

Annual Financial Report

City of Excelsior

Excelsior, Minnesota

For the Year Ended
December 31, 2017

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City of Excelsior, Minnesota
 Annual Financial Report
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INTRODUCTORY SECTION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Excelsior, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2017

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Gaylord	Mayor	12/31/18
Todd Carlson	Council Member	12/31/20
Greg Miller	Council Member	12/31/20
Jennifer Caron	Council Member	12/31/18
John Beattie	Council Member	12/31/18

APPOINTED

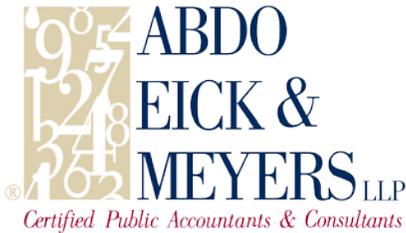
Kristi Luger	City Manager	Through December 2017
Teah Malecha	Finance Officer	
Ann Orlofsky	City Clerk	
Tim Amundsen	Public Works Superintendent	
Patrick Smith	City Planner	

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FINANCIAL SECTION
CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Excelsior, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Excelsior, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

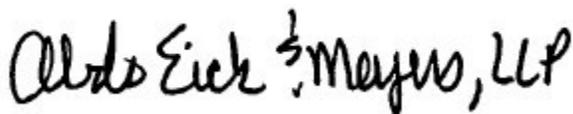
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and other financial information are presented for purposes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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 30, 2018

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Management's Discussion and Analysis

As management of the City of Excelsior, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2017.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$14,882,135 (net position). Of this amount, \$5,519,295 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,423,133. The increase was supported primarily by charges for services for both the governmental and enterprise funds. Another reason for the increase was support by general revenues including property taxes, franchise taxes, tax increments, and unrestricted grants and contributions.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,231,157, an increase of \$948,506 in comparison with the prior year. Approximately 71 percent of this total amount, \$3,002,486, is either unassigned or assigned and available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,490,180, or 75.3 percent of total General fund 2017 expenditures.
- The City's total debt increased \$3,897,687 or 125.5 percent during the current fiscal year. The increase was due to the new issuance of the 2017A taxable G.O. Improvement Bonds in the amount of \$3,970,000.

Overview of the Financial Statements

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

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

Figure 1
Required Components of the
City's Annual Financial Report

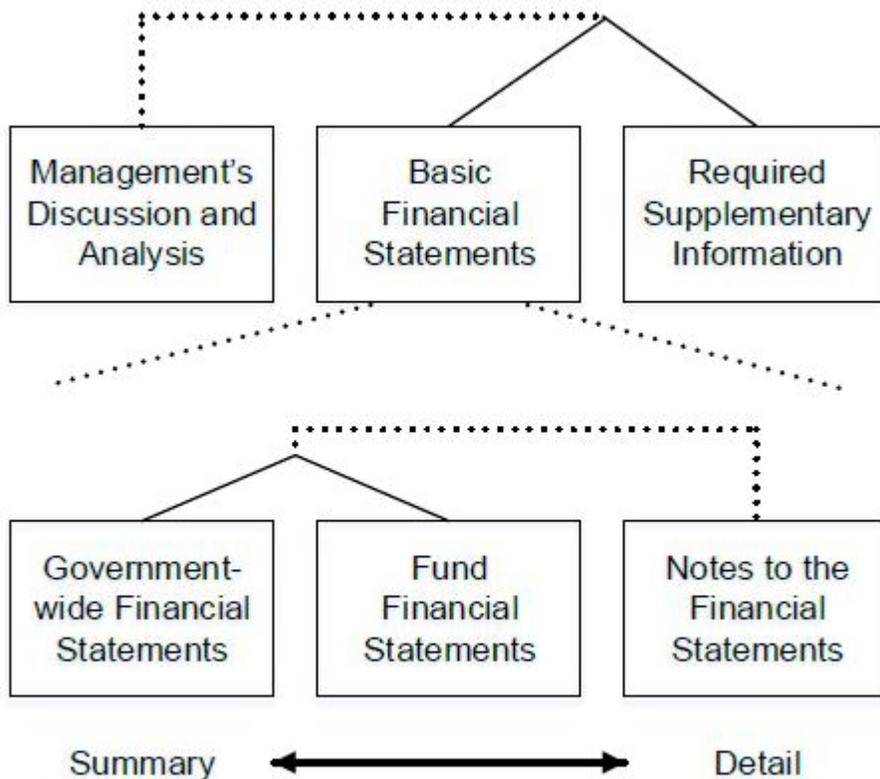


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

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

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

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

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

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

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

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

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

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

The City maintains 8 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and the Capital Improvement funds are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

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

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 53 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 80 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$14,882,135 at the close of the most recent fiscal year.

A portion of the City's net position (55.6 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Excelsior's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Assets						
Current and other assets	\$ 5,152,645	\$ 3,898,650	\$ 1,253,995	\$ 4,135,293	\$ 2,436,832	\$ 1,698,461
Capital assets	7,155,042	5,492,046	1,662,996	7,036,741	5,808,197	1,228,544
Total Assets	12,307,687	9,390,696	2,916,991	11,172,034	8,245,029	2,927,005
Deferred Outflows of Resources						
Deferred pension resources	87,148	155,017	(67,869)	64,969	141,695	(76,726)
Liabilities						
Noncurrent liabilities						
outstanding	2,922,709	1,571,218	1,351,491	4,859,057	2,493,964	2,365,093
Other liabilities	584,196	191,975	392,221	219,610	99,321	120,289
Total Liabilities	3,506,905	1,763,193	1,743,712	5,078,667	2,593,285	2,485,382
Deferred Inflows of Resources						
Deferred pension resources	86,628	61,031	25,597	77,503	55,926	21,577
Net Position						
Net investment in capital assets	4,703,545	4,467,979	235,566	3,576,539	3,726,216	(149,677)
Restricted	1,082,756	315,530	767,226	-	-	-
Unrestricted	3,015,001	2,937,980	77,021	2,504,294	2,011,297	492,997
Total Net Position	\$ 8,801,302	\$ 7,721,489	\$ 1,079,813	\$ 6,080,833	\$ 5,737,513	\$ 343,320

Additionally, \$1,082,756 is restricted for debt service, tax increment district expenditure, park improvement and public improvement expenditures. The remaining balance of *unrestricted net position* (\$5,519,295) may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net position increased \$1,423,133 during the current fiscal year. Both the governmental activities and the business type activities increased the net position, by \$1,079,813 and \$343,320, respectively.

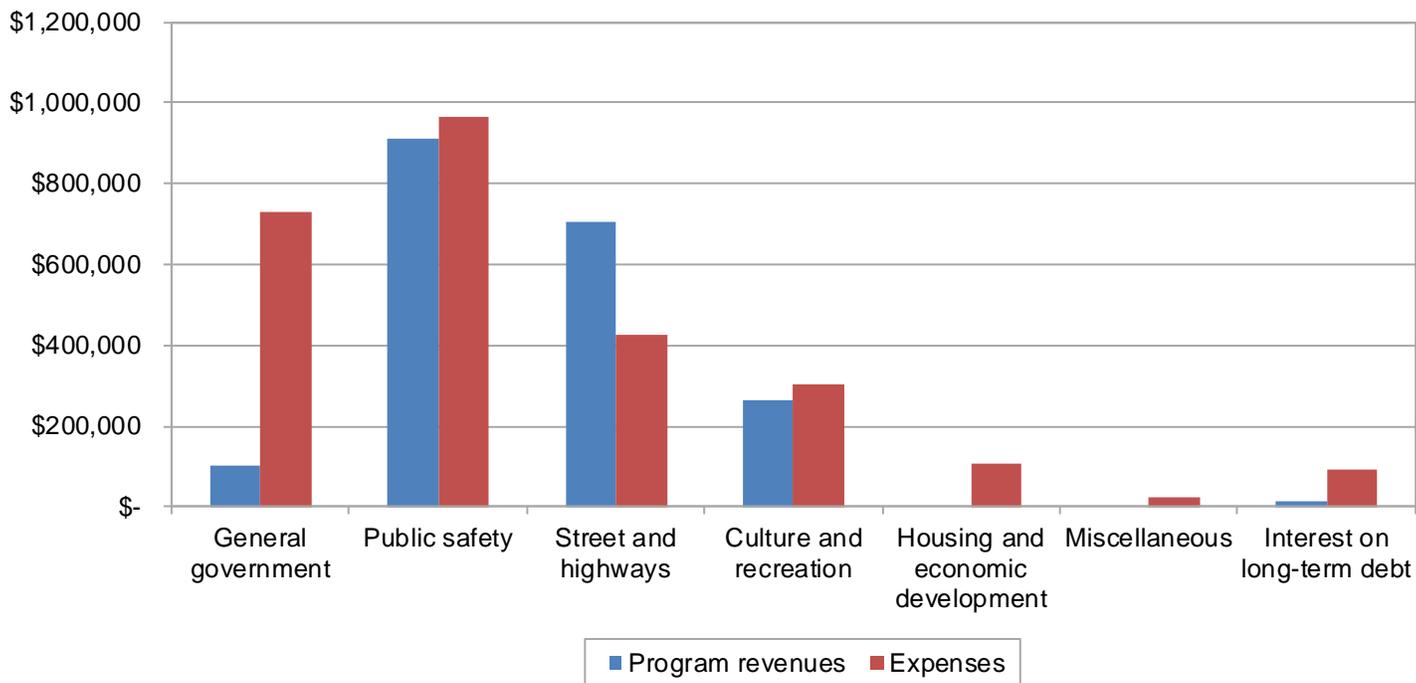
Governmental Activities. Governmental activities increased the City's net position by \$1,079,813, thereby accounting for 75.9 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

City of Excelsior's Changes in Net Position

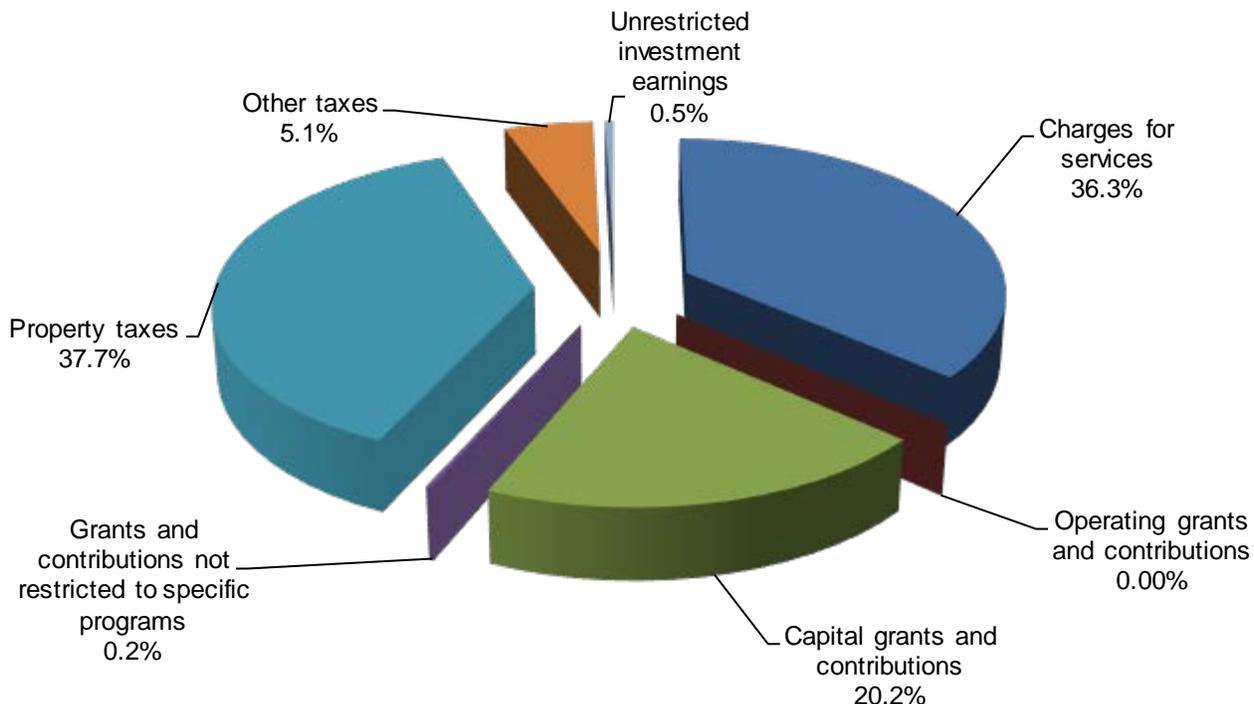
	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 1,280,335	\$ 696,769	\$ 583,566	\$ 1,741,377	\$ 1,830,817	\$ (89,440)
Operating grants and contributions	-	3,726	(3,726)	-	32,404	(32,404)
Capital grants and contributions	713,872	213,194	500,678	160,713	23,512	137,201
General Revenues						
Property taxes	1,428,171	1,400,960	27,211	-	-	-
Other taxes	178,659	172,773	5,886	-	-	-
Grants and contributions not restricted to specific programs	7,995	3,095	4,900	118	-	118
Unrestricted investment earnings	16,621	47,115	(30,494)	14,806	30,072	(15,266)
Total Revenues	<u>3,625,653</u>	<u>2,537,632</u>	<u>1,088,021</u>	<u>1,917,014</u>	<u>1,916,805</u>	<u>209</u>
Expenses						
General government	731,422	779,133	(47,711)	-	-	-
Public safety	967,457	955,939	11,518	-	-	-
Streets and highways	428,320	248,143	180,177	-	-	-
Culture and recreation	302,580	256,845	45,735	-	-	-
Housing and economic development	106,824	101,860	4,964	-	-	-
Miscellaneous	21,745	20,064	1,681	-	-	-
Interest on long-term debt	90,292	41,065	49,227	-	-	-
Water utility	-	-	-	496,403	482,787	13,616
Sewer utility	-	-	-	496,220	505,857	(9,637)
Solid waste	-	-	-	148,660	146,544	2,116
Surface water	-	-	-	119,076	115,837	3,239
Street lighting	-	-	-	50,282	55,759	(5,477)
Commercial docks	-	-	-	160,253	147,939	12,314
Total Expenses	<u>2,648,640</u>	<u>2,403,049</u>	<u>245,591</u>	<u>1,470,894</u>	<u>1,454,723</u>	<u>16,171</u>
Increase in Net Position						
Before Transfers	977,013	134,583	842,430	446,120	462,082	(15,962)
Transfers	102,800	106,600	(3,800)	(102,800)	(106,600)	3,800
Change in Net Position	1,079,813	241,183	838,630	343,320	355,482	(12,162)
Net Position, January 1	<u>7,721,489</u>	<u>7,480,306</u>	<u>241,183</u>	<u>5,737,513</u>	<u>5,382,031</u>	<u>355,482</u>
Net Position, December 31	<u>\$ 8,801,302</u>	<u>\$ 7,721,489</u>	<u>\$ 1,079,813</u>	<u>\$ 6,080,833</u>	<u>\$ 5,737,513</u>	<u>\$ 343,320</u>

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

Expenses and Program Revenues - Governmental Activities



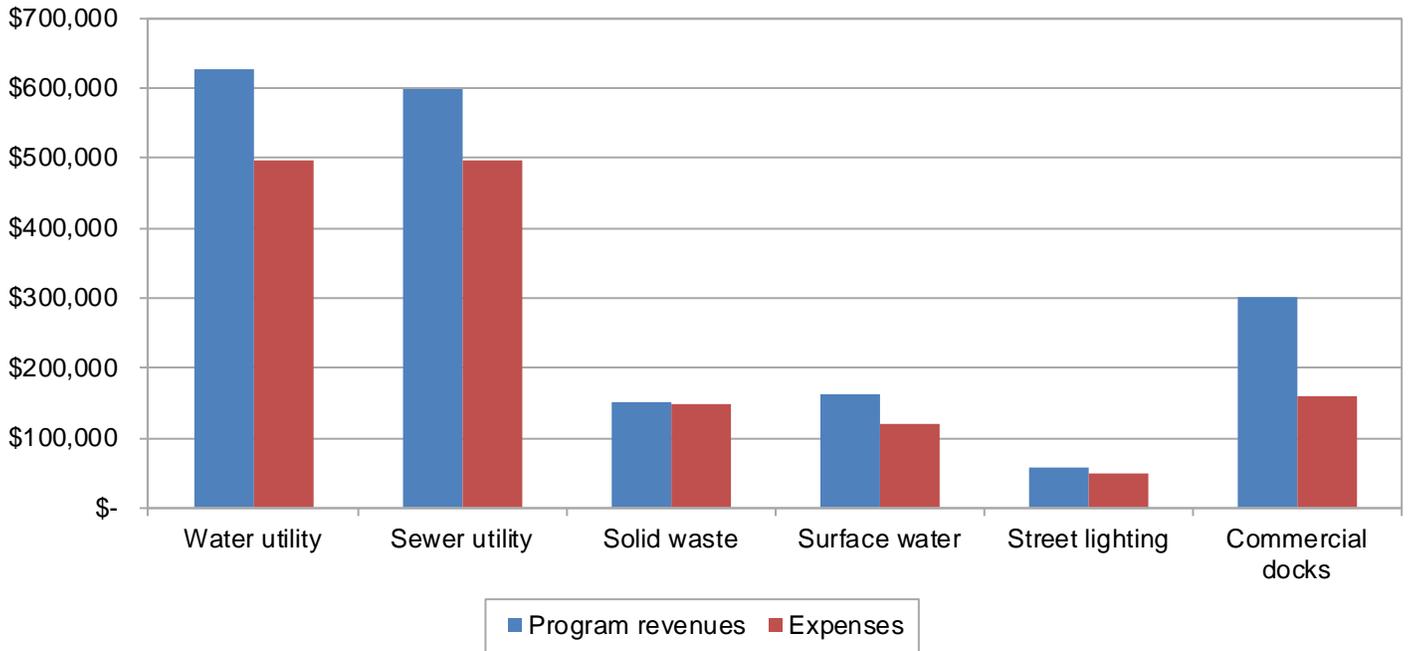
Revenues by Source - Governmental Activities



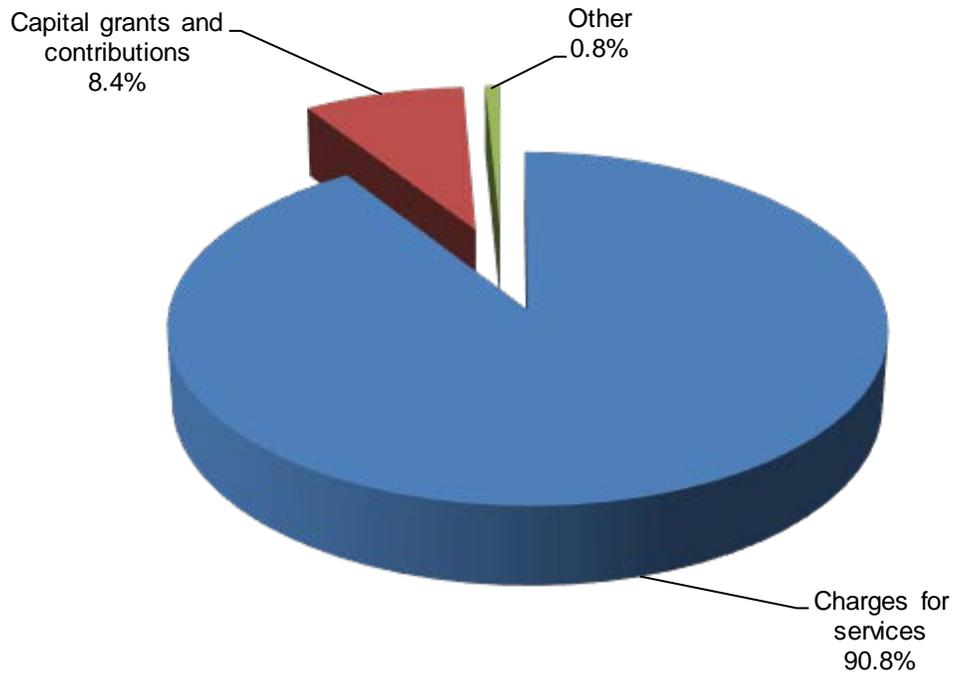
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type Activities. Business-type activities increased the City's net position by \$343,320, accounting for 24.1 percent of the growth in the City's net position. Key elements of this increase are as follows:

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

Major Funds	Fund Balances December 31		Increase (Decrease)
	2016	2017	
General	\$ 1,285,379	\$ 1,605,641	\$ 320,262

The fund balance increase is mainly due to increases in charges for services and licenses and permits revenue. There were transfers out to the Capital Improvement fund to fund future projects, which reduced the increase in fund balance.

Capital Improvement	\$ 1,597,487	\$ 2,035,419	\$ 437,932
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The fund balance increased mainly due to a transfer in from the General Fund in the amount of \$229,195 to fund future projects and a developer contribution of \$633,000, which is restricted for future public improvements.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$2,504,294. The total growth in net position for the funds was \$343,320. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's General fund budget projected no change in fund balance, but actual amounts for 2017 resulted in an increase in fund balance in the amount of \$320,262. This was mainly due to higher charges for services revenues.

Overall, revenues were over the budgeted amount by \$403,433. This was due in large part to charges for services being over budget by \$193,998. Other items with the largest positive variances were licenses/permits and fines and forfeitures revenues which were over budget by \$170,620 and \$28,341, respectively.

Expenditures were \$6,804 under budget. This was due in large part to general government expenditures being under budget by \$19,728. The main cause of the variance was due to administration other services and charges.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$14,191,783 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The City's total investment in capital assets increased \$2,891,540, or 23.1 percent during the year.

Major capital asset activity during the current year included:

- The City purchased a sewer chewer unit.
- The 2017 Street and Utilities Project increased Construction in Progress by \$3,341,783.
- The City purchased a pump and a rectangular rapid flash beacon.

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

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

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Land	\$ 1,111,042	\$ 1,111,042	\$ -	\$ 50,000	\$ 50,000	\$ -
Construction in Progress	1,916,072	42,290	1,873,782	1,498,964	30,963	1,468,001
Buildings	134,461	149,283	(14,822)	-	-	-
Improvement other than Building	3,039,757	3,149,529	(109,772)	-	-	-
Machinery and Equipment	449,032	505,653	(56,621)	508,541	535,140	(26,599)
Infrastructure	504,678	534,249	(29,571)	4,979,236	5,192,094	(212,858)
Total	\$ 7,155,042	\$ 5,492,046	\$ 1,662,996	\$ 7,036,741	\$ 5,808,197	\$ 1,228,544

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,817,000. This amount consists of general obligation revenue and improvement bonds. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Excelsior's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
G.O. Revenue Bonds	\$ -	\$ -	\$ -	\$ 1,047,000	\$ 1,131,048	\$ (84,048)
G.O. Improvement Bonds	2,383,327	1,024,067	1,359,260	3,386,673	950,933	2,435,740
Bond Premium	68,170	-	68,170	118,565	-	118,565
Total	\$ 2,451,497	\$ 1,024,067	\$ 1,427,430	\$ 4,552,238	\$ 2,081,981	\$ 2,470,257

The City's total debt increased \$3,897,687 (125.5 percent) during the current fiscal year. The increase was due to the new issuance of the 2017A taxable G.O. Improvement Bonds.

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

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

Economic Factors and Next Year's Budgets and Rates

- Preliminary property valuations increased again in 2018 for taxes payable 2019. Property values overall are increasing about 7.4 percent within the City, with the largest increases happening for apartments and residential properties.
- The 2018 budget includes a 3 percent levy increase. This increase will help accommodate future major capital projects and the debt related to those projects. 2018 projects include extending the residential docks, replacing the Mill Street Watermain, and replacing the Sewer-Vac truck from 2000.
- While 2018 utility rates remained unchanged from 2017, the City is carefully planning modest increases to ease the impact to residents, while maintaining sufficient revenues for future operations and capital expenditures.

Requests for Information

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Excelsior, Minnesota
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash temporary investments	\$ 4,673,519	\$ 2,715,079	\$ 7,388,598
Restricted cash and cash temporary investments	-	1,092,036	1,092,036
Receivables			
Interest	20,876	-	20,876
Accounts	66,860	311,316	378,176
Delinquent taxes	52,807	-	52,807
Special assessments	321,233	18,707	339,940
Due from other governments	4,101	-	4,101
Internal balances	5,365	(5,365)	-
Prepaid items	7,884	3,520	11,404
Land and construction in progress	3,027,114	1,548,964	4,576,078
Depreciable infrastructure, buildings, property and equipment, net	4,127,928	5,487,777	9,615,705
Total Assets	<u>12,307,687</u>	<u>11,172,034</u>	<u>23,479,721</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>87,148</u>	<u>64,969</u>	<u>152,117</u>
Liabilities			
Accounts payable	460,966	136,276	597,242
Accrued salaries payable	19,768	19,376	39,144
Accrued interest payable	37,852	61,813	99,665
Due to other governments	1,010	1,945	2,955
Unearned revenue	64,600	200	64,800
Noncurrent liabilities			
Due within one year			
Compensated absences payable	5,386	5,242	10,628
Bonds payable	93,333	176,667	270,000
Due in more than one year			
Compensated absences payable	10,774	10,487	21,261
Net pension liability	353,687	291,090	644,777
Bonds payable, net	2,358,164	4,375,571	6,733,735
Other postemployment benefits payable	101,365	-	101,365
Total Liabilities	<u>3,506,905</u>	<u>5,078,667</u>	<u>8,585,572</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>86,628</u>	<u>77,503</u>	<u>164,131</u>
Net Position			
Net investment in capital assets	4,703,545	3,576,539	8,280,084
Restricted for			
Debt service	169,975	-	169,975
Tax increment financing district	9,117	-	9,117
Park improvements	270,664	-	270,664
Public improvements	633,000	-	633,000
Unrestricted	<u>3,015,001</u>	<u>2,504,294</u>	<u>5,519,295</u>
Total Net Position	<u>\$ 8,801,302</u>	<u>\$ 6,080,833</u>	<u>\$ 14,882,135</u>

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

City of Excelsior, Minnesota
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 731,422	\$ 101,124	\$ -	\$ -
Public safety	967,457	910,999	-	-
Public works	428,320	2,610	-	701,227
Culture and recreation	302,580	265,602	-	-
Housing and economic development	106,824	-	-	-
Miscellaneous	21,745	-	-	-
Interest on long-term debt	90,292	-	-	12,645
Total Governmental Activities	<u>2,648,640</u>	<u>1,280,335</u>	<u>-</u>	<u>713,872</u>
Business-type Activities				
Water utility	496,403	526,758	-	101,058
Sewer utility	496,220	542,615	-	56,436
Solid waste	148,660	151,881	-	-
Surface water	119,076	160,062	-	3,219
Street lighting	50,282	58,669	-	-
Commercial docks	160,253	301,392	-	-
Total Business-type Activities	<u>1,470,894</u>	<u>1,741,377</u>	<u>-</u>	<u>160,713</u>
Total	<u>\$ 4,119,534</u>	<u>\$ 3,021,712</u>	<u>\$ -</u>	<u>\$ 874,585</u>

General Revenues

Taxes

Property taxes levied for general purposes

Property taxes levied for debt service

Tax increments

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

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

Net (Expenses) Revenues
and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (630,298)	\$ -	\$ (630,298)
(56,458)	-	(56,458)
275,517	-	275,517
(36,978)	-	(36,978)
(106,824)	-	(106,824)
(21,745)	-	(21,745)
(77,647)	-	(77,647)
<u>(654,433)</u>	<u>-</u>	<u>(654,433)</u>
-	131,413	131,413
-	102,831	102,831
-	3,221	3,221
-	44,205	44,205
-	8,387	8,387
-	141,139	141,139
<u>-</u>	<u>431,196</u>	<u>431,196</u>
<u>(654,433)</u>	<u>431,196</u>	<u>(223,237)</u>
1,328,171	-	1,328,171
100,000	-	100,000
109,029	-	109,029
69,630	-	69,630
7,995	118	8,113
16,621	14,806	31,427
102,800	(102,800)	-
<u>1,734,246</u>	<u>(87,876)</u>	<u>1,646,370</u>
1,079,813	343,320	1,423,133
<u>7,721,489</u>	<u>5,737,513</u>	<u>13,459,002</u>
<u>\$ 8,801,302</u>	<u>\$ 6,080,833</u>	<u>\$ 14,882,135</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Excelsior, Minnesota
Balance Sheet
Governmental Funds
December 31, 2017

	General	Capital Projects Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and temporary investments	\$ 1,639,785	\$ 2,364,508	\$ 669,226	\$ 4,673,519
Receivables				
Interest	20,876	-	-	20,876
Accounts	33,793	32,128	939	66,860
Delinquent taxes	50,243	-	2,564	52,807
Special assessments	-	271,204	50,029	321,233
Due from other funds	19,504	5,365	-	24,869
Due from other governments	4,101	-	-	4,101
Prepaid items	7,884	-	-	7,884
	<u>\$ 1,776,186</u>	<u>\$ 2,673,205</u>	<u>\$ 722,758</u>	<u>\$ 5,172,149</u>
Liabilities				
Accounts payable	\$ 59,906	\$ 338,796	\$ 62,264	\$ 460,966
Accrued salaries payable	18,884	-	884	19,768
Due to other funds	-	-	19,504	19,504
Due to other governments	1,010	-	-	1,010
Unearned revenue	64,600	-	-	64,600
Total Liabilities	<u>144,400</u>	<u>338,796</u>	<u>82,652</u>	<u>565,848</u>
Deferred Inflows of Resources				
Unavailable revenue - accounts receivable	-	28,628	-	28,628
Unavailable revenue - special assessments	-	270,362	50,009	320,371
Unavailable revenue - property taxes	26,145	-	-	26,145
Total Deferred Inflows of Resources	<u>26,145</u>	<u>298,990</u>	<u>50,009</u>	<u>375,144</u>
Fund Balances				
Nonspendable				
Prepaid items	7,884	-	-	7,884
Restricted for				
Debt service	-	-	158,706	158,706
Tax increment financing district	-	-	9,117	9,117
Park improvements	-	-	270,664	270,664
Public improvements	-	633,000	-	633,000
Committed for				
Self insurance	75,688	-	-	75,688
Compensated absences	31,889	-	-	31,889
Parking lot maintenance	-	-	41,723	41,723
Assigned for				
Capital improvements	-	1,292,288	-	1,292,288
Parking improvements	-	110,131	-	110,131
Parking lot maintenance	-	-	129,925	129,925
Unassigned	1,490,180	-	(20,038)	1,470,142
Total Fund Balances	<u>1,605,641</u>	<u>2,035,419</u>	<u>590,097</u>	<u>4,231,157</u>
	<u>\$ 1,776,186</u>	<u>\$ 2,673,205</u>	<u>\$ 722,758</u>	<u>\$ 5,172,149</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances				

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

City of Excelsior, Minnesota
 Reconciliation of the Balance Sheet
 to the Statement of Net Position
 Governmental Funds
 December 31, 2017

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

Total Fund Balances - Governmental	\$ 4,231,157
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	9,591,081
Less: accumulated depreciation	(2,436,039)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(16,160)
Bond principal payable	(2,383,327)
Plus premium on bonds issued	(68,170)
Other postemployment benefits payable	(101,365)
Pension liability	(353,687)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.	
Delinquent taxes receivable	26,145
Special assessments receivable	320,371
Accounts receivable	28,628
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	87,148
Deferred inflows of pension resources	(86,628)
Governmental funds do not report a liability for accrued interest until due and payable.	(37,852)
Total Net Position - Governmental Activities	\$ 8,801,302

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

City of Excelsior, Minnesota
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Capital Projects Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,394,262	\$ -	\$ 209,029	\$ 1,603,291
Licenses and permits	413,801	-	-	413,801
Intergovernmental	7,877	18,205	12,645	38,727
Charges for services	465,501	46,002	16,115	527,618
Fines and forfeitures	95,891	-	-	95,891
Special assessments	-	81,895	37,169	119,064
Interest on investments	6,072	8,174	2,375	16,621
Miscellaneous	41,103	658,098	176,881	876,082
Total Revenues	<u>2,424,507</u>	<u>812,374</u>	<u>454,214</u>	<u>3,691,095</u>
Expenditures				
Current				
General government	547,137	-	-	547,137
Public safety	967,457	-	-	967,457
Public works	208,090	-	20,406	228,496
Culture and recreation	218,476	-	-	218,476
Miscellaneous	21,278	-	-	21,278
Capital outlay				
General government	15,412	147,833	-	163,245
Public works	-	1,919,623	-	1,919,623
Culture and recreation	-	-	31,164	31,164
Housing and economic development	-	-	106,824	106,824
Debt service				
Principal	-	-	90,740	90,740
Interest and other	-	-	39,768	39,768
Bond issuance costs	-	31,550	-	31,550
Total Expenditures	<u>1,977,850</u>	<u>2,099,006</u>	<u>288,902</u>	<u>4,365,758</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>446,657</u>	<u>(1,286,632)</u>	<u>165,312</u>	<u>(674,663)</u>
Other Financing Sources (Uses)				
Transfers in	102,800	229,195	25,000	356,995
Bonds issued	-	1,450,000	-	1,450,000
Premiums on bonds issued	-	70,369	-	70,369
Transfers out	(229,195)	(25,000)	-	(254,195)
Total Other Financing Sources (Uses)	<u>(126,395)</u>	<u>1,724,564</u>	<u>25,000</u>	<u>1,623,169</u>
Net Change in Fund Balances	320,262	437,932	190,312	948,506
Fund Balances, January 1	<u>1,285,379</u>	<u>1,597,487</u>	<u>399,785</u>	<u>3,282,651</u>
Fund Balances, December 31	<u>\$ 1,605,641</u>	<u>\$ 2,035,419</u>	<u>\$ 590,097</u>	<u>\$ 4,231,157</u>

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

City of Excelsior, Minnesota
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances
to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2017

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

Net Change in Fund Balances - Governmental Funds	\$ 948,506
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	1,879,782
Depreciation expense	(216,786)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Principal payments	90,740
Debt issued or incurred	(1,450,000)
Premium on bonds issued, net of amortization	(68,170)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	(21,173)
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(14,801)
Pension revenue from State contributions	118
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Compensated absences	(893)
Other postemployment benefits	(1,950)
<p>Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.</p>	
Property taxes	3,539
Special assessments	(69,099)
Change in Net Position - Governmental Activities	\$ 1,079,813

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

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City of Excelsior, Minnesota
 Statements of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended December 31, 2017

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,401,445	\$ 1,401,445	\$ 1,394,262	\$ (7,183)
Licenses and permits	243,181	243,181	413,801	170,620
Intergovernmental	3,095	3,095	7,877	4,782
Charges for services	271,503	271,503	465,501	193,998
Fines and forfeitures	67,550	67,550	95,891	28,341
Interest on investments	18,500	18,500	6,072	(12,428)
Miscellaneous	15,800	15,800	41,103	25,303
Total Revenues	<u>2,021,074</u>	<u>2,021,074</u>	<u>2,424,507</u>	<u>403,433</u>
Expenditures				
Current				
General government	566,865	566,865	547,137	19,728
Public safety	959,777	959,777	967,457	(7,680)
Public works	214,623	214,623	208,090	6,533
Culture and recreation	221,670	221,670	218,476	3,194
Miscellaneous	21,719	21,719	21,278	441
Capital outlay	-	-	15,412	(15,412)
Total Expenditures	<u>1,984,654</u>	<u>1,984,654</u>	<u>1,977,850</u>	<u>6,804</u>
Excess of Revenues Over Expenditures	<u>36,420</u>	<u>36,420</u>	<u>446,657</u>	<u>410,237</u>
Other Financing Sources (Uses)				
Transfers in	102,800	102,800	102,800	-
Transfers out	(139,220)	(139,220)	(229,195)	(89,975)
Total Other Financing Sources (Uses)	<u>(36,420)</u>	<u>(36,420)</u>	<u>(126,395)</u>	<u>(89,975)</u>
Net Change in Fund Balances	-	-	320,262	320,262
Fund Balances, January 1	<u>1,285,379</u>	<u>1,285,379</u>	<u>1,285,379</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,285,379</u>	<u>\$ 1,285,379</u>	<u>\$ 1,605,641</u>	<u>\$ 320,262</u>

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

City of Excelsior, Minnesota
Statement of Net Position (Continued on the Following Pages)
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
Assets			
Current Assets			
Cash and temporary investments	\$ 782,733	\$ 1,068,479	\$ 499,768
Restricted cash and temporary investments	774,463	279,801	-
Receivables			
Accounts	121,847	125,850	-
Special assessments	16,354	339	-
Due from other funds	-	6,301	-
Prepaid items	315	-	2,805
Total Current Assets	<u>1,695,712</u>	<u>1,480,770</u>	<u>502,573</u>
Noncurrent Assets			
Special assessments receivable	<u>-</u>	<u>2,014</u>	<u>-</u>
Capital Assets, at Cost	5,844,257	2,998,882	484,661
Less Accumulated Depreciation	<u>(1,710,591)</u>	<u>(845,426)</u>	<u>(391,432)</u>
Net Capital Assets	<u>4,133,666</u>	<u>2,153,456</u>	<u>93,229</u>
Total Noncurrent Assets	<u>4,133,666</u>	<u>2,155,470</u>	<u>93,229</u>
Total Assets	<u>5,829,378</u>	<u>3,636,240</u>	<u>595,802</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>20,493</u>	<u>19,986</u>	<u>8,817</u>

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

Business-type Activities - Enterprise Funds

Surface Water Management	Other Proprietary Funds	Totals
\$ 253,974	\$ 110,125	\$ 2,715,079
37,772	-	1,092,036
-	63,619	311,316
-	-	16,693
-	-	6,301
400	-	3,520
<u>292,146</u>	<u>173,744</u>	<u>4,144,945</u>
-	-	2,014
745,419	19,660	10,092,879
(93,022)	(15,667)	(3,056,138)
<u>652,397</u>	<u>3,993</u>	<u>7,036,741</u>
<u>652,397</u>	<u>3,993</u>	<u>7,038,755</u>
<u>944,543</u>	<u>177,737</u>	<u>11,183,700</u>
<u>14,695</u>	<u>978</u>	<u>64,969</u>

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

City of Excelsior, Minnesota
Statement of Net Position (Continued)
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
Liabilities			
Current Liabilities			
Accounts payable	\$ 73,845	\$ 31,190	\$ 472
Accrued salaries payable	4,998	5,310	4,298
Compensated absences payable	1,472	1,657	807
Accrued interest payable	42,736	12,005	-
Due to other governments	1,596	-	-
Due to other funds	-	-	11,666
Unearned revenue	-	-	200
Bonds payable, current portion	127,333	25,577	-
Total Current Liabilities	<u>251,980</u>	<u>75,739</u>	<u>17,443</u>
Noncurrent Liabilities			
Compensated absences payable	2,944	3,315	1,613
Bonds payable, net of current portion	3,192,765	757,903	-
Net pension liability	89,051	89,859	43,021
Total Noncurrent Liabilities	<u>3,284,760</u>	<u>851,077</u>	<u>44,634</u>
Total Liabilities	<u>3,536,740</u>	<u>926,816</u>	<u>62,077</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>23,148</u>	<u>23,977</u>	<u>12,217</u>
Net Position			
Net investment in capital assets	1,588,031	1,649,777	93,229
Unrestricted	<u>701,952</u>	<u>1,055,656</u>	<u>437,096</u>
Total Net Position	<u>\$ 2,289,983</u>	<u>\$ 2,705,433</u>	<u>\$ 530,325</u>

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

Business-type Activities - Enterprise Funds

Surface Water Management	Other Proprietary Funds	Totals
\$ 17,572	\$ 13,197	\$ 136,276
2,804	1,966	19,376
886	420	5,242
7,072	-	61,813
-	349	1,945
-	-	11,666
-	-	200
23,757	-	176,667
<u>52,091</u>	<u>15,932</u>	<u>413,185</u>
1,774	841	10,487
424,903	-	4,375,571
57,000	12,159	291,090
<u>483,677</u>	<u>13,000</u>	<u>4,677,148</u>
<u>535,768</u>	<u>28,932</u>	<u>5,090,333</u>
<u>13,281</u>	<u>4,880</u>	<u>77,503</u>
241,509	3,993	3,576,539
168,680	140,910	2,504,294
<u>\$ 410,189</u>	<u>\$ 144,903</u>	<u>\$ 6,080,833</u>

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

City of Excelsior, Minnesota
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
Operating Revenues			
Charges for services	\$ 520,314	\$ 542,615	\$ 301,392
Operating Expenses			
Refuse	-	-	-
Recycling	-	-	-
Administration	254,218	386,672	-
Maintenance	3,550	-	135,585
Depreciation	139,447	81,732	24,668
Total Operating Expenses	<u>397,215</u>	<u>468,404</u>	<u>160,253</u>
Operating Income	<u>123,099</u>	<u>74,211</u>	<u>141,139</u>
Nonoperating Revenues (Expenses)			
Interest on investments	5,907	5,627	1,781
Interest expense and other	(62,187)	(17,538)	-
Bond issuance costs	(37,001)	(10,278)	-
Other income	6,478	36	20
Total Nonoperating Revenues (Expenses)	<u>(86,803)</u>	<u>(22,153)</u>	<u>1,801</u>
Income Before Contributions and Transfers	36,296	52,058	142,940
Transfers Out	(9,000)	(9,000)	(80,000)
Capital Contributions	<u>101,058</u>	<u>56,436</u>	<u>-</u>
Change in Net Position	128,354	99,494	62,940
Net Position, January 1	<u>2,161,629</u>	<u>2,605,939</u>	<u>467,385</u>
Net Position, December 31	<u><u>\$ 2,289,983</u></u>	<u><u>\$ 2,705,433</u></u>	<u><u>\$ 530,325</u></u>

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

Business-type Activities - Enterprise Funds

<u>Surface Water Management</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>
<u>\$ 160,062</u>	<u>\$ 210,550</u>	<u>\$ 1,734,933</u>
-	113,615	113,615
-	35,045	35,045
83,704	10,796	735,390
-	39,136	178,271
18,862	350	265,059
<u>102,566</u>	<u>198,942</u>	<u>1,327,380</u>
<u>57,496</u>	<u>11,608</u>	<u>407,553</u>
1,110	381	14,806
(12,399)	-	(92,124)
(4,111)	-	(51,390)
17	11	6,562
<u>(15,383)</u>	<u>392</u>	<u>(122,146)</u>
42,113	12,000	285,407
(400)	(4,400)	(102,800)
3,219	-	160,713
44,932	7,600	343,320
<u>365,257</u>	<u>137,303</u>	<u>5,737,513</u>
<u>\$ 410,189</u>	<u>\$ 144,903</u>	<u>\$ 6,080,833</u>

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

City of Excelsior, Minnesota
Statement of Cash Flows (Continued on the Following Pages)
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 547,480	\$ 575,989	\$ 301,412
Payments to suppliers	(134,556)	(248,821)	(52,854)
Payments to employees	(128,321)	(139,200)	(76,851)
Net Cash Provided (Used) by Operating Activities	<u>284,603</u>	<u>187,968</u>	<u>171,707</u>
Cash Flows from Noncapital Financing Activities			
Receipts from advances to other funds	-	6,012	-
Payments on advances from other funds	-	-	(11,202)
Transfers to other funds	(9,000)	(9,000)	(80,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(9,000)</u>	<u>(2,988)</u>	<u>(91,202)</u>
Cash Flows from Capital Financing Activities			
Connection fees	96,000	52,970	-
Intergovernmental	5,058	3,466	-
Acquisition of capital assets	(1,051,095)	(227,906)	-
Bond proceeds	1,865,520	518,200	-
Interest paid on bonds	(38,501)	(10,869)	-
Principal paid on bonds	(120,344)	(24,866)	-
Net Cash Provided (Used) by Capital Financing Activities	<u>756,638</u>	<u>310,995</u>	<u>-</u>
Cash Flows from Investing Activities			
Interest received on investments	5,907	5,627	1,781
Net Increase in Cash and Cash Equivalents	1,038,148	501,602	82,286
Cash and Cash Equivalents, January 1	<u>519,048</u>	<u>846,678</u>	<u>417,482</u>
Cash and Cash Equivalents, December 31	<u>\$ 1,557,196</u>	<u>\$ 1,348,280</u>	<u>\$ 499,768</u>
Reconciliation to the Proprietary Funds Statement of Net Position			
Cash and temporary investments	\$ 782,733	\$ 1,068,479	\$ 499,768
Restricted cash and temporary investments	<u>774,463</u>	<u>279,801</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 1,557,196</u>	<u>\$ 1,348,280</u>	<u>\$ 499,768</u>

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

Business-type Activities - Enterprise Funds

Surface Water Management	Other Proprietary Funds	Totals
\$ 160,079	\$ 214,198	\$ 1,799,158
(20,874)	(152,233)	(609,338)
(63,268)	(35,153)	(442,793)
<u>75,937</u>	<u>26,812</u>	<u>747,027</u>
-	-	6,012
-	-	(11,202)
(400)	(4,400)	(102,800)
<u>(400)</u>	<u>(4,400)</u>	<u>(107,990)</u>
-	-	148,970
3,219	-	11,743
(151,174)	-	(1,430,175)
207,280	-	2,591,000
(9,879)	-	(59,249)
(23,098)	-	(168,308)
<u>26,348</u>	<u>-</u>	<u>1,093,981</u>
<u>1,110</u>	<u>381</u>	<u>14,806</u>
102,995	22,793	1,747,824
<u>188,751</u>	<u>87,332</u>	<u>2,059,291</u>
<u>\$ 291,746</u>	<u>\$ 110,125</u>	<u>\$ 3,807,115</u>
\$ 253,974	\$ 110,125	\$ 2,715,079
37,772	-	1,092,036
<u>\$ 291,746</u>	<u>\$ 110,125</u>	<u>\$ 3,807,115</u>

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

City of Excelsior, Minnesota
Statement of Cash Flows (Continued)
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income	\$ 123,099	\$ 74,211	\$ 141,139
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Other income related to operations	6,478	36	20
Depreciation	139,447	81,732	24,668
(Increase) decrease in assets/deferred outflows			
Receivables			
Accounts	13,554	33,169	-
Special assessments	3,329	169	-
Due from other governments	3,805	-	-
Prepaid items	(315)	-	(2,395)
Deferred pension resources	23,859	25,548	9,886
Increase (decrease) in liabilities/deferred inflows			
Accounts payable	(550)	4,008	46
Accrued salaries payable	273	467	2,669
Compensated absences payable	(99)	43	(278)
Due to other governments	792	-	-
Net pension liability	(34,737)	(37,392)	(8,965)
Deferred pension resources	5,668	5,977	4,917
 Net Cash Provided by Operating Activities	 <u>\$ 284,603</u>	 <u>\$ 187,968</u>	 <u>\$ 171,707</u>
 Schedule of Noncash Capital and Financing Activities			
Amortization of bond premium	\$ 2,754	\$ 765	\$ -
Capital assets acquired on account	\$ 57,274	\$ 25,300	\$ -

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

Business-type Activities - Enterprise Funds

Surface Water Management	Other Proprietary Funds	Totals
\$ 57,496	\$ 11,608	\$ 407,553
17	11	6,562
18,862	350	265,059
-	(2,328)	44,395
-	-	3,498
-	5,965	9,770
(400)	-	(3,110)
11,019	6,414	76,726
479	10,434	14,417
585	1,258	5,252
202	(403)	(535)
-	(300)	492
(15,295)	(8,240)	(104,629)
2,972	2,043	21,577
<u>\$ 75,937</u>	<u>\$ 26,812</u>	<u>\$ 747,027</u>
<u>\$ 306</u>	<u>\$ -</u>	<u>\$ 3,825</u>
<u>\$ 16,096</u>	<u>\$ -</u>	<u>\$ 98,670</u>

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

City of Excelsior, Minnesota
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2017

	<u>Agency</u>
Assets	
Cash and temporary investments	<u>\$ 69,823</u>
Liabilities	
Accounts payable	<u>\$ 69,823</u>

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, *general revenues* include all taxes.

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

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

Additionally, the City reports the following fund types:

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

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

The City reports the following agency funds:

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

Deposits and Investments

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

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

The City has the following recurring fair value measurements as of December 31, 2017:

- US Government securities of \$253,580 are valued using quoted market prices (Level 1 inputs)
- Brokered Certificates of Deposit of \$3,394,073 are valued using a matrix pricing model (Level 2 inputs)

Property Taxes

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

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2017. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special Assessments

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

Interfund Receivables and Payables

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

Prepaid Items

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

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

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

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

Deferred Outflows of Resources

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

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

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

Compensated Absences

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

Postemployment Benefits other than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at January 1, 2017. The General fund is typically used to liquidate governmental other postemployment benefits payable.

Long-term Obligations

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

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

Deferred Inflows of Resources

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

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

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

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

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

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

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

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

Net Position

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

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

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Deficit Fund Balances

The following fund had a fund balance deficit at December 31, 2017:

<u>Fund</u>	<u>Amount</u>
TIF 1-2 Project	<u><u>\$ 20,038</u></u>

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

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City’s carrying amount of deposits was \$4,780,057 and the bank balance was \$4,795,862. Of the bank balance, \$576,930 was covered by federal depository insurance. The remaining balance was covered by collateral held in the City’s name.

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

Investments

As of December 31, 2017, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City’s name:

Types of Investments	Credit Quality/ Rating (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Non-pooled Investments						
U.S. Government Securities	AAA	more than 3 years	\$ 253,580	\$ 253,580	\$ -	\$ -
Brokered Certificates of Deposit	N/A	less than 1 year	344,077	-	344,077	-
Brokered Certificates of Deposit	N/A	1 to 3 years	951,355	-	951,355	-
Brokered Certificates of Deposit	N/A	more than 3 years	2,098,641	-	2,098,641	-
Pooled Investments at amortized cost						
Broker Money Market	N/A	less than 6 months	122,547			
Total Investments			<u>\$ 3,770,200</u>	<u>\$ 253,580</u>	<u>\$ 3,394,073</u>	<u>\$ -</u>

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

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

N/A Indicate not applicable or available.

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Carrying Amount of Deposits	\$ 4,780,057
Investments	3,770,200
Cash on Hand	<u>200</u>
 Total	 <u><u>\$ 8,550,457</u></u>
 Statement of Net Position	
Cash and Temporary Investments	\$ 7,388,598
Restricted Cash and Temporary Investments	1,092,036
 Statement of Fiduciary Net Position	
Cash and Temporary Investments	<u>69,823</u>
 Total	 <u><u>\$ 8,550,457</u></u>

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

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

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 1,111,042	\$ -	\$ -	\$ 1,111,042
Construction in progress	42,290	1,873,782	-	1,916,072
Total Capital Assets not being Depreciated	<u>1,153,332</u>	<u>1,873,782</u>	<u>-</u>	<u>3,027,114</u>
Capital Assets being Depreciated				
Buildings	748,150	-	-	748,150
Improvements other than buildings	3,649,489	-	-	3,649,489
Machinery and equipment	1,007,356	6,000	-	1,013,356
Infrastructure	1,152,972	-	-	1,152,972
Total Capital Assets being Depreciated	<u>6,557,967</u>	<u>6,000</u>	<u>-</u>	<u>6,563,967</u>
Less Accumulated Depreciation for				
Buildings	(598,867)	(14,822)	-	(613,689)
Improvements other than buildings	(499,960)	(109,772)	-	(609,732)
Machinery and equipment	(501,703)	(62,621)	-	(564,324)
Infrastructure	(618,723)	(29,571)	-	(648,294)
Total Accumulated Depreciation	<u>(2,219,253)</u>	<u>(216,786)</u>	<u>-</u>	<u>(2,436,039)</u>
Total Capital Assets being Depreciated, Net	<u>4,338,714</u>	<u>(210,786)</u>	<u>-</u>	<u>4,127,928</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,492,046</u>	<u>\$ 1,662,996</u>	<u>\$ -</u>	<u>\$ 7,155,042</u>

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

Governmental Activities		
General government		\$ 13,026
Public works		154,061
Culture and recreation		<u>49,699</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 216,786</u>

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not being Depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	30,963	1,468,001	-	1,498,964
Total Capital Assets not being Depreciated	<u>80,963</u>	<u>1,468,001</u>	<u>-</u>	<u>1,548,964</u>
Capital Assets being Depreciated				
Buildings	8,202	-	-	8,202
Machinery and equipment	1,026,587	25,602	-	1,052,189
Infrastructure	7,483,524	-	-	7,483,524
Total Capital Assets being Depreciated	<u>8,518,313</u>	<u>25,602</u>	<u>-</u>	<u>8,543,915</u>
Less Accumulated Depreciation for				
Buildings	(8,202)	-	-	(8,202)
Machinery and equipment	(491,447)	(52,201)	-	(543,648)
Infrastructure	(2,291,430)	(212,858)	-	(2,504,288)
Total Accumulated Depreciation	<u>(2,791,079)</u>	<u>(265,059)</u>	<u>-</u>	<u>(3,056,138)</u>
Total Capital Assets being Depreciated, Net	<u>5,727,234</u>	<u>(239,457)</u>	<u>-</u>	<u>5,487,777</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,808,197</u>	<u>\$ 1,228,544</u>	<u>\$ -</u>	<u>\$ 7,036,741</u>

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

Business-type Activities		
Water utility		\$ 139,447
Sewer utility		81,732
Commercial docks		24,668
Surface water management		18,862
Other proprietary funds		<u>350</u>
Total Depreciation Expense - Business-type Activities		<u>\$ 265,059</u>

Construction Commitments

The City has active construction projects as of December 31, 2017. The projects include various street and road improvements and public facilities projects. At year end the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
2017 Street and Utility Project	<u>\$ 2,546,664</u>	<u>\$ 519,527</u>

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

C. Advances to and from other Funds and Transfers

The composition of advances to and from other funds as of December 31, 2017 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount	Final Maturity
Capital Improvement	Commercial Docks	Residential dock construction	\$ 5,365	2018
Sewer	Commercial Docks	Residential dock construction	6,301	2018
General	TIF District 1-2	Cash flow	19,504	NA

The composition of interfund transfers as of December 31, 2017 is as follows:

Fund	Transfer in			Total
	General Fund	Capital Improvement Fund	Other Governmental Funds	
Transfer Out				
General	\$ -	\$ 229,195	\$ -	\$ 229,195
Capital Improvement	-	-	25,000	25,000
Water	9,000	-	-	9,000
Sewer	9,000	-	-	9,000
Commercial Docks	80,000	-	-	80,000
Surface Water Management	400	-	-	400
Other proprietary	4,400	-	-	4,400
Total	<u>\$ 102,800</u>	<u>\$ 229,195</u>	<u>\$ 25,000</u>	<u>\$ 356,995</u>

The City annually budgets transfers for specific purposes. Annual transfers include transfers designated as a percentage of annual revenues, transfers made to cover funds annual operations, transfers made as part of capital improvement plans, transfers are made for debt service payments and other transfers made for various reasons. All transfers made during the year were budgeted, except for a portion of the \$229,195 transfer from the General fund to the Capital Improvement fund, of which \$90,000 was unbudgeted. This transfer was made to fund future projects.

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

D. Long-term Debt

General Obligation Bonds

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

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

General Obligation Special Assessment Bonds

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

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Taxable G.O. Improvement Bonds, Series 2010A	\$ 2,795,000	0.9 - 4.7 %	10/21/10	02/01/26	\$ 1,800,000
Taxable G.O. Improvement Bonds, Series 2017A	3,970,000	2.5 - 3.0	06/14/17	02/01/33	<u>3,970,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 5,770,000</u></u>

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

Year Ending December 31,	General Obligation Bonds Governmental Activities			General Obligation Bonds Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 93,333	\$ 83,935	\$ 177,268	\$ 86,667	\$ 116,582	\$ 203,249
2019	175,925	54,271	230,196	224,075	67,485	291,560
2020	178,518	49,667	228,185	231,482	62,299	293,781
2021	183,518	44,724	228,242	236,482	56,723	293,205
2022	186,110	39,456	225,566	243,890	50,840	294,730
2023-2027	915,923	108,914	1,024,837	1,234,077	155,636	1,389,713
2028-2032	535,000	32,713	567,713	925,000	56,863	981,863
2033	115,000	1,725	116,725	205,000	3,074	208,074
Total	<u><u>\$ 2,383,327</u></u>	<u><u>\$ 415,405</u></u>	<u><u>\$ 2,798,732</u></u>	<u><u>\$ 3,386,673</u></u>	<u><u>\$ 569,502</u></u>	<u><u>\$ 3,956,175</u></u>

City of Excelsior, Minnesota1

Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

General Obligation Revenue Bonds

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

Description	Authorized	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water Revenue Bonds, Series 2007A	\$ 680,000	3.85 - 4.35 %	08/15/07	02/01/23	\$ 320,000
MPFA - 2014A Water Revenue Bonds	920,313	1.00	06/02/14	08/20/34	<u>727,000</u>
Total G.O. Revenue Bonds					<u>\$ 1,047,000</u>

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

Year Ending December 31,	General Obligation Revenue Bonds		
	Business-type Activities		
	Principal	Interest	Total
2018	\$ 90,000	\$ 19,848	\$ 109,848
2019	90,000	17,373	107,373
2020	90,000	15,273	105,273
2021	96,000	12,241	108,241
2022	96,000	9,466	105,466
2023-2027	272,000	23,345	295,345
2028-2032	221,000	11,280	232,280
2033-2034	92,000	2,289	94,289
Total	<u>\$ 1,047,000</u>	<u>\$ 111,115</u>	<u>\$ 1,158,115</u>

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds payable					
General obligation					
improvement bonds	\$ 1,024,067	\$ 1,450,000	\$ (90,740)	\$ 2,383,327	\$ 93,333
Bond premium	-	70,369	(2,199)	68,170	-
Compensated absences payable	15,266	38,768	(37,874)	16,160	5,386
Other postemployment benefits payable	99,415	5,643	(3,693)	101,365	-
Pension liability					
GERF	432,470	10,429	(89,212)	353,687	-
	<u>432,470</u>	<u>10,429</u>	<u>(89,212)</u>	<u>353,687</u>	<u>-</u>
Governmental Activity Long-term Liabilities	<u>\$ 1,571,218</u>	<u>\$ 1,575,209</u>	<u>\$ (223,718)</u>	<u>\$ 2,922,709</u>	<u>\$ 98,719</u>
Business-type Activities					
Bonds payable					
General obligation					
revenue bonds	\$ 1,131,048	\$ -	\$ (84,048)	\$ 1,047,000	\$ 90,000
General obligation					
improvement bonds	950,933	2,520,000	(84,260)	3,386,673	86,667
Bond premium	-	122,390	(3,825)	118,565	-
Compensated absences payable	16,264	41,303	(41,838)	15,729	5,242
Pension liability					
GERF	395,719	5,192	(109,821)	291,090	-
	<u>395,719</u>	<u>5,192</u>	<u>(109,821)</u>	<u>291,090</u>	<u>-</u>
Business-type Activity Long-term Liabilities	<u>\$ 2,493,964</u>	<u>\$ 2,688,885</u>	<u>\$ (323,792)</u>	<u>\$ 4,859,057</u>	<u>\$ 181,909</u>

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

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

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the GERF for the years ending December 31, 2017, 2016 and 2015 were \$49,164, \$47,992, and \$46,043, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

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

D. Pension Costs

GERF Pension Costs

At December 31, 2017, the City reported a liability of \$644,777 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$8,104. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0101 percent which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$59,906 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$234 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

At December 31, 2017, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 21,217	\$ 41,237
Changes in Actuarial Assumptions	106,833	64,639
Net Difference between Projected and Actual Earnings on Plan Investments	-	27,922
Changes in Proportion	-	30,333
Contributions to GERF Subsequent to the Measurement Date	<u>24,067</u>	<u>-</u>
Total	<u>\$ 152,117</u>	<u>\$ 164,131</u>

Deferred outflows of resources totaling \$24,067 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018	\$ (29,759)
2019	34,698
2020	(13,662)
2021	(27,358)

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 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 disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for the GERF through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

GERF

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

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 Expectec Real Rate of Return
Domestic Stocks	39.00 %	5.10 %
International Stocks	19.00	5.30
Bonds	20.00	0.75
Alternative Assets	20.00	5.90
Cash	2.00	-
Total	100.00 %	

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	City Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	\$ 1,000,098	\$ 644,777	\$ 353,883

H. Pension Plan Fiduciary Net Position

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

Note 5: Postemployment Benefits Other than Pensions

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. The City did not contribute to the plan for the year ended December 31, 2017. As of December 31, 2017, there were no retirees receiving health benefits from the plan.

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 5: Postemployment Benefits Other than Pensions (Continued)

C. Annual Other Postemployment Benefit Cost

The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution	\$ 1,666
Interest on Net OPEB Obligation	3,977
Adjustment to Annual Required Contribution	<u>(3,693)</u>
 Annual OPEB Cost (Expense)	 1,950
 Net OPEB Obligation - January 1, 2017	 <u>99,415</u>
 Net OPEB Obligation - December 31, 2017	 <u><u>\$ 101,365</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2017 follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/17	\$ 1,950	- %	\$ 101,365
12/31/16	5,220	-	99,415
12/31/15	14,091	-	94,195

D. Funded Status and Funding Progress

As of January 1, 2017, the actuarial accrued liability for benefits was \$6,896, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$664,256, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 5: Postemployment Benefits Other than Pensions (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2017 actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions include a 4.0 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments. The initial healthcare trend rate was 8.5 percent, reduced by decrements to an ultimate rate of 5.0 percent after 12 years. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2017 was 30 years.

Note 6: Joint Powers Agreements

A. South Lake Minnetonka Police Department

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

Any budget shortfall is made up first from department reserves, with any excess shortfall assessed to each participating community according to the formula. The most recent year of audited information is December 31, 2016.

South Lake Minnetonka Police Department
Statement of Net Assets
December 31, 2016 and 2015

	2016	2015
Assets	\$ 4,885,721	\$ 4,933,813
Deferred Outflows of Resources	3,653,168	370,165
Total Assets and Deferred Outflows of Resources	\$ 8,538,889	\$ 5,303,978
Liabilities	\$ 7,953,009	\$ 4,717,104
Deferred Inflows of Resources	691,931	312,158
Net Position	(106,051)	274,716
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 8,538,889	\$ 5,303,978

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 6: Joint Powers Agreements (Continued)

South Lake Minnetonka Police Department
Summary Statement of Activities
For the Years Ended December 31, 2016 and 2015

Revenues	\$ 2,949,600	\$ 2,863,327
Expenses	<u>3,351,688</u>	<u>2,830,418</u>
Net Revenues	(402,088)	32,909
General Revenues	<u>21,321</u>	<u>18,558</u>
Change in Net Position	(380,767)	51,467
Net Position, January 1	274,716	1,724,483
Prior Period Adjustment	<u>-</u>	<u>(1,501,234)</u>
Net Position, December 31	<u>\$ (106,051)</u>	<u>\$ 274,716</u>

According to a formula in the agreement, the City's share of the District's budget is 28.1 percent on operation and 14.92 percent on capital. Payments to the District in 2017 totaled \$731,066. The Department issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the South Lake Police Department, 24150 Smithtown Road, Shorewood, Minnesota 55331.

B. Excelsior Fire District

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

Selected financial information is shown below and on the following page for the most recent year of audited information, which is December 31, 2017:

Excelsior Fire District
Statement of Net Assets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets	<u>\$ 9,407,489</u>	<u>\$ 8,549,042</u>
Deferred Outflows of Resources	<u>739,512</u>	<u>1,001,398</u>
Liabilities	<u>4,046,038</u>	<u>4,272,946</u>
Deferred Inflows of Resources	<u>614,275</u>	<u>85,188</u>
Net Position	<u>\$ 5,486,688</u>	<u>\$ 5,192,306</u>

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 6: Joint Powers Agreements (Continued)

Excelsior Fire District
Summary Statement of Activities
For the Years Ended December 31, 2017 and 2016

	2017	2016
Charges for Services	\$ 1,757,900	\$ 1,702,746
Operating Grants and Contributions	1,441	8,860
Expenses	(1,469,776)	(1,275,891)
Net Revenues	289,565	435,715
General Revenues	4,817	2,593
Change in Net Position	294,382	438,308
Net Position, January 1 as Restated	5,192,306	4,753,998
Net Position, December 31	\$ 5,486,688	\$ 5,192,306

According to a formula in the agreement, the City's share of the District's budget is 10.64 percent. Payments to the District in 2017 totaled \$202,833. The District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Excelsior Fire District, 24100 Smithtown Road, Shorewood, Minnesota 55331.

C. St. Alban's Bay Lake Improvement District

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

Note 7: Other Information

A. Risk Management

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

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

City of Excelsior, Minnesota
Notes to the Financial Statements
December 31, 2017

Note 7: Other Information (Continued)

B. Legal Debt Margin

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

C. Tax Increment Districts

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Excelsior, Minnesota
Required Supplementary Information
December 31, 2017

Schedule of Funding Progress for the Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/17	\$ -	\$ 6,896	\$ 6,896	- %	\$ 664,256	1.0 %
01/01/16	-	27,928	27,928	-	826,000	3.4
01/01/15	-	83,586	83,586	-	770,963	10.8
01/01/14	-	70,719	70,719	-	743,097	9.5
01/01/13	-	74,393	74,393	-	646,923	11.5

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

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

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

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

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
2017	\$ 49,164	\$ 49,164	\$ -	\$ 655,520	7.50 %
2016	47,992	47,992	-	639,893	7.50
2015	46,043	46,043	-	613,907	7.50

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

City of Excelsior, Minnesota
Required Supplementary Information (Continued)
December 31, 2017

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

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

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

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

Changes in Plan Provisions

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

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

City of Excelsior, Minnesota
 Nonmajor Governmental Funds
 Combining Balance Sheet
 December 31, 2017

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Parking Lot</u>	<u>Capital</u>	<u>G.O. Bonds</u>	<u>Nonmajor</u>
	<u>Maintenance</u>	<u>Projects</u>	<u>2010A</u>	<u>Funds</u>
Assets				
Cash and temporary investments	\$ 172,500	\$ 337,521	\$ 159,205	\$ 669,226
Receivables				
Accounts	508	431	-	939
Delinquent taxes	-	2,564	-	2,564
Special assessments	888	-	49,141	50,029
	<u>888</u>	<u>-</u>	<u>49,141</u>	<u>50,029</u>
Total Assets	<u>\$ 173,896</u>	<u>\$ 340,516</u>	<u>\$ 208,346</u>	<u>\$ 722,758</u>
Liabilities				
Accounts payable	\$ 476	\$ 61,269	\$ 519	\$ 62,264
Accrued salaries and benefits payable	884	-	-	884
Due to other funds	-	19,504	-	19,504
Total Liabilities	<u>1,360</u>	<u>80,773</u>	<u>519</u>	<u>82,652</u>
Deferred Inflows of Resources				
Unavailable revenue - special assessments	888	-	49,121	50,009
Fund Balances				
Restricted for				
Debt service	-	-	158,706	158,706
Tax increment financing district	-	9,117	-	9,117
Park improvements	-	270,664	-	270,664
Committed for				
Parking lot maintenance	41,723	-	-	41,723
Assigned for				
Parking lot maintenance	129,925	-	-	129,925
Unassigned	-	(20,038)	-	(20,038)
Total Fund Balances	<u>171,648</u>	<u>259,743</u>	<u>158,706</u>	<u>590,097</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 173,896</u>	<u>\$ 340,516</u>	<u>\$ 208,346</u>	<u>\$ 722,758</u>

City of Excelsior, Minnesota
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2017

	<u>Special Revenue</u>		<u>Debt Service</u>	Total
	<u>Parking Lot</u>	<u>Capital</u>	<u>G.O. Bonds</u>	<u>Nonmajor</u>
	<u>Maintenance</u>	<u>Projects</u>	<u>2010A</u>	<u>Funds</u>
Revenues				
Taxes	\$ -	\$ 109,029	\$ 100,000	\$ 209,029
Intergovernmental	-	-	12,645	12,645
Charges for services	16,115	-	-	16,115
Special assessments	26,931	-	10,238	37,169
Interest on investments	613	1,197	565	2,375
Miscellaneous				
Contributions and donations	-	176,881	-	176,881
Total Revenues	<u>43,659</u>	<u>287,107</u>	<u>123,448</u>	<u>454,214</u>
Expenditures				
Current				
Public works	20,406	-	-	20,406
Capital outlay				
Culture and recreation	-	31,164	-	31,164
Housing and economic development	-	106,824	-	106,824
Debt service				
Principal	-	-	90,740	90,740
Interest and other	-	-	39,768	39,768
Total Expenditures	<u>20,406</u>	<u>137,988</u>	<u>130,508</u>	<u>288,902</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	23,253	149,119	(7,060)	165,312
Other Financing Sources				
Transfers in	-	25,000	-	25,000
Net Change in Fund Balances	23,253	174,119	(7,060)	190,312
Fund Balances, January 1	<u>148,395</u>	<u>85,624</u>	<u>165,766</u>	<u>399,785</u>
Fund Balances, December 31	<u>\$ 171,648</u>	<u>\$ 259,743</u>	<u>\$ 158,706</u>	<u>\$ 590,097</u>

City of Excelsior, Minnesota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2017

	Park Improvement	TIF 1-1 Project	TIF 1-2 Project	Total
Assets				
Cash and temporary investments	\$ 289,083	\$ 48,438	\$ -	\$ 337,521
Receivables				
Accounts	431	-	-	431
Delinquent taxes	-	2,564	-	2,564
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 289,514</u>	<u>\$ 51,002</u>	<u>\$ -</u>	<u>\$ 340,516</u>
Liabilities				
Accounts payable	\$ 18,850	\$ 41,885	\$ 534	\$ 61,269
Due to other funds	-	-	19,504	19,504
Total Liabilities	<u>18,850</u>	<u>41,885</u>	<u>20,038</u>	<u>80,773</u>
Fund Balances				
Restricted				
Tax increment financing district	-	9,117	-	9,117
Park improvements	270,664	-	-	270,664
Unassigned	-	-	(20,038)	(20,038)
Total Fund Balances	<u>270,664</u>	<u>9,117</u>	<u>(20,038)</u>	<u>259,743</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 289,514</u>	<u>\$ 51,002</u>	<u>\$ -</u>	<u>\$ 340,516</u>

City of Excelsior, Minnesota
 Nonmajor Capital Projects Funds
 Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances
 For the Year Ended December 31, 2017

	<u>Park Improvement</u>	<u>TIF 1-1 Project</u>	<u>TIF 1-2 Project</u>	<u>Total</u>
Revenues				
Taxes	\$ -	\$ 103,372	\$ 5,657	\$ 109,029
Interest on investments	1,025	172	-	1,197
Miscellaneous				
Contributions and donations	176,881	-	-	176,881
Total Revenues	<u>177,906</u>	<u>103,544</u>	<u>5,657</u>	<u>287,107</u>
Expenditures				
Capital outlay				
Culture and recreation	31,164	-	-	31,164
Housing and economic development	-	105,776	1,048	106,824
Total Expenditures	<u>31,164</u>	<u>105,776</u>	<u>1,048</u>	<u>137,988</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	146,742	(2,232)	4,609	149,119
Other Financing Sources				
Transfers in	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Net Change in Fund Balances	171,742	(2,232)	4,609	174,119
Fund Balances, January 1	<u>98,922</u>	<u>11,349</u>	<u>(24,647)</u>	<u>85,624</u>
Fund Balances, December 31	<u>\$ 270,664</u>	<u>\$ 9,117</u>	<u>\$ (20,038)</u>	<u>\$ 259,743</u>

City of Excelsior, Minnesota
 Nonmajor Proprietary Funds
 Combining Statement of Net Position
 December 31, 2017

	Business-type Activities - Enterprise Funds		
	Solid Waste	Street Lighting	Total
Assets			
Current Assets			
Cash and temporary investments	\$ 94,729	\$ 15,396	\$ 110,125
Accounts receivable	47,296	16,323	63,619
Total Current Assets	<u>142,025</u>	<u>31,719</u>	<u>173,744</u>
Capital Assets, at Cost	12,665	6,995	19,660
Less Accumulated Depreciation	<u>(12,665)</u>	<u>(3,002)</u>	<u>(15,667)</u>
Net Capital Assets	<u>-</u>	<u>3,993</u>	<u>3,993</u>
Total Assets	<u>142,025</u>	<u>35,712</u>	<u>177,737</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>1,240</u>	<u>(262)</u>	<u>978</u>
Liabilities			
Current Liabilities			
Accounts payable	9,353	3,844	13,197
Due to other governments	349	-	349
Accrued salaries payable	1,460	506	1,966
Compensated absences payable	251	169	420
Total Current Liabilities	<u>11,413</u>	<u>4,519</u>	<u>15,932</u>
Noncurrent Liabilities			
Compensated absences payable	505	336	841
Net pension liability	10,019	2,140	12,159
Total Noncurrent Liabilities	<u>10,524</u>	<u>2,476</u>	<u>13,000</u>
Total Liabilities	<u>21,937</u>	<u>6,995</u>	<u>28,932</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>3,623</u>	<u>1,257</u>	<u>4,880</u>
Net Position			
Invested in capital assets	-	3,993	3,993
Unrestricted	<u>117,705</u>	<u>23,205</u>	<u>140,910</u>
Total Net Position	<u>\$ 117,705</u>	<u>\$ 27,198</u>	<u>\$ 144,903</u>

City of Excelsior, Minnesota
 Nonmajor Proprietary Funds
 Combining Statement of Revenues, Expenses and
 Changes in Net Position
 December 31, 2017

	Business-type Activities - Enterprise Funds		
	Solid Waste	Street Lighting	Total
Operating Revenues			
Charges for services	\$ 151,881	\$ 58,669	\$ 210,550
Operating Expenses			
Refuse	113,615	-	113,615
Recycling	35,045	-	35,045
Administration	-	10,796	10,796
Maintenance	-	39,136	39,136
Depreciation	-	350	350
Total Operating Expenses	<u>148,660</u>	<u>50,282</u>	<u>198,942</u>
Operating Income	<u>3,221</u>	<u>8,387</u>	<u>11,608</u>
Nonoperating Revenues			
Interest on investments	329	52	381
Other income	8	3	11
Total Nonoperating Revenues	<u>337</u>	<u>55</u>	<u>392</u>
Income Before Transfers	3,558	8,442	12,000
Transfers Out	<u>(4,000)</u>	<u>(400)</u>	<u>(4,400)</u>
Change in Net Position	(442)	8,042	7,600
Net Position, January 1	<u>118,147</u>	<u>19,156</u>	<u>137,303</u>
Net Position, December 31	<u>\$ 117,705</u>	<u>\$ 27,198</u>	<u>\$ 144,903</u>

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City of Excelsior, Minnesota
 Nonmajor Proprietary Funds
 Combining Statement of Cash Flows
 December 31, 2017

	Business-type Activities - Enterprise Funds		
	Solid Waste	Street Lighting	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 156,379	\$ 57,819	\$ 214,198
Payments to suppliers	(114,179)	(38,054)	(152,233)
Payments to employees	(24,458)	(10,695)	(35,153)
Net Cash Provided by Operating Activities	<u>17,742</u>	<u>9,070</u>	<u>26,812</u>
Cash Flows from Noncapital Financing Activities			
Transfers to other funds	<u>(4,000)</u>	<u>(400)</u>	<u>(4,400)</u>
Cash Flows from Investing Activities			
Interest received on investments	<u>329</u>	<u>52</u>	<u>381</u>
Net Increase in Cash and Cash Equivalents	14,071	8,722	22,793
Cash and Cash Equivalents, January 1	<u>80,658</u>	<u>6,674</u>	<u>87,332</u>
Cash and Cash Equivalents, December 31	<u><u>\$ 94,729</u></u>	<u><u>\$ 15,396</u></u>	<u><u>\$ 110,125</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 3,221	\$ 8,387	\$ 11,608
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Other income related to operations	8	3	11
Depreciation	-	350	350
(Increase) decrease in assets/deferred outflows			
Receivables			
Accounts	(1,475)	(853)	(2,328)
Due from other governments	5,965	-	5,965
Deferred pension resources	4,407	2,007	6,414
Increase (decrease) in liabilities/deferred inflows			
Accounts payable	9,352	1,082	10,434
Accrued salaries payable	952	306	1,258
Compensated absences payable	(330)	(73)	(403)
Due to other governments	(300)	-	(300)
Net pension liability	(5,526)	(2,714)	(8,240)
Deferred pension resources	<u>1,468</u>	<u>575</u>	<u>2,043</u>
Net Cash Provided by Operating Activities	<u><u>\$ 17,742</u></u>	<u><u>\$ 9,070</u></u>	<u><u>\$ 26,812</u></u>

City of Excelsior, Minnesota
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued on the Following Pages)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property	\$ 1,331,695	\$ 1,331,695	\$ 1,324,632	\$ (7,063)	\$ 1,289,068
Franchise	69,750	69,750	69,630	(120)	70,196
Total taxes	<u>1,401,445</u>	<u>1,401,445</u>	<u>1,394,262</u>	<u>(7,183)</u>	<u>1,359,264</u>
Licenses and permits					
Business	134,881	134,881	140,928	6,047	135,055
Nonbusiness	108,300	108,300	272,873	164,573	125,515
Total licenses and permits	<u>243,181</u>	<u>243,181</u>	<u>413,801</u>	<u>170,620</u>	<u>260,570</u>
Intergovernmental					
State					
Other	3,095	3,095	3,095	-	3,095
County					
Highway aid	-	-	4,782	4,782	-
Other	-	-	-	-	3,726
Total intergovernmental	<u>3,095</u>	<u>3,095</u>	<u>7,877</u>	<u>4,782</u>	<u>6,821</u>
Charges for services					
General government	75,153	75,153	170,997	95,844	77,306
Public works	138,850	138,850	259,463	120,613	141,501
Culture and recreation	56,000	56,000	33,942	(22,058)	43,657
Other charges	1,500	1,500	1,099	(401)	4,085
Total charges for services	<u>271,503</u>	<u>271,503</u>	<u>465,501</u>	<u>193,998</u>	<u>266,549</u>
Fines and forfeitures	<u>67,550</u>	<u>67,550</u>	<u>95,891</u>	<u>28,341</u>	<u>68,635</u>
Special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159</u>
Interest on investments	<u>18,500</u>	<u>18,500</u>	<u>6,072</u>	<u>(12,428)</u>	<u>16,579</u>
Miscellaneous					
Other	800	800	3,517	2,717	2,194
Refunds and reimbursements	15,000	15,000	37,586	22,586	26,412
Total miscellaneous	<u>15,800</u>	<u>15,800</u>	<u>41,103</u>	<u>25,303</u>	<u>28,606</u>
Total Revenues	<u>2,021,074</u>	<u>2,021,074</u>	<u>2,424,507</u>	<u>403,433</u>	<u>2,007,183</u>

City of Excelsior, Minnesota
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures					
Current					
General government					
Legislative					
Personal services	\$ 14,209	\$ 14,209	\$ 14,209	\$ -	\$ 14,209
Other services and charges	9,025	9,025	5,930	3,095	6,963
Total legislative	<u>23,234</u>	<u>23,234</u>	<u>20,139</u>	<u>3,095</u>	<u>21,172</u>
City manager / clerk					
Personal services	101,787	101,787	101,190	597	97,382
Other services and charges	5,300	5,300	5,301	(1)	5,214
Total City manager / clerk	<u>107,087</u>	<u>107,087</u>	<u>106,491</u>	<u>596</u>	<u>102,596</u>
Elections and voter registration					
Personal services	-	-	-	-	2,738
Supplies	200	200	173	27	1,992
Other services and charges	600	600	694	(94)	838
Total elections and voter registration	<u>800</u>	<u>800</u>	<u>867</u>	<u>(67)</u>	<u>5,568</u>
Finance					
Personal services	35,801	35,801	39,036	(3,235)	40,080
Other services and charges	1,720	1,720	362	1,358	734
Total finance	<u>37,521</u>	<u>37,521</u>	<u>39,398</u>	<u>(1,877)</u>	<u>40,814</u>
Planning and zoning					
Personal services	61,583	61,583	61,899	(316)	55,436
Other services and charges	37,650	37,650	34,945	2,705	46,055
Total planning and zoning	<u>99,233</u>	<u>99,233</u>	<u>96,844</u>	<u>2,389</u>	<u>101,491</u>
Administration					
Supplies	5,275	5,275	6,353	(1,078)	5,251
Other services and charges	292,630	292,630	276,618	16,012	266,084
Total administration	<u>297,905</u>	<u>297,905</u>	<u>282,971</u>	<u>14,934</u>	<u>271,335</u>
Heritage preservation					
Other services and charges	1,085	1,085	427	658	11,288
Total General Government	<u>566,865</u>	<u>566,865</u>	<u>547,137</u>	<u>19,728</u>	<u>554,264</u>

City of Excelsior, Minnesota
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Public safety					
Police protection					
Other services and charges	\$ 732,436	\$ 732,436	\$ 728,244	\$ 4,192	\$ 736,594
Fire protection					
Other services and charges	197,341	197,341	197,592	(251)	189,522
Protective inspection					
Other services and charges	30,000	30,000	41,621	(11,621)	29,823
Total Public Safety	959,777	959,777	967,457	(7,680)	955,939
Public works					
Engineering					
Other services and charges	12,000	12,000	17,680	(5,680)	12,815
Streets					
Personal services	119,383	119,383	111,532	7,851	113,732
Supplies	36,300	36,300	39,280	(2,980)	38,526
Other services and charges	46,940	46,940	39,598	7,342	35,253
Total streets	202,623	202,623	190,410	12,213	187,511
Total Public Works	214,623	214,623	208,090	6,533	200,326
Culture and recreation					
Parks					
Personal services	118,320	118,320	126,096	(7,776)	96,774
Supplies	24,700	24,700	31,761	(7,061)	24,143
Other services and charges	78,650	78,650	60,619	18,031	70,140
Total Culture and Recreation	221,670	221,670	218,476	3,194	191,057
Miscellaneous					
Cemetery					
Personal services	19,119	19,119	19,414	(295)	18,213
Supplies	1,500	1,500	754	746	415
Other services and charges	1,100	1,100	1,110	(10)	980
Total miscellaneous	21,719	21,719	21,278	441	19,608
Total Current Expenditures	1,984,654	1,984,654	1,962,438	22,216	1,921,194

City of Excelsior, Minnesota
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Continued)
For the Year Ended December 31, 2017
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017			Variance with Final Budget	2016
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Expenditures (Continued)					
Capital outlay					
General government	\$ -	\$ -	\$ 15,412	\$ (15,412)	\$ 8,251
Total Expenditures	<u>1,984,654</u>	<u>1,984,654</u>	<u>1,977,850</u>	<u>6,804</u>	<u>1,929,445</u>
Excess of Revenues					
Over Expenditures	<u>36,420</u>	<u>36,420</u>	<u>446,657</u>	<u>410,237</u>	<u>77,738</u>
Other Financing Sources (Uses)					
Transfers in	102,800	102,800	102,800	-	106,600
Transfers out	<u>(139,220)</u>	<u>(139,220)</u>	<u>(229,195)</u>	<u>(89,975)</u>	<u>(94,363)</u>
Total Other Financing Sources (Uses)	<u>(36,420)</u>	<u>(36,420)</u>	<u>(126,395)</u>	<u>(89,975)</u>	<u>12,237</u>
Net Change in Fund Balances	-	-	320,262	320,262	89,975
Fund Balances, January 1	<u>1,285,379</u>	<u>1,285,379</u>	<u>1,285,379</u>	-	<u>1,195,404</u>
Fund Balances, December 31	<u>\$ 1,285,379</u>	<u>\$ 1,285,379</u>	<u>\$ 1,605,641</u>	<u>\$ 320,262</u>	<u>\$ 1,285,379</u>

City of Excelsior, Minnesota
 Agency Funds
 Combining Schedule of Changes in Assets and Liabilities
 For the Year Ended December 31, 2017

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
Escrow				
Assets				
Cash and temporary investments	<u>\$ 47,272</u>	<u>\$ 210,378</u>	<u>\$ 187,827</u>	<u>\$ 69,823</u>
Liability				
Accounts payable	<u>\$ 47,272</u>	<u>\$ 232,929</u>	<u>\$ 210,378</u>	<u>\$ 69,823</u>

City of Excelsior, Minnesota
 Summary Financial Report
 Revenues and Expenditures For General Operations
 Governmental Funds
 For the Years Ended December 31, 2017 and 2016

	Total		Percent Increase (Decrease)
	2017	2016	
Revenues			
Taxes	\$ 1,603,291	\$ 1,561,841	2.65 %
Special assessments	119,064	120,348	(1.07)
Licenses and permits	413,801	260,570	58.81
Intergovernmental	38,727	20,146	92.23
Charges for services	527,618	308,531	71.01
Fines and forfeitures	95,891	68,635	39.71
Interest on investments	16,621	47,115	(64.72)
Miscellaneous	876,082	212,982	311.34
	<u>\$ 3,691,095</u>	<u>\$ 2,600,168</u>	41.96 %
Total Revenues	<u>\$ 3,691,095</u>	<u>\$ 2,600,168</u>	41.96 %
Per Capita	\$ 1,659	\$ 1,150	44.32 %
Expenditures			
Current			
General government	\$ 547,137	\$ 554,264	(1.29) %
Public safety	967,457	955,939	1.20
Public works	228,496	219,229	4.23
Culture and recreation	218,476	191,057	14.35
Miscellaneous	21,278	19,608	8.52
Capital outlay			
General government	163,245	197,692	(17.42)
Public works	1,919,623	64,482	2,876.99
Culture and recreation	31,164	14,270	118.39
Housing and economic development	106,824	101,860	4.87
Debt service			
Principal payments	90,740	88,148	2.94
Interest and other charges	39,768	-	-
Bond issuance costs	31,550	41,930	(24.76)
	<u>\$ 4,365,758</u>	<u>\$ 2,448,479</u>	78.30 %
Total Expenditures	<u>\$ 4,365,758</u>	<u>\$ 2,448,479</u>	78.30 %
Per Capita	\$ 1,962	\$ 1,082	81.27 %
Total Long-term Indebtedness	\$ 2,451,497	\$ 1,024,067	139.39 %
Per Capita	1,102	453	143.37
General Fund Balance - December 31	\$ 1,605,641	\$ 1,285,379	24.92 %
Per Capita	722	568	26.99

The purpose of this report is to provide a summary of financial information concerning the City of Excelsior to interested citizens. The complete financial statements may be examined at City Hall, 339 Third Street, Excelsior, MN 55331. Questions about this report should be directed to Kelly Horn, Finance Director at (952) 653-3677.

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OTHER FINANCIAL INFORMATION (UNAUDITED)

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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City of Excelsior, Minnesota
Tax Levies and Collections
For the Past Ten Years

Fiscal Year	Total Levy	Collection of Current Year's Levy	Percentage of Levy Collected	Collection of Prior Year's Levy	Total Collections	Percentage of Total Collections to Levy
2008	\$ 1,144,194	\$ 1,114,519	97.41 %	\$ 18,479	\$ 1,132,998	99.02 %
2009	1,201,408	1,171,076	97.48	12,350	1,183,426	98.50
2010	1,291,509	1,264,296	97.89	10,509	1,274,805	98.71
2011	1,317,399	1,290,735	97.98	12,924	1,303,659	98.96
2012	1,317,399	1,295,322	98.32	12,006	1,307,328	99.24
2013	1,317,339	1,309,701	99.42	3,067	1,312,768	99.65
2014	1,351,808	1,335,576	98.80	9,688	1,345,264	99.52
2015	1,378,895	1,369,120	99.29	7,583	1,376,703	99.84
2016	1,406,426	1,386,750	98.60	11,523	1,398,273	99.42
2017	1,434,540	1,418,644	98.89	-	1,418,644	98.89

Special Assessment Levies and Collections
For the Past Ten Years

Fiscal Year	Total Levy	Collection of Current Year's Levy	Percentage of Levy Collected	Collection of Prior Year's Levy	Total Collections	Percentage of Total Collections to Levy
2008	\$ 17,797	\$ 16,609	93.32 %	\$ 1,188	\$ 17,797	100.00 %
2009	22,928	22,260	97.09	668	22,928	100.00
2010	16,864	15,049	89.24	1,815	16,864	100.00
2011	22,368	21,980	98.27	388	22,368	100.00
2012	23,805	22,259	93.51	1,546	23,805	100.00
2013	24,282	24,043	99.02	239	24,282	100.00
2014	27,106	25,725	94.91	1,381	27,106	100.00
2015	22,650	22,305	98.48	108	22,413	98.95
2016	73,810	72,348	98.02	1,176	73,524	99.61
2017	73,674	72,274	98.10	-	72,274	98.10

City of Excelsior, Minnesota
Tax Capacity, Tax Levies and Tax Capacity Rates
(Shown by Year of Tax Collectability)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Tax Capacity				
Personal property	\$ 38,967	\$ 38,760	\$ 38,524	\$ 40,320
Real estate	<u>4,612,292</u>	<u>4,799,686</u>	<u>4,675,727</u>	<u>4,185,056</u>
Total	4,651,259	4,838,446	4,714,251	4,225,376
Contribution to fiscal disparities pool	(519,848)	(570,522)	(608,282)	(574,768)
Increment	(95,078)	(95,078)	(93,430)	(90,628)
Distribution from fiscal disparities pool	<u>209,578</u>	<u>224,664</u>	<u>223,253</u>	<u>219,176</u>
Total Tax Capacity	<u>\$ 4,245,911</u>	<u>\$ 4,397,510</u>	<u>\$ 4,235,792</u>	<u>\$ 3,779,156</u>
Tax Levies				
Revenue	<u>\$ 1,201,408</u>	<u>\$ 1,291,509</u>	<u>\$ 1,317,399</u>	<u>\$ 1,317,399</u>
Tax Capacity Rates				
Revenue	<u>28.296 %</u>	<u>29.369 %</u>	<u>31.102 %</u>	<u>34.860 %</u>

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 43,948	\$ 45,194	\$ 45,568	\$ 47,211	\$ 47,883	\$ 48,974
<u>4,067,384</u>	<u>3,949,333</u>	<u>4,048,069</u>	<u>4,630,478</u>	<u>5,120,997</u>	<u>5,514,685</u>
4,111,332	3,994,527	4,093,637	4,677,689	5,168,880	5,563,659
(489,211)	(491,004)	(515,487)	(510,901)	(581,167)	(634,148)
(89,863)	(77,600)	(77,602)	(89,957)	(89,957)	(106,294)
<u>184,321</u>	<u>153,910</u>	<u>149,422</u>	<u>149,955</u>	<u>140,973</u>	<u>150,058</u>
<u>\$ 3,716,579</u>	<u>\$ 3,579,833</u>	<u>\$ 3,649,970</u>	<u>\$ 4,226,786</u>	<u>\$ 4,638,729</u>	<u>\$ 4,973,275</u>
<u>\$ 1,317,399</u>	<u>\$ 1,317,339</u>	<u>\$ 1,351,808</u>	<u>\$ 1,378,895</u>	<u>\$ 1,406,426</u>	<u>\$ 1,434,540</u>
<u>35.447 %</u>	<u>36.799 %</u>	<u>37.036 %</u>	<u>32.623 %</u>	<u>30.319 %</u>	<u>28.845 %</u>

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OTHER REQUIRED REPORTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Excelsior, Minnesota

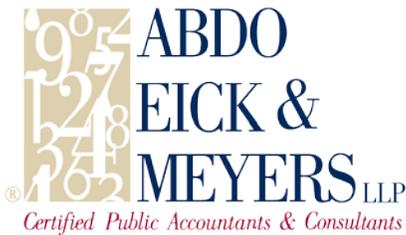
We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Excelsior, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended solely for the information and use those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 30, 2018



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Excelsior, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Excelsior, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2017-001 which we consider to be a significant deficiency.

Compliance and Other Matters

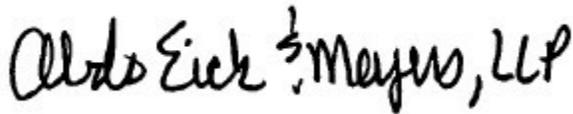
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to the Finding

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

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 30, 2018

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City of Excelsior, Minnesota
Schedule of Finding and Response
For the Year Ended December 31, 2017

<u>Finding</u>	<u>Description</u>
2017- 001	Limited Segregation of Duties
<i>Condition:</i>	During our audit, we reviewed procedures over the City's major transaction cycles. During our examination of these major cycles, we noted that the utility billing, cash disbursements, payroll and cash receipts cycles had limited segregation of duties.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, recording and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Cause:</i>	As a result of the limited number of staff, the City is not able to completely segregate all accounting functions. Currently the Finance Director has duties in more than one category, as described above, for the utility billing, cash disbursements, payroll and cash receipts cycles.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud and errors.
<i>Recommendation:</i>	While we recognize the current staff is not large enough to eliminate this deficiency, we recommend the City ensure its current controls are being followed by staff. Invoice approval is an important control step which provides better evidence of approval for the purchasing process. The city should continue to evaluate its internal controls on a regular basis.

Management Response:

The City agrees with the audit finding. Although no additional staff are proposed to be hired, the City will ensure compensating controls exist to reduce the risk of fraud or errors and will evaluate such controls on a regular basis.