,103	\$12,793,411	99.5%	\$12,828,387	99.8%
2016/17	12,573,994	12,512,313	99.5	12,560,960	99.9
2015/16	12,072,041	11,973,407	99.2	12,068,567	99.9
2014/15	11,371,254	11,260,805	99.0	11,368,372	99.9

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

FUNDS ON HAND As of May 31, 2019

General	\$ 1,419,762
Special Revenue	5,709,848
Debt Service:	
G.O. Debt Supported Solely by Taxes	5,164,432
G.O. Tax Increment Debt	54,314
G.O. Revenue Debt	703,800
Capital Projects:	
Capital Projects/Acquisition	10,053,826
TIF	8,235,688
Enterprise	<u>4,540,448</u>
Total	\$32,882,118

CASH AND INVESTMENTS

As of May 31, 2019, the City's fund balance totaled \$32,882,118. All investments are held in certificates of deposit, U.S. government and federal agency securities, and repurchase agreements. Interest rates of the City's investment portfolio range from 0.3% to 6.0%. The investments mature in a range of three months to ten years.

A formal investment policy is maintained, with all investments for the City made by the City Administrator/Treasurer.

GENERAL INFORMATION CONCERNING THE CITY

The City is located in central Washington County on the St. Croix River, approximately 20 miles east of the Minneapolis/Saint Paul metropolitan area. The City encompasses an area of approximately 9.1 square miles (5,814 acres).

Population

The City's population trend is shown below.

	<u>Population</u>	<u>Percent Change</u>
2018 Metropolitan Council Estimate	19,915	9.3%
2010 U.S. Census	18,225	20.4
2000 U.S. Census	15,143	9.1
1990 U.S. Census	13,882	13.0
1980 U.S. Census	12,290	--

Sources: *Metropolitan Council 2018 Preliminary Population and Household Estimates*, <https://metro council.org/populationestimates> and United States Census Bureau, <http://www.census.gov/>.

The City's estimated 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	4,417	3,780	7,805	3,708
2017/18	4,448	3,714	7,849	3,527
2016/17	4,452	3,678	7,922	3,401
2015/16	4,479	3,591	7,989	3,280
2014/15	4,453	3,467	7,981	3,115

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

Transportation

In May of 2013, ground was broken for the construction of a new bridge one mile south of the City spanning the St. Croix River between Minnesota and Wisconsin. The St. Croix River Crossing Bridge project (a joint \$624-680 million project between Minnesota and Wisconsin) was completed and opened to traffic in August 2017. The historic downtown Lift Bridge is now closed to be refurbished as a pedestrian/biking trail and will be open to the public in 2019.

In addition, Minnesota Highways 36, 95, and 96 run through the City, and City residents are approximately 30 miles from the Minneapolis-Saint Paul International Airport.

Major Employers

<u>Employer</u>	<u>Product/Service</u>	<u>Approximate Number of Employees</u>
Washington County	County government	1,258 ^(a)
Independent School District No. 834 (Stillwater)	Public education	1,066 ^(a)
Lakeview Memorial Hospital	Medical	868
Minnesota Correctional Facility	Correctional institution	540
Stillwater Medical Clinic	Healthcare	330
DiaSorin Inc.	Medical manufacturing	318
St. Croix Boat & Packet Co.	Tourism	230 ^(b)
Target Corporation	Retail	192
Cub Foods, Inc.	Retail grocery and company headquarters	165
City of Stillwater	Government	139
Modernistic Inc.	Commercial printing	130

(a) Includes full- and part-time employees.

(b) Includes approximately 115 seasonal summer employees.

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

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:					
Washington County	137,133	139,211	140,927	141,974	144,484
Minneapolis-Saint Paul					
Bloomington MSA	1,916,011	1,938,642	1,979,780	2,016,208	2,033,996
State of Minnesota	2,997,800	3,033,406	3,057,014	3,070,223	3,133,128
Unemployment Rate:					
Washington County	3.1%	3.3%	3.0%	2.5%	3.2%
Minneapolis-Saint Paul					
Bloomington MSA	3.5	3.6	3.3	2.7	3.3
State of Minnesota	4.2	3.7	3.9	3.4	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 Stillwater

<u>Data Year/ Report Year</u>	<u>Total Retail Sales (\$000)</u>	<u>Total EBI (\$000)</u>	<u>Median Household EBI</u>
2018/19	\$569,053	\$763,724	\$72,932
2017/18	406,949	742,246	71,214
2016/17	324,567	707,214	66,253
2015/16	417,807	590,120	56,818
2014/15	404,556	583,705	57,358

Washington 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	\$4,482,079	\$9,676,760	\$76,775
2017/18	4,241,690	9,201,155	73,970
2016/17	4,180,909	8,985,985	71,594
2015/16	3,976,021	7,885,948	66,578
2014/15	3,781,143	7,753,888	66,449

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 5-31)	15	\$ 5,542,178	0	0	\$16,969,319
2018	39	12,551,560	4	\$32,712,900	84,319,018
2017	43	12,745,481	2	3,852,617	61,434,729
2016	32	9,444,341	1	1,300,000	33,610,517
2015	13	3,960,015	3	16,259,831	39,997,385
2014	48	13,390,607	6	8,056,000	34,646,738
2013	42	8,964,090	0	0	20,023,878
2012	39	8,383,700	4	1,752,541	21,848,789

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

Source: *The City.*

Recent Development

In the early 1970s, the City's residents and business owners began to encourage the historic preservation of commercial and residential buildings in the community. This movement has gathered momentum, acceptance and regulatory authority and has been at least partially responsible for recapturing the historical rivertown character of the City's downtown business district. It has also encouraged the maintenance and restoration of historic homes in the City's residential neighborhoods. Many residences, businesses and shops are housed in buildings more than 100 years old. Downtown Stillwater and eight residential structures are on the National Register of Historic Places. Another 61 homes are estimated to be eligible for the National Register of Historic Places. A number of the City's older homes have been restored to their historical character and are open for public tours. In addition, a substantial downtown infrastructure improvement project was completed in 1991 and 1992, which included the separation and replacement of the 100-year-old storm sewer and sanitary sewer systems, new streets and sidewalks, and new street lighting. This restoration and preservation movement has generated a significant tourist trade that is important to the City's economy.

The City's Comprehensive Plan calls for continued growth of the City toward the west. The remaining undeveloped area was recently annexed into the City and encompasses approximately 670 acres. Of this area, 340 net acres are guided for residential development. At build-out, this expansion area could yield approximately 1,300 housing units, 60 acres of office and non-retail commercial property along State Highway 36, and five acres of retail. Ten residential developments are currently under construction with the potential for another 125 home sites. The estimated price points for these single-family homes range from under \$350,000 to over \$700,000.

The City has recently completed three municipal projects in the downtown area, one of which is a pedestrian and bicycle promenade parallel to the St. Croix River, that connects to the recently completed Brown's Creek State Trail, providing a trail connection into the City of Saint Paul. The other projects consist of improvements to all of the municipal parking lots and completion of flood control along the St. Croix River. The City also has two new hotel projects currently under development in the downtown area.

The St. Croix River Crossing Bridge project (a joint \$624-\$680 million project between Minnesota and Wisconsin) is complete and opened to traffic in August 2017. The historic downtown Lift Bridge is closed to be refurbished as a pedestrian/biking trail in 2019.

Financial Institutions*

Commercial banks located in the City include branches of Bell Bank; Bremer Bank, National Association; First Resource Bank; First State Bank and Trust; Lake Area Bank; Lake Elmo Bank; MidWestOne Bank; TCF National Bank; U.S. Bank National Association; and Wells Fargo Bank, National Association.

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

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

Healthcare 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>
Lakeview Memorial Hospital	City of Stillwater	97 Hospital Beds 15 Infant Bassinets
The Estates at Greeley	City of Stillwater	74 Nursing Home Beds
The Estates at Linden	City of Stillwater	71 Nursing Home Beds
Good Samaritan Society	City of Stillwater	70 Nursing Home Beds
Cedar Ridge Treatment Center	City of Stillwater	34 Supervised Living Facility Beds

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

Education

Public Education

The following district serves the residents of the City:

<u>District</u>	<u>Location</u>	<u>Grades</u>	<u>2018/19 Enrollment</u>
Independent School District No. 834 (Stillwater)	City of Stillwater	K-12	8,554

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

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. Croix Catholic School	City of Stillwater	K-8	262
Salem Lutheran School	City of Stillwater	K-8	70
St. Croix Montessori School	City of Stillwater	K-8	54

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

GOVERNMENTAL ORGANIZATION AND SERVICES

Organization

The City has been a municipal corporation with a Mayor-Council form of government since 1854, and is organized and governed pursuant to a Home Rule Charter adopted in 1926. The Mayor is elected at-large, and all four Council members are elected by Wards to serve four-year overlapping terms of office.

The present Council is comprised of the following members:

		<u>Expiration of Term</u>
Ted Kozlowski	Mayor	January 1, 2022
Ryan Collins	Council Member (Ward 1)	January 1, 2022
David Junker	Council Member (Ward 2)	January 1, 2021
Tom Weidner	Council Member (Ward 3)	January 1, 2021
Mike Polehna	Council Member (Ward 4)	January 1, 2022

The Administrator is responsible for the daily management of City business and the administration of policy as directed by the Council. The City Administrator/Treasurer, Mr. J. Thomas McCarty, has served in this capacity since March 2015. Previously, Mr. McCarty was the Administrator for the County of Eau Claire, Wisconsin. Official recordkeeping functions are the responsibility of the City Clerk, Ms. Beth Wolf. Ms. Sharon Provos serves as the Finance Director.

The City employs approximately 139 staff members in full- and part-time positions in its various departments, which include fire, police, public works, administration, parks and recreation, library, and public utilities.

Services

City-wide police protection is provided by 22 full-time police officers. The Stillwater Fire Department, comprised of 12 full-time and 23 paid on-call members, serves the City and surrounding communities. The City has a Class 4 fire insurance rating.

Municipal sewer and water service is available to virtually all of the presently developed areas of the City. The water utility is governed by a three-member Board of Water Commission, all of whom are appointed by the Mayor and the City Council.

The water supply is taken from eight wells, with a combined pumping capacity of 7,504 gallons per minute. The system has a storage capacity of 3.25 million gallons. Daily water demand for the City averages 1.9 million gallons per day, while peak demand is estimated at 3.7 million gallons per day.

Although the City owns and maintains its own sanitary and storm sewer collection systems, the wastewater treatment plant and certain other core facilities are owned and operated by the Metropolitan Council Environmental Services ("MCES"), an agency of the Metropolitan Council.

Electricity and natural gas are provided by Xcel Energy.

Labor Contracts

The status of labor contracts for the City are as follows:

<u>Bargaining Unit</u>	<u>No. of Employees</u>	<u>Expiration Date of Current Contract</u>
49ers	16	December 31, 2020
LELS (2 Locals)	19	December 31, 2020
MN Teamsters	15	December 31, 2020
AFSCME - City	22	December 31, 2020
AFSCME - Library	11	December 31, 2019
Fire Fighters	<u>9</u>	December 31, 2020
Subtotal	92	
Non-unionized employees		
Benefitted	11	
Non-benefitted	<u>36</u>	
Total employees	139	

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. 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 (City)</u>	<u>PEPFF</u>
2018	\$309,564	\$447,588
2017	292,176	429,138
2016	287,143	433,918
2015	270,121	412,840
2014	248,671	376,131

PEDCP

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

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

	<u>PEDCP</u>
2018	\$1,170
2017	1,170
2016	1,170
2015	1,143
2014	1,132

Fire Department Relief Association

Fire pensions are payable from the Stillwater Fire Department Relief Association, an organization incorporated under Minnesota Statutes Chapter 424A. The plan provides for retirement, disability, and death benefits to its plan members and their beneficiaries. Benefits are payable based upon years of service to eligible members. At December 31, 2016, the benefit level was at \$5,500 per year of service, and membership included 32 active participants and three terminated employees entitles to benefits but not yet receiving them (most recent information available). Contributions were made by the State of Minnesota, and no contribution was required to be made by the City.

For more information regarding the liability of the City with respect to its employees, please reference "Note 6, Pension Plans" of the City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018, an excerpt of which is included as Appendix IV of this Official Statement.

GASB 68

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

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

	<u>GERP</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	0.0614%	\$3,406,220	0.262	\$ 2,794,782
2017	0.0598	3,817,593	0.255	3,442,803
2016	0.0602	4,887,941	0.276	11,076,360
2015	0.0592	3,068,051	0.269	3,056,469

For more information regarding GASB 68, please reference "Note 6, Pension Plans" 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 GERP's net position is available in a separately-issued PERA financial report, which may be obtained at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, Saint Paul, Minnesota, 55103-2088; or by calling 1-800-652-9026.

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 prior period. Please see “Note 16 – Change in Accounting Principle” in the City’s Comprehensive Annual Financial Report for the fiscal year ended December 31, 2018 for this calculation.

The City provides benefits for retirees as required by Minnesota Statute §471.61 subdivision 2b. Active employees, who started before January 1, 1989 and retire from the City when eligible for PERA benefits, are eligible for free medical coverage for themselves and their families for life. Active employees, who started after January 1, 1989 and retire the City when eligible for PERA benefits, may continue coverage with respect to both themselves and their eligible dependent(s) under the City’s health benefits program. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost.

The following employees were covered by the benefit terms as of December 31, 2018:

Inactive employees/beneficiaries	
currently receiving benefit payments	49
Inactive employees entitled to but not yet	
receiving benefit payments	0
Active plan members	<u>95</u>
Total	<u>144</u>

The City’s net 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. Update procedures were used to roll forward the total OPEB liability to the measurement date. The discount rate used to measure the total OPEB liability was 3.30%. Components of the City’s OPEB liability and related ratios for the fiscal year ended December 31, 2018 are as follows:

Service cost	\$ 58,658
Interest	771,549
Benefit payments	<u>(894,727)</u>
Net change in total OPEB liability	\$ (64,520)
Total OPEB liability – beginning of year	<u>23,765,362</u>
Total OPEB liability – end of year	<u>\$23,700,842</u>
Covered employee payroll	\$ 6,410,754
Total OPEB liability as a percentage of the covered employee payroll	369.7%

For more information regarding GASB 75 with respect to the City, please reference “Note 7, Post Employment Health Care Benefits” 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.

Sources: City’s Comprehensive Annual Financial Reports.

General Fund Budget Summary

	2018 <u>Adopted</u>	2018 <u>Actual</u>	2019 <u>Adopted</u>
Revenue:			
Taxes	\$ 7,327,862	\$ 7,198,935	\$ 7,696,160
Franchise Fees	466,000	351,721	468,000
Licenses and Permits	577,756	980,201	731,830
Special Assessments	16,500	9,736	17,800
Intergovernmental	1,536,988	1,424,999	1,384,370
Charges for Services	955,305	966,656	1,102,233
Fines and Forfeits	73,500	225,310	73,500
Miscellaneous	<u>218,050</u>	<u>167,158</u>	<u>147,150</u>
Total	\$11,171,961	\$11,324,716	\$11,621,043
Expenditures:			
General Government			
Mayor and Council	\$ 208,459	\$ 226,405	\$ 225,663
Elections	33,106	30,927	6,244
MIS Support	534,158	364,424	480,301
Finance	459,801	449,537	464,246
Human Resources	178,358	173,455	221,484
Administration	614,637	628,135	638,351
Legal/City Attorney	314,828	257,491	196,111
Plant/City Hall	164,643	149,090	244,530
Community Development	672,742	470,456	534,123
Unallocated	1,118,004	1,138,624	1,183,270
Public Safety			
Police	3,486,574	3,423,099	3,842,128
Fire	2,279,800	1,735,077	2,704,926
Inspections	394,655	457,993	435,369
Civil Defense	34,666	3,128	28,870
Public Works			
Engineering	376,928	384,563	460,452
Streets	<u>1,457,502</u>	<u>1,066,229</u>	<u>1,723,847</u>
Total	\$12,328,861	\$10,958,633	\$13,389,915
Excess (Deficiency) Revenues Over Expenditures	\$ (1,156,900)	\$ 366,083	\$ (1,768,872)
Other Financing Sources (Uses):			
Transfers In	\$ 1,156,900	\$ 0	\$ 1,768,872
Transfers Out	0	0	0
Sale of Property	<u>0</u>	<u>16,749</u>	<u>0</u>
Total	\$ 1,156,900	\$ 16,749	\$ 1,768,872
Net Change in Fund Balance	\$ 0	\$ 382,832	\$ 0
Fund Balance – January 1	<u>\$ 4,952,277</u>	<u>\$ 4,952,277</u>	<u>\$ 5,335,109</u>
Fund Balance – December 31	<u>\$ 4,952,277</u>	<u>\$ 5,335,109</u>	<u>\$ 5,335,109</u>

Sources: The City, the City's Comprehensive Annual Financial Report, and the City's 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	\$5,746,441	\$5,871,051	\$6,359,683	\$6,867,774	\$7,198,935
Intergovernmental	1,128,575	1,222,423	1,281,586	1,294,425	1,424,999
Licenses and Permits	475,450	573,538	501,126	817,767	980,201
Charges for Services	787,642	720,557	956,514	970,743	966,656
Franchise Fees	444,672	449,333	462,988	467,214	351,721
Transfers in	527,909	754,899	677,531	1,290,940	0

Sources: City's Comprehensive Annual Financial Reports.

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PROPOSED FORM OF LEGAL OPINION



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

\$3,065,000*
 GENERAL OBLIGATION CAPITAL OUTLAY BONDS, SERIES 2019A
 CITY OF STILLWATER
 WASHINGTON COUNTY
 MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Stillwater, Washington County, Minnesota (the "Issuer"), of its \$3,065,000 General Obligation Capital Outlay Bonds, Series 2019A, bearing a date of original issue of September 19, 2019 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

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

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

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

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

* Preliminary; subject to change.

At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

BRIGGS AND MORGAN
Professional Association

CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Stillwater, Minnesota (the "Issuer"), in connection with the issuance of its \$3,065,000 General Obligation Capital Outlay Bonds, Series 2019A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on August 19, 2019 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

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

* Preliminary; subject to change.

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

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

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

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

SECTION 3. Provision of Annual Reports.

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

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

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

The following financial information and operating data shall be supplied:

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

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

SECTION 5. Reporting of Significant Events. This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

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

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

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

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

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

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

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

SECTION 10. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

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

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

Dated: _____, 2019.

CITY OF STILLWATER, MINNESOTA

By _____

Its Mayor

By _____

Its 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.

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

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

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

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

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

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

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

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

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

EXCERPT OF 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

The City's comprehensive annual financial reports for the years ending 1989 through 2017 were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. The City 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 comprehensive annual financial report (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.

June 26, 2019

Honorable Mayor
Members of the City Council
Citizens of the City of Stillwater, Minnesota

Minnesota State law requires that cities over 2,500 population publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm licensed public accountants and submit them to the state auditor. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Stillwater, Minnesota for the fiscal year ended December 31, 2018.

This report consists of management's representations concerning the finances of the City of Stillwater. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Stillwater has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Stillwater's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Stillwater's financial statements have been audited by CliftonLarsonAllen LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended December 31, 2018, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Stillwater's MD&A can be found immediately following the report of the independent auditors on page 13.

Profile of the Government

The City of Stillwater, incorporated in 1894, is a growing community located in central Washington County on the St. Croix River, approximately 20 miles east of the Minneapolis/St. Paul metropolitan area. Stillwater encompasses an area of approximately 5,814 acres and serves a population of 19,915.

The City of Stillwater operates under the "Home Rule Charter" form of government under the provisions of State of Minnesota Law. The Mayor is president of the Council and together with the four-member City Council comprises the governing body of the City. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring a city administrator. The city administrator has the responsibility of carrying out the policies and ordinances of the city council, for overseeing the day-to-day operation of the City. The mayor is elected at-large and the Council members are elected by Wards to serve four-year overlapping terms of office.

The City provides a full range of municipal services. These services include: general government, public safety (police & fire), public works (streets & fleet), parks and recreation, public improvements, and providing and maintaining sanitary sewer, storm sewer, signs & lighting and parking infrastructure. Water services are provided by the Board of Water Commission, a legally separate entity. Financial information for the Board of Water Commission are reported in a separate column within the City of Stillwater's financial statements. Additional information on the Board of Water Commission can be found in Note 1.A in the notes to the financial statements.

The annual budget is the foundation for the City of Stillwater's financial planning and control. All divisions are required to submit appropriations requests to the city administrator for review and consolidation into a proposed budget. The city administrator is responsible for submitting the proposed annual budget to the City Council in August of each year. The city council is required to hold a public hearing on the proposed budget and to adopt by resolution a final budget and certify it no later than December 30. The budget amounts cannot increase beyond the estimated receipts except to the extent that actual receipts exceed the estimate. Department directors may make transfers of appropriations within a department, but transfers of appropriations between departments require council approval. Budget-to-actual comparisons for the General Fund, St. Croix Valley Recreation Center, Library, Parks, Special Events, Downtown Beautification and Washington County Racing which are the only funds for which an annual budget has been adopted, are provided in this report on pages 33 through 36 and 94 through 96.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Stillwater operates.

Local economy. In the early 1970s, the City's residents and business owners began to encourage the historic preservation of commercial and residential buildings in the community. This movement has gathered momentum, acceptance and regulatory authority since its beginning and has been at least partially responsible for recapturing the historical river town character of the downtown business district. It has also encouraged the maintenance and restoration of historic homes in the City's residential neighborhoods. Many residences, businesses and shops are housed in buildings more than 100 years old. Downtown Stillwater and eight residential structures are on the National Register of Historic Places. Another 61 homes are estimated to be eligible for the National Register. A number of the City's older homes have been restored to their historical character and are open for public tours. In addition, a substantial downtown infrastructure improvement project was completed in 1991 and 1992, which included the separation and replacement of the 100-year-old storm sewer and sanitary sewer systems, new streets and sidewalks, and new street lighting. This restoration and preservation movement has generated a significant tourist trade that is important to the City's economy.

The 2030 Comprehensive Plan calls for continued growth of the City toward the west. The remaining undeveloped area was recently annexed into the City and encompasses approximately 670 acres. Of this area, 340 net acres are zoned for residential development. At build-out, this expansion area could yield about 1,300 housing units, 60 acres of office and non-retail commercial property along State Highway 36, and five acres of retail.

Ten (10) residential developments are currently building out with the potential for another 100 home sites. The estimated price points for these single-family homes range from under \$350,000 to over \$700,000.

The City has recently completed development/redevelopment activities in the downtown area: 1) the opening of two (2) new hotels and a hotel addition to a third hotel in downtown Stillwater; 2) MNDOT rehabilitation of the historic L.R. Bridge completing a pedestrian/bike recreation Loop Trail from downtown Stillwater into Wisconsin south to the new St. Croix Crossing Bridge and trail back to downtown; 3) sidewalk improvement projects in downtown area.

The historic downtown Lift Bridge is closed to be refurbished as a pedestrian/biking trail and is scheduled for opening in 2019.

Long-term financial planning. The City Council and staff are updating the 5-year Capital Improvement Plan (CIP) that identifies major projects and capital equipment purchases for years 2019-2023. Many of these projects have been pending for years awaiting various forms of approval and funding sources. Total projects preliminarily identified amount to \$70,822,550. All projects and capital purchases are rated 1 - 3 giving an indication of Council's priorities. Due to project timing issues and funding complexities it is acknowledged that the completion of all the projects identified in the 5-year plan is unlikely. The CIP is computer assisted and easily upgradeable from year to year to assure that it remains dynamic and continually reflects Council's vision and goals.

Major Initiatives

The City recently completed remodeling an existing space at City Hall for Police Department expansion and other department needs. The City also updated the mechanical, electrical, technology, and security systems at City Hall. A major project to replace the dome and field turf at the St. Croix Valley Recreation Center on the west side of Stillwater is currently underway. The Stillwater 2040 Comprehensive Plan has been completed and has been submitted to the Met Council for final review and approval. Other major upcoming initiatives include implementation of the Bridgeview Park Plan, the Alpie Park Plan, the Downtown Pedestrian Plaza and completion of the St. Croix Riverbank Restoration and Walkway project from downtown Stillwater to the southern city limits.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awards the Certificate of Achievement for excellence in financial reporting to cities that meet certain criteria. A governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program requirements. The City of Stillwater received this award for the year ended December 31, 2017. This marks the twenty-fifth consecutive year that the City has received this prestigious award.

A Certificate of Achievement is valid for a period of one year only. The City is submitting the 2018 report to GFOA for consideration of the Certificate of Achievement for Excellence in Financial Reporting. We believe our current report continues to conform to the high standards of the Certificate program.

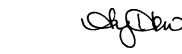
The timely preparation of this report could not have been accomplished without the dedicated services of the Finance Department, auditors and other City staff.

We also want to express our appreciation to the Mayor and City Council for their support for maintaining the highest standard of professionalism in the management of the financial operation of the City.

Respectfully submitted,



J. Thomas McCarty
City Administrator



Sharon Provos
Finance Director

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Stillwater, 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 Stillwater (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Stillwater as of December 31, 2018, and the respective changes in financial position, the respective budgetary comparison for the general fund and the St. Croix Value Recreation Center, Library, and Parks special revenue funds and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the City's proportionate share of net pension liabilities and assets, schedules of pension contributions, 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 Stillwater's basic financial statements. The combining and individual fund financial statements, schedule of special revenue fund – library donation fund – balance sheet and statement of revenues, expenditures, and changes in fund balance, the schedule of debt service fund – balance sheet and schedule of revenues, expenditures, and changes in fund balances, the schedule of TIF districts – balance sheet and schedule of revenues, expenditures, and changes in fund balances, and schedules of proprietary fund – parking fund – balance sheet, schedule of revenues, expenses, and changes in net position, and statement of cash flows (the supplementary information) is the responsibility of management and was 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 supplementary information identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The combining and individual fund financial statements, schedule of special revenue fund – library donation fund – balance sheet and statement of revenues, expenditures, and changes in fund balance, the schedule of debt service fund – balance sheet and schedule of revenues, expenditures, and changes in fund balances, the schedule of TIF districts – balance sheet and schedule of revenues, expenditures, and changes in fund balances, and schedules of proprietary fund – parking fund – balance sheet, schedule of revenues, expenses, and changes in net position, and statement of cash flows (the supplementary information) is the responsibility of management and was 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 supplementary information identified above is 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 26, 2019

CITY OF STILLWATER, MINNESOTA

**Management's Discussion and Analysis
December 31, 2018**

As management of the City of Stillwater, Minnesota, we offer readers of the City of Stillwater's financial statements this narrative overview and analysis of the financial activities of the City of Stillwater for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 6 of this report.

FINANCIAL HIGHLIGHTS:

The assets and deferred outflows of resources of the City of Stillwater exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$88,569,255 (*net position*). Of this amount, the City has a deficit of \$30,161,255 in unrestricted net position. This consists of a deficit of \$29,102,791 in governmental activities and \$1,058,464 in business-type activities.

- The City's total net position increased by \$3,865,123.
- As of the close of the current fiscal year, the City of Stillwater's governmental funds reported combined ending fund balance of \$40,474,228 an increase of \$2,968,520 in comparison with the prior year. Approximately 9% of this total amount or \$3,670,736 is available for use within the City's policies (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,670,736 or 33% of total general fund expenditures.
- The City of Stillwater's total bonded debt increased by \$2,910,000 (8%) during the current fiscal period. This was the net result of the City issuing the \$5,935,000 G.O. Capital Outlay Bonds and paying its scheduled debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS:

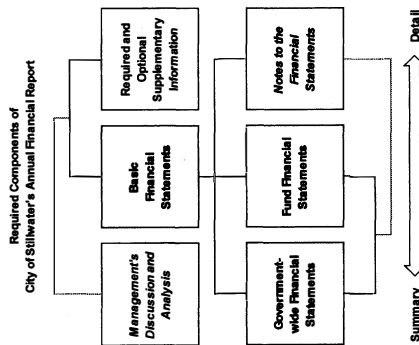
This discussion and analysis are intended to serve as an introduction to the City of Stillwater's basic financial statements. The City of Stillwater's basic financial statements comprise three components:

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

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

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

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



CITY OF STILLWATER, MINNESOTA

**Management's Discussion and Analysis (Continued)
December 31, 2018**

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 compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Stillwater that are principally supported by taxes, and charges for services (*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 Stillwater include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City of Stillwater include a sanitary and storm sewer utility, signs and lighting, and parking program.

The government-wide financial statement include not only the City of Stillwater itself (primary government), but also the Board of Water Commission (component unit) which is a separate legal entity for which the City of Stillwater is financially accountable. Financial information for the Board of Water Commission is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 24 through 26 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 Stillwater, 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 Stillwater can be divided into two categories: governmental funds and proprietary funds.

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

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

The City of Stillwater maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, St. Croix Valley Recreation Center fund, Library fund, Parks fund, Debt Services fund, Capital Projects fund, and TIF Districts fund, all of which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Stillwater adopts an annual appropriated budget for its general fund and certain special revenue funds. A budgetary comparison statement has been provided for the general fund and special revenue funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 27 through 36 of this report.

CITY OF STILLWATER, MINNESOTA

Management's Discussion and Analysis (Continued)
December 31, 2018

Proprietary funds. The City of Stillwater maintains four proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Stillwater uses enterprise funds to account for its sanitary and storm sewer utilities, signs and lighting, and parking program.

The proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary and storm sewer funds, the signs and lighting fund and the parking fund, which are considered to be major funds of the City of Stillwater.

The basic proprietary fund financial statements can be found on pages 37 through 39 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40 through 81 of this report.

Other information. The combining Nonmajor governmental fund statements referred to earlier can be found on pages 90 through 93 of this report. Other informational schedules and statements can be found on pages 94 through 115.

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 Stillwater, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$88,569,255 at the close of the most recent fiscal year.

By far the largest portion of the City of Stillwater's net position, \$87,833,278, or 99%, reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Stillwater uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Stillwater'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 STILLWATER, MINNESOTA

Management's Discussion and Analysis (Continued)
December 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED):

Approximately 35% or \$30,897,232 of net position represents net position subject to constraints imposed by external creditors, primarily bond covenants, and external donors.

	CITY OF STILLWATER'S NET POSITION					
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 49,650,119	\$ 44,914,500	\$ 1,796,935	\$ 1,965,775	\$ 51,447,054	\$ 46,880,275
Capital assets	99,195,511	95,546,768	13,286,058	13,395,604	112,481,569	109,944,392
Total assets	148,845,630	140,461,268	15,082,993	15,361,379	163,926,623	156,824,667
Deferred outflows of resources	5,579,891	6,061,810	175,122	138,285	5,754,813	6,200,075
Non-current liabilities outstanding	67,830,054	47,674,755	2,686,222	1,071,990	70,516,276	48,746,745
Other liabilities	3,680,901	2,632,772	222,688	163,228	3,903,589	2,796,000
Total liabilities	71,510,955	50,307,527	2,868,890	1,235,218	74,419,845	51,542,745
Deferred inflows of resources	6,572,705	6,805,814	121,631	100,165	6,694,336	6,905,979
Net position:						
Net investment in capital assets	74,547,220	74,085,103	13,286,068	13,395,604	87,833,278	87,480,707
Restricted	30,897,232	29,073,515			30,897,232	29,073,515
Unrestricted	(28,102,791)	(13,746,981)	(1,058,464)	(766,657)	(30,161,255)	(12,978,204)
Total net position	\$ 76,341,661	\$ 89,411,797	\$ 12,227,594	\$ 14,164,261	\$ 88,569,255	\$ 103,576,018

At the end of the current fiscal year, the City of Stillwater is able to report positive balances in two of the three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities with unrestricted net position in the governmental activities and in total being the exception.

Governmental activities. Governmental activities increased the City of Stillwater's net position by \$4,187,828. The most significant change in governmental net position is the result of investing of revenues from capital grants, special assessments, and tax increments into the construction or major improvements of the City's capital assets and infrastructure. The City also received a capital contribution in the amount of \$2,533,262 related to donated infrastructure and the City's investment in infrastructure through grants.

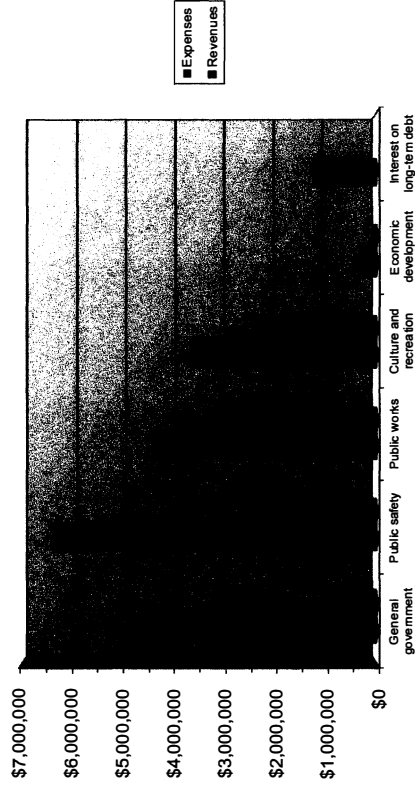
Business-type activities. Business-type activities decreased the City of Stillwater's net position by \$322,705. The most significant change in net position is a result of the investment in capital assets in the sanitary sewer fund and storm water fund. Note that the sanitary sewer fund had an increase of \$253,140 in interfund payables due to the purchase of large equipment and operations. There was a rate increase implemented in 2018 to assist in repayment of this interfund payable.

CITY OF STILLWATER, MINNESOTA
 Management's Discussion and Analysis (Continued)
 December 31, 2018

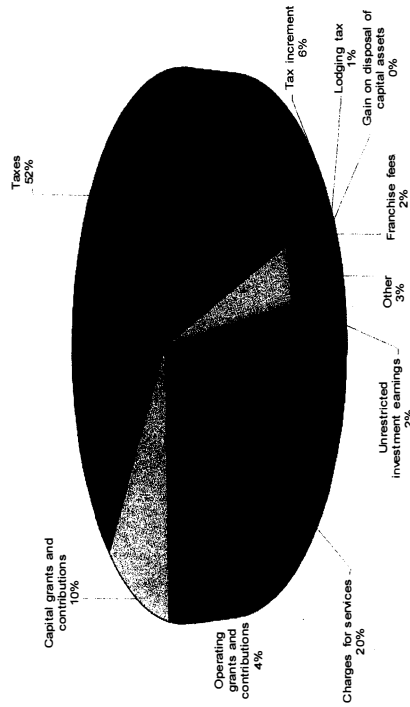
CITY OF STILLWATER, MINNESOTA
 Management's Discussion and Analysis (Continued)
 December 31, 2018

Below are specific graphs that provide comparisons of the government activities' direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED):

The following chart summarizes the changes in net position for the current fiscal year:

CITY OF STILLWATER'S CHANGES IN NET POSITION

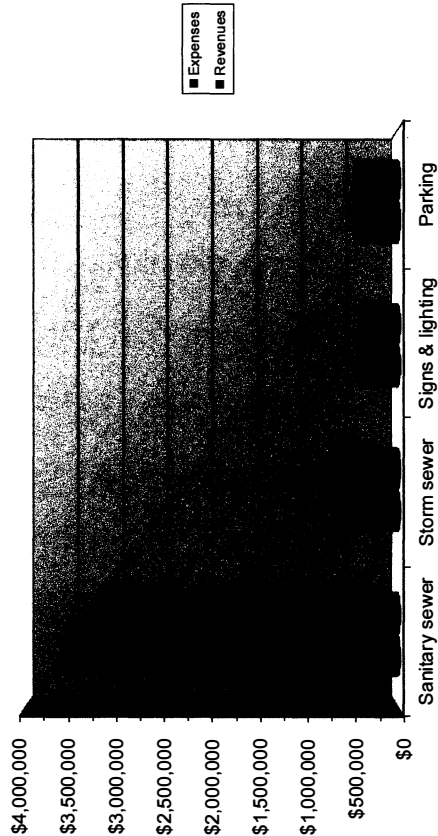
	Governmental activities		Business-type activities		Total
	2018	2017	2018	2017	
Revenues:					
Program revenues:					
Charges for services	\$ 5,042,145	\$ 4,074,339	\$ 4,819,577	\$ 4,012,828	\$ 9,660,722
Operating grants and contributions	1,000,747	868,811	1,000,747	868,811	1,869,558
Capital grants and contributions	2,533,282	6,630,514	-	-	2,533,282
General revenues:					
Property taxes	12,821,075	12,554,501	45,400	-	12,866,475
Tax increment	1,443,868	1,443,868	-	-	1,443,868
Lodging tax	237,665	218,821	-	-	237,665
Franchise fees	351,721	467,214	-	-	351,721
Grants and contribution not restricted for a specific purpose	747,981	734,034	-	-	747,981
Unrestricted investment earnings (loss)	495,595	390,092	37,942	39,079	534,637
Gain on disposal of capital assets	24,380	33,500	-	-	24,380
Total revenues	24,769,440	27,415,464	4,701,919	4,051,907	29,470,359
Expenses:					
General government	4,564,749	4,458,152	-	-	4,564,749
Public safety	6,300,804	6,692,653	-	-	6,300,804
Public works	4,442,535	3,340,782	-	-	4,442,535
Culture and recreation	3,693,368	4,961,092	-	-	3,693,368
Economic development	1,221,607	1,072,597	-	-	1,221,607
Interest on long-term debt	1,072,597	1,072,597	-	-	1,072,597
Sanitary sewer	-	-	3,590,043	2,990,283	3,590,043
Storm sewer	-	-	876,810	377,812	876,810
Signs & lighting	-	-	305,821	312,631	305,821
Parking	-	-	453,150	448,160	453,150
Total expenses	20,580,612	20,715,476	5,024,024	4,329,886	25,604,392
Change in net position before transfers	4,188,828	6,699,988	(322,705)	(276,979)	3,865,123
Transfers	-	101,792	-	(101,792)	-
Change in net position	4,188,828	6,801,780	(322,705)	(378,771)	3,865,123
Net position - beginning	89,411,757	82,609,977	14,164,261	14,543,032	103,576,018
Prior period restatement for implementation of GASB standard	(17,257,924)	-	(1,613,982)	-	(18,871,906)
Net position - beginning, as restated	72,153,833	82,609,977	12,550,279	14,543,032	84,704,132
Net position - ending	\$ 76,341,661	\$ 89,411,757	\$ 12,227,574	\$ 14,164,261	\$ 88,509,255
					\$ 103,576,018

CITY OF STILLWATER, MINNESOTA

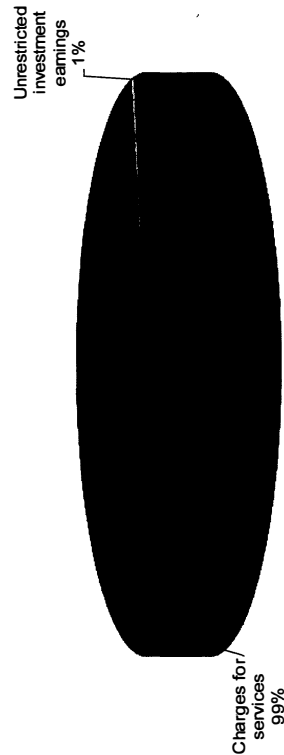
Management's Discussion and Analysis (Continued)
December 31, 2018

Below are specific graphs that provide comparisons of the business-type activities direct program revenues with their expenses. Excess revenues are retained within each fund until such time that capital replacement is needed.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



CITY OF STILLWATER, MINNESOTA

Management's Discussion and Analysis (Continued)
December 31, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

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

Governmental Funds. The focus of the City of Stillwater's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Stillwater'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 of Stillwater's governmental funds reported combined ending fund balances of \$4,047,422, an increase of \$2,958,520. Of this total, \$27,040,698 is restricted due to external limitations on its use, such as debt covenants, legal restrictions or intention of grantors, donors or trustees. A total of \$250,964 is considered nonspendable because it has been used for prepaid items. A total of \$4,574,745 is committed meaning that the City Council established, by resolution, that the fund balance of certain funds will be used for a specific purpose. In addition, a total of \$4,937,085 has been assigned meaning that management has delegated this portion to compensated absences. Finally, the remaining \$3,670,736 is unassigned and can be used for any lawful purpose.

The general fund is the primary operating fund of the City of Stillwater. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,670,736, while the total fund balance was \$5,335,109. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 33% of total general fund expenditures, while total fund balance represents 49% of that same amount.

The fund balance of the City of Stillwater's general fund did increase during the current fiscal year by \$382,832 due primarily to a spending less than originally budgeted. The general fund's revenues were more than its budget by \$352,755. The largest variances were in licenses and permits which was over budget by \$386,445 and charges for services which was over budget by \$151,980. These two items helped to offset franchise taxes being under budget by \$114,279.

The St. Croix Valley Recreation Center fund has a total fund balance of \$3,647,424. Of this total, \$5,766 is considered nonspendable and is being used for prepaid items and the remaining \$3,641,658 is committed, by resolution, but available specifically for operations of the St. Croix Valley Recreation Center. The fund balance increased by \$389,801 due primarily to an increase in revenues from increased demand.

The Library fund has total fund balance of \$197,284. Of this total, \$35,624 is considered nonspendable and is being used for prepaid items and \$161,660 is considered committed, by resolution, and to be used specifically for Library operations and compensated absences. The fund balance increased by \$66,827 due primarily to additional donations received during 2018.

The Parks fund has a total fund balance of \$597,478. Of this total, \$6,421 is considered nonspendable and being used for prepaid items and \$591,057 is considered committed, by resolution, and to be used specifically for Park operations and compensated absences. The fund balance increased by \$56,340 due to revenues exceeding current expenditures and received \$48,185 in reimbursements during 2018.

The Debt Service fund has a total fund balance of \$9,492,662, all of which is restricted for the retirement of related debt. The net increase of \$523,134 is due primarily to the City paying its scheduled debt service payments as well as a transfer in of \$1,132,213 from other funds.

CITY OF STILLWATER, MINNESOTA

Management's Discussion and Analysis (Continued)
December 31, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED):

The Capital Projects fund has a total fund balance of \$11,485,928, all of which is restricted or assigned for current and future capital projects. The net increase of \$983,201 is primarily due to revenues and bond proceeds being more than the spend down on capital projects throughout the City with police and city hall improvements.

The TIF District fund has a total fund balance of \$8,282,072 all of which is restricted for TIF (Tax Increment Financing) related expenditures. The fund balance increased by \$329,655 due to tax increment and other revenues exceeding the expenditures incurred in 2018 related to the TIF eligible projects (hotel, etc.).

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

The Sanitary Sewer fund has total net position of \$4,697,183. This includes negative unrestricted net position in the amount of \$1,151,080. Net position decreased by \$412,298 due primarily to lift station repairs and an increase in rates for waste water treatment. Any resources available in this fund will be used for future sewer related capital projects. In addition there was a reduction of net position of \$721,219 due to the adoption of GASB Statement N. 76.

The Storm Sewer fund has total net position of \$229,666, of which there is a deficit in unrestricted net position of \$228,108. Net position increased by \$78,373 before the restatement for implementation of GASB Statement No. 75 due primarily to increased expenditures related to weges increases, Browns Creek Watershed District work, additional trenching work, and an increase in minor repairs needed in 2018. There was also a budgeted increase in transfers out to the Capital Projects Fund for the completion of storm sewer related projects.

The Signs and Lighting fund has a deficit in total net position of \$167,289. This includes negative unrestricted net position in the amount of \$271,318. The net position decreased by \$4,809 in 2018 due primarily to increased utility costs during 2018.

The Parking fund has total net position of \$7,468,034, of which \$592,042 is unrestricted. Net position increased by \$16,029, before the adoption of GASB Statement No. 75. Any resources available in this fund will be used for future parking related capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS:

Budget Amendments: During the year there were no changes in appropriations between the original budget and the final budget.

Budget to Actual:

Revenues: In 2018, the General Fund exceeded the original budgeted revenue expectations by \$352,755. Some of the variances from the original budget to actual are as follows:

- Property Taxes:** The City's largest revenue source had a negative budget to actual variance of \$96,064; \$7,196,935 or 98.7% of the budgeted amount was collected.
- Intergovernmental Revenue:** The City's second largest revenue source had a positive budget to actual variance of \$63,011 which primarily was due to higher than expected police and fire state aid revenues.
- Charges for services:** The City's third largest funding source has a positive budget to actual variance of \$15,980 due mainly to an increase in planning fees.
- Licenses and permits:** The City's next largest funding source in 2018 has a positive budget to actual variance of \$386,445 due to the significant increase in building and development activity in 2018.
- Miscellaneous:** This fund source had a negative budget to actual variance of \$69,249 primarily due to refunds and reimbursements revenue being lower than expected.

CITY OF STILLWATER, MINNESOTA

Management's Discussion and Analysis (Continued)
December 31, 2018

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued):

Expenditures: In 2018, the General Fund's actual expenditures were less than expected by \$13,328. The largest budget savings related to public safety police expenditure related to time without budgeted officers hired and working and automotive fuel savings which offset the fire department being over budget.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital assets. The City of Stillwater's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$112,481,569 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment and furniture, vehicles, machinery and equipment, other capital assets, and infrastructure. The total increase in the City of Stillwater's investment in capital assets (net of accumulated depreciation) was 3%.

CITY OF STILLWATER'S CAPITAL ASSETS
(Net of depreciation)

	Governmental activities		Business-type activities		Total
	2018	2017	2018	2017	
Land	\$ 13,080,838	\$ 13,080,838	\$ 402,620	\$ 402,620	\$ 13,483,458
Buildings and improvements	27,865,122	28,984,196	5,452,166	5,528,270	33,317,288
Improvements other than buildings	3,497,262	3,218,862	1,683,323	1,554,967	5,180,585
Machinery and equipment	3,609,524	3,684,086	611,090	435,417	4,219,814
Vehicles	1,775,625	1,896,623	613,159	691,484	2,588,107
Infrastructure	37,511,775	37,501,618	4,459,431	4,673,165	41,971,206
Construction in process	11,856,365	7,182,565	64,269	109,691	11,920,634
Total	\$ 99,195,511	\$ 95,548,786	\$ 13,286,058	\$ 13,395,604	\$ 112,481,569

Additional information regarding the City's capital assets can be found on pages 54 and 55 of this report.

Long-term debt. At the end of the current fiscal year, the City of Stillwater had total bonded debt outstanding of \$37,680,000. Of this amount \$25,425,000 comprises tax-supported debt, \$6,150,000 is tax increment debt, and \$6,105,000 is revenue-supported debt. Of the total debt, \$31,890,000 is a direct obligation of the City and backed with a pledge of the full faith, credit and taxing power of the City.

CITY OF STILLWATER'S OUTSTANDING DEBT

General Obligation Bonds

	Governmental activities	
	2018	2017
General Obligation Bonds:		
General Government	\$ 25,425,000	\$ 21,755,000
Revenue	315,000	465,000
Tax Increment	6,150,000	6,375,000
Revenue Bonds:		
Tax Increment	5,790,000	6,175,000
Total	\$ 37,680,000	\$ 34,770,000

The City of Stillwater's total bonded debt increased by \$2,910,000 (8%) during the current fiscal year. This was the net result of the City issuing the \$5,935,000 G.O. Capital Outlay Bonds and paying its scheduled debt service payments. Additional information regarding the City's long-term debt can be found beginning on pages 56 through 58 of this report.

CITY OF STILLWATER, MINNESOTA

Management's Discussion and Analysis (Continued) December 31, 2018

Minnesota State Statutes limit the amount of general obligation debt to 3% of the total estimated taxable market value. The current legal debt margin for the City of Stillwater is \$43,748,424. Only \$25,425,000 of the City's outstanding debt is subject to the statutory limit. The calculation for the City's legal debt margin can be found on page 137 through 138 of this report.

The City of Stillwater's Aa2 bond rating was reaffirmed by Moody's on August 16, 2018 for the City's general obligation debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES:

- The City's taxable market value decreased by 8.4% in 2018 with values for 2019 to increase by 6.8%.
- An increase in FTE's to fulfill needs described in the strategic plan and the increase need in service areas.
- An increase in capital funds for the St. Croix Riverbank Stabilization project with the goal of completing construction by December 2020.
- The State revenue forecasts appear to be able to allow the distribution of the City's promised aid payments in 2019, therefore, the City included this aid disbursement in its 2019 budget.
- Interest rates that the City has been able to obtain on its investments have continued to be low in 2018. Continued lower investment rates are expected to continue for 2019.
- Increased health care costs continue to be a concern for 2019.

The City's appointed officials considered many factors when developing the 2019 budget and establishing the 2018 tax levy collectible in 2019 and the appropriate fees that will be charged by business-type activities. With the focus on sustainability and its adopted strategic plan, the 2019 budget was prepared with emphasis on ensuring current operational needs will be met as well as meeting long-term capital requirements. Through constant adherence to its fiscal policies the City is expected to address long-term financial demands without causing significant fluctuation in the City's tax burden. All of these factors were considered when preparing the City of Stillwater's 2019 fiscal year budget.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the City of Stillwater's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Stillwater, 216 4th Street North, Stillwater, Minnesota, 55082.

CITY OF STILLWATER, MINNESOTA

STATEMENT OF NET POSITION

December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Water
ASSETS				
Cash and pooled investments	\$ 38,473,930	\$ 1,506,839	\$ 39,980,769	\$ 2,346,842
Cash and pooled investments -held in escrow	3,774,899	-	3,774,899	-
Accrued interest receivable	67,167	3,412	70,579	4,876
Receivable (net of allowance for uncollectibles)	5,186,638	650,275	5,836,913	362,976
Internal balances	527,565	(527,565)	-	-
Due from other governments	262,905	1,521	264,426	-
Due from component unit	9,261	-	9,261	-
Due from primary government	-	-	-	132,993
Prepaid items	250,964	162,453	413,417	24,923
Notes receivable	18,310	-	18,310	-
Inventories	-	-	-	46,717
Net pension asset	1,078,480	-	1,078,480	-
Capital assets, nondepreciable	24,937,203	466,889	25,404,092	94,987
Capital assets (net of accumulated depreciation)	74,258,308	12,819,169	87,077,477	11,078,383
Total assets	<u>148,845,630</u>	<u>15,082,993</u>	<u>163,928,623</u>	<u>14,092,697</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding of bonds	170,004	-	170,004	-
Deferred outflows - pensions	4,563,992	96,033	4,660,025	82,400
Deferred outflows - OPEB	845,695	79,089	924,784	66,452
Total deferred outflows of resources	<u>5,579,691</u>	<u>175,122</u>	<u>5,754,813</u>	<u>148,852</u>
LIABILITIES				
Accounts payable	699,790	121,552	821,342	54,352
Contracts payable	1,183,865	3,033	1,186,898	-
Salaries payable	524,703	55,406	580,109	-
Unearned revenue	-	-	-	39,286
Due to other governments	456,553	1,965	458,518	-
Due to component unit	92,281	40,712	132,993	-
Due to primary government	-	-	-	9,261
Deposits payable	247,460	-	247,460	-
Accrued expenses	-	-	-	25,254
Accrued interest payable	476,249	-	476,249	13,656
Noncurrent liabilities:				
Due within one year	4,529,707	98,504	4,628,211	191,043
Due in more than one year	36,763,519	147,486	36,911,005	1,115,130
Total OPEB liability - due in more than one year	20,828,204	1,947,854	22,776,058	1,246,920
Net pension liability	5,708,624	492,378	6,201,002	366,141
Total liabilities	<u>71,510,955</u>	<u>2,908,890</u>	<u>74,419,845</u>	<u>3,061,043</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions	6,572,705	121,631	6,694,336	111,478
NET POSITION				
Net investment in capital assets	74,547,220	13,286,058	87,833,278	10,047,017
Restricted for:				
Debt service	9,047,845	-	9,047,845	-
Capital projects	10,336,814	-	10,336,814	-
TIF projects	8,411,500	-	8,411,500	-
General government activities	28,623	-	28,623	-
Culture and recreation activities	891,776	-	891,776	-
Public works activities	229,266	-	229,266	-
Public safety activities	90,572	-	90,572	-
Fire relief pension	855,917	-	855,917	-
Unexpended municipal construction aid	1,004,919	-	1,004,919	-
Unrestricted	(29,102,791)	(1,058,464)	(30,161,255)	1,022,011
Total net position	<u>\$ 76,341,661</u>	<u>\$ 12,227,594</u>	<u>\$ 88,569,255</u>	<u>\$ 11,069,028</u>

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

CITY OF STILLWATER, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
						Total		Total
Primary Government:								
Governmental Activities:								
General government	\$ 4,564,749	\$ 348,883	\$ 292,068	\$ -	\$ (3,923,798)	\$ (3,923,798)	\$ -	
Public safety	6,390,804	1,591,519	662,532	-	(4,146,753)	(4,146,753)	-	
Public works	4,442,535	1,031,032	4,230	2,289,865	(1,117,408)	(1,117,408)	-	
Culture and recreation	3,683,368	2,070,711	51,917	215,500	(1,345,240)	(1,345,240)	-	
Economic development	277,549	-	-	27,897	(249,652)	(249,652)	-	
Debt Service	1,221,607	-	-	-	(1,221,607)	(1,221,607)	-	
Total governmental activities	20,580,612	5,042,145	1,000,747	2,533,262	(12,004,458)	(12,004,458)	-	
Business-type Activities:								
Sanitary sewer	3,590,043	3,160,024	-	-	(430,019)	(430,019)	-	
Storm sewer	579,610	603,410	-	-	23,800	23,800	-	
Signs & lighting	395,821	390,720	-	-	(5,101)	(5,101)	-	
Parking	459,150	464,423	-	-	5,273	5,273	-	
Total business-type activities	5,024,624	4,618,577	-	-	(406,047)	(406,047)	-	
Total primary government	\$ 25,605,236	\$ 9,660,722	\$ 1,000,747	\$ 2,533,262	(12,004,458)	(12,410,505)	-	
Component Unit:								
Water	\$ 1,750,947	\$ 1,817,548	\$ -	\$ -	-	-	66,601	
General revenues:								
Property taxes					12,821,075	12,866,475	-	
Tax increment					1,512,869	1,512,869	-	
Lodging tax					237,665	237,665	-	
Franchise taxes					351,721	351,721	-	
Grants and contributions not restricted for a specific purpose					747,981	747,981	-	
Unrestricted investment earnings (loss)					496,595	534,537	9,726	
Gain on sale of capital assets					24,380	24,380	-	
Transfers					-	-	-	
Total general revenues					16,192,286	16,275,628	9,726	
Change in net position					4,187,828	3,865,123	76,327	
Net position, January 1					89,411,757	103,576,018	12,225,080	
Prior period restatement for change in accounting principle, see note 14					(17,257,924)	(18,871,886)	(1,232,379)	
Net position, January 1, as restated					72,153,833	84,704,132	10,992,701	
Net position, December 31					\$ 76,341,661	\$ 88,569,255	\$ 11,069,028	

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

CITY OF STILLWATER, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General	St Croix Valley Recreation Center	Library	Parks	Debt Service	Capital Projects	TIF Districts	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash and pooled investments	\$ 5,901,822	\$ 3,783,662	\$ 261,748	\$ 607,613	\$ 5,687,209	\$ 12,461,082	\$ 8,290,615	\$ 1,480,179	\$ 38,473,930
Cash and pooled investments-held in escrow	-	-	-	-	3,774,899	-	-	-	3,774,899
Accrued interest receivable	6,140	7,831	523	1,424	7,860	23,539	17,283	2,567	67,167
Accounts receivable	19,633	-	1,105	34,710	-	1,069,993	-	10,431	1,135,872
Taxes receivable:									
Delinquent	78,046	-	-	-	29,030	1,609	2,588	-	111,273
Due from county	62,554	-	-	-	22,695	23	27,620	-	112,892
Special assessments receivable:									
Delinquent	6,683	-	-	-	2,401	13,098	-	-	22,182
Deferred	87,062	-	-	-	-	3,595,452	126,840	-	3,809,354
Due from county	900	-	-	-	-	6,115	-	-	7,015
Due from other governments	-	-	-	-	-	260,505	-	2,400	262,905
Due from component unit	9,261	-	-	-	-	-	-	-	9,261
Interfund receivable	-	-	-	-	-	527,565	-	-	527,565
Prepaid items	186,539	5,766	35,624	6,421	-	-	-	16,614	250,964
Note receivable	-	18,310	-	-	-	-	-	-	18,310
Total Assets	\$ 6,358,640	\$ 3,815,569	\$ 299,000	\$ 650,168	\$ 9,524,094	\$ 17,958,981	\$ 8,464,946	\$ 1,512,191	\$ 48,583,589
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 202,022	\$ 72,408	\$ 40,482	\$ 6,645	\$ -	\$ 305,995	\$ 6,914	\$ 65,324	\$ 699,790
Contracts payable	61,573	77,427	-	1,287	-	998,400	34,582	10,596	1,183,865
Salaries payable	441,144	-	53,101	30,458	-	-	-	-	524,703
Due to other governments	24,101	-	8,133	-	-	424,319	11,950	-	468,503
Due to component unit	-	-	-	-	-	92,281	-	-	92,281
Deposits payable	196,180	-	-	14,300	-	36,980	-	-	247,460
Total Liabilities	925,020	149,835	101,716	52,690	-	1,857,975	53,446	75,920	3,216,602
Deferred Inflows of Resources:									
Unavailable revenue	98,511	18,310	-	-	31,432	4,615,078	129,428	-	4,892,759
Fund Balances:									
Nonspendable	186,539	5,766	35,624	6,421	-	-	-	16,614	250,964
Restricted	-	-	-	-	9,492,662	8,026,677	8,282,072	1,239,287	27,040,698
Committed	1,477,834	3,641,658	161,660	591,057	-	-	-	180,370	4,574,745
Assigned	3,670,736	-	-	-	-	3,459,251	-	-	4,937,085
Unassigned	5,335,109	3,647,424	197,284	597,478	9,492,662	11,485,928	8,282,072	1,436,271	36,707,336
Total Fund Balances	\$ 6,358,640	\$ 3,815,569	\$ 299,000	\$ 650,168	\$ 9,524,094	\$ 17,958,981	\$ 8,464,946	\$ 1,512,191	\$ 48,583,589
Total Liabilities, Deferred Inflows of Resources and Fund Balances									

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

CITY OF STILLWATER, MINNESOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2018**

Total fund balance - total governmental funds (page 28)		\$ 40,474,228
<p>Amounts reported for governmental activities in the statement of net position (page 24) are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Governmental capital assets	154,281,870	
Accumulated depreciation	<u>(55,086,359)</u>	99,195,511
<p>Other long-term assets that are not available to pay for current-period expenditures and, therefore, are unavailable resources in the governmental funds.</p>		
Delinquent property taxes and special assessments	133,455	
Deferred special assessments	3,809,354	
Accounts receivable	931,640	
Notes receivable	<u>18,310</u>	4,892,759
<p>Long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the governmental funds.</p>		
Long-term debt payable	(37,680,000)	
Compensated absences	(1,477,834)	
OPEB obligation (including deferred in/outflows)	(20,828,204)	
Net pension obligation (including deferred in/outflows)	(7,717,337)	
Net pension asset	1,078,480	
Accrued interest payable	(476,249)	
Unamortized premium	(1,289,697)	
Unamortized refunding	<u>170,004</u>	<u>(68,220,837)</u>
Net position of governmental activities (page 24)		<u><u>\$ 76,341,661</u></u>

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

CITY OF STILLWATER, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended December 31, 2018

	General	St Croix Valley Recreation Center	Library	Parks	Debt Service	Capital Projects	TIF Districts	Other Governmental Funds	Total Governmental Funds
REVENUES									
Property taxes	\$ 7,198,935	\$ -	\$ 1,222,353	\$ 894,129	\$ 3,437,359	\$ 2,468	\$ -	\$ 62,978	\$ 12,818,222
Tax increment	-	-	-	-	-	-	1,512,869	-	1,512,869
Lodging tax	-	-	-	-	-	-	-	237,665	237,665
Franchise taxes	351,721	-	-	-	-	-	-	-	351,721
Licenses and permits	980,201	-	-	1,088	-	-	-	-	981,289
Special assessments	9,736	-	-	-	3,931	1,178,133	27,897	-	1,219,697
Intergovernmental	1,424,999	-	-	-	-	814,646	-	172,523	2,412,168
Charges for services	966,656	1,514,490	95,903	35,292	-	491,014	-	215,500	3,318,855
Fines and forfeits	225,310	-	-	-	-	-	-	8,084	233,394
Investment income:									
Interest	37,294	48,840	2,784	8,857	90,914	168,196	113,611	26,099	496,595
Donations	150	-	47,110	8	-	-	-	101,188	148,456
Miscellaneous	129,714	281,706	10,532	48,185	5,093	141,930	45	46,002	693,207
Total revenues	<u>11,324,716</u>	<u>1,845,036</u>	<u>1,378,682</u>	<u>987,559</u>	<u>3,537,297</u>	<u>2,796,387</u>	<u>1,654,422</u>	<u>870,039</u>	<u>24,394,138</u>
EXPENDITURES									
Current:									
General government	3,888,544	-	-	-	-	-	-	411,731	4,300,275
Public safety	5,619,297	-	-	-	-	-	-	63,358	5,682,655
Public works	1,450,792	-	-	-	-	2,169	-	25,544	1,478,505
Culture and recreation	-	1,280,909	1,311,962	931,219	-	-	-	117,879	3,641,969
Economic development	-	-	-	-	-	-	322,146	-	322,146
Capital Outlay	-	-	9,411	-	-	7,828,264	-	13,466	7,851,141
Debt Service:									
Principal	-	-	-	-	3,025,000	85,000	-	-	3,110,000
Interest	-	-	-	-	1,026,171	33,625	44,734	-	1,104,530
Bond issuance fees	-	-	-	-	-	79,153	-	-	79,153
Professional services	-	-	-	-	10,281	317	-	-	10,598
Total expenditures	<u>10,958,633</u>	<u>1,280,909</u>	<u>1,321,373</u>	<u>931,219</u>	<u>4,061,452</u>	<u>8,028,528</u>	<u>366,880</u>	<u>631,978</u>	<u>27,580,972</u>
Excess (deficiency) of revenues over expenditures	366,083	564,127	57,309	56,340	(524,155)	(5,232,141)	1,287,542	238,061	(3,186,834)
OTHER FINANCING SOURCES (USES)									
Transfers in	-	-	9,411	-	1,132,213	1,295,868	-	-	2,437,492
Transfers (out)	-	(174,326)	-	-	(84,924)	(1,201,500)	(957,887)	(18,855)	(2,437,492)
Issuance of debt	-	-	-	-	-	5,935,000	-	-	5,935,000
Sale of property	16,749	-	107	-	-	-	-	7,524	24,380
Premium on issued debt	-	-	-	-	-	185,974	-	-	185,974
Total other financing sources (uses)	<u>16,749</u>	<u>(174,326)</u>	<u>9,518</u>	<u>-</u>	<u>1,047,289</u>	<u>6,215,342</u>	<u>(957,887)</u>	<u>(11,331)</u>	<u>6,145,354</u>
Net change in fund balances	382,832	389,801	66,827	56,340	523,134	983,201	329,655	226,730	2,958,520
Fund Balances-January 1	4,952,277	3,257,623	130,457	541,138	8,969,528	10,502,727	7,952,417	1,209,541	37,515,708
Fund Balances-December 31	<u>\$ 5,335,109</u>	<u>\$ 3,647,424</u>	<u>\$ 197,284</u>	<u>\$ 597,478</u>	<u>\$ 9,492,662</u>	<u>\$ 11,485,928</u>	<u>\$ 8,282,072</u>	<u>\$ 1,436,271</u>	<u>\$ 40,474,228</u>

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

CITY OF STILLWATER, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2018**

Net change in fund balances - total governmental funds (page 31) \$ 2,958,520

Amounts reported for governmental activities in the statement of activities (page 25)
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Capital outlays	7,776,841	
Depreciation expense	<u>(4,130,118)</u>	
		3,646,723

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

Unavailable property taxes	54,655	
Unavailable special assessments	857,210	
Unavailable intergovernmental revenues	(211,057)	
Other	<u>(18,310)</u>	
		682,498

Long-term debt (e.g., bonds, leases) proceeds provide current financial
resources to governmental funds, while issuing debt increases long-term
liabilities in the statement of net position. Repayment of principal of long-term
debt is an expenditure in the governmental funds, while the repayment reduces
long-term liabilities in the statement of net position. Interest is recognized as
an expenditure in the governmental funds when it is due, however, in the
statement of activities interest expense is recognized as it accrues regardless
of when it is due. In addition, governmental funds report the effect of issuance
costs, premiums and similar items when the debt is initially issued, whereas
these amounts are deferred and amortized in the statement of activities. The
net effect of these differences in the treatment of long-term debt and related
items is as follows:

Bond proceeds	(5,935,000)	
Principal retirement on long-term debt	3,025,000	
Bond premium	(185,974)	
Change in accrued interest expense	(20,946)	
Amortization of premium, refunding, and write-off of issuance costs	<u>78,620</u>	
		(3,038,300)

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

Compensated absences increase	(130,970)	
Net OPEB Obligation	69,129	
Net pension obligation	(67,190)	
Net pension asset	<u>67,418</u>	
		<u>(61,613)</u>

Change in net position of governmental activities (page 25) \$ 4,187,828

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

CITY OF STILLWATER, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2018**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Property taxes	\$ 7,294,999	\$ 7,198,935	\$ (96,064)
Franchise taxes	466,000	351,721	(114,279)
Licenses and permits	593,756	980,201	386,445
Special assessments	16,500	9,736	(6,764)
Intergovernmental	1,361,988	1,424,999	63,011
Charges for services	814,676	966,656	151,980
Fines and forfeits	199,929	225,310	25,381
Investment income:			
Interest	25,000	37,294	12,294
Miscellaneous	199,113	129,864	(69,249)
Total revenues	<u>10,971,961</u>	<u>11,324,716</u>	<u>352,755</u>
EXPENDITURES			
General government			
Mayor and council	206,359	226,405	(20,046)
Elections	33,106	30,927	2,179
MIS support services	368,758	364,424	4,334
Finance	452,201	449,537	2,664
Human Resources	178,358	173,455	4,903
Administration	603,637	628,135	(24,498)
Legal/City attorney	314,828	257,491	57,337
Plant/City hall	164,643	149,090	15,553
Community development	464,742	470,456	(5,714)
Unallocated	1,118,004	1,138,624	(20,620)
Public safety			
Police	3,307,674	3,423,099	(115,425)
Fire	1,857,600	1,735,077	122,523
Inspections	390,955	457,993	(67,038)
Civil defense	9,666	3,128	6,538
Public works			
Engineering	373,428	384,563	(11,135)
Streets	1,128,002	1,066,229	61,773
Total expenditures	<u>10,971,961</u>	<u>10,958,633</u>	<u>13,328</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>366,083</u>	<u>366,083</u>
OTHER FINANCING SOURCES (USES)			
Sale of property	-	16,749	16,749
Net change in fund balance	<u>\$ -</u>	<u>382,832</u>	<u>\$ 382,832</u>
Fund balance-January 1		4,952,277	
Fund balance-December 31		<u>\$ 5,335,109</u>	

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

CITY OF STILLWATER, MINNESOTA

ST CROIX VALLEY RECREATION CENTER FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Charges for services	\$ 1,215,000	\$ 1,514,490	\$ 299,490
Investment income:			
Interest	-	48,840	48,840
Miscellaneous	277,160	281,706	263,396
Total revenues	<u>1,492,160</u>	<u>1,845,036</u>	<u>611,726</u>
EXPENDITURES			
Current:			
Culture and recreation			
Recreation center ice arena	944,778	873,262	71,516
Recreation center fieldhouse	246,884	197,349	49,535
Lily Lake ice arena	209,069	210,298	(1,229)
Total expenditures	<u>1,400,731</u>	<u>1,280,909</u>	<u>119,822</u>
Excess (deficiency) of revenues over expenditures	<u>91,429</u>	<u>564,127</u>	<u>731,548</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)	<u>(174,326)</u>	<u>(174,326)</u>	-
Total other financing sources (uses)	<u>(174,326)</u>	<u>(174,326)</u>	-
Net change in fund balance	<u>\$ (82,897)</u>	389,801	<u>\$ 731,548</u>
Fund balance-January 1		<u>3,257,623</u>	
Fund balance-December 31		<u>\$ 3,647,424</u>	

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

CITY OF STILLWATER, MINNESOTA

LIBRARY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Year Ended December 31, 2018

	<u>Budgeted Amounts</u> <u>Original and</u> <u>Final</u>	<u>Actual Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES			
Property Taxes	\$ 1,222,353	\$ 1,222,353	\$ -
Charges for services	70,700	95,903	25,203
Investment income:			
Interest	1,000	2,784	1,784
Donations	4,500	47,110	42,610
Miscellaneous	9,300	10,532	1,232
Total revenues	<u>1,307,853</u>	<u>1,378,682</u>	<u>70,829</u>
EXPENDITURES			
Current:			
Culture and recreation			
Operations	1,070,729	1,040,870	29,859
Plant	233,262	280,503	(47,241)
Total expenditures	<u>1,303,991</u>	<u>1,321,373</u>	<u>(17,382)</u>
Excess of revenues over expenditures	<u>3,862</u>	<u>57,309</u>	<u>53,447</u>
OTHER FINANCING SOURCES			
Transfers in	<u>-</u>	<u>9,411</u>	<u>9,411</u>
Net change in fund balance	<u>\$ 3,862</u>	<u>66,827</u>	<u>\$ 62,858</u>
Fund balance-January 1		<u>130,457</u>	
Fund balance-December 31		<u>\$ 197,284</u>	

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

CITY OF STILLWATER, MINNESOTA

PARKS FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

Year Ended December 31, 2018

	<u>Budgeted Amounts</u> <u>Original and</u> <u>Final</u>	<u>Actual Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES			
Property Taxes	\$ 894,129	\$ 894,129	\$ -
Licenses and permits	1,100	1,088	(12)
Charges for services	25,000	35,292	10,292
Investment income:			
Interest	3,000	8,857	5,857
Donations	-	8	8
Miscellaneous	-	48,185	48,185
Total revenues	<u>923,229</u>	<u>987,559</u>	<u>64,330</u>
EXPENDITURES			
Current:			
Culture and recreation	<u>923,229</u>	<u>931,219</u>	<u>(7,990)</u>
Net change in fund balance	<u>\$ -</u>	<u>56,340</u>	<u>\$ 56,340</u>
Fund balance-January 1		<u>541,138</u>	
Fund balance-December 31		<u>\$ 597,478</u>	

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

CITY OF STILLWATER, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2018

	Business-type Activities - Enterprise Funds				Totals
	Sanitary Sewer	Storm Sewer	Signs and Lighting	Parking	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CURRENT ASSETS:					
Cash and cash equivalents	\$ -	\$ 613,093	\$ -	\$ 893,746	\$ 1,506,839
Accrued interest receivable	7.00	1,610.00	44.00	1,751.00	3,412
Accounts receivable	512,544	80,497	56,372	862	650,275
Due from other governments	1,521	-	-	-	1,521
Prepaid items	157,497	2,915	973	1,068	162,453
Total current assets	<u>671,569</u>	<u>698,115</u>	<u>57,389</u>	<u>897,427</u>	<u>2,324,500</u>
CAPITAL ASSETS					
Land	-	-	-	402,620	402,620
Building and other improvements	-	-	-	6,064,365	6,064,365
Improvements other than building	979,389	-	-	1,437,555	2,416,944
Machinery and equipment	491,130	432,638	48,562	344,980	1,317,310
Vehicles	887,289	159,687	77,376	31,851	1,156,203
Infrastructure	10,460,870	-	-	-	10,460,870
Construction in progress	-	-	-	64,269	64,269
Less accumulated depreciation	(6,970,415)	(134,551)	(21,909)	(1,469,648)	(8,596,523)
Net Capital Assets	<u>5,848,263</u>	<u>457,774</u>	<u>104,029</u>	<u>6,875,992</u>	<u>13,286,058</u>
Total assets	<u>6,519,832</u>	<u>1,155,889</u>	<u>161,418</u>	<u>7,773,419</u>	<u>15,610,558</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pensions	42,914	32,989	10,199	9,931	96,033
Deferred outflows - OPEB	35,342	27,168	8,400	8,179	79,089
Total deferred outflows	<u>78,256</u>	<u>60,157</u>	<u>18,599</u>	<u>18,110</u>	<u>175,122</u>
Total assets and deferred outflows of resources	<u>6,598,088</u>	<u>1,216,046</u>	<u>180,017</u>	<u>7,791,529</u>	<u>15,785,680</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable	93,888	416	18,388	8,860	121,552
Contracts payable	138	-	-	2,895	3,033
Salaries payable	21,896	17,596	5,887	10,027	55,406
Interfund payable	507,937	-	19,628	-	527,565
Due to other governments	-	1,965	-	-	1,965
Due to component unit	40,712	-	-	-	40,712
Compensated absences payable	7,682	7,176	1,812	2,745	19,415
OPEB Liability due within one year	35,342	27,168	8,400	8,179	79,089
Total current liabilities	<u>707,595</u>	<u>54,321</u>	<u>54,115</u>	<u>32,706</u>	<u>848,737</u>
NONCURRENT LIABILITIES					
Compensated absences	48,510	52,017	21,108	25,851	147,486
OPEB liability due in more than one year	870,423	669,120	206,872	201,439	1,947,854
Net pension liability	220,025	169,140	52,293	50,920	492,378
Total noncurrent liabilities	<u>1,138,958</u>	<u>890,277</u>	<u>280,273</u>	<u>278,210</u>	<u>2,587,718</u>
Total liabilities	<u>1,846,553</u>	<u>944,598</u>	<u>334,388</u>	<u>310,916</u>	<u>3,436,455</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pensions	54,352	41,782	12,918	12,579	121,631
NET POSITION					
Net investment in capital assets	5,848,263	457,774	104,029	6,875,992	13,286,058
Unrestricted	(1,151,080)	(228,108)	(271,318)	592,042	(1,058,464)
Total net position	<u>4,697,183</u>	<u>229,666</u>	<u>(167,289)</u>	<u>7,468,034</u>	<u>12,227,594</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,598,088</u>	<u>\$ 1,216,046</u>	<u>\$ 180,017</u>	<u>\$ 7,791,529</u>	<u>\$ 15,785,680</u>

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

CITY OF STILLWATER, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds				Totals
	Sanitary Sewer	Storm Sewer	Signs and Lighting	Parking	
OPERATING REVENUES					
Charges for services	\$ 2,287,781	\$ 602,117	\$ 390,320	\$ 459,864	\$ 3,740,082
OPERATING EXPENSES					
Personnel services	390,936	284,158	84,865	119,183	879,142
Supplies	9,681	29,347	25,048	26,521	90,597
Other services and charges	2,852,407	218,865	254,693	114,552	3,440,517
Miscellaneous	13,349	5,395	18,684	28,377	65,805
Depreciation	323,670	41,845	12,531	170,517	548,563
Total operating expenses	<u>3,590,043</u>	<u>579,610</u>	<u>395,821</u>	<u>459,150</u>	<u>5,024,624</u>
Income (loss) from operations	<u>(1,302,262)</u>	<u>22,507</u>	<u>(5,501)</u>	<u>714</u>	<u>(1,284,542)</u>
NONOPERATING REVENUES					
Interest income	15,018	11,876	292	10,756	37,942
Other income	874,946	43,990	400	4,559	923,895
Total nonoperating revenues	<u>889,964</u>	<u>55,866</u>	<u>692</u>	<u>15,315</u>	<u>961,837</u>
Change in net position	(412,298)	78,373	(4,809)	16,029	(322,705)
NET POSITION					
Net position, January 1	5,830,700	705,715	8,931	7,618,915	14,164,261
Prior period restatement for implementation of GASB Standard 75 (see note 16)	<u>(721,219)</u>	<u>(554,422)</u>	<u>(171,411)</u>	<u>(166,910)</u>	<u>(1,613,962)</u>
Net position, January 1 - as restated	<u>5,109,481</u>	<u>151,293</u>	<u>(162,480)</u>	<u>7,452,005</u>	<u>12,550,299</u>
Net position, December 31	<u>\$ 4,697,183</u>	<u>\$ 229,666</u>	<u>\$ (167,289)</u>	<u>\$ 7,468,034</u>	<u>\$ 12,227,594</u>

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

CITY OF STILLWATER, MINNESOTA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2018**

	Business-type Activities - Enterprise Funds				
	Sanitary Sewer	Storm Sewer	Signs and Lighting	Parking	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 2,540,945	\$ 600,893	\$ 407,103	\$ 459,078	\$ 4,008,019
Payments to suppliers	(2,844,282)	(269,921)	(292,698)	(164,727)	(3,571,628)
Payments to employees	(367,976)	(286,965)	(88,113)	(120,857)	(863,911)
Net cash from operating activities	<u>(671,313)</u>	<u>44,007</u>	<u>26,292</u>	<u>173,494</u>	<u>(427,520)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
State aid subsidy	1,683	1,293	400	389	3,765
Net cash from noncapital financing activities	<u>1,683</u>	<u>1,293</u>	<u>400</u>	<u>389</u>	<u>3,765</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(219,140)	(174,450)	(26,988)	(18,439)	(439,017)
Proceeds from taxes, assessments, connections	873,263	42,697	-	4,170	920,130
Net cash from capital and related financing activities	<u>654,123</u>	<u>(131,753)</u>	<u>(26,988)</u>	<u>(14,269)</u>	<u>481,113</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	15,507	12,379	296	10,627	38,809
Net cash from investing activities	<u>15,507</u>	<u>12,379</u>	<u>296</u>	<u>10,627</u>	<u>38,809</u>
Net increase (decrease) in cash and cash equivalents	-	(74,074)	-	170,241	96,167
Cash and cash equivalents, January 1	-	687,167	-	723,505	1,410,672
Cash and cash equivalents, December 31	<u>\$ -</u>	<u>\$ 613,093</u>	<u>\$ -</u>	<u>\$ 893,746</u>	<u>\$ 1,506,839</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (1,302,262)	\$ 22,507	\$ (5,501)	\$ 714	\$ (1,284,542)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	323,670	41,845	12,531	170,517	548,563
(Increase) Decrease in Assets and Deferred Outflows:					
Accounts receivable	24	(1,224)	(1,466)	(786)	(3,452)
Due from other governments	369	206	-	-	575
Prepaid items	(4,598)	357	(20)	(111)	(4,372)
Deferred outflows - pensions	17,214	15,112	4,643	5,263	42,232
Deferred outflows - OPEB	(1,149)	(883)	(273)	(266)	(2,571)
Increase (Decrease) in Liabilities and Deferred Inflows:					
Accounts and contracts payable	35,384	(18,217)	5,881	4,903	27,951
Salaries payable	2,943	2,483	1,070	2,417	8,913
Due to other governments	-	1,340	(134)	-	1,206
Due to other funds	253,140	-	18,249	-	271,389
Due to component unit	21,439	-	-	(69)	21,370
Compensated absences payable	1,712	(555)	2,209	1,422	4,788
Net OPEB obligation	(10,602)	(3,512)	(6,259)	(2,505)	(22,878)
Net pension liability	(19,390)	(22,387)	(6,804)	(9,577)	(58,158)
Deferred inflows - pensions	10,793	6,935	2,166	1,572	21,466
Total adjustments	<u>630,949</u>	<u>21,500</u>	<u>31,793</u>	<u>172,780</u>	<u>857,022</u>
Net cash from operating activities	<u>\$ (671,313)</u>	<u>\$ 44,007</u>	<u>\$ 26,292</u>	<u>\$ 173,494</u>	<u>\$ (427,520)</u>

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

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stillwater operates under the "Home Rule Charter" form of government under the provisions of the State of Minnesota law. The Mayor is the president of the Council and together with the City Council comprises the governing body of the City, which is responsible for directing the activities of the City. The City provides the following services: police and fire protection, highways and streets, parks, storm sewer, sanitary sewer, planning, zoning, and general administration.

The basic financial statements of the City of Stillwater have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

A. FINANCIAL REPORTING ENTITY

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Stillwater and its component unit. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

COMPONENT UNIT

In conformity with U.S. generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

Board of Water Commission

The component unit column of the accompanying financial statements includes the financial data of the Board of Water Commission (Commission). This financial information is presented in a separate column to emphasize the Commission is legally separate from the City.

The Commission was created and prescribed by the City Charter. The Commission is a three member governing board appointed by the City Council. The purpose of the Commission is to manage, control, maintain and account for the water works system owned by the City. Financial activities and budgetary control responsibilities lie with the Commission. Debt issuance must be approved by the City Council and the legal liability for debt issuance remains with the City. Operations of the water works system are funded solely by user rate fees set by the Commission. The Commission is presented as a proprietary fund type (business-type activity). Complete audited financial statements for the Commission may be obtained by writing the Board of Water Commission, 204 North 3rd Street, Stillwater, Minnesota 55082.

OTHER ORGANIZATION

The Stillwater Fire Relief Association is organized as a nonprofit organization, legally separate from the City, by the member to provide pension and other benefits to such members, in accordance with Minnesota statutes and the Association's by-laws. Its board of directors is appointed by the membership of the Association and not by the City Council. The Association

issues its own set of financial statements. All funding is conducted in accordance with applicable Minnesota statutes, whereby state aids flow to the Association. The Association pays benefits directly to its members. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included as a component of the City's reporting entity.

B. BASIC FINANCIAL STATEMENTS

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City enterprise funds and various other function of government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (a) net investment in capital assets; (b) restricted net position; and (c) unrestricted net position. 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 to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (a) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

The City reports the following major governmental funds:

General Fund

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.

St. Croix Valley Recreation Center Special Revenue Fund

This fund is used to account for the operation of the sports facility in Stillwater. Revenue sources for this fund are provided by the fees generated by the facility and are committed for operations.

Library Special Revenue Fund

This fund is used to account for the operations of the City's library. This fund is primarily funded with committed general property taxes.

Parks Special Revenue Fund

The parks fund is used to account for the operations of the City's parks. This fund is primarily funded with committed general property taxes.

Debt Service Fund

The debt service fund is used to account for the accumulation of resources that are restricted for the payment of, long-term debt principal, interest, and related costs.

Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

TIF Districts Fund

This fund is used to account for restricted financial resources to be collected by and used in the City's tax increment financing districts.

The City reports the following major proprietary funds:

Sanitary Sewer Fund

The sanitary sewer fund accounts for the provision of sanitary sewer service to the residents and commercial and industrial establishments of the City.

Storm Sewer Fund

The storm sewer fund accounts for the provision of storm sewer service to the residents and commercial and industrial establishments of the City.

Signs and Lighting Fund

The signs and lighting fund accounts for the operation and maintenance of the City's sign and lighting system.

Parking Fund

The parking fund accounts for the operation of parking facilities located in downtown Stillwater.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, and proprietary fund 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 are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The City reports unavailable revenue on its governmental fund balance sheets. Unavailable revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue arises when resources are received prior to the incurrence of the qualifying expenditure. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

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 revenue 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.

Component Unit

The Commission reports its financial statements under the accrual basis of accounting as a proprietary fund type.

D. BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America. Annual appropriated budgets are adopted for the general fund and other major governmental funds as follows: St. Croix Valley Recreation, Library, and Parks fund. The City also adopts a budget for the nonmajor governmental Special Events fund, Downtown Beautification fund and Washington County Recycling Grant fund which are presented in the combining and individual fund section of the Comprehensive Annual Financial Report.

E. LEGAL COMPLIANCE - BUDGETS

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally approved by passage of a resolution.
4. The City Council may authorize transfer of budgeted amounts between funds and may approve additional expenditures for departments in excess of the amount budgeted.
5. Formal budgetary integration is employed as a management control device during the year for the general fund and other budgeted funds. Formal budgetary integration is not employed for the debt service and the capital projects funds because effective budgetary control is achieved through general obligation bond indenture provisions and project contracts.

F. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash balances from all funds are pooled and invested to the extent available in investments authorized by Minnesota statutes. Earnings from investments are allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated for the statement of net position presentation.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools that meet the criteria of GASB Statement No. 79 are valued at amortized costs. If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31.

For purposes of the statement of cash flows of the proprietary funds, the cash equivalents are considered to be all highly liquid investments with a maturity of three months or less when purchased. All of the cash and investments allocated to the proprietary funds have original maturities of 90 days or less. Therefore, the entire balances in such funds are considered cash equivalents.

G. PREPAID ITEMS

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

H. INVENTORIES

The inventories of the discretely presented component unit are valued at cost (first-in, first-out method) and are recorded as an expense when consumed.

I. PROPERTY TAX LEVY AND REVENUE RECOGNITION

On or before July 1 each year, all departments of the City submit budget requests to the City Administrator so that a budget may be prepared and a tax levy adopted for the following fiscal year. The budget is prepared by fund, function, and department and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

Revenue estimates are prepared by the Finance Department, including the estimated tax levy needed to support City expenditures.

The proposed budget and tax levy is presented to the City Council for review by August 31. The City Council reviews and makes changes to the proposed budget and tax levy. By September 15, a "proposed tax levy" is certified to the State of Minnesota and Washington County.

Minnesota statutes require the counties to send out preliminary tax notices to all property owners showing the prior year's tax levy and proposed tax levy, including dollars and percentage increase or decrease between years for all taxing jurisdiction.

After November 25, and before December 25, Minnesota statutes require the City to hold a public meeting and present the budget and proposed tax levy to the citizens. The City Council must adopt the final budget and "final tax levy" after closing the public meeting. The final tax levy must be less than or equal to the proposed tax levy.

The final tax levy must be certified to Washington County by December 31 or the previous year's tax levy will be used by default.

The County is responsible for billing and collecting all property taxes for itself, the City, the local School District, and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 15 and December 15 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and the following January are recognized as revenue for the current year. Taxes and credits not received at the year-end are classified as delinquent and due from county taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred revenue because it is not available to finance current expenditures. Property tax levies in governmental activities is susceptible to full accrual on the government-wide statements.

J. SPECIAL ASSESSMENT REVENUE RECOGNITION

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred, and special deferred assessments receivable in governmental funding are completely offset by unavailable revenues. Special assessment levies in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural, or seasonal recreational land in which event the property is subject to such sale after five years.

K. INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Any resulting short-term loan balances are classified as interfund receivables and payables. The noncurrent portion of interfund loans, if any, is reported as "advances to/from other funds." Advances between funds are offset by nonspendable fund balance account in applicable governmental funds to indicate they are not available for appropriation and are not expendable from available financial resources.

L. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, streetlights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets have been capitalized retroactively to 1980. Capital assets exceeding the City's

capitalization threshold of \$1,000 are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Capital assets are depreciated using the straight-line method over their estimated useful lives. Because surplus assets are sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation. Useful lives vary from 3 to 30 years for Buildings, Office Furniture and Equipment, Vehicles, Machine Shop and Equipment and Other assets, and 25 to 80 years for Infrastructure. Capital assets not being depreciated include land and construction in progress.

The City and Commission also adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* and therefore no longer include interest as part of the cost of construction projects.

Component Unit

Utility plant, property, and equipment are recorded at cost, or in the case of contributions, at acquisition value to the time received. Depreciation is calculated using the straight-line method over the assets' estimated useful lives, ranging from five to fifty years.

M. COMPENSATED ABSENCES

Sick leave and vacation benefits accrue to employees based upon their term of employment and in accordance with the individual labor agreements.

Vested or accumulated vacation or sick leave is accrued as incurred in the government-wide and proprietary fund financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The current portion is calculated based on historical trends.

Component Unit

The Commission records a long-term liability for employee compensated absences consisting of vested sick pay and current liability for vested vacation. Employees may carry over five vacations days and one hundred sick days. Employees are compensated for sick days in excess of one hundred days at year-end and for all vested sick days and vacations days upon termination.

N. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs, are considered a current year cost of issuing debt and fully expensed in the year incurred.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as on other financing source. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issue costs are reported as debt service expenditures.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

O. FUND BALANCE

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained by external parties (statute, grantors, bond agreements, etc.).

Committed – fund constraints are established and modified by a resolution approved by the City Council.

Assigned – consists of internally imposed constraints. These constraints are established by the City Council and/or management. The City Council by adoption of a formal fund balance policy delegates the authority to assign fund balance to the City Administrator and Finance Director.

Unassigned – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

The City formally adopted a fund balance policy for the General Fund. The policy establishes an unassigned fund balance range of 35% – 50% of the total operating expenditures.

P. INTERFUND TRANSACTIONS

Interfund service transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the entity-wide statements of net position and statements of activities.

Q. DEFERRED OUTFLOWS OF RESOURCES

The City would report decrease in net position or fund balance, that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statement of net position or governmental fund balance sheet. The City has three types of deferred outflows of resources for the government wide financial statements: (1) deferred charges on refunding of bonds; (2) OPEB related items; and, (3) pension related items. The deferred charges will be amortized over the remaining life of the applicable bonds. In addition, the City reports deferred outflows of resources related to pensions, see Note 6 and 7 for additional details.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

R. DEFERRED INFLOWS OF RESOURCES

The City's governmental activities and governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position of fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The City has one type of item which occurs relating to revenue recognition: The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. In addition, the City reports deferred inflows of resources related to pensions, see Note 6 for additional details.

S. PENSIONS

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

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

T. POSTEMPLOYMENT BENEFITS

The City of Stillwater and its discretely presented component unit provide a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefit, the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense were measured actuarially in accordance with GASB Statement No. 75, based on entry age normal cost method.

NOTE 2

DEPOSITS AND INVESTMENTS

Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and the balance sheet as "Cash and pooled investments". In accordance with Minnesota Statutes, the City maintains deposits at financial institutions which are authorized by the City Council.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City and its component unit do not have a deposit policy for custodial risk instead follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledges must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of U.S. government agency, general obligations of state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit

CITY OF STILLWATER, MINNESOTA

**Notes to the Financial Statement (Continued)
December 31, 2018**

issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned by the depository.

The City's deposits at December 31, 2018 in the amount of \$553,655 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Component Unit

The Commission had deposits at December 31, 2018 in the amount of \$1,508,612. As of December 31, 2018, the Commission's deposits were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Investments

Minnesota statutes 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 received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- c) General obligations rated "A" or better; revenue obligations rated "AA" or better.
- d) General obligations of the Minnesota Housing Finance Agency rated "A" or better.
- e) Bankers' acceptance of United States banks eligible for purchase by the Federal Reserve System.
- f) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- g) Guaranteed investment contracts guaranteed by the United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is the top two rating categories.
- h) Repurchase or reverse repurchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- i) Any security which is an obligation of a school district with an original maturity not exceeding 13 months and rated in the highest category by a national bond rating services or enrolled in the credit enhancement program pursuant to section 126C.55.

At December 31, 2018, the City's investment balances were as follows:

CITY OF STILLWATER, MINNESOTA

**Notes to the Financial Statement (Continued)
December 31, 2018**

Cash Investments Held by Trustee:

Type	Value
United States Treasury Securities	\$ 3,774,899

The investments held by the trustee invested in U.S. Treasury Securities and a mutual fund (which are rated AAA-mf) that invests in U.S. Treasury Securities. These investments are held by escrow agents in accordance with escrow agreements established with the sale of the \$2,450,000 General Obligation Tax Incremental Revenues Bonds, Series 2016B and \$6,585,000 Tax Incremental Refunding Bonds, Series 2016C.

The escrow account balances as of December 31, 2018 are as follows:

Escrow account balance:		
\$2,450,000 General Obligation Tax Incremental Refunding Bonds Series 2016B	\$ 3,475,155	
\$6,585,000 Tax Incremental Refunding Bonds, Series 2016C	299,744	
Total	\$ 3,774,899	

The escrow account for the Series 2016B Bonds will be used to pay interest payments on the current bond issue and refund the "Refunded Bonds" (General Obligation Tax Incremental Bonds, Series 2008B) on February 1, 2019. These funds are recorded in the City's financial statements as a part of the debt service fund.

The escrow account for the Series 2016C Bonds will be used to pay interest payments on the current bond issue and refund the (i) the February 1, 2017 through 2026 maturities of the City's Tax Incremental Revenue Bonds (The Lotts of Stillwater Project), Series 2006 dated July 20, 2006; (ii) the Taxable Increment Revenue Note, Series 2003 (Terra Springs Project) and (iii) the Taxable Tax Increment Note, Series 2004 (Terra Springs Project). These funds are also recorded in the City's financial statements as a part of the debt service fund.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. As a means of limiting the City's exposure to interest rate risk, the City's investment policy limits 25% of the City's total investment portfolio to maturities not to extend beyond five years and under no circumstance should any investment maturity extend beyond 10 years without prior City Council approval. As of December 31, 2018, the City had the following investments and maturities:

Type	Value	Less Than 1 Year	1 to 5 Years	5 to 10 Years
Repurchase agreement	\$ 4,426,689	\$ 4,426,689	-	-
Money market funds	9,779,088	9,779,088	-	-
US Treasuries - with Trustee	3,475,155	-	3,475,155	-
Mutual Funds - with Trustee	299,744	-	-	-
Negotiable CDs	3,043,072	-	2,846,894	196,178
US Treasury Note	6,966,874	-	6,966,874	-
US Agencies:				
Federal Farm Credit Banks	1,974,296	496,100	1,478,196	-
Federal Home Loan Banks	2,574,813	-	2,574,813	-
Federal National Mortgage Association	1,965,912	-	1,965,912	-
Federal Home Loan Mortgage Corporation	8,696,370	499,455	8,196,915	-
Total	\$ 43,202,013	\$ 25,314,844	\$ 17,887,169	\$ -

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy does not further address credit risk beyond what is prescribed in Minnesota Statute §118A. As of December 31, 2018, the investments, as rated by Standard & Poor's, had the following ratings:

Type	Credit Quality Rating	Amount
Repurchase agreement	Not Rated	\$ 4,426,689
Money market funds	AAA	9,779,088
Negotiable CDs	Not Rated	3,043,072
US Treasury Note	Not Rated	6,966,874
US Treasuries - with Trustee	AAA	3,475,155
Mutual Funds - with Trustee	AAA-mf	299,744
US Agencies:		
Federal Farm Credit Banks	AA+	1,974,296
Federal Home Loan Banks	AA+	2,574,813
Federal National Mortgage Association	AA+	1,965,912
Federal Home Loan Mortgage Corporation	AA+	8,696,370
Total		\$ 43,202,013

Concentration of Risk

The City places no limit on the amount that the City may invest in any one issuer, but limits individual investment instrument amounts to \$500,000 or less. As of December 31, 2018, the investments which individually comprise more than 5 percent of the City's total investments were US Agencies of which comprised of the following types:

Type	Amount	Percentage
US Agencies:		
Federal Home Loan Banks	\$ 2,574,813	6.0%
Federal Home Loan Mortgage Corporation	8,696,370	20.1%

Custodial Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City does not have a policy specific for investment custodial credit risk.

Fair Value Measurements

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Fair Value Measurements (Continued)

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

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

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

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

Assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
U.S. Agencies				
Federal Farm Credit Banks	\$ -	\$ 1,974,296	\$ -	\$ 1,974,296
Federal Home Loan Banks	-	2,574,813	-	2,574,813
Federal National Mortgage Association	-	1,965,912	-	1,965,912
Federal Home Loan Mortgage Corporation	-	8,696,370	-	8,696,370
Repurchase Agreement	4,426,689	-	-	4,426,689
Negotiable Certificates of Deposit	-	3,043,072	-	3,043,072
US Treasury Note	6,966,874	-	-	6,966,874
US Treasuries - with Trustee	3,475,155	-	-	3,475,155
Mutual Funds - with Trustee	299,744	-	-	299,744
	<u>\$ 15,188,462</u>	<u>\$ 18,254,463</u>	<u>\$ -</u>	<u>\$ 33,422,925</u>
Investments measured at amortized cost:				9,779,088
Total Investments				\$ 43,202,013

Investments measured at amortized cost as of December 31, 2018 include money market investments and participating interest-earning investments that have a remaining maturity at the time of purchase of one year or less.

Components of Cash and Investments

Total Investments	\$ 43,202,013
Deposits	553,655
Total	\$ 43,755,668
Governmental Activities	\$ 42,248,829
Business-Type Activities	1,506,839
Total	\$ 43,755,668

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 13,080,838	\$ -	\$ -	\$ 13,080,838
Construction in Process	7,182,585	6,683,255	2,009,455	11,856,365
Total capital assets, not being depreciated	20,263,403	6,683,255	2,009,455	24,937,203
Capital Assets, Being Depreciated:				
Buildings and Other Improvements	46,355,161	-	-	46,355,161
Improvements Other Than Buildings	6,236,333	608,815	-	6,845,148
Machinery and Equipment	10,005,073	592,281	21,578	10,575,776
Vehicles	4,864,167	132,309	73,968	4,922,508
Infrastructure	58,941,974	1,769,636	65,536	60,646,074
Total Capital Assets, Being Depreciated	126,402,708	3,103,041	161,082	129,344,667
Accumulated Depreciation for:				
Buildings and Other Improvements	17,370,965	1,119,074	-	18,490,039
Improvements Other Than Buildings	3,017,471	330,415	-	3,347,886
Machinery and Equipment	6,320,987	667,843	21,578	6,967,252
Vehicles	2,967,544	253,307	73,968	3,146,883
Infrastructure	21,440,356	1,759,479	65,536	23,134,299
Total Accumulated Depreciation	51,117,323	4,130,118	161,082	55,086,359
Total Capital Assets, Being Depreciated, Net	75,285,385	(1,027,077)	-	74,258,308
Governmental Activities Capital Assets, Net	\$ 95,543,788	\$ 5,656,178	\$ 2,009,455	\$ 99,195,511
Business-Type Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 402,620	\$ -	\$ -	\$ 402,620
Construction in Process	109,691	1,800	47,222	64,269
Total capital assets, not being depreciated	512,311	1,800	47,222	466,889
Capital Assets, Being Depreciated:				
Buildings and Other Improvements	6,064,365	-	-	6,064,365
Improvements Other Than Buildings	2,179,064	237,880	-	2,416,944
Machinery and Equipment	1,070,750	246,560	-	1,317,310
Vehicles	1,226,521	-	70,318	1,156,203
Infrastructure	10,460,670	-	-	10,460,670
Total Capital Assets, Being Depreciated	21,001,570	484,440	70,318	21,415,692
Accumulated Depreciation for:				
Buildings and Other Improvements	536,095	76,104	-	612,199
Improvements Other Than Buildings	627,200	106,421	-	733,621
Machinery and Equipment	632,240	73,960	-	706,220
Vehicles	535,037	76,324	70,317	543,044
Infrastructure	5,787,705	213,734	-	6,001,439
Total Accumulated Depreciation	8,118,277	546,563	70,317	8,586,523
Total Capital Assets, Being Depreciated, Net	12,883,293	(64,123)	1	12,819,169
Business-Type Capital Assets, Net	\$ 13,395,604	\$ (62,323)	\$ 47,223	\$ 13,286,058

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

NOTE 4 LEASES

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

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit:				
Capital Assets, Not Being Depreciated				
Land Use Rights	\$ 94,987	\$ -	\$ -	\$ 94,987
Total capital assets, not being depreciated	94,987	-	-	94,987
Capital Assets, Being Depreciated:				
Distribution System	642,879	6,400	-	649,279
Total Capital Assets, Being Depreciated	19,065,342	-	-	19,065,342
Accumulated Depreciation for:				
Equipment	474,539	22,948	-	497,487
Distribution System	7,726,759	429,982	-	8,156,751
Total Accumulated Depreciation	8,201,298	452,940	-	8,656,238
Total Capital Assets, Being Depreciated, Net	11,524,823	(46,540)	-	11,078,383
Component Unit Capital Assets, Net	\$ 11,619,910	\$ (46,540)	\$ -	\$ 11,173,370

Depreciation expense was charged to governmental functions as follows:

General government	\$ 269,063
Public safety	557,644
Public works	2,028,138
Culture and Recreation	1,275,273
Total Depreciation Expense, Governmental/Activities	\$ 4,130,118

Depreciation expense was charged to business-type functions as follows:

Sanitary sewer	\$ 323,670
Storm sewer	41,845
Signs and lighting	12,531
Parking	170,517
Total Depreciation Expense, Business-Type Activities	\$ 548,563

NOTE 4 LEASES

OPERATING LEASE

The City leases vehicles for the police and the fire department. The total cost for these leases were \$40,059 for the year ended December 31, 2018. Future minimum lease payments at December 31, 2018 were as follows:

Year Ending December 31,	Governmental Activities
2019	20,161
2020	3,836
Total	\$ 23,997

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

NOTE 5 LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The City issues general obligation bonds for general government, improvement, revenue, and tax increment activities. General obligation bonds are direct obligations of the City and pledge the full faith, credit, and taxing power of the City. The general government bonds outstanding are to be repaid from primarily with general tax. The revenue bonds are expected to be paid from revenues generated from the project. The tax increment bonds outstanding are to be paid from the pledged tax increment revenues.

Total interest incurred and charged to expense during the year ended December 31, 2018 in the government-wide financial statements of the primary government was \$1,221,607.

Component Unit

The Commission interest incurred and charged to expense was \$29,639 during 2018.

General obligation bonds currently outstanding are as follows:

PRIMARY GOVERNMENT:	Issue Date	Maturity Date	Interest Rate	Original Issue	Payable 12/31/18
Governmental Activities:					
G.O. Capital Outlay Bonds:					
\$1,005,000 Refunding Bonds of 2009B	02/15/09	02/01/19	2.51%	\$ 1,005,000	\$ 95,000
\$4,095,000 Refunding Bonds of 2009D	02/15/09	02/01/22	2.30%	4,095,000	1,110,000
\$6,355,000 Capital Outlay and Refunding Bonds of 2012A	04/01/12	02/01/26	1.85%	6,355,000	2,885,000
\$9,215,000 Bonds of 2014A	04/09/14	02/01/40	3.24%	9,215,000	7,950,000
\$6,400,000 Bonds of 2016A	04/14/16	02/01/24	1.27%	6,505,000	4,445,000
\$3,405,000 Bonds of 2017A	06/29/17	02/01/32	1.40% - 3.00%	3,405,000	3,025,000
\$5,935,000 Bonds of 2018A	08/28/18	02/01/38	3.00% - 4.00%	5,935,000	5,935,000
Total G.O. Capital Outlay Bonds				37,970,000	25,425,000
G.O. Revenue Bonds:					
\$1,420,000 Refunding Bonds of 2009C	02/15/09	06/01/20	2.75%	1,420,000	315,000
Total G.O. Revenue Bonds				4,115,000	315,000
G.O. Tax Increment Bonds:					
\$5,300,000 Bonds of 2008B	07/01/08	02/01/30	4.23%	5,300,000	3,700,000
\$2,450,000 Refunding Bonds of 2016B	04/14/16	02/01/30	1.79%	2,450,000	2,450,000
Total G.O. Tax Increment Bonds				7,750,000	6,150,000
Tax Increment Revenue Bonds:					
\$6,585,000 Bonds of 2016C	07/28/16	02/01/30	3.21%	6,585,000	5,790,000
Total Tax Increment Revenue Bonds				6,585,000	5,790,000
Total bonds (Primary Government)				\$56,420,000	\$37,680,000
COMPONENT UNIT:					
2013A G.O. Revenue Bonds	07/01/13	02/01/29	2.00% - 3.50%	\$ 1,425,000	\$ 1,085,000
Total component unit general obligation bond				1,425,000	1,085,000
Total reporting entity general obligation bonds				\$57,845,000	\$38,775,000

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

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

Years ending December 31,	PRIMARY GOVERNMENT Governmental Activities			
	G.O. Capital Outlay Bonds	G.O. Revenue Bonds	G.O. Tax Increment Bonds	Total
2019	\$ 2,580,000	\$ 155,000	\$ 8,313	\$ 2,743,313
2020	2,605,000	676,634	2,800	3,284,434
2021	2,500,000	609,191	-	3,109,191
2022	2,285,000	538,565	-	2,823,565
2023	2,075,000	475,716	-	2,550,716
2024 - 2028	6,530,000	1,600,242	-	8,130,242
2029 - 2033	3,255,000	920,765	-	4,175,765
2034 - 2038	2,575,000	436,259	-	3,011,259
2039 - 2040	1,020,000	38,396	-	1,058,396
Total	\$ 25,425,000	\$ 5,918,291	\$ 11,113	\$ 31,354,404

Years ending December 31,	PRIMARY GOVERNMENT Governmental Activities				COMPONENT UNIT			
	G.O. Capital Outlay Bonds	G.O. Revenue Bonds	G.O. Tax Increment Bonds	Total	G.O. Capital Outlay Bonds	G.O. Revenue Bonds	G.O. Tax Increment Bonds	Total
2019	\$ 395,000	\$ 183,955	\$ 85,000	\$ 663,955	\$ 85,000	\$ 32,775	\$ -	\$ 117,775
2020	400,000	176,450	90,000	666,450	90,000	31,075	-	121,075
2021	410,000	168,450	90,000	668,450	90,000	29,275	-	119,275
2022	420,000	156,150	95,000	671,150	95,000	26,575	-	121,575
2023	435,000	143,550	95,000	673,550	95,000	23,725	-	118,725
2024 - 2028	2,370,000	514,500	525,000	3,409,500	525,000	73,225	-	598,225
2029 - 2033	1,360,000	87,800	115,000	1,562,800	115,000	4,025	-	1,566,825
2034 - 2038	-	-	-	-	-	-	-	-
2039 - 2040	-	-	-	-	-	-	-	-
Total	\$ 5,790,000	\$ 1,430,855	\$ 1,095,000	\$ 8,315,855	\$ 1,095,000	\$ 220,875	\$ -	\$ 1,315,875

G.O. Capital Outlay Bonds

Series 2009B, \$1,005,000 Refunding bonds issued February 15, 2009 with a final maturity date of February 1, 2019 at 2.51 percent interest were used to refinance the outstanding portions of the GO Capital Outlay bonds Series 1998B on February 1, 2010.

Series 2009D, \$4,095,000 Refunding bonds issued February 15, 2009 with a final maturity date of February 1, 2022 at 2.30 percent interest were used to refinance the outstanding portions of the GO Capital Outlay bonds Series 2002A on February 1, 2011.

Series 2012A, \$6,355,000 Capital Outlay and Refunding bonds issued April 1, 2012 with a final maturity date of February 1, 2026 at 1.85 percent interest were used to refinance the outstanding portions of the GO Capital Outlay Bonds Series 2004A and 2006A on February 1, 2014 and February 1, 2016, respectively. In addition it was used to provide funding for various capital projects throughout the City.

Series 2014A, \$9,215,000 Capital Outlay bonds issued April 8, 2014 with a final maturity date of February 2, 2040 at 3.24 percent interest were used to finance various capital equipment purchases and construct a new fire station.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Series 2016A, \$6,400,000 Capital Outlay bonds issued April 14, 2016 with a final maturity date of February 1, 2024 at 1.27 percent interest were used to refinance the outstanding portions of the GO Capital Outlay Bonds Series 2005B on February 1, 2017.

Series 2017A, \$3,405,000 Capital Outlay bonds issued June 29, 2017 with a final maturity date of February 1, 2032 with interest rates varying between 1.40 and 3.00 percent were used provide funding for the renovation and remodeling of the police station, street improvements and public works security improvements.

Series 2018A, \$5,935,000 Capital Outlay bonds issued August 28, 2018 with a final maturity date of February 1, 2039 at varying interest rates between 3.00 and 4.00 percent were used to provide funding for various street improvement projects and the addition to the St. Croix Valley Recreational Center.

G.O. Revenue Bonds

Series 2009C, \$1,420,000 G.O. Refunding Revenue Bonds issued February 15, 2019 with a final maturity date of June 1, 2020 at 2.75 percent interest were used to refunding the outstanding portions of the GO Sports Facilities Revenue Bonds, Series 2000D on June 1, 2009.

G.O. Tax Increment Bonds

Series 2008B, \$5,300,000 GO Tax Increment Bonds issued July 1, 2018 with a final maturity date of February 1, 2030 at 4.23% were used to provide funding for the construction of a municipal parking ramp.

Series 2016B, \$2,450,000 GO Tax Increment Refunding Bonds issued April 14, 2016 with a final maturity date of February 1, 2030 at an interest rate of 1.79 percent were used to refinance the outstanding portion of the GO Tax Increment Bonds, Series 2008B on February 1, 2019.

Tax Increment Revenue Bonds

Series 2016C Tax Increment Revenue Bonds issued July 28, 2016 with a final maturity date of February 1, 2013 at 3.21 percent interest were used to refinance the outstanding portions of the Tax Increment Revenue Bonds Series 2006 and Taxable Tax Increment Revenue Note on February 1, 2017

Component Unit

Series 2016C, \$6,585,000 GO Revenue bonds issued July 1, 2013 with a final maturity date of February 1, 2029 at varying interest rates of 2.00 and 3.50 percent were issued to provide funding for water system improvements and to provide funding for the AMR upgrades.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

CHANGE IN LONG-TERM LIABILITIES

The following is a schedule of changes in the City's long-term liabilities for the year ended December 31, 2018:

	Payable 12/31/2017	Additions	Retirements	Payable 12/31/2018	Due Within One Year
PRIMARY GOVERNMENT:					
Governmental activities					
Bonds payable:					
G.O. Capital Outlay Bonds	\$ 21,755,000	\$ 5,935,000	\$ 2,285,000	\$ 25,425,000	\$ 2,660,000
G.O. Revenue Bonds	465,000	-	150,000	315,000	155,000
G.O. Tax Increment Bonds	6,375,000	-	225,000	6,150,000	240,000
Tax Increment Revenue Bonds	6,175,000	-	385,000	5,790,000	395,000
Unamortized premium	1,208,622	185,974	104,899	1,289,697	-
Total bonds payable	35,978,622	6,120,974	3,129,899	38,969,697	3,370,000
Compensated absences	1,346,884	788,352	657,382	1,477,854	314,012
Governmental activities	37,325,486	6,909,326	3,787,281	40,447,531	3,684,012
Long-term liabilities					
Business-type activities					
Compensated absences	162,113	67,785	62,897	166,901	19,415
Total long-term liabilities - primary government	\$ 37,487,599	\$ 6,977,111	\$ 3,850,278	\$ 40,614,432	\$ 3,703,427
COMPONENT UNIT:					
Bonds payable	\$ 1,180,000	\$ -	\$ 85,000	\$ 1,095,000	\$ 85,000
Compensated absences	126,813	31,798	45,243	113,368	39,591
Unamortized premium	34,489	-	3,136	31,353	-
Total long-term liabilities - component unit	1,341,302	31,798	133,379	1,239,721	124,591
Total long-term liabilities	\$ 38,828,901	\$ 7,008,909	\$ 3,993,657	\$ 41,854,153	\$ 3,828,018

For the governmental activities, compensated absences are generally liquidated by the General Fund. The portion of noncurrent liabilities broken out as due within one year on the Statement of Net Position includes the current amount of the total OPEB liability in the amount of \$924,784.

NOTE 6

PENSION PLANS

A. DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Plan Description

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

1. General Employees Retirement Plan

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

Component Unit

All full-time and certain part-time employees of the Commission are covered by the General Employees Retirement Plan.

2. Public Employees Police and Fire Fund

The Police and Fire Fund, 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 Police and Fire Fund also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

1. Police and Fire Plan Benefits

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

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

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$309,564. The City's contributions were equal to the required contributions as set by state statute.

Component Unit

The Commission's contributions to the General Employees Fund for the year ended December 31, 2018, were \$30,084. The Component Unit contributions were equal to the required contributions as set by state statute.

2. Police and Fire Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$447,588. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$3,406,220 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$111,705. 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0614 percent which was an increase of 0.0016 percent from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the City of Stillwater recognized pension expense of \$353,082 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Stillwater recognized an additional \$9,824 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Component Unit

At December 31, 2018, the Commission reported a liability of \$366,141 for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Commission totaled \$12,157. 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 Commission's proportionate share of the net pension liability was based on the Commission'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 Commission's proportionate share was 0.0066 percent which was an increase of 0.005 percent from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the Commission recognized pension expense of \$26,971 for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$2,835 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

	<u>City</u>	<u>Commission</u>	
Proportionate share of the net pension liability	\$ 3,406,220	\$ 366,141	
State of Minnesota's proportionate share of the net pension liability associated with the entity	111,705	12,157	
Total	<u>\$ 3,517,925</u>	<u>\$ 378,298</u>	

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

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

Description	PRIMARY GOVERNMENT		COMPONENT UNIT	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 90,157	\$ 99,345	\$ 9,691	\$ 10,679
Changes in Actuarial Assumptions	325,380	382,725	34,976	41,140
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	348,062	-	37,414
Differences Between City Contributions and Proportionate Share of Contributions	85,861	11,296	22,962	22,245
City Contributions Subsequent to the Measurement Date	162,950	-	14,771	-
Total	<u>\$ 664,348</u>	<u>\$ 841,428</u>	<u>\$ 82,400</u>	<u>\$ 111,478</u>

\$162,950 reported as deferred outflows of resources related to pensions resulting from City of Stillwater contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Component Unit

\$14,771 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	PRIMARY GOVERNMENT	COMPONENT UNIT
	Pension Expenses Amount	Pension Expenses Amount
2019	\$ 148,342	\$ 7,882
2020	(165,385)	(22,034)
2021	(251,893)	(22,055)
2022	(71,094)	(7,642)
2023	-	-
Thereafter	-	-

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

2. Police and Fire Pension Costs

At December 31, 2018, the City reported a liability of \$2,794,782 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.2622 percent which was an increase of 0.0072 percent from its proportionate share measured as of June 30, 2017. The City also recognized \$23,598 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 Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

For the year ended December 31, 2018, the City recognized pension expense of \$289,979 for its proportionate share of the Police and Fire Plan's pension expense.

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

Description	Deferred Outflows of Resources		Deferred Inflows of Resources	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 112,645	\$ 685,631		
Changes in Actuarial Assumptions	3,474,609	4,114,285		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	585,375		
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	147,971	234,949		
City Contributions Subsequent to the Measurement Date	250,347	-		
Total	<u>\$ 3,985,572</u>	<u>\$ 5,620,240</u>		

\$250,347 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date but before the end of the employer will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	PRIMARY GOVERNMENT Expenses Amount
2019	(92,620)
2020	(222,388)
2021	(428,090)
2022	(1,154,438)
2023	12,522
Thereafter	-

3. Total PERA Pension Costs

The primary government of the City recognized total pension expense of \$676,483 for both the General Employees and Police and Fire Fund plans. This includes \$362,906 for the General Employees Fund and \$313,577 for the Police and Fire Fund. Additionally the Commission recognized total pension expense of \$29,806 for its proportionate share of the General Employees Fund's pension expense.

Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disableds for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

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

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

- Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

CITY OF STILLWATER, MINNESOTA

**Notes to the Financial Statement (Continued)
December 31, 2018**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	36%	5.10%
International Equity	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Totals	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability 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 General Employees Fund and the Police and Fire Fund were 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.

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:

Description	Primary Government		1% Increase in Discount Rate	
	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate	
GERF Discount Rate	6.50%	7.50%	8.50%	
City's Proportionate Share of the GERF Net Pension Liability	\$ 5,535,544	\$ 3,406,220	\$ 1,648,524	
PEPFF Discount Rate	6.50%	7.50%	8.50%	
City's Proportionate Share of the PEPFF Net Pension Liability	5,992,188	2,794,782	150,660	

CITY OF STILLWATER, MINNESOTA

**Notes to the Financial Statement (Continued)
December 31, 2018**

Component Unit

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.50%	7.50%	8.50%
Commission's Proportionate Share of the GERF Net Pension Liability	\$ 595,026	\$ 366,141	\$ 177,203

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.

B. DEFINED CONTRIBUTION PLAN

Five council members of the City of Stillwater are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (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. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. 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 of the assets in each member's account annually.

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

Contribution Amount	Percentage of Covered Payroll		Required Rate
	Employee	Employer	
\$ 1,170	\$ 1,170	5.0%	5.0%

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

C. STILLWATER FIRE RELIEF ASSOCIATION

Plan Description

Firefighters of the City of Stillwater are members of the Stillwater Fire Department Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2016, membership includes 32 active participants and 3 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement.

Benefits Provided

Authority for payment of pension benefits is established in *Minnesota Statutes* §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$7,250 for each year of active Fire Department service but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to *Minnesota Statutes* §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in *Minnesota Statutes* §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

Disability and death benefits provisions of the Association's plan are that the member or member's beneficiaries shall be paid an amount equivalent to the accrued retirement liability at the time of disability or death.

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

Contributions

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

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

The minimum contribution from the City of Stillwater and state aid is determined as follows:

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

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$164,974 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2017 was \$0.

Pension Costs

At December 31, 2018, the City reported an asset of \$1,078,480 for the Association's net pension asset. The net pension asset was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized an increase in public safety expense of \$178,645 for the year ended December 31, 2018. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 86,794
Changes in Actuarial Assumptions	10,105	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	145,874
City Contributions Subsequent to the Measurement Date	-	-
Total	<u>\$ 10,105</u>	<u>\$ 232,668</u>

The City was not statutorily required to make contributions to the Association subsequent to the measurement date, so no related deferred outflows of resources were reported.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

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

Year Ended December 31,	Pension Expense Amount
2019	\$ (34,915)
2020	(34,105)
2021	(78,176)
2022	(75,367)
2023	-
Thereafter	-

Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	01/01/17
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
	Closed
Actuarial Assumptions:	
Discount Rate	5.25%
Investment Rate of Return	5.25%
20-Year Municipal Bond Yield	3.50%
Salary Increases	2.50%
Age of Service Retirement	50

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

The best estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of the plans valuation date of December 31, 2016 are summarized as follows:

Asset Class	Allocation at December 31, 2017	Expected Portfolio Weight	Expected Nominal Rate of Return	Long-Term Expected Nominal Rate of Return
Equities	56.54%	54.00%	7.00%	7.00%
Fixed Income	34.98%	37.00%	3.50%	3.50%
Other	0.00%	1.00%	6.00%	6.00%
Cash Equivalents	8.48%	8.00%	2.00%	2.00%
Total Portfolio	100.00%			5.25%

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Pension Liability Sensitivity

The following presents the City of Stillwater's proportionate share of the net pension liability of the Association, calculated using the discount rate of 5.25%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Liability (Asset)	\$ (1,054,872)	\$ (1,078,480)	\$ (1,101,116)
Discount Rate	4.25%	5.25%	6.25%

Plan's Fiduciary Net Position

Assets		
Cash	\$	354,043
Mutual Funds		2,361,625
Bonds and Notes		1,461,258
Total Assets		<u>4,176,926</u>
Net Position		
Restricted for Pension Benefits	\$	<u>4,176,926</u>
Revenues		
Fire State Aid	\$	164,974
State 10% Supplemental Reimbursement		1,000
Net Investment Income		478,512
Total Revenues		<u>644,486</u>
Expenses		
Pension Distributions		286,103
Trustee Fees		1,395
Professional Services		6,750
Total Expenses		<u>294,248</u>
Change in Net Position		350,238
Beginning Net Position		3,826,688
Ending Net Position	\$	<u>4,176,926</u>

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

	2017
Total Pension Asset	
Service Cost	\$ 96,366
Interest	145,369
Changes of Benefit Terms	327,188
Benefit Payments, Including Member Contribution Refunds	<u>(286,103)</u>
Net Change in Total Pension Liability	<u>282,820</u>
Total Pension Liability - Beginning	2,815,626
Total Pension Liability - Ending (a)	<u>3,098,446</u>
Plan Fiduciary Net Position	
State Contributions	165,974
Net Investment Income	478,512
Benefit Payments	<u>(286,103)</u>
Administrative Expenses	<u>(6,145)</u>
Net Change in Fiduciary Net Position	<u>350,238</u>
Fiduciary Net Position - Beginning	3,826,688
Fiduciary Net Position - Ending (b)	<u>4,176,926</u>
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (1,078,480)</u>

NOTE 7 POST EMPLOYMENT HEALTH CARE BENEFITS

At December 31, 2018, the City and its discretely present component unit, the Commission, adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

A. PLAN DESCRIPTION

The City and the Commission provide benefits for retirees as required by *Minnesota Statute* §471.61 subdivision 2b. Active employees, who started before January 1, 1989 and retire from the City when eligible for PERA benefits, are eligible for free medical coverage for themselves and their families for life. Active employees, who started after January 1, 1989 and retire the City when eligible for PERA benefits, may continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost.

Employees covered by benefit terms at December 31, 2018:

	City	Commission
Inactive plan members or beneficiaries currently receiving benefit payments	49	10
Inactive plan members entitled to but not yet receiving benefit payments	-	95
Active plan members	<u>144</u>	<u>16</u>
Total	<u>193</u>	<u>125</u>

B. CONTRIBUTIONS AND FUNDING POLICY

The City and the Commission fund their OPEB obligations on a pay as you go basis. For fiscal year 2018, the City contributed \$894,727 to the plan. For fiscal year 2018, the Commission contributed \$66,258 to the plan.

C. TOTAL OPEB LIABILITY

The City's and Commissions' total OPEB liability was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2017

Actuarial Assumptions

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

Valuation date:	January 1, 2017
Measurement date:	January 1, 2018
Methods and assumptions used:	Entry age, level percentage of pay
Actuarial cost method	None
Actuarial assets	Average of expected remaining services on a closed basis for differences between expected and actual experience and assumption changes
Amortization of deferred resource flows	3.30%
	3.00%
	6.25% in 2018, grading to 5% over 5 years
Discount rate	RP-2014 adjusted to 2006 headcount weighted white collar mortality tables with MP-2016 generational improvement scale (with blue collar adjustment for police and fire personnel)
Inflation rate	
Salary increases	
Medical trend rate	
Mortality	

D. DISCOUNT RATE

The City's and Commission's plan is not funded by a trust and therefore, the City and Commission use 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.

E. CHANGES IN THE TOTAL OPEB LIABILITY

The details of the changes in the total OPEB liability were as follows for 2018:

	Increase (decrease) total OPEB liability	
	City	Commission
Balance at 12/31/17	\$ 23,765,362	\$ 1,318,402
Changes for the year:		
Service cost	58,658	757
Interest	771,549	42,434
Benefit payments	(894,727)	(67,122)
Net changes	(64,520)	(23,931)
Balance at 12/31/18	<u>\$ 23,700,842</u>	<u>\$ 1,294,471</u>

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

- The discount rate used the 20-year municipal bond index as the plan is not funded. This assumed rate decreased from 3.50% to 3.30%

F. SENSITIVITY OF THE TOTAL OPEB LIABILITY

Sensitivity of the total OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the total OPEB liability of the City and Commission, as well as what the City's and Commission's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.30%) or 1-percentage-point higher (4.30%) than the current discount rate:

	1% Decrease (2.30)%	Discount Rate (3.30)%	1% Increase (4.30)%
Total OPEB liability (asset)			
City	\$ 27,342,034	\$ 23,700,842	\$ 20,759,129
Commission	1,442,199	1,294,471	1,169,333

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the City and Commission, as well as what the City's and Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.25% decreasing to 4.00%) or 1-percentage-point higher (7.25% decreasing to 6.00%) than the current healthcare cost trend rates:

	Healthcare Cost Trend Rates		
	1% Decrease (5.25%)	Decreasing to 4.00%	1% Increase (7.25%)
	Decreasing to 6.00%	Decreasing to 5.00%	Decreasing to 6.00%
Total OPEB liability (asset)			
City	\$ 20,661,761	\$ 23,700,842	\$ 27,397,809
Commission	1,164,463	1,294,471	1,445,126

G. OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2018 the City and Commission recognized OPEB expense of \$64,520 and \$62,092, respectively. At December 31, 2018, the City and Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	City		Commission	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions after the measurement date and before the reporting date	\$ 924,783	\$ -	\$ -	\$ 66,452

A total of \$924,784 and \$66,452 for the City and Commission, respectively, reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019. There were other deferred outflows of resources or deferred inflows of resources as of December 31, 2018.

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

NOTE 8 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Net Position and Fund Balance

On December 31, 2018, there were no funds that had a deficit net position or fund balance:

Expenditures in Excess of Adopted Budget

On December 31, 2018, the following funds had expenditures in excess of its adopted budget and were funded by greater than anticipated revenues and use of fund balance:

	<u>Amount</u>
Library Fund	\$ 17,382
Special Events Fund	473
Parks Fund	7,990

NOTE 9

FUND BALANCE

At December 31, 2018, the City had various fund balances through legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2018 are shown on the various balance sheets as segregations of the fund balance. The fund balances are as follows:

	Total	Nonspendable	Restricted	Committed	Assigned	Unassigned
General Fund						
Prepaid items	\$ 186,539	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	1,477,834	-	-	-	1,477,834	-
Ongoing operations	3,670,736	-	-	-	-	3,670,736
Total General Fund	5,335,109	186,539	-	-	1,477,834	3,670,736
StCroix Valley Recreation Center Fund						
Prepaid items	5,766	5,766	-	-	-	-
Ongoing operations	3,641,658	-	-	3,641,658	-	-
Total St Croix Valley Rec Fund	3,647,424	5,766	-	3,641,658	-	-
Library Fund						
Prepaid items	35,624	35,624	-	-	-	-
Ongoing operations	161,690	-	-	161,690	-	-
Total Library Fund	197,284	35,624	-	161,690	-	-
Parks Fund						
Prepaid items	6,421	6,421	-	-	-	-
Ongoing operations	591,057	-	-	591,057	-	-
Total Parks Fund	597,478	6,421	-	591,057	-	-
Debt Service Fund						
Debt Service	9,492,662	-	9,492,662	-	-	-
Capital Projects Fund						
Capital asset acquisitions	3,215,878	-	3,215,878	-	-	-
Capital construction	8,270,050	-	4,810,798	-	3,459,251	-
Total Capital Projects Fund	11,485,928	-	8,026,677	-	3,459,251	-
TIF Districts Fund						
Eligible TIF related projects	8,292,072	-	8,292,072	-	-	-

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

Fund balances (continued):

	Total	Nonspendable	Restricted	Committed	Assigned	Unassigned
Other Governmental Funds						
General government:						
Tourism promotion	\$ 22,406	\$ -	\$ 22,406	\$ -	\$ -	\$ -
Miscellaneous	6,417	-	6,217	-	-	-
Culture and recreation:						
Special events	28,243	-	-	28,243	-	-
Library activities	164,984	-	164,984	-	-	-
Trailhead (bicycle)	16,804	-	16,804	-	-	-
Park equipment	8,052	-	8,052	-	-	-
Miscellaneous park activities	700,976	-	700,976	-	-	-
Public works:						
Community beautification	33,008	-	-	33,008	-	-
Recreation improvements	119,119	-	-	119,119	-	-
Resurfacing activities	223,316	-	223,316	-	-	-
Maintenance	5,950	-	5,950	-	-	-
Public safety	90,572	-	90,572	-	-	-
Total Other Governmental Funds	1,435,271	16,614	1,235,287	160,370	-	-
Total Fund Balances	<u>\$ 40,474,228</u>	<u>\$ 260,864</u>	<u>\$ 27,040,698</u>	<u>\$ 4,574,745</u>	<u>\$ 4,937,085</u>	<u>\$ 3,870,736</u>

NOTE 10 CONTINGENCIES

Federal and State Funds. – The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2018.

Litigation. – The City attorney has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance; of an immaterial amount; or, in the judgement of the City attorney, remotely recoverable by plaintiffs.

NOTE 11 INTERFUND RECEIVABLES AND PAYABLES

Individual fund receivable and payable balances at December 31, 2018 are as follows:

	Interfund Receivable	Interfund Payable	Amount
Capital Projects	-	Sanitary Sewer	\$ 507,837
Total	-	Signs and Lighting	19,628
		-	<u>\$ 527,465</u>
Due from Primary Government		Due to Component Unit	Amount
Board of Water Commission	-	Debt Service Fund	\$ 92,281
Board of Water Commission	-	Sanitary Sewer Fund	40,712
Total	-	-	<u>\$ 132,993</u>
Due from Component Unit		Due to Primary Government	Amount
General Fund	-	Board of Water Commission	\$ 9,261
Total	-	-	<u>\$ 9,261</u>

CITY OF STILLWATER, MINNESOTA

**Notes to the Financial Statement (Continued)
December 31, 2018**

The interfund balances (as shown on the statement of net position), between the component unit and the primary government reflect services provided by/from the City to/by the component unit.

The interfund balances (as shown on the statement of net position), between the funds of the primary government reflect balances setup to cover negative cash in the Sanitary Sewer Fund and Signs and Lighting Fund that had been incurred due to cost incurred related to capital projects.

NOTE 12 INTERFUND TRANSFERS

Funds are transferred from one fund to support expenditures of other funds in accordance with authority established for the individual fund. Transfers were initiated to fund capital projects and fund operations. Transfers between individual major funds, and nonmajor governmental funds in the aggregate fund types during the year ended December 31, 2018 were as follows:

Transfers In	Transfers Out	Amount
General Fund	Park Dedication Fund	\$ 18,855
Library Fund	Capital Projects Fund	1,192,089
Debt Service Fund	Capital Projects Fund	9,411
Capital Projects Fund	St. Croix Valley Rec Center	174,326
	TIF District Fund	957,887
	Debt Service Fund	84,924
Total		<u>\$ 2,437,492</u>

NOTE 13 RISK MANAGEMENT

The City is exposed to various risks of loss related to: torts; theft of, damage to and destruction of City assets; errors and omissions; injuries to employees; and natural disasters.

The City has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT) to protect the City in the event of loss. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for Minnesota cities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments, if any, however, they are not expected to be material to these financial statements. There have been no significant reductions in insurance coverage during 2017 and settlements have not exceeded insurance coverage during the current year and prior three years.

The State of Minnesota mandates and regulated workers' compensation insurance and the City of Stillwater also purchased this required coverage from the LMCIT.

CITY OF STILLWATER, MINNESOTA

**Notes to the Financial Statement (Continued)
December 31, 2018**

Component Unit

The Commission is exposed to various risks of loss related to: torts; theft of, damage to and destruction of City assets; errors and omissions; injuries to employees; and natural disasters for which the Commission carried commercial insurance.

There have been no significant reductions in insurance compared to the prior year, and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 14 TAX INCREMENT FINANCING AUTHORITY

The City is the administering authority for the following tax increment financing districts:

District name	Jr High	Anchobaypro	Curve Crest	Scattered Sites	Scattered Sites
	1	2	Villa	1	1
Development district #	6	8	9	10	11
City tax increment district #	43	65	70	71	85
County tax increment district #					
District type	Redevelopment	Housing	Housing	Redevelopment	Redevelopment
Statute authorization	Chapter 472-A	Chapter 469	Chapter 469	Chapter 469	Chapter 469
Year established	1986	2001	2002	2004	2014
District duration	25 years*	25 years*	25 years*	25 years*	25 years*
Tax Capacity					
Current tax capacity	\$ 44,975	\$ 111,728	\$ 68,430	\$ 1,332,364	\$ 29,937
Original tax capacity	-	(10,922)	(1,845)	(123,628)	(28,833)
Current tax capacity	44,975	100,806	66,585	1,208,736	1,104
Fiscal disparity reduction	-	-	-	-	-
Retained by authority	\$ 44,975	\$ 100,806	\$ 66,585	\$ 1,208,736	\$ 1,104
Retained as a % of current net tax capacity	100.0000%	90.2245%	97.3038%	90.7212%	3.6877%
Taxes					
Total captured tax increment tax	\$ 47,046	\$ 110,139	\$ 72,748	\$ 1,267,441	\$ 1,155
Less tax increment due to increase in tax rate	-	-	-	-	-
Tax increment district gross tax	47,046	110,139	72,748	1,267,441	1,155
Projected state auditor .36% admin fee	(169)	(397)	(262)	(4,563)	(4)
Projected net to district	\$ 46,877	\$ 109,742	\$ 72,486	\$ 1,262,878	\$ 1,151
PAYGO to Developer	\$ -	\$ -	\$ -	\$ -	\$ 1,150,000
Outstanding Debt					
Total bonds issued and outstanding at 12/31/17	\$ -	\$ -	\$ -	\$ 11,940,000	\$ -
Issuer administrative fee	\$ -	\$ -	\$ -	\$ -	\$ -
Estimated Market Value*	\$ 2,995,800	\$ 11,647,500	\$ 7,911,000	\$ 139,970,900	\$ 1,999,500

* Per parcel basis, copy this link to Washington County: <https://www.co.washington.mn.us/DocumentCenter/View/7859>

CITY OF STILLWATER, MINNESOTA

Notes to the Financial Statement (Continued)
December 31, 2018

District name	Jr High	Anchobaypro	Curve Crest	Scattered Sites	Scattered Sites
Development district #	1	2	Villa	1	1
City tax increment district #	6	8	9	10	11
County tax increment district #	43	65	70	71	85
Amount of tax increment collected in:					
2017	\$ 46,877	\$ 109,742	\$ 72,486	\$ 1,282,000	\$ 1,151
2018	48,227	97,915	71,064	1,207,292	856
2015	46,929	97,514	70,834	1,157,130	-
2016	54,538	93,097	79,206	1,143,415	213
2014	58,716	86,315	85,459	1,155,646	-
2013	60,403	85,930	87,872	1,162,947	-
2012 and prior	2,419,673	897,858	648,417	6,794,371	-
Total amount collected	\$ 2,736,383	\$ 1,468,171	\$ 1,115,536	\$ 13,902,801	\$ 2,220

First tax increment receipt
Date of required decantation
12/31/2019 12/31/2026 12/31/2029 12/31/2029 12/31/2041

*After the receipt of the first tax increment

NOTE 15 NOTE RECEIVABLE

On February 19, 2014, the City authorized a tax increment financing loan of \$250,000 to provide an incentive to relocate a manufacturing company to the City of Stillwater. The agreement requires the manufacturing company to employ 28 full time equivalent employees by July 1, 2013 and then increasing this amount to 35 full time equivalent employees by July 1, 2014. The 35 full time equivalent employees would need to be maintained until January 1, 2019. Each year the manufacturing company is in compliance with the loan agreement, 20% of the loan amount is forgiven. On January 1, 2019 if the manufacturing company owns the building and has maintained the 35 full time equivalent employees the loan will be fully forgiven. As of December 31, 2018 the manufacturing company is currently in compliance with these loan stipulations, therefore no related receivable is recorded in these financial statements.

NOTE 16 CHANGE IN ACCOUNTING PRINCIPLE

On December 31, 2018, the City and Commission adopted provisions of GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Due to the adoption of this Statement it resulted in a restatement of beginning net position for the City and Commission.

	Governmental Activities	Business-type Activities	Commission
Net position as previously stated	\$ 89,411,757	\$ 14,764,261	\$ 12,225,080
Change in accounting principle	(17,257,924)	(1,613,962)	(1,232,379)
Net position as restated	\$ 72,153,833	\$ 12,550,299	\$ 10,992,701

CITY OF STILLWATER, MINNESOTA

PERA SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
December 31, 2018

GERF Schedule of the City's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years*

	6/30/2018	6/30/2017	6/30/2016	6/30/2015
City's portion of the net pension liability	0.06140%	0.05980%	0.06020%	0.05920%
City's proportionate share of the net pension liability	\$3,406,220	\$3,817,593	\$4,887,941	\$3,086,051
State of Minnesota's proportionate share of the net pension liability	\$111,705	\$48,015	\$63,853	\$0
Total proportionate share of the net pension liability	\$3,517,925	\$3,865,608	\$4,951,794	\$3,086,051
City's covered payroll	\$4,122,786	\$3,563,463	\$3,741,046	\$3,312,815
City's proportionate share of the net pension liability as a percentage of its covered payroll	82.62%	99.07%	130.66%	92.61%
Plan fiduciary net position as a percentage of the total pension liability	79.50%	75.90%	68.91%	78.20%

PEPFF Schedule of the City's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years*

	6/30/2018	6/30/2017	6/30/2016	6/30/2015
City's portion of the net pension liability	0.26220%	0.25500%	0.27600%	0.26900%
City's proportionate share of the net pension liability	\$2,794,782	\$3,442,803	\$11,076,360	\$3,056,469
City's covered payroll	\$2,771,643	\$2,617,129	\$2,857,140	\$3,002,740
City's proportionate share of the net pension liability as a percentage of its covered payroll	100.83%	131.55%	416.85%	101.79%
Plan fiduciary net position as a percentage of the total pension liability	88.80%	85.43%	63.88%	86.61%

GERF Schedule of the Commission's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years*

	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Commission's portion of the net pension liability	0.00660%	0.00610%	0.00680%	0.00700%
Commission's proportionate share of the net pension liability	\$366,141	\$389,420	\$552,126	\$362,776
State of Minnesota's proportionate share of the net pension liability	\$12,157	\$4,914	\$0	\$0
Total proportionate share of the net pension liability	\$378,298	\$394,334	\$552,126	\$362,776
Commission's covered payroll	\$459,280	\$366,339	\$423,652	\$412,843
Commission's proportionate share of the net pension liability as a percentage of its covered payroll	79.72%	98.25%	130.33%	92.61%
Plan fiduciary net position as a percentage of the total pension liability	79.50%	75.90%	68.91%	78.20%

*Information prior to the 6/30/2015 measurement date is not available at this time.

CITY OF STILLWATER, MINNESOTA
PERA SCHEDULE OF CITY CONTRIBUTIONS
December 31, 2018

	2018	2017	2016	2015
GERF Schedules of City Contributions				
Last Four Fiscal Years				
Statutorily required contribution	\$ 309,564	\$ 292,176	\$ 287,143	\$ 270,121
Contributions to the statutorily required contribution	\$ 309,564	\$ 292,176	\$ 287,143	\$ 270,121
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 4,127,520	\$ 3,895,680	\$ 3,828,573	\$ 3,601,613
Contributions as a percentage of covered payroll	7.50%	7.50%	7.50%	7.50%
PEPFF Schedule of City Contributions				
Last Four Fiscal Years				
Statutorily required contribution	\$ 447,588	\$ 429,138	\$ 433,918	\$ 412,840
Contributions to the statutorily required contribution	\$ 447,588	\$ 429,138	\$ 433,918	\$ 412,840
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 2,762,889	\$ 2,649,000	\$ 2,678,506	\$ 2,548,395
Contributions as a percentage of covered payroll	16.20%	16.20%	16.20%	16.20%
GERF Schedules of Commission Contributions				
Last Four Fiscal Years				
Statutorily required contribution	\$ 30,084	\$ 33,171	\$ 29,791	\$ 30,801
Contributions to the statutorily required contribution	\$ 30,084	\$ 33,171	\$ 29,791	\$ 30,801
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Commission's covered payroll	\$ 401,120	\$ 442,280	\$ 397,213	\$ 410,680
Contributions as a percentage of covered payroll	7.50%	7.50%	7.50%	7.50%

The Amounts Presented for Each Fiscal Year were Determined as of 12/31.

CITY OF STILLWATER, MINNESOTA
SCHEDULE OF CHANGES IN THE STILLWATER FIRE
RELIEF ASSOCIATION'S NET PENSION LIABILITY (ASSET)
Last Four Years

	2017	2016	2015	2014
Total Pension Asset				
Service Cost	\$ 96,366	\$ 80,881	\$ 83,445	\$ 81,410
Interest	145,389	142,145	130,624	127,886
Differences Between Expected and Actual Experience	-	(130,192)	-	-
Changes of Assumptions	-	15,158	-	-
Changes of Benefit Terms	327,188	399,683	-	-
Benefit Payments, Including Member Contribution Refunds	(286,103)	(166,458)	(22,730)	(40,200)
Other Changes	-	-	-	-
Net Change in Total Pension Liability	282,820	341,197	191,339	169,108
Total Pension Liability - Beginning	2,815,626	2,474,429	2,283,090	2,113,984
Total Pension Liability - Ending (a)	3,098,446	2,815,626	2,474,429	2,283,090
Plan Fiduciary Net Position				
Municipal Contributions	-	-	-	-
State Contributions	165,974	164,455	162,031	153,440
Net Investment Income	478,512	221,612	(18,271)	191,334
Benefit Payments	(286,103)	(166,458)	(22,730)	(40,200)
Administrative Expenses	(8,145)	(7,745)	(7,590)	(7,620)
Other Changes	-	-	-	-
Net Change in Fiduciary Net Position	350,238	211,864	113,440	286,954
Fiduciary Net Position - Beginning	3,826,688	3,614,824	3,501,384	3,204,430
Fiduciary Net Position - Ending (b)	4,176,926	3,826,688	3,614,824	3,501,384
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	\$(1,078,480)	\$(1,011,062)	\$(1,140,395)	\$(1,218,294)
Fiduciary Net Position as a Percentage of the Total Pension Liability	134.81%	135.91%	146.09%	153.36%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	N/A	N/A	N/A

Information prior to 2014 is not available at this time.

CITY OF STILLWATER, MINNESOTA

**SCHEDULE OF CITY CONTRIBUTIONS TO STILLWATER FIRE RELIEF ASSOCIATION
Last Four Years**

	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -

Information prior to 2014 is not available at this time.

CITY OF STILLWATER, MINNESOTA

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
AND RELATED RATIOS**

	City 2018
Total OPEB liability	\$ 58,658
Service cost	771,549
Interest	(894,727)
Benefit payments	(64,520)
Net changes in total OPEB liability	23,765,362
Total OPEB liability - beginning	23,700,842
Total OPEB liability - ending	\$ 6,410,754
Covered employee payroll	369.7%
Total OPEB liability as a percentage of the covered employee payroll	

	Water Commission 2018
Total OPEB liability	\$ 757
Service cost	42,434
Interest	(67,122)
Benefit payments	(23,931)
Net changes in total OPEB liability	1,318,402
Total OPEB liability - beginning	1,294,471
Total OPEB liability - ending	\$ 384,049
Covered employee payroll	337.1%
Total OPEB liability as a percentage of the covered employee payroll	

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

General Employees Fund*2018 Changes**Changes in Actuarial Assumptions:*

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

*2017 Changes**Changes in Actuarial Assumptions:*

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The State's special funding contribution increased from \$6 million to \$16 million.

*2016 Changes**Changes in Actuarial Assumptions:*

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

*2015 Changes**Changes in Actuarial Assumptions:*

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$692 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, is due September 2015.

Police and Fire Fund*2018 Changes**Changes in Actuarial Assumptions:*

- The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

- Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

*2017 Changes**Changes in Actuarial Assumptions:*

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

CITY OF STILLWATER, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

City of Stillwater, Minnesota
\$3,065,000* General Obligation Capital Outlay 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 \$3,040,480) 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	_____ %	_____ %	_____ %	2025	_____ %	_____ %	_____ %
2021	_____ %	_____ %	_____ %	2026	_____ %	_____ %	_____ %
2022	_____ %	_____ %	_____ %	2027	_____ %	_____ %	_____ %
2023	_____ %	_____ %	_____ %	2028	_____ %	_____ %	_____ %
2024	_____ %	_____ %	_____ %	2029	_____ %	_____ %	_____ %

Designation of Term Maturities

Years of Term Maturities

_____	_____
_____	_____
_____	_____

In making this offer on the sale date of August 20, 2019 we accept all of the terms and conditions of the Terms of Proposal published in the Preliminary Official Statement dated August 1, 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 said of Proposal and made a part hereof, 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.