

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 29, 2018

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

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

New Issue

Rating Application Made: S&P Global Ratings

CITY OF WAVERLY, MINNESOTA (Wright County)

(Minnesota City Credit Enhancement Program)

\$1,820,000* GENERAL OBLIGATION WATER REVENUE BONDS, SERIES 2018A

PROPOSAL OPENING: April 10, 2018, 11:00 A.M., C.T. **CONSIDERATION:** April 10, 2018, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$1,820,000* General Obligation Water Revenue Bonds, Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, by the City of Waverly, Minnesota (the "City") for the purpose of financing the 2018 water system improvements. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Briggs and Morgan, Professional Association, Minneapolis, Minnesota.

DATE OF BONDS: May 3, 2018

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$110,000	2030	\$80,000	2035	\$125,000
2026	70,000	2031	80,000	2036	155,000
2027	170,000	2032	85,000	2037	160,000
2028	130,000	2033	115,000	2038	165,000
2029	85,000	2034	120,000	2039	170,000

MATURITY ADJUSTMENTS: * The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2029 and thereafter are subject to call for prior redemption on February 1, 2028 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$1,798,160

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$36,400 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Briggs and Morgan, Professional Association

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a Final Official Statement.



REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the City, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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CITY COUNCIL

		<u>Term Expires</u>
Connie Holmes	Mayor	December 2018
Joanna Borrell	Council Member	December 2018
Gary Olson	Council Member	December 2020
Ben Duske	Council Member	December 2018
Keith Harris	Council Member	December 2020

ADMINISTRATION

Deborah Ryks, City Clerk/Treasurer
Chris Kittock, Deputy Clerk

PROFESSIONAL SERVICES

Briggs and Morgan, Professional Association, Bond Counsel, Minneapolis, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Waverly, Minnesota (the "City") and the issuance of its \$1,820,000* General Obligation Water Revenue Bonds, Series 2018A (the "Bonds") or (the "Obligations"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution awarding the sale of the Bonds (the "Award Resolution") to be adopted by the City Council on April 10, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of May 3, 2018. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2025 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2029 shall be subject to optional redemption prior to maturity on February 1, 2028 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, by the City, for the purpose of financing the water improvement portion of the City's 2018 Improvement Project. The City also plans to issue approximately \$537,000 General Obligation Improvement Bonds through private placement on April 10, 2018, to finance the street and sidewalk improvement portion of the 2018 Improvement Projects.

ESTIMATED SOURCES AND USES*

Sources			
Par Amount of Bonds		<u>\$1,820,000</u>	
Total Sources			\$1,820,000
Uses			
Total Underwriter's Discount (1.200%)		\$21,840	
Costs of Issuance		32,500	
Deposit to Project Construction Fund		1,763,790	
Rounding Amount		<u>1,870</u>	
Total Uses			\$1,820,000

*Preliminary, subject to change

SECURITY

The Bonds are general obligations of the City for which its full faith, credit and taxing powers are pledged without limitation as to rate or amount. Principal and interest on the Bonds will be paid entirely from net revenues of the water system which is owned and operated by the City. Should the revenues pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy a tax for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

RATING

The City will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from S&P Global Ratings ("S&P"). S&P has a policy which assigns a minimum rating of "AA+" to issuers participating in the MNCEP. The "AA+" rating is based on the State of Minnesota's current "AA+" rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM" for further details.

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "AA-" by S&P, and the City will be requesting an underlying rating on this issue.

Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency basis its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM

By resolution adopted for this issue on March 13, 2018 (the "Resolution"), the City has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 446A.086 (the "Act"), which provides for payment by the State of Minnesota in the event of a potential default of certain obligations. The City has entered into a Credit Enhancement Program Agreement (the "Agreement") with the Minnesota Public Facilities Authority (the "Authority"), which is acting on behalf of the State of Minnesota. The provisions of the Agreement shall be binding on the City as long as any obligations of the issue remain outstanding.

The City covenants in the Agreement to deposit with the paying agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment. Under the Agreement, if the City believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Authority not less than 15 business days prior to the date a payment is due on the Bonds if the City will be unable to make all or a portion of the payment. The City's agreement with the Paying Agent for the Bonds requires the Paying Agent to immediately inform the Minnesota Commissioner of Management and Budget, with a copy to the Authority, if the Paying Agent becomes aware of a default or potential default in the payment of principal or interest on the Bonds, or if, on the day two business days before the date a payment is due on the Bonds, there are insufficient funds on deposit with the Paying Agent to make the payment.

If the City is unable to make any portion of the payment on the Bonds on or before the date due, the State of Minnesota, acting through the Authority, shall make such payment in its place pursuant to the Act, providing that funds are available in the State General Fund. The obligation to make a payment under the Act is not a general obligation of the State of Minnesota. The Act does not obligate the Minnesota legislature to provide for the availability of funds in the General Fund for this purpose.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the City shall covenant to take certain actions pursuant to a Resolution adopted by the City Council by entering into a Continuing Disclosure Undertaking (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the City to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the City at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The City will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the City.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Briggs and Morgan, Professional Association, Minneapolis, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION

On the date of issuance of the Bonds, Briggs and Morgan, Professional Association, Bond Counsel, will render an opinion, that, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts. The opinions are subject to the condition that the City complies with all applicable federal tax requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences.

Other Federal and State Tax Considerations

Other Tax Considerations

Though excluded from gross income, interest on the Bonds is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation, taxation to the extent it is included as part of (a) the adjusted current earnings of a corporation for purposes of the alternative minimum tax, (b) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (c) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (d) minimum effectively connected net investment income of a foreign insurance company. Interest on the Bonds is also taken into account in other ways for federal income tax purposes, including without implied limitation, (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers who may be subject to such collateral consequences should consult their tax advisers.

Original Issue Discount

Some of the Bonds ("the OID Bonds) may be sold at initial public offering prices which are less than the principal amounts payable at maturity. For each maturity of OID Bonds, original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds are sold. The appropriate portion of such original issue discount allocable to the original and each subsequent holder will be treated as interest and excluded from gross income for federal income tax purposes and will increase a holders' tax basis in such Bonds for purposes of determining gain or loss upon sale, exchange, redemption, or payment at maturity. Owners of such Bonds should consult their own tax advisors with respect to the computation and determination of the portion of original issue discount which will be treated as interest and added to a holder's tax basis during the period such Bonds are held.

Original Issue Premium

Some of the Bonds may be sold at initial public offering prices which are greater than the principal amounts payable at maturity. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the federal, state and local tax consequences of owning and selling Bonds acquired at a premium.

Proposed Changes in Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. No prediction is made whether such provisions will be enacted as proposed or concerning other future legislation affecting the tax treatment of interest on the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

The above is not a comprehensive list of all federal tax consequences that may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State of Minnesota income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2016, have been audited by BerganKDV Ltd., Minneapolis, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (water revenues) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2014/15	2015/16	2016/17
Residential homestead ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,140,000 - 0.50% ² Over \$2,140,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,050,000 - 0.50% ² Over \$2,050,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$106,000 - .75% Over \$106,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value \$121,711,284¹

	2016/17 Assessor's Estimated Market Value	2016/17 Net Tax Capacity
Real Estate	\$111,264,500	\$ 1,064,258
Personal Property	<u>816,500</u>	<u>16,155</u>
Total Valuation	<u>\$112,081,000</u>	\$ 1,080,413
Less: Captured Tax Increment Tax Capacity ²		<u>(8,975)</u>
Taxable Net Tax Capacity		<u>\$ 1,071,438</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Waverly is about 91.92% of the actual selling prices of property most recently sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of \$121,711,284.

² The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City of Waverly.

2016/17 NET TAX CAPACITY BY CLASSIFICATION

	2016/17 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 659,618	61.05%
Agricultural	24,829	2.30%
Commercial/industrial	117,279	10.86%
Public utility	3,869	0.36%
Railroad operating property	7,190	0.67%
Non-homestead residential	154,944	14.34%
Commercial & residential seasonal/rec.	96,529	8.93%
Personal property	16,155	1.50%
Total	<u><u>\$ 1,080,413</u></u>	<u><u>100.00%</u></u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Taxable Net Tax Capacity²	Percent +/- in Estimated Market Value
2012/13	\$94,900,200	\$83,688,700	\$902,639	\$902,639	-10.70%
2013/14	95,028,900	83,632,600	899,322	899,322	+ 0.14%
2014/15	102,799,800	91,449,900	980,185	980,185	+ 8.18%
2015/16	107,626,900	96,297,900	1,033,741	1,025,012	+ 4.70%
2016/17	112,081,000	100,789,000	1,080,413	1,071,438	+ 4.14%

¹ Net Tax Capacity includes tax increment values.

² Taxable Net Tax Capacity does not include tax increment values.

LARGER TAXPAYERS

Taxpayer	Type of Property	2016/17 Net Tax Capacity	Percent of City's Total Net Tax Capacity
New Beginnings N Shore Dr. LLC	Commercial	\$ 40,722	3.77%
Xcel Energy	Utility	22,314	2.07%
Individuals	Commercial	14,970	1.39%
G B Land LLC	Residential	11,532	1.07%
Wolf Properties LLC	Industrial	10,496	0.97%
Hickman and Smith LLC	Commercial	10,360	0.96%
Individuals	Agricultural	9,930	0.92%
Citizens Alliance Bank	Commercial	9,483	0.88%
Individuals	Residential	8,238	0.76%
Citizens State Bank of Waverly	Commercial	7,474	0.69%
Total		<u><u>\$145,519</u></u>	<u><u>13.47%</u></u>

City's Total 2016/17 Net Tax Capacity \$1,080,413

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Wright County.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total g.o. debt being paid from revenues (includes the Bonds)*	\$3,140,000
Total g.o. debt being paid from revenues and taxes	1,635,000
Total g.o. debt being paid from special assessments and taxes ^{2*}	<u>678,000</u>
Total General Obligation Debt*	<u><u>\$5,453,000</u></u>

Lease Purchase Obligations (see schedule following)³

Total lease purchase obligations paid by annual appropriations ⁴	<u><u>\$148,898</u></u>
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*Preliminary, subject to change.

¹ Outstanding debt is as of the dated date of the Bonds.

² Approximately \$537,000 General Obligation Improvement Bonds are scheduled to be sold on April 10, 2018, through private placement.

³ Computers and copiers have not been included, however, information related to these leases can be reviewed in the audit.

⁴ Non-general obligation debt has not been included in the debt ratios.

CITY OF WAVERLY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Revenues
(As of 5/3/18)

Fiscal Year Ending	Refunding 1) Series 2011		GO Water Revenue Series 2012B		PFA Loan Series 2012C		GO Water Revenue Series 2018A		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Principal	Interest	Principal	Interest	Principal	Interest						
2018			0	11,834	40,000	2,163	19,000	2,210	59,000	16,206	75,206	3,081,000	1.88%	2018
2019			130,000	22,205	40,000	3,725	19,000	4,130	189,000	109,510	298,510	2,892,000	7.90%	2019
2020			130,000	19,118	40,000	2,925	19,000	3,840	189,000	90,740	279,740	2,703,000	13.92%	2020
2021			135,000	15,636	40,000	2,125	20,000	3,551	195,000	86,170	281,170	2,508,000	20.13%	2021
2022			140,000	11,680	45,000	1,125	20,000	3,246	205,000	80,909	285,909	2,303,000	26.66%	2022
2023			140,000	7,340			20,000	2,941	160,000	75,139	235,139	2,143,000	31.75%	2023
2024			150,000	2,550			21,000	2,637	171,000	70,044	241,044	1,972,000	37.20%	2024
2025							21,000	2,316	110,000	65,634	196,634	1,841,000	41.37%	2025
2026							21,000	1,996	70,000	62,759	153,759	1,750,000	44.27%	2026
2027							21,000	1,676	191,000	58,874	249,874	1,559,000	50.35%	2027
2028							22,000	1,356	130,000	53,989	205,989	1,407,000	55.19%	2028
2029							22,000	1,021	107,000	50,236	157,236	1,300,000	58.60%	2029
2030							22,000	686	85,000	47,098	149,098	1,198,000	61.85%	2030
2031							23,000	351	80,000	43,923	146,923	1,095,000	65.13%	2031
2032									85,000	40,581	125,581	1,010,000	67.83%	2032
2033									115,000	36,903	151,903	895,000	71.50%	2033
2034									120,000	32,525	152,525	775,000	75.32%	2034
2035									125,000	27,900	152,900	650,000	79.30%	2035
2036									155,000	22,541	177,541	495,000	84.24%	2036
2037									160,000	16,438	176,438	335,000	89.33%	2037
2038									165,000	10,059	175,059	170,000	94.59%	2038
2039									170,000	3,400	173,400	0	100.00%	2039
			825,000	90,363	205,000	12,063	290,000	31,958	3,140,000	1,101,577	4,241,577			

*Preliminary, subject to change.

1) This issue refunded the 2012 through 2024 maturities of the City's \$2,070,000 General Obligation Sewer and Water Revenue Bonds, Series 2003A, dated October 1, 2003.

CITY OF WAVERLY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Revenues and Taxes
(As of 5/3/18)

G.O. Bonds 1)
Series 2015A

Fiscal Year Ending	6/04/15		Fiscal Year Ending	2/01	
	Dated Amount	\$2,095,000		Principal	Interest
2018			0	24,263	
2019			210,000	45,375	
2020			215,000	39,000	
2021			215,000	32,550	
2022			145,000	27,150	
2023			150,000	22,725	
2024			155,000	18,150	
2025			160,000	13,825	
2026			165,000	9,763	
2027			20,000	7,350	
2028			25,000	6,563	
2029			25,000	5,688	
2030			25,000	4,813	
2031			25,000	3,938	
2032			25,000	3,063	
2033			25,000	2,188	
2034			25,000	1,313	
2035			25,000	438	
			1,635,000	268,150	

1) A portion of this issue refunded the 2017 through 2026 maturities of the City's \$2,125,000 General Obligation Utility Revenue Bonds, Series 2005B, dated June 1, 2005. A portion of this issue also refunded the 2016 through 2021 maturities of the City's \$770,000 General Obligation Refunding Bonds, Series 2007A, dated May 3, 2007.

CITY OF WAVERLY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Special Assessments and Taxes
(As of 5/3/18)

		Improvement Series 2010B		Improvement 1) Series 2018B							
		12/02/10		5/3/18							
		\$389,000		\$537,000*							
		2/01		2/01							
Dated Amount	Maturity	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2018		0	2,470	0	0	0	2,470	2,470	678,000	0.00%	2018
2019		46,000	4,193	0	21,708	46,000	25,901	71,901	632,000	6.78%	2019
2020		47,000	2,623	4,000	17,655	51,000	20,278	71,278	581,000	14.31%	2020
2021		48,000	900	4,000	17,523	52,000	18,423	70,423	529,000	21.98%	2021
2022				14,000	17,226	14,000	17,226	31,226	515,000	24.04%	2022
2023				16,000	16,731	16,000	16,731	32,731	499,000	26.40%	2023
2024				16,000	16,203	16,000	16,203	32,203	483,000	28.76%	2024
2025				17,000	15,659	17,000	15,659	32,659	466,000	31.27%	2025
2026				17,000	15,098	17,000	15,098	32,098	449,000	33.78%	2026
2027				28,000	14,355	28,000	14,355	42,355	421,000	37.91%	2027
2028				29,000	13,415	29,000	13,415	42,415	392,000	42.18%	2028
2029				31,000	12,425	31,000	12,425	43,425	361,000	46.76%	2029
2030				31,000	11,402	31,000	11,402	42,402	330,000	51.33%	2030
2031				32,000	10,362	32,000	10,362	42,362	298,000	56.05%	2031
2032				33,000	9,290	33,000	9,290	42,290	265,000	60.91%	2032
2033				34,000	8,184	34,000	8,184	42,184	231,000	65.93%	2033
2034				35,000	7,046	35,000	7,046	42,046	196,000	71.09%	2034
2035				37,000	5,858	37,000	5,858	42,858	159,000	76.55%	2035
2036				38,000	4,620	38,000	4,620	42,620	121,000	82.15%	2036
2037				39,000	3,350	39,000	3,350	42,350	82,000	87.91%	2037
2038				40,000	2,046	40,000	2,046	42,046	42,000	93.81%	2038
2039				42,000	693	42,000	693	42,693	0	100.00%	2039
		141,000	10,185	537,000	240,845	678,000	251,030	929,030			

*Preliminary, subject to change.

1) The City plans to issue approximately \$537,000 General Obligation Bonds through private placement on April 10, 2018.

CITY OF WAVERLY, MINNESOTA
Schedule of Bonded Indebtedness
Non General Obligation Debt Being Paid From Annual Appropriations
(As of 5/3/18)

		Payloader Lease		Plow Truck Lease				
Dated Amount		11/29/16 \$98,010		12/8/16 \$79,827				
Maturity		7/15		12/8				
Fiscal Year Ending		Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I
2018		20,999	2,180	15,428	2,186	36,427	4,366	40,793
2019		20,999	1,657	15,948	1,666	36,947	3,324	40,271
2020		20,999	1,120	16,485	1,129	37,484	2,249	39,733
2021		20,999	568	17,040	574	38,039	1,142	39,181
		83,996	5,525	64,902	5,555	148,898	11,080	159,978

Principal Outstanding	112,470	2018
% Paid	24.46%	2019
	49.28%	2020
	74.45%	2021
	100.00%	

DEBT LIMIT

The statutory limit on debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting from gross debt: (1) obligations payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations issued to finance any public revenue producing convenience (includes the Bonds); (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) funds held as sinking funds for payment of principal and interest on debt other than those deductible under 1-4 above; and (6) other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2016/17 Assessor's Estimated Market Value	\$112,081,000
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	<u><u>\$ 3,362,430</u></u>

OVERLAPPING DEBT¹

Taxing District	2016/17 Taxable Net Tax Capacity	% In City	Total G.O. Debt²	City's Proportionate Share
Wright County	\$146,611,070	0.7308%	\$52,650,000	\$ 384,766
I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	8,813,220	12.1572%	41,560,000 ³	<u>5,052,532</u>
City's Share of Total Overlapping Debt				<u><u>\$5,437,299</u></u>

¹ Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. Does *not* include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Based upon the long term facilities maintenance revenue formula and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$121,711,284)	Debt/ Current Population Estimate (1,446)
Direct G.O. Debt Being Paid From:			
Revenues*	\$ 3,140,000		
Revenues & Taxes	1,635,000		
Special Assessments & Taxes ^{1*}	<u>678,000</u>		
Total General Obligation Debt (includes the Obligations)*	\$ 5,453,000		
Less: G.O. Debt Paid Entirely from Revenues ²			
Tax Supported General Obligation Debt*	\$ 5,453,000	4.48%	\$3,771.09
 City's Share of Total Overlapping Debt	 <u>\$ 5,437,299</u>	 <u>4.47%</u>	 <u>\$3,760.23</u>
 Total*	 <u><u>\$10,890,299</u></u>	 <u><u>8.95%</u></u>	 <u><u>\$7,531.33</u></u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City plans to issue \$537,000 General Obligation Improvement Bonds (private placement), and a \$422,230.60 Public Facilities Authority Loan in the next 12 months.

¹ Approximately \$537,000 General Obligation Improvement Bonds are scheduled to be sold on April 10, 2018, through private placement.

² Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date ²	% Collected
2012/13	\$ 820,932	\$806,746	\$820,932	100.00%
2013/14	837,463	816,828	837,463	100.00%
2014/15	852,725	841,942	852,502	99.97%
2015/16	853,960	839,222	852,334	99.81%
2016/17	878,658	866,974	866,974	98.67%

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.³ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES⁴

	2012/13	2013/14	2014/15	2015/16	2016/17
Wright County	44.288%	43.450%	40.593%	39.970%	39.599%
City of Waverly	90.974%	93.137%	87.161%	83.349%	82.131%
I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	35.892%	51.972%	44.902%	44.047%	41.029%

Referendum Market Value Rates:

I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	0.14828%	0.14356%	0.11559%	0.14521%	0.13175%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Wright County.

¹ This reflects the Final Levy Certification of the City after all adjustments have been made.

² Collections are through December 1, 2017.

³ Second half tax payments on agricultural property are due on November 15th of each year.

⁴ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

LEVY LIMITS

The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. For taxes levied in 2013, payable in 2014, only, the Legislature imposed a one year levy limit on all counties with a population greater than 5,000, and all cities with a population greater than 2,500. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers & Associates.

THE ISSUER

CITY GOVERNMENT

The City of Waverly was organized as a municipality in 1869. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Clerk/Treasurer and Deputy Clerk are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 7 full-time, 8 part-time, and 3 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

The City does not have any recognized and certified bargaining units.

POST EMPLOYMENT BENEFITS

The City does not pay directly for retirees' post-employment benefits. The City has some obligations for post-employment benefits as mandated by State Statutes. Specifically, the City is required to allow retirees to be covered by the City's health care plan as long as the retiree pays his/her premiums. Retiree membership in a health care plan typically increases costs of the premiums. This increased cost is commonly known as implicit price subsidy.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (As of December 31, 2017)

Fund	Total Cash and Investments
General	\$ 1,215,206
Debt Service	264,634
Capital Projects	290,235
Enterprise Funds ¹	<u>(201,901)</u>
Total Funds on Hand	<u><u>\$ 1,568,174</u></u>

¹ The enterprise fund currently has a negative amount due to high expenses of the lake sewer system. The City has been transferring levies from water/development to the sewer levy and including additional monies for the sewer levy in addition to sewer sales. Also, the lake sewer system which is costly to the City is being replaced with a gravity sewer system in a phase project for Waverly Lake. The City is experiencing a large volume of building permits, which will improve revenues in the sewer fund for new connection. As the City increases its population, revenue from user fees is increasing as well. The City also has the option of transferring from the General Fund or water and sewer project funds to improve the balance of the sewer fund.

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

	2014	2015	2016
Water			
Total Operating Revenues	\$ 314,256	\$ 322,388	\$ 368,053
Less: Operating Expenses	<u>(163,625)</u>	<u>(170,911)</u>	<u>(209,082)</u>
Operating Income	\$ 150,631	\$ 151,477	\$ 158,971
Plus: Depreciation	<u>96,583</u>	<u>96,825</u>	<u>98,881</u>
Revenues Available for Debt Service	<u><u>\$ 247,214</u></u>	<u><u>\$ 248,302</u></u>	<u><u>\$ 257,852</u></u>
Sewer			
Total Operating Revenues	\$ 468,614	\$ 491,187	\$ 606,432
Less: Operating Expenses	<u>(464,959)</u>	<u>(429,906)</u>	<u>(513,346)</u>
Operating Income	\$ 3,655	\$ 61,281	\$ 93,086
Plus: Depreciation	<u>93,202</u>	<u>93,201</u>	<u>97,209</u>
Revenues Available for Debt Service	<u><u>\$ 96,857</u></u>	<u><u>\$ 154,482</u></u>	<u><u>\$ 190,295</u></u>
Liquor Store			
Total Operating Revenues	\$ 267,879	\$ 268,079	\$ 289,217
Less: Operating Expenses	<u>(262,296)</u>	<u>(275,952)</u>	<u>(299,284)</u>
Operating Income	\$ 5,583	\$ (7,873)	\$ (10,067)
Plus: Depreciation	<u>21,803</u>	<u>21,800</u>	<u>23,199</u>
Revenues Available for Debt Service	<u><u>\$ 27,386</u></u>	<u><u>\$ 13,927</u></u>	<u><u>\$ 13,132</u></u>
Refuse and Recycling			
Total Operating Revenues	\$ 90,748	\$ 95,069	\$ 104,772
Less: Operating Expenses	<u>(87,498)</u>	<u>(94,669)</u>	<u>(103,200)</u>
Operating Income	\$ 3,250	\$ 400	\$ 1,572
Plus: Depreciation	<u>0</u>	<u>759</u>	<u>760</u>
Revenues Available for Debt Service	<u><u>\$ 3,250</u></u>	<u><u>\$ 1,159</u></u>	<u><u>\$ 2,332</u></u>
Storm Sewer			
Total Operating Revenues	\$ 28,747	\$ 29,772	\$ 32,606
Less: Operating Expenses	<u>(44,434)</u>	<u>(55,104)</u>	<u>(49,219)</u>
Operating Income	\$ (15,687)	\$ (25,332)	\$ (16,613)
Plus: Depreciation	<u>44,210</u>	<u>43,622</u>	<u>44,625</u>
Revenues Available for Debt Service	<u><u>\$ 28,523</u></u>	<u><u>\$ 18,290</u></u>	<u><u>\$ 28,012</u></u>

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2016 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2014 Audited	2015 Audited	2016 Audited	2017 Adopted Budget ¹	2018 Adopted Budget ²
Revenues					
Property taxes	\$ 707,948	\$ 734,452	\$ 714,088	\$ 879,971	\$ 923,970
Special assessments	152,279	154,603	151,595	214,460	205,020
Fees, licenses and permits	34,689	36,489	59,275	139,620	304,050
Intergovernmental	172,267	201,394	187,901	167,559	184,872
Charges for services	1,550	1,772	2,847	30,621	29,260
Fines and forfeitures	4,386	4,120	3,606	1,000	1,000
Other miscellaneous revenues	39,849	213,462	43,628	31,600	53,025
Total Revenues	\$ 1,112,968	\$ 1,346,292	\$ 1,162,940	\$ 1,464,831	\$ 1,701,197
Expenditures					
Current:					
General government	\$ 303,249	\$ 279,252	\$ 259,596	\$ 312,446	\$ 333,145
Public safety	287,821	292,545	292,837	531,290	571,313
Public works	269,517	317,802	252,444	191,508	171,000
Parks and recreation	53,975	25,658	34,047	48,503	47,465
Miscellaneous	39,954	40,404	39,985	23,061	33,061
Debt Service	12,512	12,923	12,308	38,613	58,613
Capital outlay	70,179	43,702	335,190	90,613	20,000
Total Expenditures	\$ 1,037,207	\$ 1,012,286	\$ 1,226,407	\$ 1,236,034	\$ 1,234,597
Excess of revenues over (under) expenditures	\$ 75,761	\$ 334,006	\$ (63,467)	\$ 228,797	\$ 466,600
Other Financing Sources (Uses)					
Operating transfers in	\$ 7,026	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	0	0	(2,601)	(25,000)	(28,200)
Proceeds from capital lease	0	0	177,837	5,000	5,000
Total Other Financing Sources (Uses)	\$ 7,026	\$ 0	\$ 175,236	\$ (20,000)	\$ (23,200)
Net Changes in Fund Balances	\$ 82,787	\$ 334,006	\$ 111,769	\$ 208,797	\$ 443,400
General Fund Balance January 1	716,234	799,021	1,133,027		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance December 31	\$ 799,021	\$ 1,133,027	\$ 1,244,796		
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$ 83,530	\$ 68,663	\$ 54,620		
Unassigned	715,491	1,064,364	1,190,176		
Total	\$ 799,021	\$ 1,133,027	\$ 1,244,796		

¹ The 2017 budget was adopted on December 13, 2016.

² The 2018 budget was adopted on December 12, 2017.

GENERAL INFORMATION

LOCATION

The City of Waverly, with a 2010 U.S. Census population of 1,357 and a current population estimate of 1,446 and comprising an area of 1.9 square miles, is located approximately 30 miles west of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the City of Waverly include the following:

Firm	Type of Business/Product	Estimated No. of Employees
ISD No. 2687 (Howard Lake-Waverly-Winsted)	Elementary and secondary education	225
Untiedt's Vegetable Farm	Fruit & vegetables grower	75
New Beginnings at Waverly LLC	Chemical dependency treatment facility	70
Citizens State Bank of Waverly	Bank	22
City of Waverly	Municipal government and services	18
Woodland Dairy	Dairy farm	15
Wolf Auto Parts	Auto parts	11
Metro West Irrigation-Landscaping	Sprinklers-lawn & garden	10
Carpentry Contractors Co.	General contractors	10
Waverly Municipal Liquor	Liquor-retail	9
Pro PDR Solutions	Automobile body repairing & painting	9

Source: *ReferenceUSA, written and telephone survey (March 2018), and the Minnesota Department of Employment and Economic Development.*

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

BUILDING PERMITS

	2014	2015	2016	2017	2018 ¹
<u>New Single Family Homes</u>					
No. of building permits	4	2	21	41	3
Valuation	\$796,000	\$383,000	\$4,627,900	\$8,986,211	\$660,670
<u>New Commercial/Industrial</u>					
No. of building permits	10	0	0	0	0
Valuation	\$350,000	\$0	\$0	\$0	\$0
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	44	14	67	87	9
Valuation	\$1,448,210	\$589,026	\$6,634,278	\$10,046,965	\$738,134

Source: The City of Waverly.

¹ As of February 2018.

U.S. CENSUS DATA

Population Trend: City of Waverly, Minnesota

2000 U.S. Census population	732
2010 U.S. Census population	1,357
2016 State Demographer's Estimate	1,446
Percent of Change 2000 - 2010	+ 85.38%

Income and Age Statistics

	City of Waverly	Wright County	State of Minnesota	United States
2016 per capita income	\$29,808	\$31,154	\$33,225	\$29,826
2016 median household income	\$76,719	\$75,705	\$63,217	\$55,322
2016 median family income	\$83,000	\$86,298	\$79,595	\$67,871
2016 median gross rent	\$1,109	\$915	\$873	\$928
2016 median value owner occupied units	\$157,700	\$201,500	\$191,500	\$184,700
2016 median age	32.0 yrs.	35.8 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
City % of 2016 per capita income	89.72%	99.94%
City % of 2016 median family income	104.28%	122.29%

Housing Statistics

	<u>City of Waverly</u>		
	2000	2016	Percent of Change
All Housing Units	332	599	80.42%

Source: 2000 and 2010 Census of Population and Housing, and 2016 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Wright County	Wright County	Wright County	State of Minnesota
2014	68,059	4.1%	4.9%	
2015	68,795	3.7%	4.2%	
2016	69,488	3.9%	3.7%	
2017	71,071	3.6%	3.8%	
2018, January	71,984	4.4%	4.0%	

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

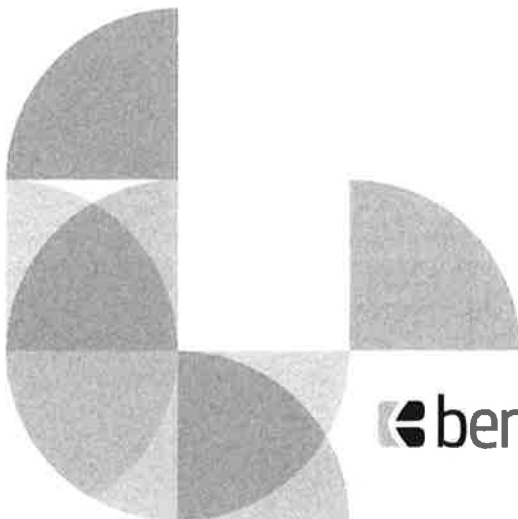
Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the City requested that the Auditor consent to the use of such financial statements in this Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

**City of Waverly
Wright County, Minnesota**

Financial Statements

December 31, 2016





Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Waverly
Waverly, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waverly, Minnesota, as of and for the year ended December 31, 2016, and the related notes to 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waverly, Minnesota, as of December 31, 2016, and the respective changes in financial position and where applicable, cash flows, thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 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 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.

Bergan KDV Ltd .

Minneapolis, Minnesota
June 2, 2017

This is the fourth year that The City of Waverly's accounting system has been on an accrual as opposed to a cash basis. The conversion to the accrual system was made in 2012 to give our residents and tax payers a more transparent accounting of the City's financial transactions and a truer estimate of the City's assets. The assets are shown in the "Statement of Net Position" which includes the current value of all physical assets such as land, streets, sewer and water lines, buildings, vehicles and other depreciable assets in both government and enterprise (or business type) accounts. The separate financial activities of all the City's enterprise funds: water, sewer, storm water, refuse, and the municipal liquor store, are included in this statement. Prior to 2012 the municipal liquor store was separate from the city accounts.

FINANCIAL HIGHLIGHTS IN 2016

- The City's General Fund balance stood at \$1,244,796 at the end of 2016 - an increase of \$111,769 over the \$1,133,027 balance at the end of 2015. This increase was primarily due to lower than budgeted expenses for street repair and for public works activities. The General Fund is in a very sound fiscal position and places the City in a much better position to proceed with selected capital improvements or absorb other new expenses without a concomitant increase in the tax levy.
- The total assets of the City (both governmental and business type activities) exceeded total liabilities at the close of 2016 by \$14,509,705. Of this amount \$1,329,800 was available to be used to meet the City's ongoing, obligations to citizens and creditors and \$13,179,905 represented the City's Net Investment in Capital Assets.
- The City's Net Investment in Capital Assets at the end of 2016 was \$544,964 higher than at the end of 2015. Assets were increased by the continued addition of park buildings and playground equipment, a new truck and pay loader and improvements to City Hall.
- As of the close of the 2016, the City's governmental funds combined reported ending fund balances of \$1,668,737, an increase of \$102,109 over 2015. Of this total amount \$1,098,901 is available for spending at the City's discretion (unassigned fund balance).
- In 2016, the City had only one Capital Improvement project – the remodel and improvement of City Hall.
- The City purchased two new pieces of equipment for road maintenance partially paying for the equipment with a three year capital lease.
- A planned Capital Improvement project to continue improvements to the Lake sewer/water system was delayed until 2018 due to unavailability of state aid for the project.
- Because there were no major projects in 2016, the City's total long term debt declined slightly although the City assumed the aforementioned two long term leases for street equipment.
- The net position in the Water Fund and Sewer Fund increased in 2016 however the net position of the Municipal Liquor Store and the Storm Water Fund declined.

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 are made up of three components: 1) the government-wide financial statements, 2) the major fund financial statements (both governmental and enterprise or business type) and 3) Notes to the Financial Statements. This report also contains other supplementary information useful for the understanding of this financial statement and the city's financial position.

Government-Wide Financial Statements

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

The "Statement of Net Position" (page 16) presents information on all of the City's assets and liabilities (including capital assets and long term 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.

It should be noted that beginning in 2015, the Government Accounting Standards Board (GASB) began to require participants in the Minnesota Public Employee Retirement Plan (PERA) to report a prorata share of the pension fund's unfunded liability as a city liability. In 2016, this liability for Waverly was \$487,170. This is, essentially, a liability on paper only. It would only become a liability should PERA be dissolved. (See note 9.) However, for purposes of our annual statements, this reduces the city's net position.

The "Statement of Activities" (page 17) presents information on the City's net position as of the end of 2016. It includes a summary of program revenues and expenses for the year. These two tables are summarized in this Discussion and Analysis comparing the statement for 2016 with 2015.

The government-wide financial statements are further segregated into two separate sections. First there are the "Governmental Activities" funds which include functions of the City that are principally supported by taxes and intergovernmental revenues. This includes spending (for both regular operations and capital expenses) on general government, staff and related expenses, public safety, public works, streets, parks and recreation. The second set of funds are the "Business Type Activities" funds also called "Proprietary" or "Enterprise" funds. These business-type funds are intended to recover all or a significant portion of their costs through user fees, and charges for service and sales. The business-type activities of the City include water, sewer, storm sewer, refuse collection and the municipal liquor store.

Throughout this financial report you will find references to both sets of funds.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Waverly Economic Development Authority (EDA). Financial information for this component unit is reported separately from the financial information presented for the primary City itself.

We should note that 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 or sick leave).

Major Fund Financial Statements

The second component of the financial statements is the set of reports termed the "Major Fund Financial Statements." A fund is a grouping of related accounts that is used to maintain control over resources (both revenues and expenses) that have been segregated for specific activities or objectives. The City, like other state and local governments, uses modified accrual fund accounting for its governmental funds to ensure state and demonstrate compliance with finance-related legal requirements. As discussed above, all of the funds of the City can be divided into two categories: 1) governmental funds and 2) enterprise (Proprietary - or Business activity) funds.

1) Governmental Funds

Governmental funds are used to account for 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 year. Unlike the government-wide funds, these statements do **NOT** include the value of City depreciable assets or land or long term liabilities. These statements are useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 six individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet (page 18) and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances (page 20). The Governmental Fund includes three components: the General Fund (which includes both the general fund and the major equipment/vehicle fund), and "Other Governmental Funds" (which, in 2016, includes the Park Project Improvements, Tax Increment District 1-1, and dollars assigned for non-Enterprise Capital Improvements).

2) Enterprise or Proprietary Funds

The City also maintains five enterprise or proprietary, business-type, funds. Enterprise funds are used to report the on the business-type activities of the city that should, in the main, support themselves thru revenue for service and product. The City uses enterprise funds to account for water, sewer, storm sewer, refuse and for the municipal liquor store.

Enterprise, or Proprietary, funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for each of the funds. These statements DO include the value of land and assets as well as long term liabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Major Fund Financial Statements (Continued)

2) Enterprise or Proprietary Funds (Continued)

The City adopts an annual appropriated budget for all funds, both governmental and Enterprise (see below). A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the approved budget.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS GOVERNMENT-WIDE

As noted earlier, the City's net position may serve over time as a useful indicator of the City's financial position. This position includes both governmental and business type activities. At the end of 2016, the City of Waverly's assets exceeded liabilities by \$14,509,705. This is slightly higher than at the end of 2015 as depreciation was more than offset by additions to capital assets in business funds.

A very significant portion of the City's net position, 91%, reflects the value of our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related outstanding debt used to acquire those assets. (This percentage is higher than in 2015 when it was 89 % due to the decline in debt.) The City uses these capital assets to provide services to our residents and thus 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 the resources needed to repay this debt (outside the municipal liquor store) must be provided from other resources such as property taxes or utility fees, since the capital assets themselves cannot be used to liquidate these liabilities.

A small portion of the City's net position, \$454,120 or 3.1%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$875,680 (6%), may be used to meet the City's ongoing obligations to residents and creditors.

As shown in the table below, Governmental activities net position at the end of 2016 was \$10,663,916 a decrease of only \$9,791 from the net position at the end of 2015.

Business-type activities net position at the end of 2016 was \$3,845,789 which represents an increase of \$247,254 over the net position at the end of 2015. This was due to an increase in the net position of the water, sewer, and refuse funds. The net position of the municipal liquor store and the storm sewer fund declined.

**City of Waverly
Management's Discussion and Analysis**

The tables that follow give a summary of the City's Net Position and show the components that cause the change in Net Position.

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total
	2016	2015	2016	2015	
Assets					
Current and other assets	\$ 2,000,975	\$ 1,939,932	\$ (49,151)	\$ 1,721,181	\$ 3,661,113
Noncurrent assets	9,303,564	9,237,974	8,094,013	7,828,296	17,066,270
Total assets	\$ 11,304,539	\$ 11,177,906	\$ 8,044,862	\$ 9,549,477	\$ 20,727,383
Deferred outflows of resources	\$ 92,630	\$ 20,071	\$ 109,751	\$ 23,588	\$ 202,381
Liabilities					
Long-term liabilities	\$ 565,459	\$ 386,140	\$ 3,737,360	\$ 4,007,754	\$ 4,393,894
Outstanding	138,146	116,227	536,336	1,941,035	2,057,262
Other liabilities					
Total liabilities	\$ 703,605	\$ 502,367	\$ 4,273,696	\$ 5,948,789	\$ 6,651,156
Deferred inflows of resources	\$ 29,648	\$ 21,906	\$ 35,128	\$ 25,741	\$ 64,776
Net Position					
Net investment in capital assets	\$ 8,897,727	\$ 8,955,974	\$ 4,282,178	\$ 3,678,967	\$ 13,179,905
Restricted	454,120	454,950	*	*	454,950
Unrestricted	1,312,069	1,262,783	(436,389)	(80,432)	1,182,351
Total net position	\$ 10,663,916	\$ 10,673,707	\$ 3,845,789	\$ 3,598,535	\$ 14,272,242

**City of Waverly
Management's Discussion and Analysis**

The tables that follow give a summary of the City's Net Position and show the components that cause the change in Net Position.

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total
	2016	2015	2016	2015	
Revenues					
Program Revenues	\$ 279,965	\$ 403,863	\$ 1,970,145	\$ 1,800,488	\$ 2,250,110
Operating Grants and Contributions	38,992	53,731	*	*	38,992
Capital Grants and Contributions	13,600	20,730	*	491,368	13,600
General Revenues	750,862	746,134	84,695	77,176	835,557
Property Taxes	14,538	*	*	*	14,538
Tax Increments	156,662	153,874	*	*	156,662
State Aid	480	385	4,816	1,258	5,296
Other General Revenue	1,322	2,316	1	3	1,323
Investment Earnings	1,256,421	1,381,033	2,059,657	2,370,293	3,316,078
Total Revenues	\$ 3,177,045	\$ 3,124,453	\$ 4,084,453	\$ 3,670,445	\$ 6,854,948
Expenses					
General Government	337,045	296,826	*	*	337,045
Public Safety	297,118	691,396	*	*	297,118
Park and Recreation	66,072	38,046	*	*	66,072
Interest on Long-Term Debt	8,657	10,231	*	*	8,657
Water	*	*	257,704	254,334	254,334
Liquor Store	*	*	554,072	545,045	545,045
Refuse and Recycling	*	*	841,946	841,946	839,318
Storm Sewer	*	*	103,200	94,669	103,200
Total Expenses	1,263,611	1,388,952	1,815,004	1,799,236	3,078,615
Change in Net Position before Transfers	(7,190)	(7,919)	244,653	570,557	237,463
Transfers	(2,601)	*	2,601	*	*
Change in Net Position	(9,791)	(7,919)	247,254	570,557	237,463
Net Position					
January 1	10,673,707	10,826,795	3,598,535	3,198,465	14,272,242
Change in Accounting Principle Residual - January 1	(145,169)	(170,587)	*	*	(315,756)
December 31	\$ 10,663,916	\$ 10,673,707	\$ 3,845,789	\$ 3,598,535	\$ 14,272,242

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

Governmental Funds are the funds that are principally supported by taxes and intergovernmental revenues (governmental activities) and are used for the basic (non business type) functions of the City. These funds are used for spending on general government, staff and related expenses, public safety, public works (including streets), parks and recreation. The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows, and balances of spendable resources. The information that is summarized below can be found on pages 18 and 20 of the report that follows.

City of Waverly
Management's Discussion and Analysis

Governmental Funds (Continued)

This information is useful in assessing the City's financing requirements especially those that have to be met through property taxes. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the year.

As of the end of 2016, the City's governmental funds reported combined ending fund balances of \$1,668,737, an increase of \$102,109 when compared with year end 2015. Approximately 66%, or \$1,098,901, of this total amount constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance, \$569,836, is restricted, assigned, or non-spendable to indicate that it is not available for new spending because it has already been committed to specific purposes.

The General Fund is the chief operating fund of the City. At the end of 2016, the City's General Fund balance stood at \$1,244,796 an increase of \$111,769 over the balance at the end of 2015. This balance marks a sharp recovery from 2005's deficit of \$730,776 and is possible only through careful budgeting and delaying many expenditures for plant and equipment and other capital needs. The General Fund increased in 2015 due primarily to lower than budgeted expenses for street repair and for public works projects. In 2016, \$1,190,176 of the General Fund's fund balance was unassigned. As a measure of the General Fund's liquidity, it is useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 97% of total 2016 General Fund expenditures, an amount that exceeds the State of Minnesota's recommendation. Because we have a higher than required fund balance, the city was able to remodel and improve city hall and to pay for approximately one half the cost of new street equipment without a 2017 tax increase.

Other governmental funds had a balance of \$423,941 at the end of 2016, a decrease of \$9,660 from year end 2015. This decrease is, for all practical purposes, insignificant.

A comparison of actual 2016 experience with the 2016 budget shows that General Fund expenditures of \$1,226,407 were \$178,906 over the General Fund budget of \$1,047,501. Although spending on street maintenance and other public works accounts, including snow removal and fuel, were below budget, the City made three unbudgeted capital expenditures: remodel and renovation of City Hall, purchase of a new electronic sign and purchase of a snow plow truck and payloader. Public Safety expenditures were above budget due to receipt (and then direct pass through to the Waverly Fire Department) of more State Fire Aid than anticipated. These receipts are passed directly thru to the Waverly Volunteer Fire Department. Spending in other accounts was reasonably close to budget.

General Fund revenues in 2016 were \$1,162,940, or \$49,077 more than budgeted. This is due primarily to the receipt of unbudgeted Fire Aid passed through to the Fire Department) and an increase in building permit fees due to a greater than anticipated number of new home permits.

Enterprise or Proprietary Funds

The statements on each of the City's enterprise or proprietary funds (found on pages 24-29) provide the same type of information found in the government wide financial statements, but in somewhat more detail. These include the "Statement of Net Position," the "Statement of Revenues, Expenses, and Changes in Net Position," and the "Statement of Cash Flows." Please note that these funds DO include depreciation expenses, unlike government only funds.

City of Waverly
Management's Discussion and Analysis

Enterprise or Proprietary Funds (Continued)

The Water Fund (Fund 601) is relatively healthy. It's Net Position increased by \$143,248 during 2016. Operating revenues exceeded operating expenses by \$158,971. Revenues were up due primarily to new connections associated with new home builds. Expenses were up in 2016, but they did not increase as fast as revenues. The Water Fund's unrestricted net position was \$285,979 at the end of 2016, just slightly higher than at the end of 2015. The Water Fund has Non-Current Liabilities of \$1,765,722 representing long term debt taken out to fund improvements in the water system including the relatively new Water Tower, the water related improvements on Maple Avenue and Third Street North, and, in 2015 the improvements on Lakeview Drive.

The Net Position of the Sewer Fund (Fund 602) increased for the second year in a row, but as discussed below, the Sewer Fund is not in a healthy position. At the end of 2016 the net position was \$1,344,072, or \$130,906 higher than at the end of 2015. Operating revenues covered operating costs for the consecutive year as well. In 2016, operating revenues exceeded operating expenses by \$93,086. This is due to increased revenues from connection fees for new home builds, and because sewer rates were increased on July 1, 2015. Expenses were higher in 2016 due primarily to an increase in I&I and thus higher and unreimbursed payments to the Montrose Wastewater Plant. Interest and debt payments are much higher than \$93,000 however. The Sewer Fund has Non-Current Liabilities of \$1,538,479 representing long-term debt taken out to fund improvements in the sewer system.

It is important to note that the Sewer Fund's unrestricted net position at the end of 2016 was a negative \$615,715. This negative balance reflects, in part, payments for advanced engineering work done for the water sewer project on County Rd 9. These charges will eventually become part of long term debt once the project is completed. The negative balance also shows us that the sewer fund is not taking in enough revenue to fully fund operational expenses (including depreciation) and principal and interest payments on the sewer debt.

The Municipal Liquor Store (Fund 609) showed a net loss again in 2016. The Store's operating loss in 2015 was \$10,067 meaning that the MLS has shown a loss in three out of the last four years. Sales increased by approximately \$1,500 year on year but remain far below the peak year 2011. Cost of goods sold declined in 2016 but operating expenses were up primarily due to higher wages. As required, a public hearing on the liquor store was held in December 2016 address losses in 2013 and 2015. A public hearing will be held in December 2017 to address losses in 2015 and 2016.

The change in net position in the Refuse and Recycling Fund (Fund 603) was \$1,572 and the change in net position in the Storm Sewer Fund (Fund 651) was a negative \$25,476. The decline in the Storm Sewer Fund was due to depreciation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets (net of depreciation) for its governmental and business-type activities as of December 31, 2016 amounted to \$17,397,577. This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure and construction in progress. Subtracting debt used to fund these assets results in a net investment in capital investment of \$13,179,905.

ECONOMIC FACTORS AND 2017 BUDGETS AND RATES (CONTINUED)

- The City completed cleanup of a tax forfeited property on Pacific Ave acquired in late 2015. The city anticipates putting this and other tax forfeited property on the market in summer, 2017. Both properties would be eligible for redevelopment TIF financing.
- In 2015 engineering work began on the second phase of the major project to install city water lines and replace the existing sewer system with a gravity feed system around Big Waverly Lake. (Phase One, on Lakeview Drive, was completed in 2015.) Phase Two will include installation of city water and replacement of the existing sewer system from Lake Drive to North Shore Drive along County Rd 9. This project is being undertaken with the County and will include widening County Road 9 to incorporate a walking/biking trail on the eastern side of the road. The cost for this project exceeds \$5 million. The City portion will be funded partially with a new General Obligation Bond and partially with funding from PFA. The project was originally slated for 2017 but due to county involvement and uncertainty of timing of PFA funding has been delayed until 2018.
- Water rates charged by Waverly are expected to remain stable in 2017 (Waverly's water rates have not increased since 2009). Both base rates and usage rates for sewer service increased in mid-2015 to support the debt for Lakeview as well as to address the continuing deficit in the Sewer fund. Storm Sewer rates, which also increased in mid-2015 to build up the storm sewer fund in anticipation of required long term upkeep and repairs to the existing storm sewer system, are expected to remain unchanged in 2017. Sewer rates will have to increase again in mid-2017 or at the beginning of 2018 to meet new debt obligations for the County Road 9 project.
- The City will not refund any outstanding General Obligation Bonds in 2017 as all possible refunding for lower interest rates has been completed. We do not anticipate taking on any additional debt in 2017, but in early 2018 will begin looking at financing the aforementioned County Road 9 project.
- The City agreed to be rated by Standard and Poors and, in May, 2015, was proud to attain an "AA-" rating. This rating will be updated in late 2017 to ensure that the City will obtain the lowest possible interest rates on any long term debt taken out in 2018.
- No significant capital expenditures are expected in 2017. In July 2017 the City expects to increase daily Sheriff's Department coverage from 4 to 6 hours per day. In August, the City expects to hire an additional public works employee
- The city continues to monitor expenditures closely, and is making every effort to hold down spending and thus tax revenues and rates.

REQUESTS FOR INFORMATION

This discussion 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, for copies of the report, or requests for additional financial information should be addressed to the City of Waverly, Attention City Clerk/Treasurer, P.O. Box 189, Waverly, Minnesota 55309. All audit documents are available on the city's website: www.waverlymn.org

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)
Additional information on the City's capital assets for governmental activities and for business-type activities can be found in Note 5 of this report.

Long-Term Debt

At the end of the current year, the City had total long-term debt outstanding of \$4,301,323. Summary details of this debt are included in the table on the following page.

OUTSTANDING DEBT

(G.O. and Revenue Bonds, Notes, Capital Lease and Compensated Absences Payable)

	Governmental Activities	Business-Type Activities	Total
Bonds Payable	\$ 228,000	\$ 3,420,281	\$ 3,648,281
Notes Payable	-	391,554	391,554
Capital Lease Payable	177,837	24,780	202,617
Compensated Absences	28,215	30,656	58,871
Total	\$ 434,052	\$ 3,867,271	\$ 4,301,323

Additional information on the City's long-term debt can be found in Note 6 of this report.

Short Term Debt

At the end of 2016 the City had no short-term debt.

ECONOMIC FACTORS AND 2017 BUDGETS AND RATES

- The dollar property tax levy in 2017 increased by 3% to \$879,971. The entire amount of the increase was dedicated toward the fund debt so that rates would not have to increase. Because total taxable market value of all properties increased by 4.3% in 2017 due both to an increase in assessed valuation of current property and to the construction of several new homes in the City, the tax levy rate went down again in 2017. Due to the health of the General Fund all existing programs were maintained and additional funds were put towards park maintenance, new park equipment, a new electronic sign, and a renovation of City Hall.
- New home building remains strong and at least 30 new housing permits are expected in 2017.
- State Aid (Local Government Assistance or LGA) of \$156,592 was included in the 2017 budget.
- Park improvements are continuing in 2017. The basketball court in Summerfield is being completed, a pavilion will be put in Summerfield, a basketball court was a new pavilion at Woodland Shores, an electronic scoreboard at the ball field at Legion Park, and trail improvements continue. The summer rec program, now held in both mornings and evenings, is accommodating a growing younger population.

City of Waverly
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total	Component Unit Economic Development Authority
Assets				
Cash and investments (including cash equivalents)	\$ 1,407,137	\$ -	\$ 1,407,137	\$ 118,393
Taxes receivable - delinquent	18,818	1,925	20,743	494
Accounts receivable	16,015	112,277	128,292	-
Due from other governments	4,451	2,054	6,505	14,408
Due from other funds (internal balances)	268,678	(268,678)	-	-
Special assessments receivable				
Delinquent	3,530	3,220	6,750	-
Deferred	267,383	7,516	274,899	-
Inventories	-	83,676	83,676	-
Prepaid items	14,963	8,859	23,822	-
Capital assets not being depreciated				
Land	15,727	36,333	52,060	-
Construction in progress	-	507,178	507,178	-
Capital assets (net of accumulated depreciation)				
Buildings	348,568	561,085	909,653	-
Infrastructure	8,534,755	6,981,986	15,516,741	-
Machinery and equipment	404,514	7,431	411,945	-
Total assets	<u>11,304,539</u>	<u>8,044,862</u>	<u>19,349,401</u>	<u>133,295</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pensions	92,630	109,751	202,381	-
Total assets and deferred outflows of resources	<u>\$ 11,397,169</u>	<u>\$ 8,154,613</u>	<u>\$ 19,551,782</u>	<u>\$ 133,295</u>
Liabilities				
Accounts payable	\$ 22,476	\$ 78,877	\$ 101,353	\$ -
Due to other governments	15,532	17,057	32,589	-
Salaries and benefits payable	4,499	5,404	9,903	135
Interest payable	4,066	40,897	44,963	-
Bonds payable				
Payable within one year	43,000	345,000	388,000	-
Payable after one year	185,000	3,075,281	3,260,281	-
Notes payable				
Payable within one year	-	21,554	21,554	-
Payable after one year	-	370,000	370,000	-
Capital lease payable				
Payable within one year	34,465	12,219	46,684	-
Payable after one year	143,372	12,561	155,933	-
Compensated absences payable				
Payable within one year	14,108	15,328	29,436	-
Payable after one year	14,107	15,328	29,435	-
Net pension liability	222,980	264,190	487,170	-
Total liabilities	<u>703,605</u>	<u>4,273,696</u>	<u>4,977,301</u>	<u>135</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pensions	29,648	35,128	64,776	-
Net Position				
Net investment in capital assets	8,897,727	4,282,178	13,179,905	-
Restricted for				
Debt service	338,725	-	338,725	-
Park dedication	115,395	-	115,395	-
Unrestricted	1,312,069	(436,389)	875,680	133,160
Total net position	<u>10,663,916</u>	<u>3,845,789</u>	<u>14,509,705</u>	<u>133,160</u>
Total liabilities, deferred inflows, and net position	<u>\$ 11,397,169</u>	<u>\$ 8,154,613</u>	<u>\$ 19,551,782</u>	<u>\$ 133,295</u>

See notes to financial statements.

**City of Waverly
Statement of Activities
Year Ended December 31, 2016**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Economic Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General government	\$ 337,045	\$ 90,353	\$ 10,456	\$ -	\$ (236,236)	\$ -	\$ (236,236)	
Public safety	297,118	150,547	23,169	-	(123,402)	-	(123,402)	
Public works	554,719	2,395	-	13,600	(538,724)	-	(538,724)	
Parks and recreation	66,072	36,670	5,367	-	(24,035)	-	(24,035)	
Interest on long-term debt	8,657	-	-	-	(8,657)	-	(8,657)	
Total governmental activities	1,263,611	279,965	38,992	13,600	(931,054)	-	(931,054)	
Business-type activities								
Water	257,704	386,795	-	-	-	129,091	129,091	
Sewer	554,072	614,439	-	-	-	60,367	60,367	
Liquor store	841,946	831,533	-	-	-	(10,413)	(10,413)	
Refuse and recycling	103,200	104,772	-	-	-	1,572	1,572	
Storm sewer	58,082	32,606	-	-	-	(25,476)	(25,476)	
Total business-type activities	1,815,004	1,970,145	-	-	-	155,141	155,141	
Total governmental and business-type activities	\$ 3,078,615	\$ 2,250,110	\$ 38,992	\$ 13,600	(931,054)	155,141	(775,913)	
Component unit								
Economic development authority	\$ 1,947	\$ -	\$ -	\$ -				\$ (1,947)
General revenues								
Property taxes, levied for general purposes					750,862	84,695	835,557	19,458
Tax increment					14,538	-	14,538	-
Unrestricted state aids					156,662	-	156,662	-
Unrestricted investment earnings					1,322	1	1,323	-
Miscellaneous					480	4,816	5,296	-
Transfers					(2,601)	2,601	-	-
Total general revenues					921,263	92,113	1,013,376	19,458
Change in net position					(9,791)	247,254	237,463	17,511
Net position - beginning of year					10,673,707	3,598,535	14,272,242	115,649
Net position - end of year					\$ 10,663,916	\$ 3,845,789	\$ 14,509,705	\$ 133,160

See notes to financial statements.

City of Waverly
Balance Sheet - Governmental Funds
December 31, 2016

	General Fund (101, 120)	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 1,046,442	\$ 360,695	\$ 1,407,137
Taxes receivable - delinquent	18,104	714	18,818
Accounts receivable	13,124	2,891	16,015
Due from other governments	4,125	326	4,451
Special assessments receivable			
Delinquent	3,354	176	3,530
Deferred	147,650	119,733	267,383
Due from other funds	148,121	156,650	304,771
Advances to other funds	39,657	-	39,657
Prepaid items	14,963	-	14,963
	\$ 1,435,540	\$ 641,185	\$ 2,076,725
Liabilities			
Accounts payable	\$ 15,934	\$ 6,542	\$ 22,476
Due to other funds	-	75,750	75,750
Due to other governments	1,203	14,329	15,532
Salaries and benefits payable	4,499	-	4,499
Total liabilities	21,636	96,621	118,257
Deferred Inflows of Resources			
Unavailable revenue - property taxes	18,104	714	18,818
Unavailable revenue - special assessments	151,004	119,909	270,913
Total deferred inflows of resources	169,108	120,623	289,731
Fund Balances (Deficits)			
Nonspendable	54,620	-	54,620
Restricted	-	337,563	337,563
Assigned	-	177,653	177,653
Unassigned	1,190,176	(91,275)	1,098,901
Total fund balances (deficits)	1,244,796	423,941	1,668,737
	\$ 1,435,540	\$ 641,185	\$ 2,076,725
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 1,435,540	\$ 641,185	\$ 2,076,725

See notes to financial statements.

City of Waverly
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2016

Total fund balances - governmental funds \$ 1,668,737

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	13,650,935
Less accumulated depreciation	(4,347,371)

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:

Bonds payable	(228,000)
Capital lease payable	(177,837)
Compensated absences payable	(28,215)
Net pension liability	(222,980)

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred inflows of resources related to pensions	(29,648)
Deferred outflows of resources related to pensions	92,630

Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

Delinquent taxes receivable	18,818
Delinquent special assessments receivable	3,530

Deferred receivables are not available to pay for current expenditures and, therefore, are deferred in the funds.

Deferred special assessments receivable	267,383
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Governmental funds do not report a liability for accrued interest due and payable.	(4,066)
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Total net position - governmental activities	\$ 10,663,916
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See notes to financial statements.

City of Waverly
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2016

	General Fund (101, 120)	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 714,088	\$ 32,714	\$ 746,802
Tax increments	-	14,538	14,538
Special assessments	151,595	47,645	199,240
Licenses and permits	59,275	-	59,275
Intergovernmental	187,901	-	187,901
Charges for services	2,847	31,022	33,869
Fines and forfeitures	3,606	-	3,606
Miscellaneous			
Investment income	1,322	-	1,322
Contributions and donations	10,456	5,367	15,823
Refunds and reimbursements	31,020	-	31,020
Other	830	250	1,080
Total revenues	<u>1,162,940</u>	<u>131,536</u>	<u>1,294,476</u>
Expenditures			
Current			
General government	259,596	1,935	261,531
Public safety	292,837	-	292,837
Public works	252,444	-	252,444
Parks and recreation	34,047	-	34,047
Miscellaneous	39,985	-	39,985
Debt service			
Principal	12,000	42,000	54,000
Interest and other charges	308	8,194	8,502
Capital outlay			
General government	44,000	60,688	104,688
Public works	291,190	-	291,190
Parks and recreation	-	28,379	28,379
Total expenditures	<u>1,226,407</u>	<u>141,196</u>	<u>1,367,603</u>
Excess of revenues under expenditures	(63,467)	(9,660)	(73,127)
Other Financing Sources (Uses)			
Proceeds from capital lease	177,837	-	177,837
Transfers out	(2,601)	-	(2,601)
Total other financing sources (uses)	<u>175,236</u>	<u>-</u>	<u>175,236</u>
Net change in fund balances	111,769	(9,660)	102,109
Fund Balances			
Beginning of year	<u>1,133,027</u>	<u>433,601</u>	<u>1,566,628</u>
End of year	<u>\$ 1,244,796</u>	<u>\$ 423,941</u>	<u>\$ 1,668,737</u>

See notes to financial statements.

City of Waverly
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended December 31, 2016

Net change in fund balances - governmental funds \$ 102,109

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlays	457,726
Depreciation expense	(386,909)
Loss on disposal	(5,227)

Compensated absences are recognized as paid in the governmental funds, but recognized as the expense is incurred in the Statement of Activities.	(2,620)
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Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

Pension expense	(12,823)
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Principal payments on long-term debt are recognized as expenditures in the governmental funds, but have no effect on net position in the Statement of Activities.	54,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires 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.	(155)
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Proceeds from long-term debt are recognized as an other financing source in the Governmental funds, but have no effect on net position in the Statement of Activities.

Capital lease payable	(177,837)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds until measurable and available.

Deferred special assessments	(43,289)
Delinquent special assessments	1,174

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	4,060
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Change in net position - governmental activities	\$ (9,791)
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See notes to financial statements.

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Revenues			
Property taxes	\$ 717,679	\$ 714,088	\$ (3,591)
Special assessments	154,950	151,595	(3,355)
Licenses and permits	31,300	59,275	27,975
Intergovernmental	164,334	187,901	23,567
Charges for services	1,800	2,847	1,047
Fines and forfeitures	2,100	3,606	1,506
Investment income	1,000	1,322	322
Contributions and donations	13,000	10,456	(2,544)
Refunds and reimbursements	25,000	31,020	6,020
Other	2,700	830	(1,870)
Total revenues	<u>1,113,863</u>	<u>1,162,940</u>	<u>49,077</u>
Expenditures			
Current			
General government	271,507	259,596	(11,911)
Public safety	267,538	292,837	25,299
Public works	339,860	252,444	(87,416)
Parks and recreation	45,730	34,047	(11,683)
Miscellaneous	39,750	39,985	235
Debt service			
Principal	12,000	12,000	-
Interest and other charges	308	308	-
Capital outlay			
General government	4,300	44,000	39,700
Public works	66,008	291,190	225,182
Parks and recreation	500	-	(500)
Total expenditures	<u>1,047,501</u>	<u>1,226,407</u>	<u>178,906</u>
Excess of revenues over (under) expenditures	66,362	(63,467)	(129,829)
Other financing sources			
Proceeds from capital lease	-	177,837	177,837
Transfers Out	-	(2,601)	(2,601)
Total other financing sources	<u>-</u>	<u>175,236</u>	<u>175,236</u>
Net change in fund balance	<u>\$ 66,362</u>	111,769	<u>\$ 45,407</u>
Fund Balance			
Beginning of year		<u>1,133,027</u>	
End of year		<u>\$ 1,244,796</u>	

City of Waverly
Statement of Net Position - Proprietary Funds
Year Ended December 31, 2016

	Water (601)	Sewer (602)	Liquor Store (609)
Assets			
Current assets			
Taxes receivable - delinquent	\$ 330	\$ 1,595	\$ -
Accounts receivable	41,306	54,823	1,083
Special assessments receivable	4,903	5,833	-
Due from Other Funds	301,878	-	-
Due from other governments	57	287	-
Inventory	-	-	83,676
Prepaid items	-	-	8,859
Total current assets	<u>348,474</u>	<u>62,538</u>	<u>93,618</u>
Noncurrent assets			
Capital assets			
Land	-	-	36,333
Infrastructure	3,319,584	4,296,747	-
Buildings	741,364	-	496,483
Machinery and equipment	5,890	7,701	105,049
Construction in progress	-	507,178	-
Total capital assets	<u>4,066,838</u>	<u>4,811,626</u>	<u>637,865</u>
Less accumulated depreciation	<u>(1,061,648)</u>	<u>(1,239,864)</u>	<u>(502,451)</u>
Net capital assets	<u>3,005,190</u>	<u>3,571,762</u>	<u>135,414</u>
Total assets	<u>3,353,664</u>	<u>3,634,300</u>	<u>229,032</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	<u>19,053</u>	<u>33,052</u>	<u>56,481</u>
Total assets and deferred outflows of resources	<u>\$ 3,372,717</u>	<u>\$ 3,667,352</u>	<u>\$ 285,513</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 1,227	\$ 60,369	\$ 16,790
Salaries and benefits payable	1,153	2,075	2,176
Interest payable	19,249	17,634	347
Due to other funds	-	529,302	18,289
Due to other governments	-	-	17,057
Amount due within one year	<u>188,583</u>	<u>164,842</u>	<u>5,457</u>
Total current liabilities	<u>210,212</u>	<u>774,222</u>	<u>60,116</u>
Noncurrent liabilities			
Compensated absences	7,958	11,784	10,914
Advances from other funds	-	-	39,657
G. O. Revenue notes - PFA	272,554	119,000	-
Bonds payable	1,627,930	1,492,975	-
Capital lease payable	-	-	24,780
Net pension liability	45,863	79,562	135,961
Less amount due within one year	<u>(188,583)</u>	<u>(164,842)</u>	<u>(5,457)</u>
Total noncurrent liabilities	<u>1,765,722</u>	<u>1,538,479</u>	<u>205,855</u>
Total liabilities	<u>1,975,934</u>	<u>2,312,701</u>	<u>265,971</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	<u>6,098</u>	<u>10,579</u>	<u>18,078</u>
Net Position			
Net investment in capital assets	1,104,706	1,959,787	135,414
Unrestricted	<u>285,979</u>	<u>(615,715)</u>	<u>(133,950)</u>
Total net position	<u>1,390,685</u>	<u>1,344,072</u>	<u>1,464</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,372,717</u>	<u>\$ 3,667,352</u>	<u>\$ 285,513</u>

See notes to financial statements.

<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>	<u>Total</u>
\$ -	\$ -	\$ 1,925
11,691	3,374	112,277
-	-	10,736
35,161	-	337,039
1,710	-	2,054
-	-	83,676
-	-	8,859
<u>48,562</u>	<u>3,374</u>	<u>556,566</u>
-	-	36,333
-	1,852,572	9,468,903
22,787	-	1,260,634
-	-	118,640
-	-	507,178
<u>22,787</u>	<u>1,852,572</u>	<u>11,391,688</u>
<u>(16,717)</u>	<u>(476,995)</u>	<u>(3,297,675)</u>
<u>6,070</u>	<u>1,375,577</u>	<u>8,094,013</u>
54,632	1,378,951	8,650,579
1,165	-	109,751
<u>\$ 55,797</u>	<u>\$ 1,378,951</u>	<u>\$ 8,760,330</u>
\$ 491	\$ -	\$ 78,877
-	-	5,404
-	3,667	40,897
-	18,469	566,060
-	-	17,057
-	23,000	381,882
<u>491</u>	<u>45,136</u>	<u>1,090,177</u>
-	-	30,656
-	-	39,657
-	-	391,554
-	299,376	3,420,281
-	-	24,780
2,804	-	264,190
-	(23,000)	(381,882)
<u>2,804</u>	<u>276,376</u>	<u>3,789,236</u>
<u>3,295</u>	<u>321,512</u>	<u>4,879,413</u>
373	-	35,128
6,070	1,076,201	4,282,178
<u>46,059</u>	<u>(18,762)</u>	<u>(436,389)</u>
<u>52,129</u>	<u>1,057,439</u>	<u>3,845,789</u>
<u>\$ 55,797</u>	<u>\$ 1,378,951</u>	<u>\$ 8,760,330</u>

City of Waverly
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2016

	<u>Water (601)</u>	<u>Sewer (602)</u>	<u>Liquor Store (609)</u>
Sales and cost of sales			
Sales	\$ -	\$ -	\$ 823,404
Cost of sales	-	-	542,316
Gross profit	<u>-</u>	<u>-</u>	<u>281,088</u>
Operating revenues			
Charges for services	297,765	489,432	-
Connection fees	70,288	117,000	-
Intergovernmental	-	-	-
Miscellaneous operating revenues	-	-	8,129
Total operating revenues	<u>368,053</u>	<u>606,432</u>	<u>8,129</u>
Operating expenses			
Wages, salaries, and compensation	52,014	90,773	168,900
Insurance	-	-	21,473
Supplies and postage	20,942	15,969	17,012
Professional services	3,173	18,938	26,596
Utilities	5,573	6,607	15,451
Maintenance and repairs	23,416	3,854	4,446
Fees and permits	3,920	280	766
Contracted services	-	278,976	-
Depreciation	98,881	97,209	23,199
Miscellaneous expenses	1,163	740	21,441
Total operating expenses	<u>209,082</u>	<u>513,346</u>	<u>299,284</u>
Operating income (loss)	158,971	93,086	(10,067)
Nonoperating revenues (expenses)			
Investment income	-	1	-
Miscellaneous revenue	18,742	8,007	-
Refunds and reimbursements	-	-	4,816
Interest expense	(48,622)	(40,726)	(346)
Property taxes	14,157	70,538	-
Total nonoperating revenue (expense)	<u>(15,723)</u>	<u>37,820</u>	<u>4,470</u>
Income (loss) before capital contributions and transfers	143,248	130,906	(5,597)
Transfers in	<u>-</u>	<u>-</u>	<u>2,601</u>
Change in net position	143,248	130,906	(2,996)
Net position			
Beginning of year	<u>1,247,437</u>	<u>1,213,166</u>	<u>4,460</u>
End of year	<u>\$ 1,390,685</u>	<u>\$ 1,344,072</u>	<u>\$ 1,464</u>

See notes to financial statements.

<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>	<u>Total</u>
\$ -	\$ -	\$ 823,404
-	-	542,316
<u>-</u>	<u>-</u>	<u>281,088</u>
100,866	32,606	920,669
-	-	187,288
3,906	-	3,906
-	-	8,129
<u>104,772</u>	<u>32,606</u>	<u>1,119,992</u>
5,367	-	317,054
-	-	21,473
-	-	53,923
-	825	49,532
-	-	27,631
-	3,769	35,485
-	-	4,966
94,040	-	373,016
760	44,625	264,674
3,033	-	26,377
<u>103,200</u>	<u>49,219</u>	<u>1,174,131</u>
1,572	(16,613)	226,949
-	-	1
-	-	26,749
-	-	4,816
-	(8,863)	(98,557)
-	-	84,695
<u>-</u>	<u>(8,863)</u>	<u>17,704</u>
1,572	(25,476)	244,653
<u>-</u>	<u>-</u>	<u>2,601</u>
1,572	(25,476)	247,254
<u>50,557</u>	<u>1,082,915</u>	<u>3,598,535</u>
<u>\$ 52,129</u>	<u>\$ 1,057,439</u>	<u>\$ 3,845,789</u>

City of Waverly
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2016

	Water (601)	Sewer (602)	Liquor Store (609)
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 382,666	\$ 682,188	\$ 830,450
Payments to suppliers	(58,580)	(337,064)	(669,158)
Payments to employees	(47,182)	(82,170)	(164,853)
Miscellaneous revenue	18,742	8,007	4,816
Operating grants and contributions	-	-	-
Net cash flows - operating activities	<u>295,646</u>	<u>270,961</u>	<u>1,255</u>
Cash Flows - Noncapital			
Financing Activities			
Advances to other funds	(301,878)	-	-
Proceeds from (payments on) advances from other funds	-	413,113	(10,511)
Transfer from other funds	-	-	2,601
Net cash flows - noncapital financing activities	<u>(301,878)</u>	<u>413,113</u>	<u>(7,910)</u>
Cash Flows - Capital and Related			
Financing Activities			
Principal paid on debt	(556,550)	(1,068,042)	(12,914)
Interest paid on debt	(63,434)	(72,628)	1
Capital lease proceeds	-	-	37,694
Acquisition of capital assets	(63,975)	(480,257)	(37,695)
Net cash flows - capital and related financing activities	<u>(683,959)</u>	<u>(1,620,927)</u>	<u>(12,914)</u>
Cash Flows - Investing Activities			
Interest and dividends received	-	1	-
Net change in cash and cash equivalents	(690,191)	(936,852)	(19,569)
Cash and Cash Equivalents			
January 1	<u>690,191</u>	<u>936,852</u>	<u>19,569</u>
December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Operating Loss to			
Net Cash Flows - Operating Activities			
Operating income (loss)	\$ 158,971	\$ 93,086	\$ (10,067)
Adjustments to reconcile operating loss to net cash flows - operating activities			
Miscellaneous revenue	18,742	8,007	4,816
Property taxes	14,019	70,073	-
Depreciation expense	98,881	97,209	23,199
Accounts receivable	(4,599)	(68)	(1,083)
Special assessments receivable	4,133	4,598	-
Due from other governments	1,060	1,153	-
Prepaid items	-	-	(1,011)
Inventory	-	-	4,533
Accounts payable	(393)	(11,700)	(24,707)
Due to other governments	-	-	1,528
Salaries payable	193	334	93
Pension adjustment	4,025	7,133	4,980
Compensated absences payable	614	1,136	(1,026)
Total adjustments	<u>136,675</u>	<u>177,875</u>	<u>11,322</u>
Net cash flows - operating activities	<u>\$ 295,646</u>	<u>\$ 270,961</u>	<u>\$ 1,255</u>

See notes to financial statements.

<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>	<u>Total</u>
\$ 100,724	\$ 32,805	\$ 2,028,833
(96,632)	(5,207)	(1,166,641)
(4,882)	-	(299,087)
-	-	31,565
3,906	-	3,906
<u>3,116</u>	<u>27,598</u>	<u>598,576</u>
(35,161)	-	(337,039)
-	17,942	420,544
-	-	2,601
<u>(35,161)</u>	<u>17,942</u>	<u>86,106</u>
-	(22,250)	(1,659,756)
-	(9,895)	(145,956)
-	-	37,694
-	<u>(13,395)</u>	<u>(595,322)</u>
-	<u>(45,540)</u>	<u>(2,363,340)</u>
-	-	1
(32,045)	-	(1,678,657)
<u>32,045</u>	<u>-</u>	<u>1,678,657</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,572	\$ (16,613)	\$ 226,949
-	-	31,565
-	-	84,092
760	44,625	264,674
(346)	199	(5,897)
-	-	8,731
204	-	2,417
-	-	(1,011)
-	-	4,533
441	(613)	(36,972)
-	-	1,528
-	-	620
485	-	16,623
-	-	724
<u>1,544</u>	<u>44,211</u>	<u>371,627</u>
<u>\$ 3,116</u>	<u>\$ 27,598</u>	<u>\$ 598,576</u>

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Waverly is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, a certain organization has been defined and is presented in this report as follows:

Discretely Presented Component Unit – Entails reporting the component unit financial data in statements separate from the financial data of the City.

For the category above, the specific entity is identified as follows:

I. Discretely Presented Component Unit

The Waverly Economic Development Authority (EDA) was organized in 2000 for the purpose of preserving and creating jobs, enhancing the tax base and promoting the general welfare of the people of the City. The Waverly EDA is governed by a seven member board consisting of two members of the City Council and five members of the general public. Separate financial statements are included in this report for the Waverly EDA to emphasize that it is legally separate from the City. The EDA is presented as a governmental fund type.

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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

Separate financial statements are provided for governmental funds and proprietary 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 fund financial statements. 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 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, special assessments, intergovernmental revenue, charges for services, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Description of Funds

Major Governmental Funds

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

Major Proprietary Funds

Water Fund – This Fund accounts for the operations of the City's water utility.

Sewer Fund – This Fund accounts for the operations of the City's sewer utility.

Municipal Liquor Store Fund – This Fund accounts for the activities and operation of the City's Municipal Liquor Store.

Refuse and Recycling Fund – This Fund accounts for the operations of the City's refuse and recycling services.

Storm Sewer Fund – This Fund accounts for the operations of the City's storm sewer utility.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's utility 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.

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 enterprise funds include 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Investment income earned on pooled deposits is not allocated proportionally to all funds, but rather is recorded in the General Fund.

The City's cash and cash equivalents, are considered to be cash on hand and demand deposits.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

2. Receivables and Payables

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Wright County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

3. Prepaid Items and Inventory

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

Inventory is valued at cost using the first-in, first-out (FIFO) method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Pursuant to GASB Statement No. 34, in the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include those assets purchased after 1980. These assets are reported at historical cost.

The City estimated historical cost for the initial reporting of assets acquired prior to 2012 through back trending by estimating the current replacement cost and utilizing an appropriate price level index to deflate the cost to the acquisition year. As the City constructs or acquires additional infrastructure assets, the assets will be capitalized and reported at their historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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 that time. The City presents deferred outflows of resources on the Statement(s) of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 two items that qualify for reporting in this category. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statement(s) of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

6. Compensated Absences

Compensatory time may be used at the employee's choosing in lieu of overtime for time worked in excess of 40 hours per week and for City meetings attended after work hours. Compensatory time is accrued at one and a half hours. Compensatory time may accrue to a maximum level of 200 hours. City employees may convert compensatory time hours to cash at any level under the maximum and the compensatory time will be paid at the current hourly rate of the employee at the time of the cash conversion.

The City provides paid vacation time for all employees working over 30 hours per week and who have worked for the City for one year.

Paid vacation may be taken after the completion of one year with the City and is earned based on years of service. Unused accrued vacation time may be carried over. However, upon termination of employment or retirement the City will only pay up to 240 hours.

Regular full-time employees of the City earn four hours of sick leave per month. Part-time employees working more than 30 hours per week earn three hours of sick leave per month. Other employees do not earn sick leave. An employee may accrue a maximum of 90 days of sick leave and may carry over sick leave from year-to-year.

The following severance payment is made upon termination or retirement from the City when it is determined the employee has left employment in good standing. This payment will be based upon years of service and the amount of unused sick leave the employee has as of the separation date.

5 years	25% of Unused sick leave
10 years	40% of Unused sick leave
15 years	50% of Unused sick leave

All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for the portion of accumulated sick leave benefits that are vested on the Statement of Net Position.

7. 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 deferred and amortized over the life of the bonds using the effective interest method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

7. **Long-Term Obligations (Continued)**
In the fund financial statements, governmental fund types recognize 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.

8. **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 the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. **Fund Equity**

a. **Classification**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bond to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form.
- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through enabling legislation.
- **Committed Fund Balance** – These are amounts that are constrained by City Council resolution.
- **Assigned Fund Balance** – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Clerk/Treasurer based on the City Council's direction.
- **Unassigned Fund Balance** – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

9. **Fund Equity**

a. **Classification (Continued)**

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, then unrestricted resources as needed. When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned, and unassigned.

b. **Minimum Fund Balance**

The City's target General Fund balance is to maintain a minimum of 50% of the subsequent year's budgeted expenditures in unassigned fund balance.

10. **Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

11. **Use of Estimates**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

E. **Budgetary Information**

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted in December to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the fund level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a fund level, so long as the total fund budget is not changed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information (Continued)

6. Annual appropriated budgets are adopted during the year for the General, Special Revenue, Debt Service, Capital Projects, and Enterprise Funds.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances

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

Tax Increment District 1-1	\$ 91,275
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NOTE 3 – DEPOSITS AND INVESTMENTS

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments". For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized as follows.

A. Deposits

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by City Council.

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's financial management plan states all deposits in any bank, trust company, or thrift institution over \$100,000 must be collateralized. The total amount of collateral at market value must be in an amount of 110% of all deposits over \$100,000. In addition, the plan states the collateral shall be deposited with the treasurer and shall not be deposited in the bank, trust company, or thrift institution. As of December 31, 2016, the City's bank balance was not exposed to custodial credit risk because the bank balance was fully insured through FDIC insurance and secured with pledged collateral.

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

As of December 31, 2016, the City had deposits as follows:

Checking (City)	\$ 1,159,427
Checking (discretely presented component unit)	118,393
Savings	246,275
Total deposits	<u>\$ 1,524,095</u>

Summary of cash deposits and investments as of December 31, 2016, were as follows:

Petty cash	\$ 135
Cash on hand (Liquor Store)	1,300
Deposits (Note 3. A.)	1,524,095
Total deposits and investments	<u>\$ 1,525,530</u>

Deposits and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments (including cash equivalents)	\$ 1,407,137
Governmental activities	118,393
Component unit	
Total	<u>\$ 1,525,530</u>

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

A. Advances

Advances exist between the City Municipal Liquor Store and the General Fund. These funds were used for additional construction costs, increasing the inventory level, paying out severance and updating computer technology. A payment schedule exists for these loans. As of December 31, 2016, \$54,057 is outstanding. During 2016, \$14,400 was repaid on these loans. These advances are scheduled to be repaid by 2020. The current position is presented as a due to/due from other funds of \$14,400. The long term portion of \$39,657 is presented as advances to/from other funds.

City of Waverly
Notes to Financial Statements

NOTE 4 – INTERFUND BALANCES AND TRANSFERS (CONTINUED)

B. Due to/from Other Funds

The following amounts are due to other governmental funds to cover deficit cash balances.

Due from Other Funds	Due to Other Funds				Total
	Other Governmental Funds	Sewer	Liquor	Storm Sewer	
General Fund	\$ 75,750	\$ 57,971	\$ 14,400	\$ -	\$ 148,121
Other governmental funds	-	156,650	-	-	156,650
Water	-	301,878	-	-	301,878
Refuse and Recycling	-	12,803	3,889	18,469	35,161
Total	\$ 75,750	\$ 529,302	\$ 18,289	\$ 18,469	\$ 641,810

C. Interfund Transfers

Transfers during the year ended December 31, 2016, were as follows:

Transfer Out of	Transfer In to	Amount
General Fund	Liquor Store	\$ 2,601

City of Waverly
Notes to Financial Statements

NOTE 5 – 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	\$ 15,727	\$ -	\$ -	\$ 15,727
Land and improvements				
Capital assets being depreciated				
Building and structures	912,728	101,184	-	1,013,912
Machinery and equipment	448,772	346,442	165,619	629,595
Infrastructure	11,981,601	10,100	-	11,991,701
Total capital assets being depreciated	13,343,101	457,726	165,619	13,635,208
Less accumulated depreciation for				
Building and structures	624,359	40,985	-	665,344
Machinery and equipment	348,643	36,830	160,392	225,081
Infrastructure	3,147,852	309,094	-	3,456,946
Total accumulated depreciation	4,120,854	386,909	160,392	4,347,371
Total capital assets being depreciated, net	9,222,247	70,817	5,227	9,287,837
Governmental activities capital assets, net	\$ 9,237,974	\$ 70,817	\$ 5,227	\$ 9,303,564

City of Waverly
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 36,333	-	-	\$ 36,333
Construction in progress	1,101,577	477,303	1,071,702	507,178
Total capital assets not being depreciated	1,137,910	477,303	1,071,702	543,511
Capital assets being depreciated				
Building and structures	1,222,939	37,695	-	1,260,634
Machinery and equipment	118,640	-	-	118,640
Infrastructure	8,381,808	1,087,095	-	9,468,903
Total capital assets being depreciated	9,723,387	1,124,790	-	10,848,177
Less accumulated depreciation for				
Building and structures	659,655	39,894	-	699,549
Machinery and equipment	107,552	3,657	-	111,209
Infrastructure	2,265,794	221,123	-	2,486,917
Total accumulated depreciation	3,033,001	264,674	-	3,297,675
Total capital assets being depreciated, net	6,690,386	860,116	-	7,550,502
Business-type activities capital assets, net	\$ 7,828,296	\$ 1,337,419	\$ 1,071,702	\$ 8,094,013

City of Waverly
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	\$ 8,401
General government	4,281
Public safety	345,691
Public works	28,536
Park and recreation	-
Total depreciation expense - governmental activities	<u>\$ 386,909</u>
Business-type activities	-
Water	98,881
Sewer	97,209
Liquor	23,199
Storm sewer	44,625
Refuse fund	760
Total depreciation expense - business-type activities	<u>\$ 264,674</u>

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds

The City issues general obligation (G.O.) bonds and Equipment Certificates to provide for the acquisition and construction of major capital facilities. Debt service is covered respectively between the amount to be repaid from governmental activities and amount to be repaid from business-type activities.

G.O. bonds are direct obligations and pledge the full faith and credit of the City.

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

B. Components of Long-Term Liabilities

Long-term liabilities	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Governmental activities						
Bonds payable						
G.O. improvement bonds, series 2010B	12/02/10	1.90-3.75%	\$ 389,000	02/01/21	\$ 228,000	\$ 43,000
Capital lease obligations						
Compensated absences						
					177,837	34,465
					28,215	14,108
Total governmental activities					434,052	91,573
Business-type activities						
Bonds payable						
G.O. refunding bonds, series 2011B	10/04/11	2.25-3.40%	1,625,000	02/01/24	1,070,000	120,000
G.O. water revenue bonds, series 2012B	07/11/12	0.50-2.50%	400,000	09/01/22	245,000	40,000
G.O. refunding bonds, series 2015A	06/04/15	2.50-3.50%	2,095,000	02/01/25	2,015,000	185,000
G.O. water revenue note	05/31/12	1.52%	306,308	08/20/31	272,554	15,554
G.O. sewer revenue note	07/29/15	1.00%	122,842	08/20/35	119,000	6,000
Total business-type bonds					3,721,554	366,554
Capital lease obligations						
Premium on bonds payable					24,780	12,219
Compensated absences					90,281	-
					30,656	15,328
Total business-type activities					3,867,271	394,101
Total all long-term liabilities					\$ 4,301,323	\$ 485,674

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance previous bond issues. The General, Debt Service, and Enterprise Funds are used to liquidate the long-term liabilities.

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

Governmental activities	Beginning Balance	Additions	Reductions	Ending Balance
G.O. improvement bonds	\$ 270,000	\$ -	\$ 42,000	\$ 228,000
G.O. equipment certificates	12,000	-	12,000	-
Capital leases	-	177,837	-	177,837
Compensated absences	25,595	9,093	6,473	28,215
Total governmental activities	\$ 307,595	\$ 186,930	\$ 60,473	\$ 434,052
long-term liabilities				

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities (Continued)

Business-type activities	Beginning Balance	Additions	Reductions	Ending Balance
G.O. revenue bonds	\$ 4,955,000	\$ -	\$ 1,625,000	\$ 3,330,000
G.O. water revenue note	290,554	-	18,000	272,554
G.O. sewer revenue note	122,842	-	3,842	119,000
Capital Leases	-	37,694	12,913	24,780
Premium on bonds payable	100,443	-	10,162	90,281
Compensated absences	29,932	11,400	10,676	30,656
Total business-type activities	\$ 5,498,771	\$ 49,094	\$ 1,680,593	\$ 3,867,271
long-term liabilities				

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

Year Ending December 31,	Government-Type Activities	
	Principal	Interest
2017	\$ 43,000	\$ 6,971
2018	44,000	5,633
2019	46,000	4,192
2020	47,000	2,622
2021	48,000	900
Total	\$ 228,000	\$ 20,318

Business-Type Activities

Year Ending December 31,	G.O. Revenue Bonds		G.O. Revenue Note	
	Principal	Interest	Principal	Interest
2017	\$ 345,000	\$ 89,905	\$ 21,554	\$ 5,344
2018	360,000	80,849	23,000	5,047
2019	380,000	71,305	23,000	4,728
2020	385,000	61,042	23,000	4,409
2021	390,000	50,311	23,000	4,089
2022-2026	1,250,000	114,308	122,000	15,494
2027-2031	120,000	28,349	128,000	6,830
2032-2035	100,000	7,001	28,000	700
Total	\$ 3,330,000	\$ 503,070	\$ 391,554	\$ 46,641

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments (Continued)

Year Ending December 31,	Business-Type Activities	
	Principal	Interest
2017	\$ 366,554	\$ 95,249
2018	383,000	85,896
2019	403,000	76,033
2020	408,000	65,451
2021	413,000	54,400
2022-2026	1,372,000	129,802
2027-2031	248,000	35,179
2032-2035	128,000	7,701
Total	\$ 3,721,554	\$ 549,711

E. Capital Lease Obligations

The City has entered into a lease purchase agreement with PNC Equipment Finance, LLC for the acquisition of an electronic sign. The capital lease obligation totaled \$38,739. The capital lease agreement includes annual principal and interest payments of \$12,913 for each of the three years of the agreement.

The assets purchased with the lease are classified as buildings and structures and totaled \$37,695. The associated accumulated depreciation for these assets is \$1,694 for a net value of \$36,001.

The City has entered into a lease purchase agreement with KS State Bank for the acquisition of a payload. The capital lease obligation totaled \$104,995. The capital lease agreement includes annual principal and interest payments of \$20,999 for each of the five years of the agreement.

The assets purchased with the lease are classified as machinery and equipment and totaled \$134,515. The associated accumulated depreciation for these assets is \$786 for a net value of \$133,729.

The City has entered into a lease purchase agreement with Mercedes-Benz Financial Services USA, LLC for the acquisition of a Western Star Truck. The capital lease obligation totaled \$88,071. The capital lease agreement includes annual principal and interest payments of \$17,614 for each of the five years of the agreement.

The assets purchased with the lease are classified as machinery and equipment and totaled \$197,827. The associated accumulated depreciation for these assets is \$14,254 for a net value of \$183,573.

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Minimum future lease payments under the capital leases as of December 31, 2016, in the aggregate were as follows:

E. Capital Lease Obligations (Continued)

Year Ending December 31,	Total
2017	\$ 51,527
2018	51,526
2019	38,613
2020	38,613
2021	38,613
Net minimum lease payments	218,892
Less amount representing interest	(16,275)
	\$ 202,617

Present value of net minimum lease payments

NOTE 7 – FUND BALANCE DETAIL

Fund equity balances are classified as follows on the chart below to reflect the limitations and restrictions of the respective funds.

	Governmental Funds		Total
	General	Other	
Nonspendable			
Prepaid items	\$ 39,657	\$ -	\$ 39,657
Advances to other funds	14,963	-	14,963
Total nonspendable	54,620	-	54,620
Restricted			
Debt service	-	222,217	222,217
Park dedication fees	-	115,346	115,346
Total restricted	-	337,563	337,563
Assigned			
Capital projects	-	177,653	177,653
Unassigned	1,190,176	(91,275)	1,098,901
Total	\$ 1,244,796	\$ 423,941	\$ 1,668,737

NOTE 8 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2016 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2016, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – PENSION PLANS

Public Employees' Retirement Association

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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 Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan 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 state statute and can only be modified by the state legislature.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

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

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

General Employees Plan Benefits

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

C. Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$28,314. The City's contributions were equal to the required contributions as set by state statute.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$487,170 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$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 \$6,385. 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 proportion share was 0.0060%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$59,664 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$1,904 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund. Total pension expense for the year ended December 31, 2016, was \$61,658.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 39,750
Changes in actuarial assumptions	95,388	-
Difference between projected and actual investment earnings	92,836	-
Changes in proportion and differences between contributions made and city's proportion share of contributions	-	25,026
City's contributions to PERA subsequent to the measurement date	14,157	-
Total	\$ 202,381	\$ 64,776

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

\$14,157 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	\$ 29,990
2018	29,989
2019	45,872
2020	17,597
Total	\$ 123,448

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 %	Per year
Active member payroll growth	3.25 %	Per year
Investment rate of return	7.50 %	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabled were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan and Police and Fire Plan.

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 the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

- General Employees Fund
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
Total	100 %	

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% 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 those assumptions, the fiduciary net position of the General Employees Fund 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 table 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:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the General Employees Fund net pension liability	\$ 691,926	\$ 487,170	\$ 318,507

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.mmpera.org.

NOTE 10 TAX INCREMENT FINANCING

The City has entered into a Tax Increment Financing agreement which meets the criteria for disclosure under *Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures*. The City's authority to enter into these agreements comes from *Minnesota Statute 469*. The City entered into these agreements for the purpose of economic development.

Under each agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs.

During the year ended December 31, 2016, the City generated \$14,538 in tax increment revenue and made \$13,084 in payments to developers.

**City of Waverly
Schedule of City Contributions -
General Employees Retirement Fund
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	27,471	27,471	\$ -	366,280	7.5%
2016	28,314	28,314	-	377,520	7.5%

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

**City of Waverly
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	Share's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Educational Net Position as a Percentage of the Total Pension Liability
2015	0.0065%	316,134	6,385	316,134	354,947	89.1%	78.2%
2016	0.00650%	487,170	-	493,555	372,987	130.6%	68.9%

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

City of Waverly
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 717,679	\$ 717,679	\$ 714,088	\$ (3,591)
Special assessments	154,950	154,950	151,595	(3,355)
Licenses and permits	31,300	31,300	59,275	27,975
Intergovernmental				
State grants and aids	155,367	155,367	155,367	-
Local government aid	-	-	328	328
Market value credit	3,000	3,000	8,070	5,070
County grants and aids for highways	5,000	5,000	5,729	729
Police aid	967	967	967	-
PERA aid	-	-	17,440	17,440
Fire relief aid	-	-	187,901	187,901
Total intergovernmental	164,334	164,334	187,901	23,567
Charges for services				
General government	700	700	352	(348)
Public works	100	100	2,395	2,295
Parks and recreation	1,000	1,000	100	(900)
Total charges for services	1,800	1,800	2,847	1,047
Fines and forfeitures	2,100	2,100	3,606	1,506
Investment income	1,000	1,000	1,322	322
Contributions and donations	13,000	13,000	10,456	(2,544)
Refunds and reimbursements	25,000	25,000	31,020	6,020
Other	2,700	2,700	830	(1,870)
Total miscellaneous revenues	40,700	40,700	42,306	1,606
Total revenues	1,113,863	1,113,863	1,162,940	49,077
Expenditures				
General government				
Mayor and council	11,503	11,503	12,203	700
Clerk/treasurer				
Current	145,889	145,889	151,556	5,667
Capital outlay	3,800	3,800	3,989	189
Elections and voters registration				
Current	2,350	2,350	2,008	(342)
Capital outlay	-	-	637	637

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
General government				
Planning and zoning				
Current	\$ 1,915	\$ 1,915	\$ 1,018	\$ (897)
Capital outlay	500	500	404	(96)
Accounting and auditing				
Current	25,000	25,000	20,988	(4,012)
Legal				
Current	8,000	8,000	3,120	(4,880)
Assessor				
Current	12,500	12,500	10,690	(1,810)
General operating				
Current	64,350	64,350	58,013	(6,337)
Capital outlay	-	-	38,970	38,970
Total general government	275,807	275,807	303,596	27,789
Public safety				
Police protection				
Current	98,088	98,088	98,088	-
Fire protection				
Current	156,950	156,950	174,299	17,349
Building inspection				
Current	11,400	11,400	20,450	9,050
Animal control				
Current	400	400	-	(400)
Miscellaneous				
Current	700	700	-	(700)
Total public safety	267,538	267,538	292,837	25,299
Public works				
Streets and highways				
Current	305,360	305,360	221,199	(84,161)
Capital outlay	66,008	66,008	290,445	224,437
Street lighting				
Current	34,500	34,500	31,245	(3,255)
Capital outlay	-	-	745	745
Total public works	405,868	405,868	543,634	137,766
Culture and recreation				
Parks				
Current	45,730	45,730	34,047	(11,683)
Capital outlay	500	500	-	(500)
Total culture and recreation	46,230	46,230	34,047	(12,183)

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
Miscellaneous				
City insurance	\$ 37,000	\$ 37,000	\$ 37,460	\$ 460
Milfoil treatments	2,750	2,750	2,525	(225)
Total miscellaneous	39,750	39,750	39,985	235
Debt service				
Loan principal	12,000	12,000	12,000	-
Loan interest	308	308	308	-
Total debt service	12,308	12,308	12,308	-
Total expenditures	1,047,501	1,047,501	1,226,407	178,906
Excess of revenues over (under) expenditures	66,362	66,362	(63,467)	(129,829)
Other financing sources				
Proceeds from capital lease	-	-	177,837	177,837
Transfers out	-	-	(2,601)	(2,601)
Total other financing sources	-	-	175,236	175,236
Net change in fund balance	\$ 66,362	\$ 66,362	111,769	\$ 45,407
Fund Balance				
Beginning of year			1,133,027	
End of year			\$ 1,244,796	

City of Waverly
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 December 31, 2016

	Special Revenue		Capital Projects			Total Governmental Funds
	Park Projects Improvements (404)	Tax Increment District 1-1 (499)	Debt Service	City Hall Project (403)	Water and Sewer Improvements (406)	
Assets						
Cash and investments	\$ 112,809	\$ 5,346	\$ 221,537	\$ 21,003	\$ -	\$ 360,695
Taxes receivable - delinquent	49	-	665	-	-	714
Accounts receivable	2,537	-	354	-	-	2,891
Due from other governments	-	-	326	-	-	326
Special assessments receivable	-	-	-	-	-	-
Delinquent	-	-	176	-	-	176
Deferred	-	-	119,733	-	-	119,733
Due from other funds	-	-	-	-	156,650	156,650
Total assets	\$ 115,395	\$ 5,346	\$ 342,791	\$ 21,003	\$ 156,650	\$ 641,185
Liabilities						
Accounts payable	\$ -	\$ 6,542	\$ -	\$ -	\$ -	\$ 6,542
Due to other funds	-	75,750	-	-	-	75,750
Due to other governments	-	14,329	-	-	-	14,329
Total liabilities	-	96,621	-	-	-	96,621
Deferred Inflows of Resources						
Unavailable revenue - property taxes	49	-	665	-	-	714
Unavailable revenue - special assessments	-	-	119,909	-	-	119,909
Total deferred inflows of resources	49	-	120,574	-	-	120,623
Fund Balances						
Restricted	115,346	-	222,217	-	-	337,563
Assigned	-	-	-	21,003	156,650	177,653
Unassigned	-	(91,275)	-	-	-	(91,275)
Total fund balances	115,346	(91,275)	222,217	21,003	156,650	423,941
Total liabilities, deferred inflows of resources, and fund balances	\$ 115,395	\$ 5,346	\$ 342,791	\$ 21,003	\$ 156,650	\$ 641,185

City of Waverly
**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds**
Year Ended December 31, 2016

	Special Revenue		Capital Projects		Total Other Governmental Funds
	Park Projects Improvements (404)	Tax Increment District 1-1 (499)	City Hall Project (403)	Water and Sewer Improvements (406)	
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 32,714
Tax increments	-	14,538	-	-	14,538
Special assessments	-	-	-	-	47,645
Charges for services	31,022	-	-	-	31,022
Miscellaneous	-	-	-	-	-
Contributions and donations	5,367	-	-	-	5,367
Other	250	-	-	-	250
Total revenues	<u>36,639</u>	<u>14,538</u>	<u>-</u>	<u>-</u>	<u>131,536</u>
Expenditures					
Current					
General government	-	1,935	-	-	1,935
Debt service	-	-	-	-	-
Principal	-	-	-	-	42,000
Interest and other charges	-	-	-	-	8,194
Capital outlay	-	-	47,604	-	60,688
General government	28,379	-	-	-	28,379
Parks and recreation	28,379	15,019	47,604	-	141,196
Total expenditures	<u>56,758</u>	<u>15,019</u>	<u>47,604</u>	<u>-</u>	<u>218,222</u>
Net change in fund balances	8,260	(481)	(47,604)	-	(9,660)
Fund Balances					
Beginning of year	107,086	(90,794)	68,607	156,650	433,601
End of year	<u>\$ 115,346</u>	<u>\$ (91,275)</u>	<u>\$ 21,003</u>	<u>\$ 156,650</u>	<u>\$ 423,941</u>

City of Waverly
Balance Sheet - Component Unit
Economic Development Authority
December 31, 2016

Assets		Economic Development Authority (275)
Cash and investments	\$	118,393
Taxes receivable - delinquent		494
Due From Other Governments		14,408
Total assets		<u>133,295</u>
Liabilities		
Salaries and benefits payable	\$	135
Deferred Inflows of Resources		
Unavailable revenue - property taxes		494
Fund Balance		
Unassigned		<u>132,666</u>
Total liabilities, deferred inflows of resources, and fund balance	\$	<u>133,295</u>
Reconciliation of the Balance Sheet to the Statement of Net Position - Component Unit		
Amounts reported for the component unit in the statement of net position are different because:		
Total fund balances - component unit	\$	132,666
Delinquent taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		<u>494</u>
Total net position - component unit	\$	<u>133,160</u>

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Component Unit -
Economic Development Authority
Year Ended December 31, 2016

Revenues		Economic Development Authority (275)
Property taxes	\$	19,338
Expenditures		
Current		<u>1,947</u>
Economic development		<u>17,391</u>
Net change in fund balances		115,275
Fund Balance		
Beginning of year		<u>115,275</u>
End of year	\$	<u>132,666</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Component Unit		
Net change in fund balances - component unit	\$	17,391
Amounts reported for the component unit in the statement of activities are Different because		
Delinquent property taxes receivable will be collected in subsequent years, and, therefore, are deferred in the funds.		<u>120</u>
Change in net position - component unit	\$	<u>17,511</u>

City of Waverly
Municipal Liquor Store Fund
Schedule of Five Year Financial Highlights
(Unaudited)

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Sales	\$ 823,404	\$ 821,983	\$ 830,589	\$ 846,862	\$ 926,014
Cost of products sold	(542,316)	(562,398)	(573,010)	(600,279)	(663,397)
Gross profit	281,088	259,585	257,579	246,583	262,617
Gross profit percentage	34.1%	31.6%	31.0%	29.1%	28.4%
Average inventory	85,943	88,091	88,099	89,867	89,293
Inventory turnover (times)	6.3	6.4	6.5	6.7	7.4
Number of days in inventory	58	57	56	55	49
Net income (loss) before operating transfers	(5,597)	(7,583)	3,891	(21,866)	(11,840)
Working capital (current assets less current liabilities)	38,959	36,147	34,779	23,705	36,159
Working capital ratio	1.7 to 1	1.5 to 1	1.4 to 1	1.3 to 1	1.3 to 1
Salaries and benefits	168,900	156,568	151,380	156,900	153,752
Capital asset additions	37,695	*	*	8,097	*

Note: Sales figures were not adjusted for the sales tax correction identified in 2012.



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

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Waverly
Waverly, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waverly, Minnesota as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 2, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Response on Internal Control, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



Internal Control over Financial Reporting (Continued)

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Findings 2006-003 and 2016-001 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Finding 2007-001 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

BergankDV Ltd.

Minneapolis, Minnesota
June 2, 2017



**Report on Legal Compliance
Independent Auditor's Report**

Honorable Mayor and Members
of the City Council
City of Waverly
Waverly, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Waverly, Minnesota as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 2, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 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 of Waverly 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.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

BergankDV Ltd.

Minneapolis, Minnesota
June 2, 2017

City of Waverly
Schedule of Finding and Response on
Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS

Material Weaknesses

Audit Finding 2006-003 – Preparation of Financial Statements

As a function of the audit process, auditors are required to gain an understanding of the City's internal control, including the financial reporting process.

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a city of your size.

This condition increases the risk that errors could occur which would not be prevented or detected and corrected, in a timely manner. Even though all management decisions related to financial reporting are made by the City's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

City's Response

The City is aware, due to staffing and budgetary constraints, the management of the City does not have the training to prepare the financial statements. The City will continue to have BerganKDV prepare the financial statements and the City will continue to review such statements.

Audit Finding 2016-001 – Material Audit Adjustment

During the course of our audit, we proposed a material audit adjustment that would not have been identified as a result of the City's existing internal controls and, therefore, could have resulted in a material misstatement of the financial statements.

In order to ensure the financial statements were free from material misstatement, an audit adjustment was required to properly adjust accounts receivable.

We recommend the City continue monitoring the reconciling and reporting process to ensure all journal entries are made prior to the audit.

City's Response

The City will review these entries prior to the audit in the future to ensure all material entries are captured.

City of Waverly
Schedule of Findings and Responses on
Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS

Significant Deficiency

Audit Finding 2007-001 – Lack of Segregation of Accounting Duties

The City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Given the additional monitoring of City Hall transactions by the Council, this control finding is considered a significant deficiency in lieu of a material weakness.

In an ideal accounting environment authorization of the transaction, custody of the related assets, and recording of the transaction and reconciliation of the transaction would each be handled by separate individuals to prevent any opportunity for collusion. Because of the small staff necessary in relation to the magnitude of city operations, some overlap remains in City Hall transactions and Liquor Store operations:

- One employee has custody of cash receipts through their role at the front desk and deposit responsibilities. This employee also has recording responsibilities by entering deposits monthly into the accounting system.
- The Clerk/Treasurer duties related to payroll include custody, recording, and reconciliation. This is mitigated to a certain extent by separate authorization and monitoring of the reconciliation process.
- The Municipal Liquor Store Manager is in charge of ordering all inventories, entering all goods into the computer software, determining pricing, updating the inventory records to reflect any errors found, reconciling cash receipts, and bringing the cash deposits to the bank.

City's Response

The City is aware, due to staffing and budgetary constraints, that adequate segregation of accounting duties cannot be obtained. The City will continue to monitor the segregation of accounting duties and implement any changes that are deemed possible.

FORM OF LEGAL OPINION

(See following page)



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

PROPOSED FORM OF LEGAL OPINION

\$ _____
GENERAL OBLIGATION WATER REVENUE BONDS, SERIES 2018A
CITY OF WAVERLY
WRIGHT COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Waverly, Wright County, Minnesota (the "Issuer"), of its \$ _____ General Obligation Water Revenue Bonds, Series 2018A, bearing a date of original issue of May 3, 2018 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

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

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

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

PROPOSED FORM OF LEGAL OPINION

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

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

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

BRIGGS AND MORGAN
Professional Association

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Waverly, Minnesota (the "Issuer"), in connection with the issuance of its \$ _____ General Obligation Water Revenue Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on April 10, 2018 (the "Resolution"). Pursuant to the Resolution and this Undertaking, the Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 4 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated _____, 2018, prepared in connection with the Bonds.

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

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

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

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

SECTION 3. Provision of Annual Reports. Beginning in connection with the Fiscal Year ending on December 31, 2017, the Issuer shall, or shall cause the Dissemination Agent to provide, at least annually to the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the Issuer and publicly available, by not later than December 31, 2018, and by December 31 of each year thereafter.

SECTION 4. Reporting of Significant Events. This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

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

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

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 8. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 9. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 10. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 11. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 7 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: _____, 2018.

CITY OF WAVERLY, MINNESOTA

By _____
Its Mayor

By _____
Its Clerk/Treasurer

APPENDIX E

TERMS OF PROPOSAL

\$1,820,000* GENERAL OBLIGATION WATER REVENUE BONDS, SERIES 2018A CITY OF WAVERLY, MINNESOTA

Proposals for the purchase of \$1,820,000* General Obligation Water Revenue Bonds, Series 2018A (the "Bonds") of the City of Waverly, Minnesota (the "City") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the City, until 11:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 11:00 A.M. Central Time, on April 10, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, by the City, for the purpose of financing the 2018 water system improvements. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated May 3, 2018, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2025	\$110,000	2030	\$80,000	2035	\$125,000
2026	70,000	2031	80,000	2036	155,000
2027	170,000	2032	85,000	2037	160,000
2028	130,000	2033	115,000	2038	165,000
2029	85,000	2034	120,000	2039	170,000

ADJUSTMENT OPTION

* The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2025 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2029 shall be subject to optional redemption prior to maturity on February 1, 2028 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about May 3, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Briggs and Morgan, Professional Association, Minneapolis, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$1,798,160 plus accrued interest on the principal sum of \$1,820,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or
- 3) Electronically via **PARITY** in accordance with this Terms of Proposal until 11:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$36,400 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the City when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement

to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test, the Underwriter agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a certain maturity have been sold.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Waverly, Minnesota

PROPOSAL FORM

The City Council
City of Waverly, Minnesota

April 10, 2018

RE: \$1,820,000* General Obligation Water Revenue Bonds, Series 2018A
DATED: May 3, 2018

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$1,798,160) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____	% due	2025	_____	% due	2030	_____	% due	2035
_____	% due	2026	_____	% due	2031	_____	% due	2036
_____	% due	2027	_____	% due	2032	_____	% due	2037
_____	% due	2028	_____	% due	2033	_____	% due	2038
_____	% due	2029	_____	% due	2034	_____	% due	2039

* The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2025 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of \$36,400, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about May 3, 2018.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: NO: .

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from May 3, 2018 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Waverly, Minnesota, on April 10, 2018.

By: _____ By: _____
Title: _____ Title: _____