

Annual Financial Report

City of Excelsior

Excelsior, Minnesota

For the Year Ended

December 31, 2016

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CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2016

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 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

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CITY OF EXCELSIOR, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2016

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mark Gaylord	Mayor	12/31/16
Todd Carlson	Council Member	12/31/16
Greg Miller	Council Member	12/31/16
Jennifer Caron	Council Member	12/31/18
John Beattie	Council Member	12/31/18

APPOINTED

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

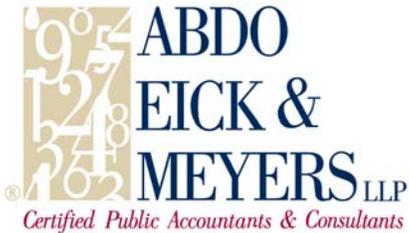
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FINANCIAL SECTION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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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, 2016, 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, 2016, 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 15 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 78 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

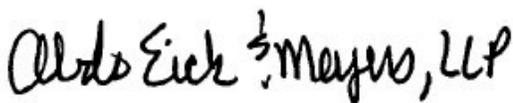
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and other financial information are presented for purposes 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 11, 2017, 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 11, 2017

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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, 2016.

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 \$13,459,002 (net position). Of this amount, \$4,949,277 (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 \$596,665. The increase was supported primarily by operating income from the 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 \$3,282,651, an increase of \$258,289 in comparison with the prior year. Approximately 87 percent of this total amount, \$2,841,789, 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 \$1,155,752, or 59.9 percent of total General fund 2016 expenditures.
- The City's total debt increased \$79,725 or 2.0 percent during the current fiscal year. The increase was due to a draw on the PFA loan for \$52,576 and an increase of the net pension liability.

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

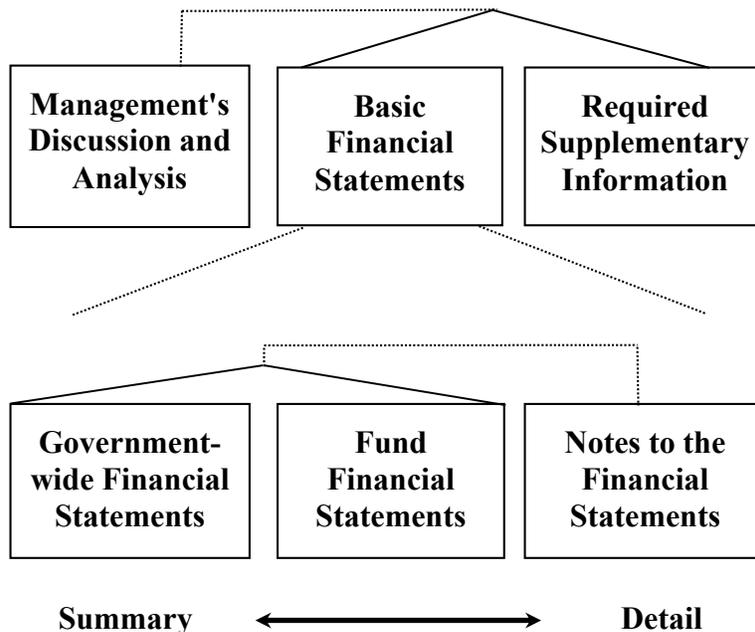


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the 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 29 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 7 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 34 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 40 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 50 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 51 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 \$13,459,002 at the close of the most recent fiscal year.

A portion of the City's net position (60.9 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Assets						
Current and other assets	\$ 3,898,650	\$ 3,822,472	\$ 76,178	\$ 2,436,832	\$ 2,105,223	\$ 331,609
Capital assets	5,492,046	5,518,129	(26,083)	5,808,197	5,964,132	(155,935)
Total assets	9,390,696	9,340,601	50,095	8,245,029	8,069,355	175,674
Deferred outflows of resources						
Deferred pension resources	155,017	32,211	122,806	141,695	29,353	112,342
Liabilities						
Noncurrent liabilities outstanding	1,571,218	1,505,056	66,162	2,493,964	2,480,401	13,563
Other liabilities	191,975	312,414	(120,439)	99,321	167,898	(68,577)
Total liabilities	1,763,193	1,817,470	(54,277)	2,593,285	2,648,299	(55,014)
Deferred inflows of resources						
Deferred pension resources	61,031	75,036	(14,005)	55,926	68,378	(12,452)
Net position						
Net investment in capital assets	4,467,979	4,405,914	62,065	3,726,216	3,764,875	(38,659)
Restricted	315,530	306,821	8,709	-	-	-
Unrestricted	2,937,980	2,767,571	170,409	2,011,297	1,617,156	394,141
Total net position	\$ 7,721,489	\$ 7,480,306	\$ 241,183	\$ 5,737,513	\$ 5,382,031	\$ 355,482

Additionally, \$315,530 is restricted for debt service, tax increment district expenditure and park improvement expenditures. The remaining balance of *unrestricted net position* (\$4,949,277) 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 \$596,665 during the current fiscal year. Both the governmental activities and the business type activities increased the net position, by \$241,183 and \$355,482, respectively.

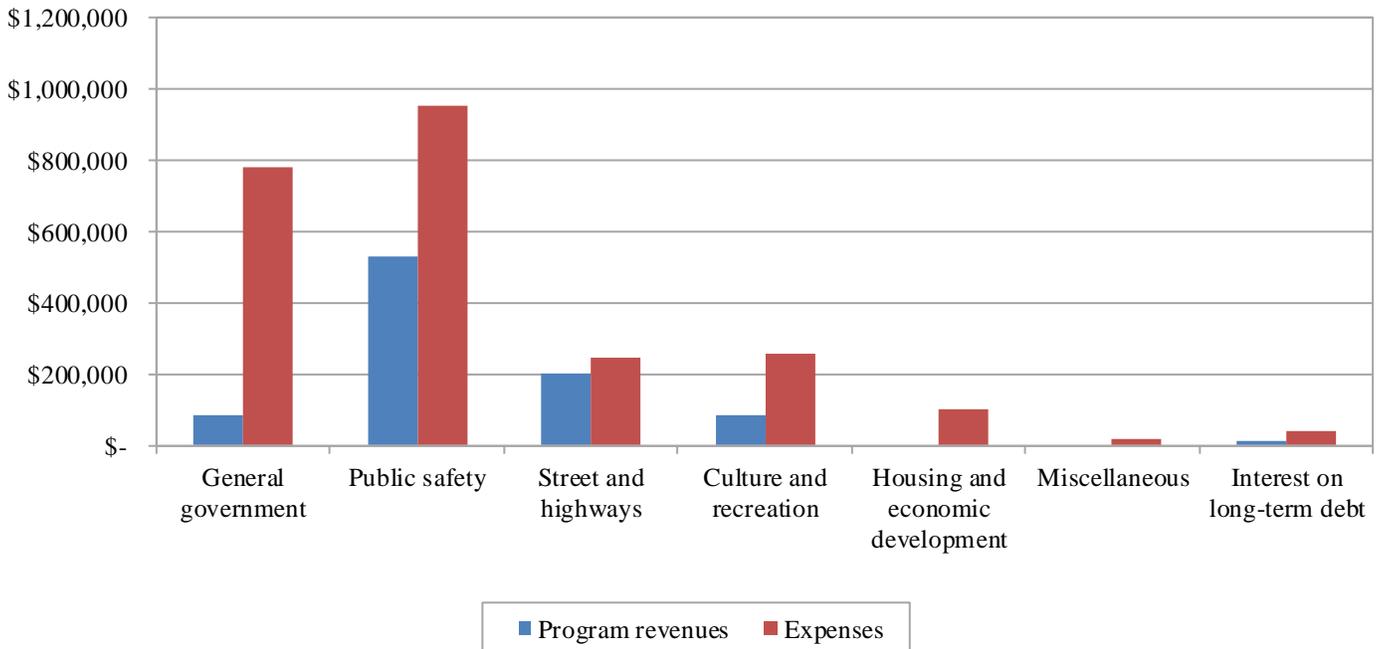
Governmental activities. Governmental activities increased the City's net position by \$241,183, thereby accounting for 40.4 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

City of Excelsior's Changes in Net Position

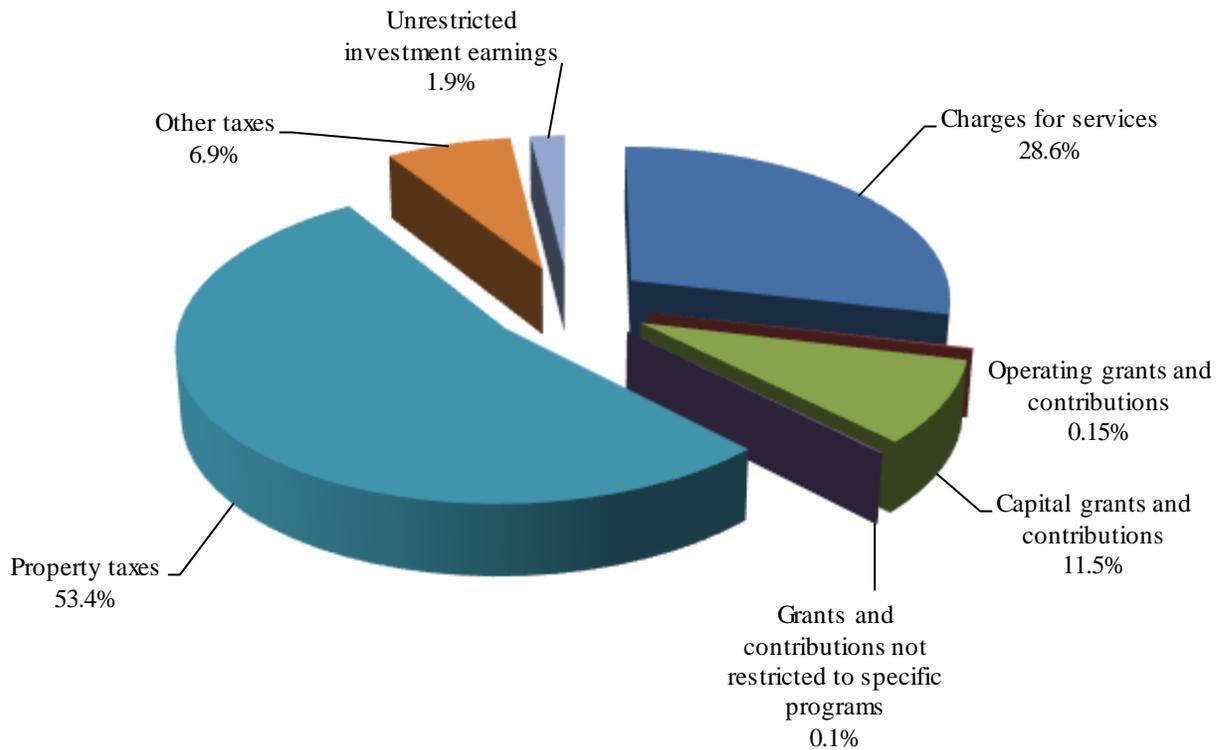
	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 696,769	\$ 632,439	\$ 64,330	\$ 1,830,817	\$ 1,736,449	\$ 94,368
Operating grants and contributions	3,726	10,000	(6,274)	32,404	-	32,404
Capital grants and contributions	213,194	590,395	(377,201)	23,512	81,951	(58,439)
General revenues						
Property taxes	1,400,960	1,388,104	12,856	-	-	-
Other taxes	172,773	168,443	4,330	-	-	-
Grants and contributions not restricted to specific programs	3,095	3,095	-	-	-	-
Unrestricted investment earnings	47,115	48,621	(1,506)	30,072	35,778	(5,706)
Miscellaneous	-	4,543	(4,543)	-	-	-
Total revenues	2,537,632	2,845,640	(308,008)	1,916,805	1,854,178	62,627
Expenses						
General government	779,133	638,877	140,256	-	-	-
Public safety	955,939	932,664	23,275	-	-	-
Streets and highways	248,143	361,960	(113,817)	-	-	-
Culture and recreation	256,845	261,361	(4,516)	-	-	-
Housing and economic development	101,860	96,623	5,237	-	-	-
Miscellaneous	20,064	17,709	2,355	-	-	-
Interest on long-term debt	41,065	43,117	(2,052)	-	-	-
Water utility	-	-	-	482,787	451,852	30,935
Sewer utility	-	-	-	505,857	419,496	86,361
Solid waste	-	-	-	146,544	153,834	(7,290)
Surface water	-	-	-	115,837	119,221	(3,384)
Street lighting	-	-	-	55,759	99,165	(43,406)
Commercial docks	-	-	-	147,939	137,841	10,098
Total expenses	2,403,049	2,352,311	50,738	1,454,723	1,381,409	73,314
Increase in net position before transfers	134,583	493,329	(358,746)	462,082	472,769	(10,687)
Transfers	106,600	110,400	(3,800)	(106,600)	(110,400)	3,800
Change in net position	241,183	603,729	(362,546)	355,482	362,369	(6,887)
Net position, January 1	7,480,306	6,876,577	603,729	5,382,031	5,019,662	362,369
Net position, December 31	\$ 7,721,489	\$ 7,480,306	\$ 241,183	\$ 5,737,513	\$ 5,382,031	\$ 355,482

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

Expenses and Program Revenues - Governmental Activities



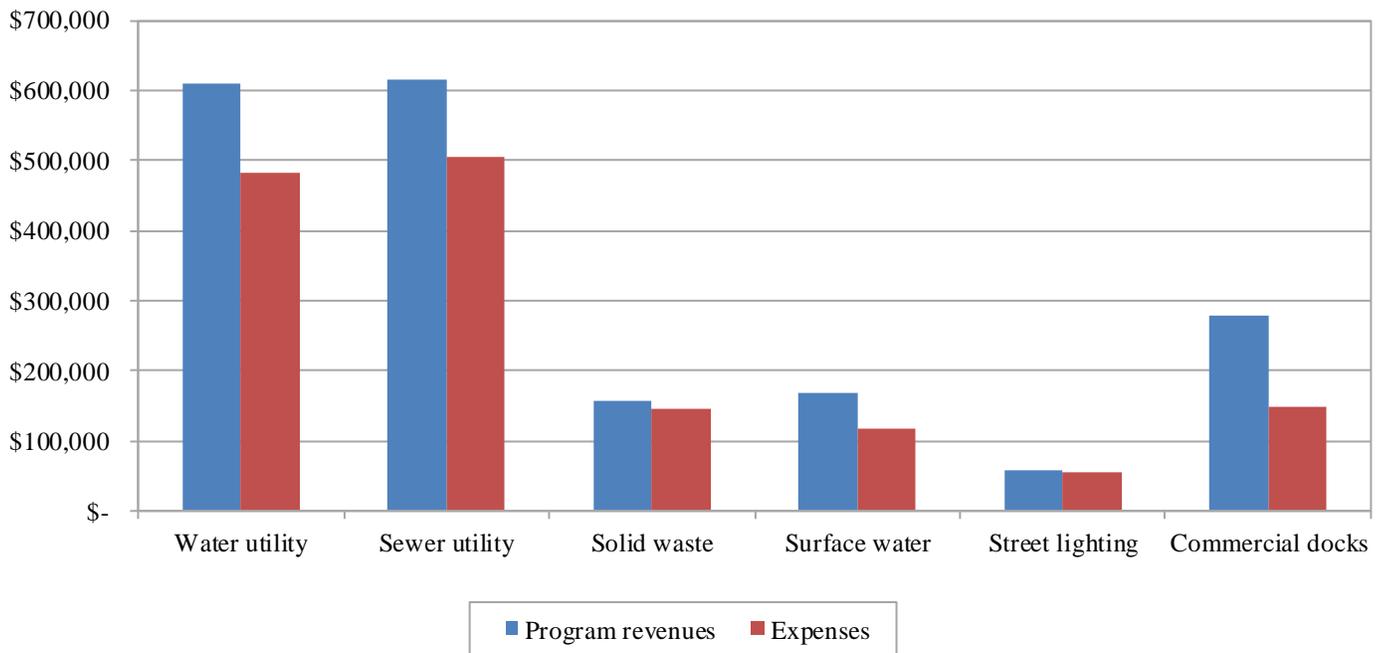
Revenues by Source - Governmental Activities



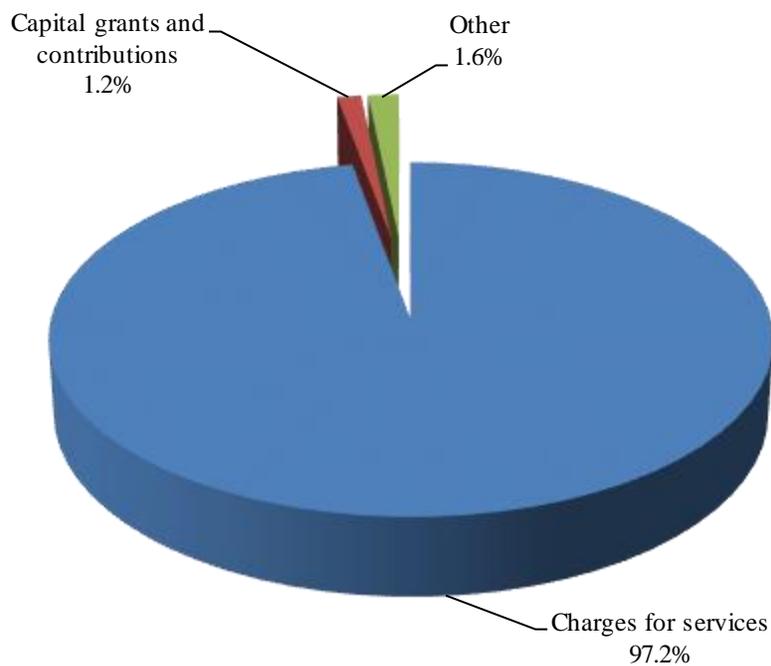
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities. Business-type activities increased the City’s net position by \$355,482, accounting for 59.6 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)
	2015	2016	
General	\$ 1,195,404	\$ 1,285,379	\$ 89,975

The fund balance increase is mainly due to an excess of revenues over expenditures of \$77,738. The fund balance was further increased through transfers in from the enterprise funds to cover operating costs.

Capital Improvement	\$ 1,465,178	\$ 1,597,487	\$ 132,309
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The fund balance increased mainly due to excess revenue over expenses of \$63,355, and a interfund transfer of \$94,363.

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 \$2,011,297. The total growth in net position for the funds was \$355,482. 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 2016 resulted in an increase in fund balance in the amount of \$89,975. This was mainly due to higher charges for services revenues.

Overall, revenues were over the budgeted amount by \$106,370. This was due in large part to charges for services being over budget by \$80,193. Other items with the largest positive variances were licenses/permits and miscellaneous revenues which were over budget by \$21,070 and \$13,406, respectively.

Expenditures were \$16,395 over budget. The public safety department was the largest contributor of the excess expenditures which were over budget by \$22,800. The main part of the negative variances was due to other services and charges in the protective inspection and streets departments. Other items such as consultant fees and staff wages and benefits were under budget due to staff turnover.

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, 2016, amounts to \$11,300,243 (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 decreased \$182,018, or -1.6 percent during the year.

Major capital asset activity during the current year included:

- The City purchased parking meters for the downtown area.
- The 2016 Water Treatment Plant Improvement project was completed.
- The Lafayette Lift Station project was completed.
- The 2015 Sewer Lining project was completed.
- The 2017 Street and Utility project was started during the year.

Additional information on the City's capital assets can be found in Note 3B starting on page 61 of this report.

City of Excelsior's Capital Assets
(net of depreciation)

	Governmental Activities			Business-type Activities		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Land	\$ 1,111,042	\$ 1,111,042	\$ -	\$ 50,000	\$ 50,000	\$ -
Construction in progress	42,290	-	42,290	30,963	257,840	(226,877)
Buildings	149,283	164,104	(14,821)	-	-	-
Improvement other than building	3,149,529	3,259,301	(109,772)	-	-	-
Machinery and equipment	505,653	419,860	85,793	535,140	586,447	(51,307)
Infrastructure	534,249	563,822	(29,573)	5,192,094	5,069,845	122,249
Total	\$ 5,492,046	\$ 5,518,129	\$ (26,083)	\$ 5,808,197	\$ 5,964,132	\$ (155,935)

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,106,048. 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		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
G.O. revenue bonds	\$ -	\$ -	\$ -	\$ 1,131,048	\$ 1,166,472	\$ (35,424)
G.O. improvement bonds	1,024,067	1,112,215	(88,148)	950,933	1,032,785	(81,852)
Net pension liability	432,470	279,292	153,178	395,719	254,507	141,212
Other postemployment benefits	99,415	94,195	5,220	-	-	-
Compensated absences	15,266	19,354	(4,088)	16,264	26,637	(10,373)
Total	\$ 1,571,218	\$ 1,505,056	\$ 66,162	\$ 2,493,964	\$ 2,480,401	\$ 13,563

The City's total debt increased \$79,725 (2.0 percent) during the current fiscal year. The increase was due to a draw on the PFA loan for \$52,576 and an increase of the net pension liability.

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 64 of this report.

Economic Factors and Next Year's Budgets and Rates

- Preliminary property valuations increased again in 2017 for taxes payable 2018. Property values overall are increasing about 9.5 percent within the City, with the largest increases happening for commercial, apartments and residential properties.
- The 2017 budget includes a 2 percent levy increase. This increase will help accommodate future major capital projects and the debt related to those projects. The next large project the City is completing is the Phase III Street Project, which is slated to begin in the summer of 2017.
- For 2017, water rates increased 2.5%, street lighting increased 2%, and sewer rates decreased 2%. 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 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, 2016

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CITY OF EXCELSIOR, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash temporary investments	\$ 3,303,346	\$ 2,059,291	\$ 5,362,637
Receivables			
Interest	11,142	-	11,142
Accounts	46,560	355,711	402,271
Delinquent taxes	33,809	-	33,809
Special assessments	389,470	22,205	411,675
Due from other governments	96,753	9,770	106,523
Internal balances	10,555	(10,555)	-
Prepaid items	7,015	410	7,425
Land and construction in progress	1,153,332	80,963	1,234,295
Depreciable infrastructure, buildings, property and equipment, net	<u>4,338,714</u>	<u>5,727,234</u>	<u>10,065,948</u>
TOTAL ASSETS	<u>9,390,696</u>	<u>8,245,029</u>	<u>17,635,725</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension resources	<u>155,017</u>	<u>141,695</u>	<u>296,712</u>
LIABILITIES			
Accounts payable	81,389	58,431	139,820
Accrued salaries payable	6,883	14,124	21,007
Accrued interest payable	16,681	25,113	41,794
Due to other governments	2,595	1,453	4,048
Unearned revenue	84,427	200	84,627
Noncurrent liabilities			
Due within one year			
Compensated absences payable	5,088	5,418	10,506
Bonds payable	90,740	168,307	259,047
Due in more than one year			
Compensated absences payable	10,178	10,846	21,024
Net pension liability	432,470	395,719	828,189
Bonds payable	933,327	1,913,674	2,847,001
Other postemployment benefits payable	<u>99,415</u>	<u>-</u>	<u>99,415</u>
TOTAL LIABILITIES	<u>1,763,193</u>	<u>2,593,285</u>	<u>4,356,478</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	<u>61,031</u>	<u>55,926</u>	<u>116,957</u>
NET POSITION			
Net investment in capital assets	4,467,979	3,726,216	8,194,195
Restricted for			
Debt service	205,259	-	205,259
Tax increment financing district	11,349	-	11,349
Park improvements	98,922	-	98,922
Unrestricted	<u>2,937,980</u>	<u>2,011,297</u>	<u>4,949,277</u>
TOTAL NET POSITION	<u>\$ 7,721,489</u>	<u>\$ 5,737,513</u>	<u>\$ 13,459,002</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, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 779,133	\$ 79,348	\$ 3,726	\$ -
Public safety	955,939	530,823	-	-
Public works	248,143	241	-	199,869
Culture and recreation	256,845	86,357	-	-
Housing and economic development	101,860	-	-	-
Miscellaneous	20,064	-	-	-
Interest on long-term debt	41,065	-	-	13,325
Total governmental activities	2,403,049	696,769	3,726	213,194
Business-type activities				
Water utility	482,787	594,949	-	13,380
Sewer utility	505,857	577,451	32,404	6,701
Solid waste	146,544	156,307	-	-
Surface water	115,837	165,395	-	3,431
Street lighting	55,759	57,113	-	-
Commercial docks	147,939	279,602	-	-
Total business-type activities	1,454,723	1,830,817	32,404	23,512
Total	\$ 3,857,772	\$ 2,527,586	\$ 36,130	\$ 236,706

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 as restated (Note 8)

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
\$ (696,059)	\$ -	\$ (696,059)
(425,116)	-	(425,116)
(48,033)	-	(48,033)
(170,488)	-	(170,488)
(101,860)	-	(101,860)
(20,064)	-	(20,064)
(27,740)	-	(27,740)
(1,489,360)	-	(1,489,360)
-	125,542	125,542
-	110,699	110,699
-	9,763	9,763
-	52,989	52,989
-	1,354	1,354
-	131,663	131,663
-	432,010	432,010
(1,489,360)	432,010	(1,057,350)
1,300,960	-	1,300,960
100,000	-	100,000
102,577	-	102,577
70,196	-	70,196
3,095	-	3,095
47,115	30,072	77,187
106,600	(106,600)	-
1,730,543	(76,528)	1,654,015
241,183	355,482	596,665
7,480,306	5,382,031	12,862,337
\$ 7,721,489	\$ 5,737,513	\$ 13,459,002

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, 2016

CITY OF EXCELSIOR, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	<u>Capital Projects</u> Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and temporary investments	\$ 1,350,045	\$ 1,520,259	\$ 433,042	\$ 3,303,346
Receivables				
Interest	11,142	-	-	11,142
Accounts	17,550	28,628	382	46,560
Delinquent taxes	27,498	-	6,311	33,809
Special assessments	-	331,410	58,060	389,470
Due from other funds	24,647	-	-	24,647
Due from other governments	5,941	90,812	-	96,753
Advance to other funds	-	10,555	-	10,555
Prepaid items	7,015	-	-	7,015
	<u>1,443,838</u>	<u>1,981,664</u>	<u>497,795</u>	<u>3,923,297</u>
TOTAL ASSETS	\$ 1,443,838	\$ 1,981,664	\$ 497,795	\$ 3,923,297
LIABILITIES				
Accounts payable	\$ 42,319	\$ 24,139	\$ 14,931	\$ 81,389
Accrued salaries payable	6,511	-	372	6,883
Due to other funds	-	-	24,647	24,647
Due to other governments	2,595	-	-	2,595
Unearned revenue	84,427	-	-	84,427
	<u>135,852</u>	<u>24,139</u>	<u>39,950</u>	<u>199,941</u>
TOTAL LIABILITIES	135,852	24,139	39,950	199,941
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - accounts receivable	-	28,628	-	28,628
Unavailable revenue - special assessments	-	331,410	58,060	389,470
Unavailable revenue - property taxes	22,607	-	-	22,607
	<u>22,607</u>	<u>360,038</u>	<u>58,060</u>	<u>440,705</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	22,607	360,038	58,060	440,705
FUND BALANCES				
Nonspendable				
Prepaid items	7,015	-	-	7,015
Restricted for				
Debt service	-	-	165,766	165,766
Tax increment financing district	-	-	11,349	11,349
Park improvements	-	-	98,922	98,922
Committed for				
Self insurance	84,264	-	-	84,264
Compensated absences	31,520	-	-	31,520
Cemetery	6,828	-	-	6,828
Parking lot maintenance	-	-	35,198	35,198
Assigned for				
Capital improvements	-	1,512,397	-	1,512,397
Parking improvements	-	85,090	-	85,090
Parking lot maintenance	-	-	113,197	113,197
Unassigned	1,155,752	-	(24,647)	1,131,105
	<u>1,285,379</u>	<u>1,597,487</u>	<u>399,785</u>	<u>3,282,651</u>
TOTAL FUND BALANCES	1,285,379	1,597,487	399,785	3,282,651
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,443,838	\$ 1,981,664	\$ 497,795	\$ 3,923,297

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, 2016

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

Total fund balances - governmental	\$ 3,282,651
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	7,711,299
Less: accumulated depreciation	(2,219,253)
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	(15,266)
Bond principal payable	(1,024,067)
Other postemployment benefits payable	(99,415)
Pension liability	(432,470)
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	22,607
Special assessments receivable	389,470
Accounts receivable	28,628
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	155,017
Deferred inflows of pension resources	(61,031)
Governmental funds do not report a liability for accrued interest until due and payable.	(16,681)
Total net position - governmental activities	\$ 7,721,489

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, 2016

	General	Capital Projects Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 1,359,264	\$ -	\$ 202,577	\$ 1,561,841
Licenses and permits	260,570	-	-	260,570
Intergovernmental	6,821	-	13,325	20,146
Charges for services	266,549	31,744	10,238	308,531
Fines and forfeitures	68,635	-	-	68,635
Special assessments	159	81,300	38,889	120,348
Interest on investments	16,579	25,076	5,460	47,115
Miscellaneous	28,606	178,749	5,627	212,982
TOTAL REVENUES	2,007,183	316,869	276,116	2,600,168
EXPENDITURES				
Current				
General government	554,264	-	-	554,264
Public safety	955,939	-	-	955,939
Public works	200,326	-	18,903	219,229
Culture and recreation	191,057	-	-	191,057
Miscellaneous	19,608	-	-	19,608
Capital outlay				
General government	8,251	189,441	-	197,692
Public works	-	64,482	-	64,482
Culture and recreation	-	-	14,270	14,270
Housing and economic development	-	-	101,860	101,860
Debt service				
Principal	-	-	88,148	88,148
Interest and other	-	-	41,930	41,930
TOTAL EXPENDITURES	1,929,445	253,923	265,111	2,448,479
EXCESS OF REVENUES OVER EXPENDITURES	77,738	62,946	11,005	151,689
OTHER FINANCING SOURCES (USES)				
Transfers in	106,600	94,363	25,000	225,963
Transfers out	(94,363)	(25,000)	-	(119,363)
TOTAL OTHER FINANCING SOURCES (USES)	12,237	69,363	25,000	106,600
NET CHANGE IN FUND BALANCES	89,975	132,309	36,005	258,289
FUND BALANCES, JANUARY 1	1,195,404	1,465,178	363,780	3,024,362
FUND BALANCES, DECEMBER 31	\$ 1,285,379	\$ 1,597,487	\$ 399,785	\$ 3,282,651

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, 2016

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

Net change in fund balances - governmental funds	\$ 258,289
<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	183,631
Depreciation expense	(209,714)
<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	88,148
<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>	
	865
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	(16,367)
<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	4,087
Other postemployment benefits	(5,220)
<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	11,892
Special assessments	(74,428)
Change in net position - governmental activities	\$ 241,183

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, 2016

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 1,368,612	\$ 1,368,612	\$ 1,359,264	\$ (9,348)
Licenses and permits	239,500	239,500	260,570	21,070
Intergovernmental	3,095	3,095	6,821	3,726
Charges for services	186,356	186,356	266,549	80,193
Fines and forfeitures	69,550	69,550	68,635	(915)
Special assessments	-	-	159	159
Interest on investments	18,500	18,500	16,579	(1,921)
Miscellaneous	15,200	15,200	28,606	13,406
TOTAL REVENUES	1,900,813	1,900,813	2,007,183	106,370
EXPENDITURES				
Current				
General government	538,404	538,404	554,264	(15,860)
Public safety	933,139	933,139	955,939	(22,800)
Public works	210,490	210,490	200,326	10,164
Culture and recreation	208,603	208,603	191,057	17,546
Miscellaneous	20,414	20,414	19,608	806
Capital outlay	2,000	2,000	8,251	(6,251)
TOTAL EXPENDITURES	1,913,050	1,913,050	1,929,445	(16,395)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(12,237)	(12,237)	77,738	89,975
OTHER FINANCING SOURCES (USES)				
Transfers in	106,600	106,600	106,600	-
Transfers out	(94,363)	(94,363)	(94,363)	-
TOTAL OTHER FINANCING SOURCES (USES)	12,237	12,237	12,237	-
NET CHANGE IN FUND BALANCES	-	-	89,975	89,975
FUND BALANCES, JANUARY 1	1,195,404	1,195,404	1,195,404	-
FUND BALANCES, DECEMBER 31	<u>\$ 1,195,404</u>	<u>\$ 1,195,404</u>	<u>\$ 1,285,379</u>	<u>\$ 89,975</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, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 519,048	\$ 846,678	\$ 417,482
Receivables			
Accounts	135,401	159,019	-
Special assessments	19,683	510	-
Due from other governments	3,805	-	-
Prepaid items	-	-	410
TOTAL CURRENT ASSETS	677,937	1,006,207	417,892
NONCURRENT ASSETS			
Special assessments receivable	-	2,012	-
Advance to other funds	-	12,313	-
CAPITAL ASSETS, AT COST	4,768,145	2,746,622	484,661
LESS ACCUMULATED DEPRECIATION	(1,571,144)	(763,694)	(366,764)
NET CAPITAL ASSETS	3,197,001	1,982,928	117,897
TOTAL NONCURRENT ASSETS	3,197,001	1,997,253	117,897
TOTAL ASSETS	3,874,938	3,003,460	535,789
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension resources	44,352	45,534	18,703

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>
\$ 188,751	\$ 87,332	\$ 2,059,291
-	61,291	355,711
-	-	20,193
-	5,965	9,770
-	-	410
<u>188,751</u>	<u>154,588</u>	<u>2,445,375</u>
-	-	2,012
-	-	12,313
580,188	19,660	8,599,276
(74,160)	(15,317)	(2,791,079)
<u>506,028</u>	<u>4,343</u>	<u>5,808,197</u>
<u>506,028</u>	<u>4,343</u>	<u>5,822,522</u>
<u>694,779</u>	<u>158,931</u>	<u>8,267,897</u>
<u>25,714</u>	<u>7,392</u>	<u>141,695</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, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 49,378	\$ 2,828	\$ 426
Accrued salaries payable	4,725	4,843	1,629
Compensated absences payable	1,505	1,643	899
Accrued interest payable	16,296	4,571	-
Due to other governments	804	-	-
Unearned revenue	-	-	200
Bonds payable, current portion	120,344	24,866	-
TOTAL CURRENT LIABILITIES	193,052	38,751	3,154
NONCURRENT LIABILITIES			
Compensated absences payable	3,010	3,286	1,799
Bonds payable, net of current portion	1,420,331	255,767	-
Net pension liability	123,788	127,251	51,986
Advance from other funds	-	-	22,868
TOTAL NONCURRENT LIABILITIES	1,547,129	386,304	76,653
TOTAL LIABILITIES	1,740,181	425,055	79,807
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	17,480	18,000	7,300
NET POSITION			
Net investment in capital assets	1,656,326	1,702,295	117,897
Unrestricted	505,303	903,644	349,488
TOTAL NET POSITION	\$ 2,161,629	\$ 2,605,939	\$ 467,385

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

Business-type Activities - Enterprise Funds

<u>Surface Water</u>	<u>Other Proprietary</u>	
<u>Management</u>	<u>Funds</u>	<u>Totals</u>
\$ 3,036	\$ 2,763	\$ 58,431
2,219	708	14,124
816	555	5,418
4,246	-	25,113
-	649	1,453
-	-	200
23,097	-	168,307
<u>33,414</u>	<u>4,675</u>	<u>273,046</u>
1,642	1,109	10,846
237,576	-	1,913,674
72,295	20,399	395,719
-	-	22,868
<u>311,513</u>	<u>21,508</u>	<u>2,343,107</u>
<u>344,927</u>	<u>26,183</u>	<u>2,616,153</u>
<u>10,309</u>	<u>2,837</u>	<u>55,926</u>
245,355	4,343	3,726,216
119,902	132,960	2,011,297
<u>\$ 365,257</u>	<u>\$ 137,303</u>	<u>\$ 5,737,513</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, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
OPERATING REVENUES			
Charges for services	\$ 544,305	\$ 577,451	\$ 279,602
OPERATING EXPENSES			
Refuse	-	-	-
Recycling	-	-	-
Administration	285,589	418,752	-
Maintenance	21,576	-	123,272
Depreciation	135,254	75,791	24,667
TOTAL OPERATING EXPENSES	442,419	494,543	147,939
OPERATING INCOME	101,886	82,908	131,663
NONOPERATING REVENUES (EXPENSES)			
Interest on investments	6,194	13,080	6,705
Interest expense and other	(40,368)	(11,314)	-
Other income	50,644	32,404	-
TOTAL NONOPERATING REVENUES (EXPENSES)	16,470	34,170	6,705
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	118,356	117,078	138,368
TRANSFERS OUT	(10,000)	(10,000)	(80,000)
CAPITAL CONTRIBUTIONS	13,380	6,701	-
CHANGE IN NET POSITION	121,736	113,779	58,368
NET POSITION, JANUARY 1	2,039,893	2,492,160	409,017
NET POSITION, DECEMBER 31	<u>\$ 2,161,629</u>	<u>\$ 2,605,939</u>	<u>\$ 467,385</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>
\$ 155,904	\$ 213,420	\$ 1,770,682
-	103,666	103,666
-	42,878	42,878
86,740	11,254	802,335
-	44,156	189,004
18,863	349	254,924
<u>105,603</u>	<u>202,303</u>	<u>1,392,807</u>
<u>50,301</u>	<u>11,117</u>	<u>377,875</u>
2,568	1,525	30,072
(10,234)	-	(61,916)
9,491	-	92,539
<u>1,825</u>	<u>1,525</u>	<u>60,695</u>
52,126	12,642	438,570
(800)	(5,800)	(106,600)
3,431	-	23,512
54,757	6,842	355,482
<u>310,500</u>	<u>130,461</u>	<u>5,382,031</u>
<u>\$ 365,257</u>	<u>\$ 137,303</u>	<u>\$ 5,737,513</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, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 581,029	\$ 579,641	\$ 279,602
Payments to suppliers	(196,015)	(288,447)	(52,866)
Payments to employees	(96,351)	(145,624)	(67,054)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>288,663</u>	<u>145,570</u>	<u>159,682</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from advances to other funds	-	5,745	-
Payments on advances from other funds	-	-	(10,704)
Transfers to other funds	(10,000)	(10,000)	(80,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(10,000)</u>	<u>(4,255)</u>	<u>(90,704)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Connection fees	8,000	3,000	-
Intergovernmental	5,380	3,701	-
Acquisition of capital assets	(73,757)	(75,344)	-
Bond proceeds	52,576	-	-
Interest paid on bonds	(40,937)	(11,551)	-
Principal paid on bonds	(123,259)	(24,157)	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>(171,997)</u>	<u>(104,351)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	6,194	13,080	6,705
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	112,860	50,044	75,683
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>406,188</u>	<u>796,634</u>	<u>341,799</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 519,048</u>	<u>\$ 846,678</u>	<u>\$ 417,482</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>
\$ 165,395	\$ 210,671	\$ 1,816,338
(25,252)	(174,405)	(736,985)
<u>(65,697)</u>	<u>(33,883)</u>	<u>(408,609)</u>
<u>74,446</u>	<u>2,383</u>	<u>670,744</u>
-	-	5,745
-	-	(10,704)
<u>(800)</u>	<u>(5,800)</u>	<u>(106,600)</u>
<u>(800)</u>	<u>(5,800)</u>	<u>(111,559)</u>
-	-	11,000
3,431	-	12,512
(2,238)	-	(151,339)
-	-	52,576
(10,454)	-	(62,942)
<u>(22,436)</u>	<u>-</u>	<u>(169,852)</u>
<u>(31,697)</u>	<u>-</u>	<u>(308,045)</u>
<u>2,568</u>	<u>1,525</u>	<u>30,072</u>
44,517	(1,892)	281,212
<u>144,234</u>	<u>89,224</u>	<u>1,778,079</u>
<u>\$ 188,751</u>	<u>\$ 87,332</u>	<u>\$ 2,059,291</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, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Commercial Docks
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income	\$ 101,886	\$ 82,908	\$ 131,663
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Other income related to operations	50,644	32,404	-
Depreciation	135,254	75,791	24,667
(Increase) decrease in assets/deferred outflows			
Receivables			
Accounts	(9,114)	(30,722)	-
Special assessments	(4,326)	508	-
Due from other governments	(480)	-	-
Prepaid items	-	-	1,445
Deferred pension resources	(35,138)	(36,080)	(14,810)
Increase (decrease) in liabilities/deferred inflows			
Accounts payable	11,449	(17,387)	203
Accrued salaries payable	1,447	1,447	142
Compensated absences payable	(3,637)	(4,560)	(86)
Due to other governments	764	-	-
Net pension liability	43,898	45,283	18,228
Deferred pension resources	(3,984)	(4,022)	(1,770)
	<u>\$ 288,663</u>	<u>\$ 145,570</u>	<u>\$ 159,682</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
 SCHEDULE OF NONCASH CAPITAL AND FINANCING ACTIVITIES			
Capital assets acquired on account	<u>\$ 32,257</u>	<u>\$ 946</u>	<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>
\$ 50,301	\$ 11,117	\$ 377,875
9,491	-	92,539
18,863	349	254,924
-	(3,084)	(42,920)
-	-	(3,818)
-	335	(145)
-	-	1,445
(20,391)	(5,923)	(112,342)
(5,537)	(9,286)	(20,558)
339	104	3,479
(2,667)	577	(10,373)
-	1,114	1,878
26,139	7,664	141,212
(2,092)	(584)	(12,452)
<u>\$ 74,446</u>	<u>\$ 2,383</u>	<u>\$ 670,744</u>
<u>\$ 2,039</u>	<u>\$ -</u>	<u>\$ 35,242</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, 2016

	<u>Agency</u>
ASSETS	
Cash and temporary investments	<u>\$ 47,272</u>
LIABILITIES	
Accounts payable	<u>\$ 47,272</u>

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

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016:

- US Government securities of \$252,351 are valued using quoted market prices (Level 1 inputs)
- Brokered Certificates of Deposit of \$2,387,668 are values 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 2016. 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, 2016

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 estimated fair 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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

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, 2016.

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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

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

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

B. Excess of expenditures over appropriations

For the year ended December 31, 2016 expenditures exceeded appropriations in the following fund:

Fund	Final Budget	Actual Amounts	Excess of Expenditures Over Appropriations
General	\$ 1,913,050	\$ 1,929,445	\$ 16,395

The excess expenditures were funded by revenues in excess of expectations.

C. Deficit fund balances

The following fund had a fund balance deficit at December 31, 2016:

Fund	Amount
TIF 1-2 Project	\$ 24,647

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, 2016

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 \$1,647,757 and the bank balance was \$1,748,029. Of the bank balance, \$552,518 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, 2016, 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	\$ 252,351	\$ 252,351	\$ -	\$ -
Brokered Certificates of Deposit	N/A	less than 1 year	593,027	-	593,027	-
Brokered Certificates of Deposit	N/A	1 to 3 years	811,444	-	811,444	-
Brokered Certificates of Deposit	N/A	more than 3 years	983,197	-	983,197	-
Pooled investments						
Broker Money Market	N/A	less than 6 months	1,121,933			
Total investments			<u>\$ 3,761,952</u>	<u>\$ 252,351</u>	<u>\$ 2,387,668</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, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Carrying amount of deposits	\$ 1,647,757
Investments	3,761,952
Cash on hand	<u>200</u>
Total	<u>\$ 5,409,909</u>
Cash and temporary investments	
Statement of Net Position	\$ 5,362,637
Statement of Fiduciary Net Position	<u>47,272</u>
Total	<u>\$ 5,409,909</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 53 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, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

Capital asset activity for the year ended December 31, 2016 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	-	42,290
Total capital assets not being depreciated	<u>1,111,042</u>	<u>42,290</u>	<u>-</u>	<u>1,153,332</u>
Capital assets being depreciated				
Buildings	748,150	-	-	748,150
Improvements other than buildings	3,649,489	-	-	3,649,489
Machinery and equipment	866,015	141,341	-	1,007,356
Infrastructure	1,152,972	-	-	1,152,972
Total capital assets being depreciated	<u>6,416,626</u>	<u>141,341</u>	<u>-</u>	<u>6,557,967</u>
Less accumulated depreciation for				
Buildings	(584,046)	(14,821)	-	(598,867)
Improvements other than buildings	(390,188)	(109,772)	-	(499,960)
Machinery and equipment	(446,155)	(55,548)	-	(501,703)
Infrastructure	(589,150)	(29,573)	-	(618,723)
Total accumulated depreciation	<u>(2,009,539)</u>	<u>(209,714)</u>	<u>-</u>	<u>(2,219,253)</u>
Total capital assets being depreciated, net	<u>4,407,087</u>	<u>(68,373)</u>	<u>-</u>	<u>4,338,714</u>
Governmental activities capital assets, net	<u>\$ 5,518,129</u>	<u>\$ (26,083)</u>	<u>\$ -</u>	<u>\$ 5,492,046</u>

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

Governmental activities	
General government	\$ 13,026
Public works	146,989
Culture and recreation	49,699
Total depreciation expense - governmental activities	<u>\$ 209,714</u>

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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	257,840	21,820	(248,697)	30,963
Total capital assets not being depreciated	307,840	21,820	(248,697)	80,963
Capital assets being depreciated				
Buildings	8,202	-	-	8,202
Machinery and equipment	1,026,587	-	-	1,026,587
Infrastructure	7,157,658	325,866	-	7,483,524
Total capital assets being depreciated	8,192,447	325,866	-	8,518,313
Less accumulated depreciation for				
Buildings	(8,202)	-	-	(8,202)
Machinery and equipment	(440,140)	(51,307)	-	(491,447)
Infrastructure	(2,087,813)	(203,617)	-	(2,291,430)
Total accumulated depreciation	(2,536,155)	(254,924)	-	(2,791,079)
Total capital assets being depreciated, net	5,656,292	70,942	-	5,727,234
Business-type activities capital assets, net	\$ 5,964,132	\$ 92,762	\$ (248,697)	\$ 5,808,197

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

Business-type activities	
Water utility	\$ 135,254
Sewer utility	75,791
Commercial docks	24,667
Surface water management	18,863
Other proprietary funds	349
Total depreciation expense - business-type activities	\$ 254,924

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

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, 2016 is as follows:

Receivable Fund	Payable Fund	Purpose	Amount	Final Maturity
Capital Improvement	Commercial Docks	Residential dock construction	\$ 10,555	2018
Sewer	Commercial Docks	Residential dock construction	12,313	2018
General	TIF District 1-2	Cash flow	24,647	NA

The composition of interfund transfers as of December 31, 2016 is as follows:

Fund	Transfer in			Total
	General Fund	Capital Improvement Fund	Other Governmental Funds	
Transfer out				
General	\$ -	\$ 94,363	\$ -	\$ 94,363
Capital Improvement	-		25,000	25,000
Water	10,000	-	-	10,000
Sewer	10,000	-	-	10,000
Commercial Docks	80,000	-	-	80,000
Surface Water Management	800	-	-	800
Other proprietary	5,800	-	-	5,800
Total	\$ 106,600	\$ 94,363	\$ 25,000	\$ 225,963

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 the \$94,363 transfer from the General fund to the Capital Improvement fund. This transfer was made to fund future projects.

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

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	<u>\$ 1,975,000</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		
	Principal	Interest	Total
2017	\$ 90,740	\$ 38,808	\$ 129,548
2018	93,333	36,183	129,516
2019	95,925	33,153	129,078
2020	98,518	29,749	128,267
2021	98,518	26,005	124,523
2022-2026	<u>547,033</u>	<u>63,808</u>	<u>610,841</u>
Total	<u>\$ 1,024,067</u>	<u>\$ 227,706</u>	<u>\$ 1,251,773</u>

Year Ending December 31,	General Obligation Bonds Business-type Activities		
	Principal	Interest	Total
2017	\$ 84,259	\$ 36,037	\$ 120,296
2018	86,667	33,599	120,266
2019	89,075	30,785	119,860
2020	91,482	27,624	119,106
2021	91,482	24,148	115,630
2022-2026	<u>507,968</u>	<u>59,251</u>	<u>567,219</u>
Total	<u>\$ 950,933</u>	<u>\$ 211,444</u>	<u>\$ 1,162,377</u>

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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	\$ 365,000
MPFA - 2014A Water					
Revenue Bonds	920,313	1.00	06/02/14	08/20/34	<u>766,048</u>
 Total G.O. Revenue Bonds					 <u><u>\$ 1,131,048</u></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
2017	\$ 84,048	\$ 22,187	\$ 106,235
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
2022-2026	325,000	29,251	354,251
2027-2031	219,000	13,470	232,470
2032-2034	<u>137,000</u>	<u>3,660</u>	<u>140,660</u>
 Total	 <u><u>\$ 1,131,048</u></u>	 <u><u>\$ 133,303</u></u>	 <u><u>\$ 1,264,351</u></u>

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2016 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	\$ 1,112,215	\$ -	\$ (88,148)	\$ 1,024,067	\$ 90,740
Compensated absences payable	19,354	29,222	(33,310)	15,266	5,088
Other postemployment benefits payable	94,195	5,220	-	99,415	-
Pension liability					
GERF	<u>279,292</u>	<u>178,761</u>	<u>(25,583)</u>	<u>432,470</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 1,505,056</u>	<u>\$ 213,203</u>	<u>\$ (147,041)</u>	<u>\$ 1,571,218</u>	<u>\$ 95,828</u>
Business-type activities					
Bonds payable					
General obligation					
revenue bonds	\$ 1,166,472	\$ 52,576	\$ (88,000)	\$ 1,131,048	\$ 84,048
General obligation					
improvement bonds	1,032,785	-	(81,852)	950,933	84,259
Compensated absences payable	26,637	40,218	(50,591)	16,264	5,418
Pension liability					
GERF	<u>254,507</u>	<u>163,313</u>	<u>(22,101)</u>	<u>395,719</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 2,480,401</u>	<u>\$ 256,107</u>	<u>\$ (242,544)</u>	<u>\$ 2,493,964</u>	<u>\$ 173,725</u>

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2016. 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 2016. The City's contributions to the GERF for the years ending December 31, 2016, 2015 and 2014 were \$47,992, \$46,043, and \$44,492, 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, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

GERF pension costs

At December 31, 2016, the City reported a liability of \$828,189 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 \$10,886. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0102 percent which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$32,787 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$3,246 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, 2016, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,851	\$ 66,818
Changes in actuarial assumptions	178,158	-
Net difference between projected and actual earnings on plan investments	92,024	-
Changes in proportion	-	50,139
Contributions to GERF subsequent to the measurement date	23,679	-
Total	\$ 296,712	\$ 116,957

Deferred outflows of resources totaling \$23,679 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2017	\$ 33,296
2018	14,199
2019	78,656
2020	29,925
2021	-

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

E. Actuarial assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active member payroll growth	3.50% per year
Investment rate of return	7.90%

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 males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in GERF was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

GERF

- 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.0
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	2.00	0.50
	<u>100.00 %</u>	
Total		

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

F. Discount rate

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. 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	\$ 1,176,274	\$ 828,189

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’s defined benefit healthcare plan (“the Retiree Health Plan”) provides healthcare insurance for eligible retirees and their spouses. The Retiree Health Plan is affiliated with the healthcare plan administered through LOGIS, an agent multiple-employer postemployment healthcare plan. LOGIS is a consortium of Minnesota local government units controlled by its members. LOGIS’ Board of Directors is composed of one representative from each agency. LOGIS issues a publicly available financial report that includes financial statements and required supplementary information for the health plan. That report may be obtained by writing to LOGIS, 5750 Duluth Street, Golden Valley, MN 55422, or by calling (763) 543-2600.

B. Funding policy

The contribution requirements of plan members and the City are established and may be amended by LOGIS’ Board of Directors. 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, 2016. As of December 31, 2016, there are three retirees receiving health benefits from the plan, who pay their full premium.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

C. Annual other postemployment benefit cost

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. 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	\$ 4,658
Interest on net OPEB obligation	4,239
Adjustment to annual required contribution	(3,677)
 Annual OPEB cost (expense)	 5,220
 Contributions made	 -
 Increase in net OPEB obligation	 5,220
 Net OPEB obligation - January 1, 2016	 94,195
 Net OPEB obligation - December 31, 2016	 \$ 99,415

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, 2016 follows:

Year Ending	Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
12/31/16	\$ 5,220	- %	\$ 99,415
12/31/15	14,091	-	94,195
12/31/14	14,250	-	80,104

D. Funded status and funding progress

As of January 1, 2016, the actuarial accrued liability for benefits was \$27,928, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$826,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3 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, 2016

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, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 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 9.0 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, 2016 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, 2015.

SOUTH LAKE MINNETONKA POLICE DEPARTMENT
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2015 AND 2014

	2015	2014
Assets	\$ 4,933,813	\$ 5,051,223
Deferred outflows of resources	370,165	-
Total liabilities, deferred outflows of resources and net position	\$ 5,303,978	\$ 5,051,223
Liabilities	\$ 4,717,104	\$ 3,326,740
Deferred inflows of resources	312,158	-
Net position	274,716	1,724,483
Total liabilities, deferred outflows of resources and net position	\$ 5,303,978	\$ 5,051,223

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 6: JOINT POWERS AGREEMENTS - CONTINUED

SOUTH LAKE MINNETONKA POLICE DEPARTMENT
SUMMARY STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Revenues	\$ 2,863,327	\$ 2,829,638
Expenses	2,830,418	2,692,164
Net revenues	32,909	137,474
General revenues	18,558	11,770
Change in net position	51,467	149,244
Net position, January 1	1,724,483	1,575,239
Prior period adjustment	(1,501,234)	-
Net position, December 31	\$ 274,716	\$ 1,724,483

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 2016 totaled \$738,239. 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, 2016:

EXCELSIOR FIRE DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2016 AND 2015

	2016	2015
Assets	\$ 8,549,042	\$ 8,918,967
Deferred outflows of resources	1,001,398	202,136
Liabilities	4,272,946	4,156,120
Deferred inflows of resources	85,188	210,985
Net position	\$ 5,192,306	\$ 4,753,998

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 6: JOINT POWERS AGREEMENTS - CONTINUED

EXCELSIOR FIRE DISTRICT
SUMMARY STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Charges for services	\$ 1,702,746	\$ 1,586,179
Operating grants and contributions	8,860	2,224
Expenses	(1,275,891)	(1,345,611)
Net revenues	435,715	242,792
General revenues	2,593	4,921
Change in net position	438,308	247,713
Net position, January 1 as restated	4,753,998	4,506,285
Net position, December 31	\$ 5,192,306	\$ 4,753,998

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 2016 totaled \$187,522. 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, 2016

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, 2016

CITY OF EXCELSIOR, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2016

Schedule of funding progress for the postemployment benefit plan

Actuarial Valuation Date	Required Supplementary Information					UAAL as a Percentage of Covered Payroll
	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	
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	Required Supplementary Information				City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
		City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)			
06/30/16	0.0102 %	\$ 828,189	\$ 10,886	\$ 839,075	\$ 635,783	130.3 %	86.6 %	
06/30/15	0.0103	533,799	-	533,799	607,741	87.8	86.6	

Schedule of employer's PERA contributions - General Employees Retirement Fund

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

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

CITY OF EXCELSIOR, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	<u>Special Revenue</u>		<u>Debt Service</u>	Total
	Parking Lot Maintenance	Capital Projects	G.O. Bonds 2010A	Nonmajor Funds
ASSETS				
Cash and temporary investments	\$ 148,767	\$ 118,094	\$ 166,181	\$ 433,042
Receivables				
Accounts	-	382	-	382
Delinquent taxes	-	6,311	-	6,311
Special assessments	1,886	-	56,174	58,060
	<u>1,886</u>	<u>-</u>	<u>56,174</u>	<u>58,060</u>
TOTAL ASSETS	<u>\$ 150,653</u>	<u>\$ 124,787</u>	<u>\$ 222,355</u>	<u>\$ 497,795</u>
LIABILITIES				
Accounts payable	\$ -	\$ 14,516	\$ 415	\$ 14,931
Accrued salaries and benefits payable	372	-	-	372
Due to other funds	-	24,647	-	24,647
	<u>-</u>	<u>24,647</u>	<u>-</u>	<u>24,647</u>
TOTAL LIABILITIES	<u>372</u>	<u>39,163</u>	<u>415</u>	<u>39,950</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - special assessments	1,886	-	56,174	58,060
	<u>1,886</u>	<u>-</u>	<u>56,174</u>	<u>58,060</u>
FUND BALANCES				
Restricted for				
Debt service	-	-	165,766	165,766
Tax increment financing district	-	11,349	-	11,349
Park improvements	-	98,922	-	98,922
Committed for				
Parking lot maintenance	35,198	-	-	35,198
Assigned for				
Parking lot maintenance	113,197	-	-	113,197
Unassigned	-	(24,647)	-	(24,647)
	<u>-</u>	<u>(24,647)</u>	<u>-</u>	<u>(24,647)</u>
TOTAL FUND BALANCES	<u>148,395</u>	<u>85,624</u>	<u>165,766</u>	<u>399,785</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 150,653</u>	<u>\$ 124,787</u>	<u>\$ 222,355</u>	<u>\$ 497,795</u>

CITY OF EXCELSIOR, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<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>
REVENUES				
Taxes	\$ -	\$ 102,577	\$ 100,000	\$ 202,577
Intergovernmental	-	-	13,325	13,325
Charges for services	10,238	-	-	10,238
Special assessments	24,442	-	14,447	38,889
Interest on investments	2,122	1,789	1,549	5,460
Miscellaneous				
Donations	-	5,627	-	5,627
	<u>36,802</u>	<u>109,993</u>	<u>129,321</u>	<u>276,116</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Public works	18,903	-	-	18,903
Capital outlay				
Culture and recreation	-	14,270	-	14,270
Housing and economic development	-	101,860	-	101,860
Debt service				
Principal	-	-	88,148	88,148
Interest and other	-	-	41,930	41,930
	<u>18,903</u>	<u>116,130</u>	<u>130,078</u>	<u>265,111</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	17,899	(6,137)	(757)	11,005
OTHER FINANCING SOURCES				
Transfers in	-	25,000	-	25,000
NET CHANGE IN FUND BALANCES	17,899	18,863	(757)	36,005
FUND BALANCES, JANUARY 1	<u>130,496</u>	<u>66,761</u>	<u>166,523</u>	<u>363,780</u>
FUND BALANCES, DECEMBER 31	<u>\$ 148,395</u>	<u>\$ 85,624</u>	<u>\$ 165,766</u>	<u>\$ 399,785</u>

CITY OF EXCELSIOR, MINNESOTA
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	<u>Park Improvement</u>	<u>TIF 1-1 Project</u>	<u>TIF 1-2 Project</u>	<u>Total</u>
ASSETS				
Cash and temporary investments	\$ 106,872	\$ 11,222	\$ -	\$ 118,094
Receivables				
Accounts	382	-	-	382
Delinquent taxes	-	6,311	-	6,311
	<u>-</u>	<u>6,311</u>	<u>-</u>	<u>6,311</u>
TOTAL ASSETS	<u>\$ 107,254</u>	<u>\$ 17,533</u>	<u>\$ -</u>	<u>\$ 124,787</u>
LIABILITIES				
Accounts payable	\$ 8,332	\$ 6,184	\$ -	\$ 14,516
Due to other funds	-	-	24,647	24,647
	<u>-</u>	<u>-</u>	<u>24,647</u>	<u>24,647</u>
TOTAL LIABILITIES	<u>8,332</u>	<u>6,184</u>	<u>24,647</u>	<u>39,163</u>
FUND BALANCES				
Restricted				
Tax increment financing district	-	11,349	-	11,349
Park improvements	98,922	-	-	98,922
Unassigned	-	-	(24,647)	(24,647)
	<u>-</u>	<u>-</u>	<u>(24,647)</u>	<u>(24,647)</u>
TOTAL FUND BALANCES	<u>98,922</u>	<u>11,349</u>	<u>(24,647)</u>	<u>85,624</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 107,254</u>	<u>\$ 17,533</u>	<u>\$ -</u>	<u>\$ 124,787</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, 2016

	Park Improvement	TIF 1-1 Project	TIF 1-2 Project	Total
REVENUES				
Taxes	\$ -	\$ 102,577	\$ -	\$ 102,577
Interest on investments	1,660	129	-	1,789
Miscellaneous				
Donations	5,627	-	-	5,627
TOTAL REVENUES	7,287	102,706	-	109,993
EXPENDITURES				
Capital outlay				
Culture and recreation	14,270	-	-	14,270
Housing and economic development	-	101,332	528	101,860
TOTAL EXPENDITURES	14,270	101,332	528	116,130
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,983)	1,374	(528)	(6,137)
OTHER FINANCING SOURCES				
Transfers in	25,000	-	-	25,000
NET CHANGE IN FUND BALANCES	18,017	1,374	(528)	18,863
FUND BALANCES, JANUARY 1	80,905	9,975	(24,119)	66,761
FUND BALANCES, DECEMBER 31	<u>\$ 98,922</u>	<u>\$ 11,349</u>	<u>\$ (24,647)</u>	<u>\$ 85,624</u>

CITY OF EXCELSIOR, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds		
	Solid Waste	Street Lighting	Total
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 80,658	\$ 6,674	\$ 87,332
Accounts receivable	45,821	15,470	61,291
Due from other governments	5,965	-	5,965
TOTAL CURRENT ASSETS	132,444	22,144	154,588
CAPITAL ASSETS, AT COST	12,665	6,995	19,660
LESS ACCUMULATED DEPRECIATION	(12,665)	(2,652)	(15,317)
NET CAPITAL ASSETS	-	4,343	4,343
TOTAL ASSETS	132,444	26,487	158,931
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension resources	5,647	1,745	7,392
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1	2,762	2,763
Due to other governments	649	-	649
Accrued salaries payable	508	200	708
Compensated absences payable	362	193	555
TOTAL CURRENT LIABILITIES	1,520	3,155	4,675
NONCURRENT LIABILITIES			
Compensated absences payable	724	385	1,109
Net pension liability	15,545	4,854	20,399
TOTAL NONCURRENT LIABILITIES	16,269	5,239	21,508
TOTAL LIABILITIES	17,789	8,394	26,183
DEFERRED INFLOWS OF RESOURCES			
Deferred pension resources	2,155	682	2,837
NET POSITION			
Invested in capital assets	-	4,343	4,343
Unrestricted	118,147	14,813	132,960
TOTAL NET POSITION	\$ 118,147	\$ 19,156	\$ 137,303

CITY OF EXCELSIOR, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds		
	Solid Waste	Street Lighting	Total
OPERATING REVENUES			
Charges for services	\$ 156,307	\$ 57,113	\$ 213,420
OPERATING EXPENSES			
Refuse	103,666	-	103,666
Recycling	42,878	-	42,878
Administration	-	11,254	11,254
Maintenance	-	44,156	44,156
Depreciation	-	349	349
TOTAL OPERATING EXPENSES	146,544	55,759	202,303
OPERATING INCOME	9,763	1,354	11,117
NONOPERATING REVENUES			
Interest on investments	1,378	147	1,525
INCOME BEFORE TRANSFERS	11,141	1,501	12,642
TRANSFERS OUT	(5,000)	(800)	(5,800)
CHANGE IN NET POSITION	6,141	701	6,842
NET POSITION, JANUARY 1	112,006	18,455	130,461
NET POSITION, DECEMBER 31	\$ 118,147	\$ 19,156	\$ 137,303

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CITY OF EXCELSIOR, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds		
	Solid Waste	Street Lighting	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 153,682	\$ 56,989	\$ 210,671
Payments to suppliers	(129,000)	(45,405)	(174,405)
Payments to employees	(24,202)	(9,681)	(33,883)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>480</u>	<u>1,903</u>	<u>2,383</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(5,000)	(800)	(5,800)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	1,378	147	1,525
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,142)	1,250	(1,892)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>83,800</u>	<u>5,424</u>	<u>89,224</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 80,658</u></u>	<u><u>\$ 6,674</u></u>	<u><u>\$ 87,332</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 9,763	\$ 1,354	\$ 11,117
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	-	349	349
(Increase) decrease in assets/deferred outflows			
Due from other governments	335	-	335
Deferred pension resources	(4,541)	(1,382)	(5,923)
Increase (decrease) in liabilities/deferred inflows			
Accounts payable	(9,468)	182	(9,286)
Accrued salaries payable	76	28	104
Compensated absences payable	626	(49)	577
Due to other governments	1,114	-	1,114
Net pension liability	5,956	1,708	7,664
Deferred pension resources	(421)	(163)	(584)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 480</u></u>	<u><u>\$ 1,903</u></u>	<u><u>\$ 2,383</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, 2016
(With comparative actual amounts for the year ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
REVENUES					
Taxes					
Property	\$ 1,298,862	\$ 1,298,862	\$ 1,289,068	\$ (9,794)	\$ 1,290,413
Franchise	69,750	69,750	70,196	446	70,070
Total	<u>1,368,612</u>	<u>1,368,612</u>	<u>1,359,264</u>	<u>(9,348)</u>	<u>1,360,483</u>
Licenses and permits					
Business	131,650	131,650	135,055	3,405	138,571
Nonbusiness	107,850	107,850	125,515	17,665	128,862
Total	<u>239,500</u>	<u>239,500</u>	<u>260,570</u>	<u>21,070</u>	<u>267,433</u>
Intergovernmental					
State					
Other	3,095	3,095	3,095	-	3,095
County					
Other	-	-	3,726	3,726	10,000
Total	<u>3,095</u>	<u>3,095</u>	<u>6,821</u>	<u>3,726</u>	<u>13,095</u>
Charges for services					
General government	78,206	78,206	77,306	(900)	84,156
Public works	60,000	60,000	141,501	81,501	62,782
Culture and recreation	45,650	45,650	43,657	(1,993)	38,662
Other charges	2,500	2,500	4,085	1,585	1,805
Total	<u>186,356</u>	<u>186,356</u>	<u>266,549</u>	<u>80,193</u>	<u>187,405</u>
Fines and forfeitures	<u>69,550</u>	<u>69,550</u>	<u>68,635</u>	<u>(915)</u>	<u>69,038</u>
Special assessments	<u>-</u>	<u>-</u>	<u>159</u>	<u>159</u>	<u>709</u>
Interest on investments	<u>18,500</u>	<u>18,500</u>	<u>16,579</u>	<u>(1,921)</u>	<u>19,959</u>
Miscellaneous					
Other	1,200	1,200	2,194	994	5,018
Refunds and reimbursements	14,000	14,000	26,412	12,412	21,125
Total	<u>15,200</u>	<u>15,200</u>	<u>28,606</u>	<u>13,406</u>	<u>26,143</u>
TOTAL REVENUES	<u>1,900,813</u>	<u>1,900,813</u>	<u>2,007,183</u>	<u>106,370</u>	<u>1,944,265</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, 2016
(With comparative actual amounts for the year ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES					
Current					
General government					
Legislative					
Personal services	\$ 14,209	\$ 14,209	\$ 14,209	\$ -	\$ 13,887
Other services and charges	8,875	8,875	6,963	1,912	6,200
Total	23,084	23,084	21,172	1,912	20,087
City manager / clerk					
Personal services	95,545	95,545	97,382	(1,837)	100,105
Other services and charges	5,300	5,300	5,214	86	4,186
Total	100,845	100,845	102,596	(1,751)	104,291
Elections and voter registration					
Personal services	3,500	3,500	2,738	762	-
Supplies	2,000	2,000	1,992	8	161
Other services and charges	1,300	1,300	838	462	1,014
Total	6,800	6,800	5,568	1,232	1,175
Finance					
Personal services	40,740	40,740	40,080	660	54,106
Other services and charges	1,920	1,920	734	1,186	1,782
Total	42,660	42,660	40,814	1,846	55,888
Planning and zoning					
Personal services	55,474	55,474	55,436	38	57,711
Other services and charges	44,600	44,600	46,055	(1,455)	35,428
Total	100,074	100,074	101,491	(1,417)	93,139
Administration					
Supplies	5,475	5,475	5,251	224	4,015
Other services and charges	258,381	258,381	266,084	(7,703)	214,805
Total	263,856	263,856	271,335	(7,479)	218,820
Heritage preservation					
Other services and charges	1,085	1,085	11,288	(10,203)	10,984
Total general government	538,404	538,404	554,264	(15,860)	504,384

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, 2016
(With comparative actual amounts for the year ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Current - continued					
Public safety					
Police protection					
Other services and charges	\$ 728,617	\$ 728,617	\$ 736,594	\$ (7,977)	\$ 702,788
Fire protection					
Other services and charges	189,522	189,522	189,522	-	178,642
Protective inspection					
Other services and charges	15,000	15,000	29,823	(14,823)	51,234
Total public safety	933,139	933,139	955,939	(22,800)	932,664
Public works					
Engineering					
Other services and charges	12,000	12,000	12,815	(815)	9,774
Streets					
Personal services	113,950	113,950	113,732	218	119,936
Supplies	38,300	38,300	38,526	(226)	38,824
Other services and charges	46,240	46,240	35,253	10,987	39,072
Total	198,490	198,490	187,511	10,979	197,832
Total public works	210,490	210,490	200,326	10,164	207,606
Culture and recreation					
Parks					
Personal services	114,190	114,190	96,774	17,416	98,195
Supplies	25,700	25,700	24,143	1,557	23,052
Other services and charges	68,713	68,713	70,140	(1,427)	70,463
Total culture and recreation	208,603	208,603	191,057	17,546	191,710
Miscellaneous					
Cemetery					
Personal services	17,414	17,414	18,213	(799)	15,457
Supplies	1,800	1,800	415	1,385	1,175
Other services and charges	1,200	1,200	980	220	1,253
Total miscellaneous	20,414	20,414	19,608	806	17,885
Total current expenditures	1,911,050	1,911,050	1,921,194	(10,144)	1,854,249

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, 2016
(With comparative actual amounts for the year ended December 31, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final	Amounts		Amounts
EXPENDITURES - CONTINUED					
Capital outlay					
General government	\$ 2,000	\$ 2,000	\$ 8,251	\$ (6,251)	\$ 1,829
TOTAL EXPENDITURES	<u>1,913,050</u>	<u>1,913,050</u>	<u>1,929,445</u>	<u>(16,395)</u>	<u>1,856,078</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(12,237)</u>	<u>(12,237)</u>	<u>77,738</u>	<u>89,975</u>	<u>88,187</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	106,600	106,600	106,600	-	110,400
Transfers out	(94,363)	(94,363)	(94,363)	-	(190,060)
TOTAL OTHER FINANCING SOURCES (USES)	<u>12,237</u>	<u>12,237</u>	<u>12,237</u>	<u>-</u>	<u>(79,660)</u>
NET CHANGE IN FUND BALANCES	-	-	89,975	89,975	8,527
FUND BALANCES, JANUARY 1	<u>1,195,404</u>	<u>1,195,404</u>	<u>1,195,404</u>	<u>-</u>	<u>1,186,877</u>
FUND BALANCES, DECEMBER 31	<u><u>\$ 1,195,404</u></u>	<u><u>\$ 1,195,404</u></u>	<u><u>\$ 1,285,379</u></u>	<u><u>\$ 89,975</u></u>	<u><u>\$ 1,195,404</u></u>

CITY OF EXCELSIOR, MINNESOTA
 AGENCY FUNDS
 COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
ESCROW				
ASSETS				
Cash and temporary investments	\$ 55,884	\$ 151,378	\$ 159,990	\$ 47,272
LIABILITY				
Accounts payable	\$ 55,884	\$ 142,766	\$ 151,378	\$ 47,272

CITY OF EXCELSIOR, MINNESOTA
SUMMARY FINANCIAL REPORT
REVENUES AND EXPENDITURES FOR GENERAL OPERATIONS
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total		Percent Increase (Decrease)
	2016	2015	
REVENUES			
Taxes	\$ 1,561,841	\$ 1,558,856	0.19 %
Special assessments	120,348	164,833	(26.99)
Licenses and permits	260,570	267,433	(2.57)
Intergovernmental	20,146	77,348	(73.95)
Charges for services	308,531	225,236	36.98
Fines and forfeitures	68,635	69,038	(0.58)
Interest on investments	47,115	48,621	(3.10)
Miscellaneous	212,982	70,732	201.11
	<u>\$ 2,600,168</u>	<u>\$ 2,482,097</u>	
TOTAL REVENUES	<u>\$ 2,600,168</u>	<u>\$ 2,482,097</u>	4.76 %
Per Capita	\$ 1,150	\$ 1,092	5.27 %
EXPENDITURES			
Current			
General government	\$ 554,264	\$ 504,384	9.89 %
Public safety	955,939	932,664	2.50
Public works	219,229	229,847	(4.62)
Culture and recreation	191,057	191,710	(0.34)
Miscellaneous	19,608	17,885	9.63
Capital outlay			
General government	197,692	235,290	(15.98)
Public works	64,482	345,765	(81.35)
Culture and recreation	14,270	17,928	(20.40)
Housing and economic development	101,860	96,623	5.42
Debt service			
Principal payments	88,148	88,148	-
Bond issuance costs	41,930	43,850	(4.38)
	<u>\$ 2,448,479</u>	<u>\$ 2,704,094</u>	
TOTAL EXPENDITURES	<u>\$ 2,448,479</u>	<u>\$ 2,704,094</u>	(9.45) %
Per Capita	\$ 1,082	\$ 1,190	(9.01) %
Total Long-term Indebtedness	\$ 1,024,067	\$ 1,112,215	(7.93) %
Per Capita	453	489	(7.48)
General Fund Balance - December 31	\$ 1,285,379	\$ 1,195,404	7.53 %
Per Capita	568	526	8.05

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 Teah Malecha, 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, 2016

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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
2007	\$ 1,089,709	\$ 1,066,116	97.83 %	\$ 17,301	\$ 1,083,417	99.42 %
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	9,687	1,345,263	99.52
2015	1,378,895	1,369,120	99.29	6,691	1,375,811	99.78
2016	1,406,426	1,386,750	98.60	-	1,386,750	98.60

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
2007	\$ 57,364	\$ 56,701	98.84 %	\$ 663	\$ 57,364	100.00 %
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	-	72,348	98.02

CITY OF EXCELSIOR, MINNESOTA
TAX CAPACITY, TAX LEVIES AND TAX CAPACITY RATES
(Shown by year of tax collectability)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
TAX CAPACITY				
Personal property	\$ 39,839	\$ 38,967	\$ 38,760	\$ 38,524
Real estate	<u>4,135,837</u>	<u>4,612,292</u>	<u>4,799,686</u>	<u>4,675,727</u>
 TOTAL	 4,175,676	 4,651,259	 4,838,446	 4,714,251
 Contribution to fiscal disparities pool	 (367,808)	 (519,848)	 (570,522)	 (608,282)
Increment	(72,885)	(95,078)	(95,078)	(93,430)
Distribution from fiscal disparities pool	<u>182,801</u>	<u>209,578</u>	<u>224,664</u>	<u>223,253</u>
 TOTAL TAX CAPACITY	 <u>\$ 3,917,784</u>	 <u>\$ 4,245,911</u>	 <u>\$ 4,397,510</u>	 <u>\$ 4,235,792</u>
 TAX LEVIES				
Revenue	<u>\$ 1,144,194</u>	<u>\$ 1,201,408</u>	<u>\$ 1,291,509</u>	<u>\$ 1,317,399</u>
 TAX CAPACITY RATES				
Revenue	<u>29.205 %</u>	<u>28.296 %</u>	<u>29.369 %</u>	<u>31.102 %</u>

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 40,320	\$ 43,948	\$ 45,194	\$ 45,568	\$ 47,211	\$ 47,883
<u>4,185,056</u>	<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>
4,225,376	4,111,332	3,994,527	4,093,637	4,677,689	5,168,880
(574,768)	(489,211)	(491,004)	(515,487)	(510,901)	(581,167)
(90,628)	(89,863)	(77,600)	(77,602)	(89,957)	(89,957)
<u>219,176</u>	<u>184,321</u>	<u>153,910</u>	<u>149,422</u>	<u>149,955</u>	<u>140,973</u>
<u>\$ 3,779,156</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>\$ 1,317,399</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>34.860 %</u>	<u>35.447 %</u>	<u>36.799 %</u>	<u>37.036 %</u>	<u>32.623 %</u>	<u>30.319 %</u>

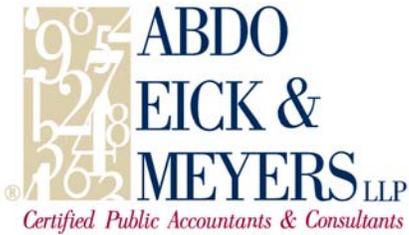
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OTHER REQUIRED REPORTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Excelsior, Minnesota

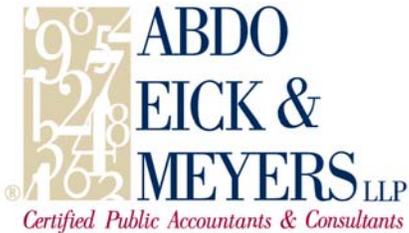
We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Excelsior, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2017.

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 11, 2017



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, 2016, 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 11, 2017.

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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Compliance and Other Matters

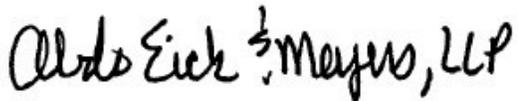
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 Responses to the Findings

The City's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's responses were 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 11, 2017

CITY OF EXCELSIOR, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Description

2016- 001 Limited segregation of duties

Condition: 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.

Criteria: 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.

Cause: 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.

Effect: The existence of this limited segregation of duties increases the risk of fraud and errors.

Recommendation: 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.

CITY OF EXCELSIOR, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Description

2016- 002 Preparation of financial statements

Condition: As in prior years, the City has relied upon the auditor to prepare its financial statements, including footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of its financial statements and footnote disclosures, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

The City has chosen to outsource the financial preparation function due to cost and/or training considerations. Such functions must be governed by the control policies and procedures of the City. Management is responsible for management decisions and functions; for designating an individual with suitable skill, knowledge or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Cause: As part of the audit, management requested the us to prepare a draft of your financial statements, including the related notes to financial statements. The City does not have adequate design of or effective internal controls in the oversight of the preparation of the financial statements being audited. The auditors cannot be part of your internal control process.

Effect: While the absence of this control procedure is considered less severe than a material weakness, we believe it is important enough to merit your attention. Thus, it is considered a significant deficiency.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend the City agree the balances in their financial software to the numbers reported in the financial statements.

Management response:

For now, the City accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.