

# PRELIMINARY OFFICIAL STATEMENT DATED APRIL 12, 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 ST. MICHAEL, MINNESOTA (Wright County)

### \$2,800,000\* GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2018A

**PROPOSAL OPENING:** April 24, 2018, 11:00 A.M., C.T.      **CONSIDERATION:** April 24, 2018, 7:00 P.M., C.T.

**PURPOSE/AUTHORITY/SECURITY:** The \$2,800,000\* General Obligation Capital Improvement Plan Bonds, Series 2018A (the "Bonds") are being issued by the City of St. Michael, Minnesota (the "City") pursuant to Minnesota Statutes, Section 475.521 and Chapter 475, for the purpose of financing the construction of a new public works facility. The Bonds are 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 17, 2018

**MATURITY:** February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2020	\$105,000	2027	\$125,000	2034	\$160,000
2021	110,000	2028	130,000	2035	165,000
2022	110,000	2029	135,000	2036	170,000
2023	115,000	2030	135,000	2037	175,000
2024	115,000	2031	140,000	2038	180,000
2025	120,000	2032	145,000	2039	190,000
2026	125,000	2033	150,000		

**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, 2028 and thereafter are subject to call for prior redemption on February 1, 2027 and any date thereafter, at a price of par plus accrued interest.

**MINIMUM PROPOSAL:** \$2,766,400

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$56,000 shall be made by the winning bidder by wire transfer of funds.

**PAYING AGENT:** U.S. Bank National Association

**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>
Kevin Kasel	Mayor	January 2019
Cody Gulick	Council Member	January 2019
Matt Kammann	Council Member	January 2021
Nadine Schoen	Council Member	January 2019
Keith Wettschreck	Council Member	January 2021

## **ADMINISTRATION**

Steve Bot, City Administrator

Diana Case, City Clerk

Sue Ferbuyt, Assistant Finance Director

## **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 St. Michael, Minnesota (the "City") and the issuance of its \$2,800,000\* General Obligation Capital Improvement Plan 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 24, 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](http://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 17, 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 2020 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 U.S. Bank National Association, St. Paul, Minnesota, to act as paying agent (the "Paying Agent"). 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, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 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 by the City pursuant to Minnesota Statutes, Section 475.521 and Chapter 475, for the purpose of financing the construction of a new public works facility.

Minnesota Statutes, Section 475.521, adopted by the 2003 Minnesota State Legislature and amended in 2005, allows cities and towns to plan for and finance the acquisition and betterment of public lands, buildings, and certain other improvements within the municipality, including financing the construction of city halls, town halls, libraries, public safety, and public works facilities. Annual principal and interest payments on General Obligation Capital Improvement Bonds are limited to .16% of the City's estimated market value. The estimated market value of the City for taxes collectible in 2018 is \$1,691,783,600. This results in a maximum annual debt service allowable of \$2,706,854 for General Obligation Capital Improvement Bonds outstanding at any time.

## ESTIMATED SOURCES AND USES\*

<b>Sources</b>		
Par Amount of Bonds	<u>\$2,800,000</u>	
<b>Total Sources</b>		<b>\$2,800,000</b>
<b>Uses</b>		
Total Underwriter's Discount (1.200%)	\$33,600	
Costs of Issuance	43,000	
Deposit to Project Fund	<u>2,723,400</u>	
<b>Total Uses</b>		<b>\$2,800,000</b>

\*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. In accordance with Minnesota Statutes, the City will levy each year an amount not less than 105% of the debt service requirements on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the City is required to levy an additional ad valorem tax upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

## **RATING**

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "AA" by S&P Global Ratings ("S&P").

The City has requested a rating on this issue from S&P, and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P. Generally, a rating agency bases 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 judgment 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.

## **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](http://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 Malloy, Montague, Karnowski, Radosevich & Co., P.A. (MMKR), 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 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	2015/16	2016/17	2017/18
Residential homestead <sup>1</sup>	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 <sup>1</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,140,000 - 0.50% <sup>2</sup> Over \$2,140,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,050,000 - 0.50% <sup>2</sup> Over \$2,050,000 - 1.00% <sup>2</sup>	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,940,000 - 0.50% <sup>2</sup> Over \$1,940,000 - 1.00% <sup>2</sup>
Agricultural non-homestead	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>	Land - 1.00% <sup>2</sup>
Seasonal recreational residential	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>	First \$500,000 - 1.00% <sup>3</sup> Over \$500,000 - 1.25% <sup>3</sup>
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 <sup>4</sup> - 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 <sup>4</sup> - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .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 <sup>4</sup> - 1.25% Affordable Rental: First \$121,000 - .75% Over \$121,000 - .25%
Industrial/Commercial/Utility <sup>5</sup>	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%

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

<sup>2</sup> Applies to land and buildings. Exempt from referendum market value tax.

<sup>3</sup> Exempt from referendum market value tax.

<sup>4</sup> 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.

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

## CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value<sup>1</sup> \$1,709,187,201<sup>2</sup>

	<b>2017/18 Assessor's Estimated Market Value</b>	<b>2017/18 Net Tax Capacity</b>
Real Estate	\$1,675,076,400	\$16,510,982
Personal Property	16,707,200	325,875
Total Valuation	<u>\$1,691,783,600</u>	<u>\$16,836,857</u>
Less: Captured Tax Increment Tax Capacity <sup>3</sup>		(231,150)
Power Line Adjustment <sup>4</sup>		(1,333)
Taxable Net Tax Capacity		<u>\$16,604,374</u>

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<sup>1</sup> Most recent value available from the Minnesota Department of Revenue.

<sup>2</sup> According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of St. Michael is about 93.26% 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 \$1,709,187,201.

<sup>3</sup> The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City of St. Michael.

<sup>4</sup> Ten percent of the net tax capacity of certain high voltage transmission lines is removed when setting local tax rates. However, taxes are paid on the full value of these lines. The taxes attributable to 10% of value of these lines are used to fund a power line credit. Certain property owners receive a credit when the high voltage transmission line runs over their property.

## 2017/18 NET TAX CAPACITY BY CLASSIFICATION

	<b>2017/18 Net Tax Capacity</b>	<b>Percent of Total Net Tax Capacity</b>
Residential homestead	\$12,322,120	73.19%
Agricultural	675,582	4.01%
Commercial/industrial	2,305,515	13.69%
Public utility	12,457	0.07%
Railroad operating property	20,854	0.12%
Non-homestead residential	1,138,202	6.76%
Commercial & residential seasonal/rec.	36,252	0.22%
Personal property	325,875	1.94%
Total	<u>\$16,836,857</u>	<u>100.00%</u>

## TREND OF VALUATIONS

<b>Levy Year</b>	<b>Assessor's Estimated Market Value</b>	<b>Assessor's Taxable Market Value</b>	<b>Net Tax Capacity<sup>1</sup></b>	<b>Taxable Net Tax Capacity<sup>2</sup></b>	<b>Percent +/- in Estimated Market Value</b>
2013/14	\$1,296,348,600	\$1,169,937,000	\$12,724,626	\$12,418,679	+ 5.13%
2014/15	1,442,117,800	1,327,770,800	14,236,706	13,978,381	+11.24%
2015/16	1,502,838,000	1,390,177,700	14,880,640	14,729,684	+ 4.21%
2016/17	1,594,709,500	1,477,997,200	15,803,060	15,589,291	+ 6.11%
2017/18	1,691,783,600	1,572,247,000	16,836,857	16,604,374	+ 6.09%

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<sup>1</sup> Net Tax Capacity includes tax increment and power line values.

<sup>2</sup> Taxable Net Tax Capacity does not include tax increment or power line values.

**LARGER TAXPAYERS**

<b>Taxpayer</b>	<b>Type of Property</b>	<b>2017/18 Net Tax Capacity</b>	<b>Percent of City's Total Net Tax Capacity</b>
Centerpoint Energy	Utility	\$ 181,576	1.08%
Xcel Energy	Utility	132,008	0.78%
Marohn's St. Michael Marketplace, Inc.	Commercial	111,750	0.66%
Individual	Industrial	106,120	0.63%
J&B Cold Storage LLC	Commercial	105,804	0.63%
JPK Holdings, Inc.	Industrial	102,802	0.61%
Legacy Partners of St. Michael	Apartments	99,328	0.59%
J&B RE, Inc.	Commercial	69,710	0.41%
LSREF2 Cobalt (MN) LLC	Commercial	68,883	0.41%
Cinemasota, Inc.	Commercial	59,250	0.35%
<b>Total</b>		<u><u>\$ 1,037,231</u></u>	<u><u>6.16%</u></u>

City's Total 2017/18 Net Tax Capacity      \$16,836,857

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

## DEBT

### DIRECT DEBT<sup>1</sup>

#### General Obligation Debt (see schedules following)

Total g.o. debt being paid from revenues	\$ 800,000
Total g.o. debt being paid from special assessments	2,965,000
Total g.o. debt being paid from taxes (includes the Bonds)*	4,785,000
Total g.o. debt being paid from special assessments and taxes	1,730,000
Total g.o. debt being paid from revenues, special assessments, and taxes	<u>8,445,000</u>
Total General Obligation Debt*	<u>\$18,725,000</u>

\*Preliminary, subject to change.

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<sup>1</sup> Outstanding debt is as of the dated date of the Bonds.



**CITY OF ST. MICHAEL, MINNESOTA**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Being Paid From Revenues**  
**(As of 5/17/18)**

**Refunding 1)**  
**Series 2010B**

Fiscal Year Ending	Dated Amount	Maturity	Principal		Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest					
	9/21/10 \$3,710,000	2/01							
2018			0	9,006	9,006	9,006	800,000	0.00%	2018
2019			395,000	13,816	13,816	408,816	405,000	49.38%	2019
2020			405,000	4,809	4,809	409,809	0	100.00%	2020
			800,000	27,631	27,631	827,631			

1) This issue refunded the 2011 through 2013 maturities of the City's \$4,135,000 General Obligation Sewer Revenue Refunding Bonds, Series 2009B, dated June 9, 2009.

This issue also refunded the 2011 through 2019 maturities of the City's \$586,926.99 Clean Water Revolving Fund Loan, dated January 28, 2000.

**CITY OF ST. MICHAEL, MINNESOTA**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Being Paid From Special Assessments**  
**(As of 5/17/18)**

**Refunding 1)**  
**Series 2010C**

Fiscal Year Ending	Dated Amount	Maturity	10/20/10		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest						
	\$7,930,000	2/01								
2018			0	42,000	0	42,000	2,965,000	0.00%	2018	
2019			875,000	73,063	875,000	73,063	2,090,000	29.51%	2019	
2020			275,000	58,688	275,000	58,688	1,815,000	38.79%	2020	
2021			285,000	50,975	285,000	50,975	1,530,000	48.40%	2021	
2022			290,000	42,350	290,000	42,350	1,240,000	58.18%	2022	
2023			295,000	33,575	295,000	33,575	945,000	68.13%	2023	
2024			305,000	24,575	305,000	24,575	640,000	78.41%	2024	
2025			315,000	15,078	315,000	15,078	325,000	89.04%	2025	
2026			325,000	5,078	325,000	5,078	0	100.00%	2026	
			2,965,000	345,381	2,965,000	345,381	3,310,381			

1) This issue refunded the 2014 through 2026 maturities of the City's \$6,125,000 General Obligation Permanent Improvement Revolving Fund Bonds, Series 2005C, dated October 1, 2005 and the 2013 through 2019 maturities of the \$6,215,000 General Obligation Permanent Improvement Revolving Fund Bonds, Series 2006A, dated March 23, 2006.

**CITY OF ST. MICHAEL, MINNESOTA**

**Schedule of Bonded Indebtedness**

**General Obligation Debt Being Paid From Taxes**

(As of 5/17/18)

**Taxable Library CIP  
Series 2009C (RZEDB) Series 2018A**

Fiscal Year Ending	12/10/09		5/17/18		Estimated Interest
	Principal	Interest 1)	Principal	Interest	
Dated Amount	\$1,985,000		\$2,800,000*		
Maturity	2/01		2/01		
2018	0	59,933	0	0	0
2019	0	119,865	0	108,114	108,114
2020	0	119,865	105,000	88,604	88,604
2021	0	119,865	110,000	86,345	86,345
2022	0	119,865	110,000	83,925	83,925
2023	0	119,865	115,000	81,365	81,365
2024	0	119,865	115,000	78,605	78,605
2025	0	119,865	120,000	75,578	75,578
2026	0	119,865	125,000	72,269	72,269
2027	195,000	114,113	125,000	68,769	68,769
2028	205,000	102,313	130,000	65,070	65,070
2029	210,000	90,070	135,000	61,026	61,026
2030	215,000	77,318	135,000	56,639	56,639
2031	215,000	64,203	140,000	51,963	51,963
2032	225,000	50,783	145,000	47,010	47,010
2033	230,000	36,905	150,000	41,810	41,810
2034	240,000	22,570	160,000	36,268	36,268
2035	250,000	7,625	165,000	30,376	30,376
2036			170,000	24,178	24,178
2037			175,000	17,665	17,665
2038			180,000	10,875	10,875
2039			190,000	3,705	3,705
	1,985,000	1,584,750	2,800,000	1,190,157	1,190,157

\*Preliminary, subject to change.

1) Gross amount prior to federal subsidy payment.

Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
0	59,933	59,933	4,785,000	0.00%	2018
0	227,979	227,979	4,785,000	0.00%	2019
105,000	208,469	313,469	4,680,000	2.19%	2020
110,000	206,210	316,210	4,570,000	4.49%	2021
110,000	203,790	313,790	4,460,000	6.79%	2022
115,000	201,230	316,230	4,345,000	9.20%	2023
115,000	198,470	313,470	4,230,000	11.60%	2024
120,000	195,443	315,443	4,110,000	14.11%	2025
125,000	192,134	317,134	3,985,000	16.72%	2026
320,000	182,881	502,881	3,665,000	23.41%	2027
335,000	167,383	502,383	3,330,000	30.41%	2028
345,000	151,096	496,096	2,985,000	37.62%	2029
350,000	133,956	483,956	2,635,000	44.93%	2030
355,000	116,165	471,165	2,280,000	52.35%	2031
370,000	97,793	467,793	1,910,000	60.08%	2032
380,000	78,715	458,715	1,530,000	68.03%	2033
400,000	58,838	458,838	1,130,000	76.38%	2034
415,000	38,001	453,001	715,000	85.06%	2035
170,000	24,178	194,178	545,000	88.61%	2036
175,000	17,665	192,665	370,000	92.27%	2037
180,000	10,875	190,875	190,000	96.03%	2038
190,000	3,705	193,705	0	100.00%	2039
4,785,000	2,774,907	7,559,907			

**CITY OF ST. MICHAEL, MINNESOTA**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Being Paid From Special Assessments and Taxes**  
**(As of 5/17/18)**

**Refunding 1)**  
**Series 2012B**

Dated Amount	12/20/12 \$3,440,000	Maturity	2/01					
Fiscal Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2018	0	11,978	0	11,978	11,978	1,730,000	0.00%	2018
2019	355,000	22,180	355,000	22,180	377,180	1,375,000	20.52%	2019
2020	360,000	18,335	360,000	18,335	378,335	1,015,000	41.33%	2020
2021	235,000	14,738	235,000	14,738	249,738	780,000	54.91%	2021
2022	150,000	12,123	150,000	12,123	162,123	630,000	63.58%	2022
2023	155,000	9,795	155,000	9,795	164,795	475,000	72.54%	2023
2024	155,000	7,238	155,000	7,238	162,238	320,000	81.50%	2024
2025	160,000	4,480	160,000	4,480	164,480	160,000	90.75%	2025
2026	160,000	1,520	160,000	1,520	161,520	0	100.00%	2026
	1,730,000	102,385	1,730,000	102,385	1,832,385			

1) A portion of this issue refunded the 2014 through 2021 maturities of the City's \$2,755,000 General Obligation Improvement Refunding Bonds, Series 2005B, dated April 1, 2005.

The Current Refunding of 2009 EDA portion of this issue refunded the 2013 through 2026 maturities of the City of St. Michael Economic Development Authority's \$2,097,000 Taxable Public Project Lease Revenue Bond, Series 2009 (Build America Bond - Direct Pay)(City of St. Michael, Minnesota Lease Obligation), dated December 10, 2009. This portion is subject to the City's debt limit (\$1,220,000 current principal outstanding).

**CITY OF ST. MICHAEL, MINNESOTA**  
**Schedule of Bonded Indebtedness**  
**General Obligation Debt Being Paid From Revenues, Special Assessments & Taxes**  
**(As of 5/17/18)**

Fiscal Year Ending	PIR 1) Series 2011A		Refunding 2) Series 2012A		G.O. Bonds 3) Series 2014A		Total P & I Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Dated Amount	Maturity	Dated Amount	Maturity			
2018	0	23,667	0	53,125	0	102,942	8,445,000	0.00%	2018
2019	330,000	44,034	775,000	104,950	130,000	1,428,534	7,210,000	14.62%	2019
2020	335,000	37,384	360,000	102,300	135,000	1,002,884	6,380,000	24.45%	2020
2021	340,000	30,464	375,000	97,350	360,000	1,228,664	5,305,000	37.18%	2021
2022	350,000	22,738	380,000	88,275	365,000	1,224,313	4,210,000	50.15%	2022
2023	360,000	14,081	390,000	77,250	370,000	1,221,931	3,090,000	63.41%	2023
2024	365,000	4,791	335,000	66,075	375,000	1,149,216	2,015,000	76.14%	2024
2025				54,750	380,000	434,750	1,635,000	80.64%	2025
2026				44,400	310,000	354,400	1,325,000	84.31%	2026
2027				34,950	320,000	354,950	1,005,000	88.10%	2027
2028				25,275	325,000	350,275	680,000	91.95%	2028
2029				15,375	335,000	350,375	345,000	95.91%	2029
2030				5,175	345,000	350,175	0	100.00%	2030
	2,080,000	177,158	2,615,000	769,250	3,750,000	1,108,408	9,553,408		

- 1) A portion of this issue refunded the 2012 through 2016 maturities of the City's \$3,305,000 General Obligation Permanent Improvement Revolving Fund Bonds, Series 2005A, dated March 29, 2005. Another portion of this issue refunded the February 1, 2012 principal and interest payment of the City's \$4,865,000 General Obligation Improvement Bonds, Series 2008A, dated September 17, 2008.
- 2) This issue advance crossover refunded the 2017 through 2024 maturities of the City's \$5,005,000 General Obligation Permanent Improvement Revolving Fund Bonds, Series 2007B, dated December 27, 2007, and the 2015 through 2020 maturities of the City's \$4,865,000 General Obligation Improvement Bonds, Series 2008A, dated September 17, 2008.
- 3) The Sanitary Sewer, Stormwater and Water Portions of this issue are paid entirely from revenues (\$3,190,000 current principal outstanding).

## 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; (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.

2017/18 Assessor's Estimated Market Value	\$1,691,783,600
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 50,753,508
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes <sup>1</sup> (includes the Bonds)*	<u>(7,990,000)</u>
Unused Debt Limit*	<u><u>\$ 42,763,508</u></u>

\*Preliminary, subject to change.

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<sup>1</sup> Includes a portion of the City's \$3,440,000 General Obligation Refunding Bonds, Series 2012B, dated December 20, 2012 (\$1,220,000 current principal outstanding).

## OVERLAPPING DEBT<sup>1</sup>

Taxing District	2017/18 Taxable Net Tax Capacity	% In City	Total G.O. Debt <sup>2</sup>	City's Proportionate Share
Wright County	\$156,632,990	10.6008%	\$ 100,540,000	<sup>3</sup> \$ 10,658,044
I.S.D. No. 728 (Elk River)	77,968,887	1.7692%	204,890,000	<sup>4</sup> 3,624,914
I.S.D. No. 877 (Buffalo-Hanover-Montrose)	33,452,365	1.7449%	68,200,000	<sup>5</sup> 1,190,022
I.S.D. No. 885 (St. Michael-Albertville)	21,520,362	68.0343%	175,610,000	<sup>6</sup> 119,475,034
City's Share of Total Overlapping Debt				<u>\$134,948,014</u>

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<sup>1</sup> 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.

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

<sup>3</sup> The total debt for Wright County includes their upcoming issuance of debt (\$47,890,000 estimated principal outstanding) which is set to sell on May 7, 2018.

<sup>4</sup> Currently, the State of Minnesota is paying approximately 0.22% of the principal and interest on the Elk River Public School District's general obligation bonds. Assuming this percentage continues for the life of the bonds, the State's proportionate share of principal is \$450,758. 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.

<sup>5</sup> The total debt for I.S.D. 877 (Buffalo-Hanover-Montrose) includes their upcoming issuance of debt (\$5,925,000 estimated principal outstanding) which is set to sell on April 16, 2018. 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.

<sup>6</sup> Currently, the State of Minnesota is paying approximately 40.1% of the principal and interest on the St. Michael-Albertville School District's general obligation bonds. Assuming this percentage continues for the life of the bonds, the State's proportionate share of principal is \$70,419,610.

## DEBT RATIOS

	<b>G.O. Debt</b>	<b>Debt/Economic Market Value (\$1,709,187,201)</b>	<b>Debt/ Current Population Estimate (17,045)</b>
Direct G.O. Debt Being Paid From:			
Revenues	\$ 800,000		
Special Assessments	2,965,000		
Taxes*	4,785,000		
Special Assessments & Taxes	1,730,000		
Revenues, Special Assessments & Taxes	<u>8,445,000</u>		
Total General Obligation Debt (includes the Obligations)*	\$ 18,725,000		
Less: G.O. Debt Paid Entirely from Revenues <sup>1</sup>	<u>(3,990,000)</u>		
Tax Supported General Obligation Debt*	\$ 14,735,000	0.86%	\$864.48
City's Share of Total Overlapping Debt <sup>2</sup>	<u>\$ 134,948,014</u>	<u>7.90%</u>	<u>\$7,917.16</u>
Total*	<u><u>\$ 149,683,014</u></u>	<u><u>8.76%</u></u>	<u><u>\$8,781.64</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 has no current plans for additional financing in the next 12 months.

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<sup>1</sup> Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt. Includes portions paid by revenue of the City's \$3,960,000 General Obligation Bonds, Series 2014A (\$3,190,000 current principal outstanding).

<sup>2</sup> After deducting the City's proportionate share of State Equalization Aid applicable to the overlapping school districts of \$70,870,368, the City's net overlapping debt is \$64,077,646, which results in a net overlapping debt/market value ratio of 3.75% and net overlapping debt/current population ratio of \$3,759.32.



## TAX RATES, LEVIES AND COLLECTIONS

### TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy <sup>1</sup>	Total Collected Following Year	Collected to Date <sup>2</sup>	% Collected
2013/14	\$ 5,167,424	\$ 5,125,052	\$ 5,167,074	99.99%
2014/15	5,388,374	5,347,348	5,384,885	99.94%
2015/16	5,549,652	5,505,253	5,543,669	99.89%
2016/17	5,826,082	5,787,900	5,787,900	99.34%
2017/18	6,141,878	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.<sup>3</sup> 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 RATES<sup>4</sup>

	2013/14	2014/15	2015/16	2016/17	2017/18
Wright County	43.450%	40.593%	39.970%	39.599%	39.946%
City of St. Michael	41.843%	38.657%	37.772%	37.496%	37.060%
I.S.D. No. 728 (Elk River)	51.286%	42.483%	39.266%	36.659%	36.137%
I.S.D. No. 877 (Buffalo-Hanover-Montrose)	33.882%	35.375%	34.489%	32.887%	32.741%
I.S.D. No. 885 (St. Michael-Albertville)	51.570%	51.082%	49.102%	46.893%	47.950%
St. Michael EDA	0.725%	0.644%	0.611%	0.577%	0.903%

#### *Referendum Market Value Rates:*

I.S.D. No. 728 (Elk River)	0.14088%	0.19357%	0.19441%	0.19373%	0.19422%
I.S.D. No. 877 (Buffalo-Hanover-Montrose)	0.13645%	0.12505%	0.12599%	0.12310%	0.12929%
I.S.D. No. 885 (St. Michael-Albertville)	0.14126%	0.14950%	0.14426%	0.16252%	0.15948%

**Source:** Tax Levies and Collections and Tax Capacity Rates have been furnished by Wright County.

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

<sup>2</sup> Collections are through December 31, 2017.

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

<sup>4</sup> 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 St. Michael was organized as a municipality in 1890. 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 Administrator, City Clerk and Assistant Finance Director are responsible for administrative details and financial records.

### **EMPLOYEES; PENSIONS; UNIONS**

The City currently has 22 full-time, 4 part-time, and anticipates 5 seasonal employees in the summer of 2018. 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.

The City does not have any recognized bargaining units.

### **POST EMPLOYMENT BENEFITS**

The City does not pay directly for retirees' post-employment benefits.

### **LITIGATION**

The City settled a lawsuit regarding land use in 2017. The settlement payment was made in full in 2017 and covered in the General Fund by surplus revenues and an interfund loan from the Sewer Fund. City Council has authorized an annual levy starting in 2018 in the amount of \$120,000 for 5 years to recover the full settlement payment.

## 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)

<b>Fund</b>	<b>Total Cash and Investments</b>
General	\$ 4,016,005
Special Revenue	885,454
Capital Projects	7,042,303
Enterprise Funds	4,043,963
<b>Total Funds on Hand</b>	<b><u><u>\$15,987,725</u></u></b>

## ENTERPRISE FUNDS

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

	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Water</b>			
Total Operating Revenues	\$ 526,906	\$ 538,698	\$ 684,058
Less: Operating Expenses	<u>(559,151)</u>	<u>(556,996)</u>	<u>(630,032)</u>
Operating Income	\$ (32,245)	\$ (18,298)	\$ 54,026
Plus: Depreciation	<u>134,501</u>	<u>137,012</u>	<u>166,000</u>
Revenues Available for Debt Service	<u><u>\$ 102,256</u></u>	<u><u>\$ 118,714</u></u>	<u><u>\$ 220,026</u></u>
<b>Sewer</b>			
Total Operating Revenues	\$ 1,985,971	\$ 1,914,336	\$ 2,534,303
Less: Operating Expenses	<u>(1,376,283)</u>	<u>(1,365,147)</u>	<u>(1,531,782)</u>
Operating Income	\$ 609,688	\$ 549,189	\$ 1,002,521
Plus: Depreciation	<u>445,192</u>	<u>447,600</u>	<u>483,058</u>
Revenues Available for Debt Service	<u><u>\$ 1,054,880</u></u>	<u><u>\$ 996,789</u></u>	<u><u>\$ 1,485,579</u></u>
<b>Storm Water</b>			
Total Operating Revenues	\$ 141,998	\$ 218,336	\$ 253,590
Less: Operating Expenses	<u>(138,445)</u>	<u>(157,001)</u>	<u>(207,382)</u>
Operating Income	\$ 3,553	\$ 61,335	\$ 46,208
Plus: Depreciation	<u>125,164</u>	<u>126,753</u>	<u>145,723</u>
Revenues Available for Debt Service	<u><u>\$ 128,717</u></u>	<u><u>\$ 188,088</u></u>	<u><u>\$ 191,931</u></u>
<b>Recycling</b>			
Total Operating Revenues	\$ 167,172	\$ 170,123	\$ 171,518
Less: Operating Expenses	<u>(186,782)</u>	<u>(196,080)</u>	<u>(214,813)</u>
Operating Income	\$ (19,610)	\$ (25,957)	\$ (43,295)
Plus: Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
Revenues Available for Debt Service	<u><u>\$ (19,610)</u></u>	<u><u>\$ (25,957)</u></u>	<u><u>\$ (43,295)</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 Unaudited <sup>1</sup>	2018 Adopted Budget <sup>2</sup>
<b>Revenues</b>					
Property taxes	\$ 4,689,550	\$ 4,795,805	\$ 4,943,442	\$ 5,145,324	\$ 5,448,194
Other taxes	268,714	278,526	271,457	268,384	273,500
Special Assessments	3,564	2,567	5,686	9,404	5,000
Licenses and permits	384,566	389,873	563,934	956,075	540,600
Intergovernmental	438,644	490,031	461,737	461,875	457,105
Charges for services	258,830	295,315	235,602	310,824	292,518
Contribution and donations	21,590	11,532	2,100	0	0
Investment earnings	45,572	49,344	54,361	31,746	45,000
Miscellaneous	31,888	56,008	76,856	34,333	32,700
<b>Total Revenues</b>	<b>\$ 6,142,918</b>	<b>\$ 6,369,001</b>	<b>\$ 6,615,175</b>	<b>\$ 7,217,965</b>	<b>\$ 7,094,617</b>
<b>Expenditures</b>					
Current:					
General government	\$ 1,170,945	\$ 1,168,413	\$ 1,162,385	\$ 2,141,400	\$ 1,335,540
Public safety	1,521,189	1,566,369	1,489,467	1,559,917	1,759,612
Public works	1,893,980	2,044,423	2,008,745	1,992,148	2,450,764
Culture and recreation	664,406	682,550	747,497	812,120	898,924
<b>Total Expenditures</b>	<b>\$ 5,250,520</b>	<b>\$ 5,461,755</b>	<b>\$ 5,408,094</b>	<b>\$ 6,505,585</b>	<b>\$ 6,444,840</b>
<b>Excess of revenues over (under) expenditures</b>	<b>\$ 892,398</b>	<b>\$ 907,246</b>	<b>\$ 1,207,081</b>	<b>\$ 712,380</b>	<b>\$ 649,777</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	\$ 2,000	\$ 0	\$ 3,967	\$ 4,440	\$ 0
Operating transfers in	0	0	0	600,000	0
Operating transfers out	(427,733)	(683,744)	(1,082,596)	(1,086,286)	(633,420)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (425,733)</b>	<b>\$ (683,744)</b>	<b>\$ (1,078,629)</b>	<b>\$ (481,846)</b>	<b>\$ (633,420)</b>
<b>Net Changes in Fund Balances</b>	<b>\$ 466,665</b>	<b>\$ 223,502</b>	<b>\$ 128,452</b>	<b>\$ 230,534</b>	<b>\$ 16,357</b>
General Fund Balance January 1	2,972,268	3,438,933	3,662,435	3,790,887	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	\$ 3,438,933	\$ 3,662,435	\$ 3,790,887	\$ 4,021,421	
<b>DETAILS OF DECEMBER 31 FUND BALANCE</b>					
Nonspendable	\$ 63,896	\$ 59,932	\$ 84,154	\$ 82,906	
Unassigned	3,375,037	3,602,503	3,706,733	3,938,515	
<b>Total</b>	<b>\$ 3,438,933</b>	<b>\$ 3,662,435</b>	<b>\$ 3,790,887</b>	<b>\$ 4,021,421</b>	

<sup>1</sup> Unaudited data is as of December 31, 2017.

<sup>2</sup> The 2018 budget was adopted on December 26, 2017.

## GENERAL INFORMATION

### LOCATION

The City of St. Michael, with a 2010 U.S. Census population of 16,399, a current population estimate of 17,045, and comprising an area of 37 square miles, is located approximately 30 miles northwest of the Minneapolis-St. Paul metropolitan area.

### LARGER EMPLOYERS<sup>1</sup>

Larger employers in the City of St. Michael include the following:

<b>Firm</b>	<b>Type of Business/Product</b>	<b>Estimated No. of Employees</b>
I.S.D. No. 885 (St. Michael-Albertville)	Elementary and secondary education	680 <sup>2</sup>
J & B Group	Warehouses-cold storage	432
Rachel Contracting	Building contractors	125
U.S. Water Services	Integrated water management	106
Marksman Metals Co., Inc.	Metal goods-manufacturing	98
Legacy of St. Michael	Assisted living	94
The Marketplace	Grocery store	90
B&D Plumbing & Heating	Plumbing and HVAC contractor	81
PCI Roads, LLC	General contractors/new housing construction	75
Nodland Construction	Power and comm line structure construction	49

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

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<sup>1</sup> 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.

<sup>2</sup> Reflects employees for entire district, including those outside of City Limits.

## BUILDING PERMITS

	2014	2015	2016	2017	2018 <sup>1</sup>
<u>New Single Family Homes</u>					
No. of building permits	38	35	74	98	17
Valuation	\$11,873,031	\$11,830,985	\$20,902,794	\$28,308,259	\$5,263,629
<u>New Multiple Family Buildings</u>					
No. of building permits	0	0	0	8	0
Valuation	\$0	\$0	\$0	\$1,294,058	\$0
<u>New Commercial/Industrial</u>					
No. of building permits	3	3	2	5	1
Valuation	\$3,462,160	\$2,780,000	\$3,720,000	\$7,779,142	\$200,000
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	863	915	1,242	1,430	171
Valuation	\$22,711,157	\$21,564,203	\$32,762,912	\$78,362,624	\$6,433,368

**Source:** The City of St. Michael.

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<sup>1</sup> As of February 28, 2018.



## U.S. CENSUS DATA

### Population Trend: City of St. Michael, Minnesota

2000 U.S. Census population	9,099
2010 U.S. Census population	16,399
2016 State Demographer's Estimate	17,045
Percent of Change 2000 - 2010	+ 80.23%

### Income and Age Statistics

	City of St. Michael	Wright County	State of Minnesota	United States
2016 per capita income	\$31,336	\$31,154	\$33,225	\$29,826
2016 median household income	\$97,000	\$75,705	\$63,217	\$55,322
2016 median family income	\$100,963	\$86,298	\$79,595	\$67,871
2016 median gross rent	\$1,504	\$915	\$873	\$928
2016 median value owner occupied units	\$223,100	\$201,500	\$191,500	\$184,700
2016 median age	35.1 yrs.	35.8 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
City % of 2016 per capita income	94.31%	105.06%
City % of 2016 median family income	126.85%	148.76%

### Housing Statistics

	<u>City of St. Michael</u>		Percent of Change
	2000	2016	
All Housing Units	3,058	5,408	76.85%

**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](http://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	State of Minnesota	
2014	67,919	4.2%	4.9%	
2015	68,795	3.7%	4.2%	
2016	69,488	3.9%	3.7%	
2017	71,071	3.6%	3.8%	
2018, February	72,471	4.2%	3.9%	

**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.



**Minnesota**

**Comprehensive Annual Financial Report  
for the Year Ended  
December 31, 2016**



PRINCIPALS

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA

INDEPENDENT AUDITOR'S REPORT

To the City Council and Management  
City of St. Michael, 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 St. Michael, Minnesota (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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.

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page 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 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 and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplemental information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

(continued)

**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, 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.

*Malloy, Montague, Karnowski, Radosevich & Co., P. A.*

Minneapolis, Minnesota  
June 2, 2017

CITY OF ST. MICHAEL

Management's Discussion and Analysis  
Year Ended December 31, 2016

As management of the City of St. Michael, Minnesota (the City) we have provided readers of the City's financial statements with this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, located previously in this report.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources by \$48,195,867 (net position) at the close of the most recent fiscal year. Of this amount, \$16,536,993 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$3,032,001 in 2016.
- The City's total bonded debt decreased by \$5,762,935, or 20.5 percent, in 2016 due to the crossover refunding redemption of the 2007B Permanent Improvement Revolving Fund Bonds, the early redemption of the 2010A Permanent Improvement Revolving Fund Bonds, and other scheduled bond principal payments made during the year.
- The City's governmental funds reported combined ending fund balances of \$11,634,008 as of December 31, 2016. Of this amount, approximately 31.9 percent is unassigned.
- As of December 31, 2016, total fund balance for the General Fund was \$3,790,887, which represents 70.1 percent of General Fund expenditures for 2016.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also the St. Michael Economic Development Authority (EDA). The EDA is a legally separate entity for which the City is financially accountable, which provides community redevelopment assistance through the administration of various programs. Financial information for this component unit is presented discretely, separate from the financial information presented for the primary government.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, and culture and recreation. The business-type activities of the City include water, sewer, storm water, and recycling activities.

**REPORTING THE CITY AS A WHOLE**

The analysis of the City as a whole begins with the Statement of Net Position and the Statement of Activities. One of the most important questions asked about the City's finances is, "is the City as a whole better or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the City's net position and changes in them. The City's net position can be used as a way of measuring the City's financial health or financial position. Over time, increases or decreases in the City's net position are indicators of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's tax base or the condition of the City's infrastructure, to assess the overall health of the City.

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other revenues. The City's three types of funds each use different accounting approaches.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position** – Net position may serve over time as a useful indicator of a city’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$48,195,867 at the close of the most recent fiscal year. The City’s total net position increased \$3,032,001 from the previous year-end. The following is a summary of the City’s net position:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 15,985,273	\$ 18,076,162	\$ 4,526,155	\$ 4,358,547	\$ 20,511,428	\$ 22,434,709
Capital assets	27,936,862	28,198,325	25,678,440	25,148,247	53,115,282	53,346,572
Total assets	\$ 43,922,115	\$ 46,274,487	\$ 30,204,595	\$ 29,506,794	\$ 73,626,710	\$ 75,781,281
Deferred outflows of resources	\$ 1,106,848	\$ 348,064	\$ —	\$ —	\$ 1,106,848	\$ 348,064
Long-term liabilities (including current portion)	\$ 19,350,479	\$ 23,484,725	\$ 5,430,576	\$ 6,420,905	\$ 24,781,055	\$ 29,905,630
Other liabilities	1,256,797	662,248	129,947	156,439	1,386,744	818,687
Total liabilities	\$ 20,607,276	\$ 24,146,973	\$ 5,560,523	\$ 6,577,344	\$ 26,167,799	\$ 30,724,317
Deferred inflows of resources	\$ 369,892	\$ 241,162	\$ —	\$ —	\$ 369,892	\$ 241,162
Net position						
Net investment in capital assets	\$ 10,097,524	\$ 8,816,212	\$ 20,247,864	\$ 19,527,227	\$ 30,745,388	\$ 28,343,439
Restricted	913,486	513,962	—	—	913,486	513,962
Unrestricted	12,140,785	12,904,242	4,396,208	3,402,223	16,536,993	16,306,465
Total net position	\$ 23,351,795	\$ 22,234,416	\$ 24,644,072	\$ 22,929,450	\$ 48,195,867	\$ 45,163,866

A large portion of the City’s net position (63.8 percent) reflects its investment in capital assets (land, buildings, and machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A small portion (1.9 percent) of the City’s net position represents resources that are subject to external restrictions on how they may be used. The remainder of the City’s net position (34.3 percent) is unrestricted.

**Governmental Funds** – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance city programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in reconciliation to each of the fund financial statements.

**Proprietary Funds** – When the City charges customers for the services it provides, whether to outside customers or units of the City, these services are generally reported in the proprietary funds. These funds are reported in the same manner that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the City’s enterprise funds are the same as the business-type activities reported in the government-wide financial statements, but provide more detailed and additional information, such as cash flows, for proprietary funds.

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

**Notes to Basic Financial Statements** – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information** – Required supplementary information (RSI) on the pension and other post-employment benefits (OPEB) plans in which city employees participate is presented following the notes to basic financial statements. Supplemental information, consisting of combining and individual fund statements and schedules and other city information, is presented immediately following the RSI. Statistical tables are presented as the last section in this report.

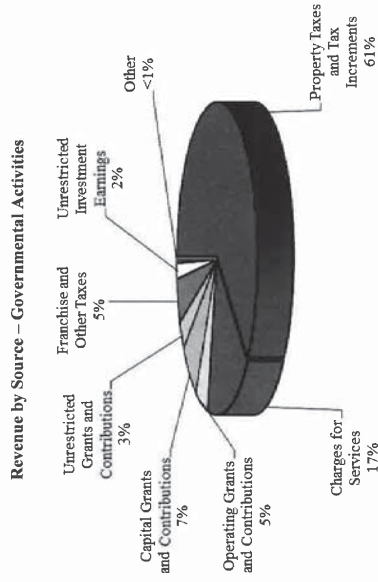


The following is a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 1,597,279	\$ 1,390,359	\$ 3,643,469	\$ 2,841,493	\$ 5,240,748	\$ 4,231,852
Operating grants and contributions	455,389	447,986	26,081	26,308	481,470	474,294
Capital grants and contributions	611,772	1,200,294	948,423	409,900	1,560,195	1,610,194
General revenues						
Property taxes and tax increments	5,596,962	5,366,646	—	—	5,596,962	5,366,646
Franchise and other taxes	427,299	432,022	—	—	427,299	432,022
Unrestricted grants and contributions	280,542	275,721	—	—	280,542	275,721
Unrestricted investment earnings	148,906	146,719	51,236	56,803	200,142	203,522
Miscellaneous	6,866	—	—	—	6,866	—
Gain on sale of capital assets	24,733	—	—	—	24,733	—
<b>Total revenues</b>	<b>9,149,748</b>	<b>9,259,747</b>	<b>4,669,209</b>	<b>3,334,504</b>	<b>13,818,957</b>	<b>12,594,251</b>
<b>Expenses</b>						
General government	1,977,116	1,433,104	—	—	1,977,116	1,433,104
Public safety	1,577,009	1,529,703	—	—	1,577,009	1,529,703
Public works	3,088,960	3,449,919	—	—	3,088,960	3,449,919
Culture and recreation	980,697	904,502	—	—	980,697	904,502
Interest on long-term debt	449,281	560,593	—	—	449,281	560,593
Water	—	—	652,319	588,129	652,319	588,129
Sewer	—	—	1,632,103	1,476,503	1,632,103	1,476,503
Storm water	—	—	214,658	165,079	214,658	165,079
Recycling	—	—	214,813	196,080	214,813	196,080
<b>Total expenses</b>	<b>8,073,063</b>	<b>7,877,821</b>	<b>2,713,893</b>	<b>2,425,791</b>	<b>10,786,956</b>	<b>10,303,612</b>
Changes in net position before transfers	1,076,685	1,381,926	1,955,316	908,713	3,032,001	2,290,639
Transfers	240,694	215,155	(240,694)	(215,155)	—	—
Change in net position	1,317,379	1,597,081	1,714,622	693,558	3,032,001	2,290,639
Net position – beginning	22,234,416	20,637,335	22,929,450	22,235,892	45,163,866	42,873,227
<b>Net position – ending</b>	<b>\$ 23,551,795</b>	<b>\$ 22,234,416</b>	<b>\$ 24,644,072</b>	<b>\$ 22,929,450</b>	<b>\$ 48,195,867</b>	<b>\$ 45,163,866</b>

Governmental activities increased the City's net position by \$1,317,379 in 2016, while business-type activities increased net position by \$1,714,622.

**Governmental Activities** – The following graph shows the sources of revenue for the City's governmental activities:

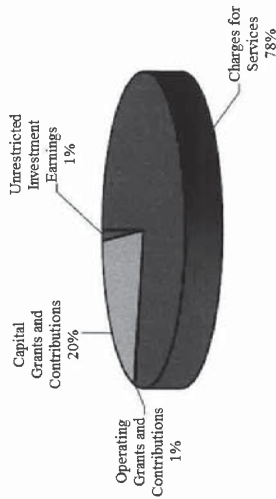


Governmental activities increased the City's net position by \$1,317,379 in 2016, compared to an increase of \$1,597,081 in 2015. Key elements of this net increase include the following:

- Charges for services increased by \$206,920, mainly due to new development. Building permit revenue increased due to the number of permits issued for single family homes, which increased from 35 to 74, while revenue increased \$164,971. Park dedication fees increased \$337,550.
- Capital grants and contributions decreased by \$588,522, as the City received less special assessments and state aid for street construction than in the previous year.
- Property tax revenue increased \$230,316, due to an increase in the tax levy.
- General government expenses increased \$544,012, due to increased legal claims and litigation costs.
- Public works expenses decreased \$360,959, mainly due to less street maintenance and repair.
- Interest on long-term debt decreased by \$111,312, due to lower current year payments on previously refunded debt and a reduced amount of bonds outstanding compared to the prior year.

**Business-Type Activities** – The following graph shows the sources of revenue for the City's business-type activities:

**Revenue by Source – Business-Type Activities**



The City's business-type net position increased \$1,714,622 during 2016, as compared to an increase of \$693,558 in 2015. Key elements of this change include the following:

- Charges for services increased \$801,976 from last year due to several factors:
  - Due to increases in rates and new accounts, revenue for water and sewer usage increased by \$105,779. Water revenue increased \$28,568 and sewer sales increased \$77,211.
  - Connection fees related to new development activity increased \$508,455. Water connections increased by \$59,308 while sewer connections increased \$449,147.
  - Development fees for new housing developments increased \$130,383. Of this, \$32,040 was for water, \$63,873 was for sewer, and \$34,470 was for storm water drainage.
  - The City provides sewer service to a portion of the neighboring City of Hanover. Connection fees from the City of Hanover increased \$71,673.
- Capital grants and contributions were \$538,523 higher than last year due to infrastructure contributions of \$948,423 received from developers; of which \$326,740 was for water, \$282,009 was for sewer, and \$339,674 was for storm water.
- Business-type expenses were \$288,102 higher than last year, also mainly due to new development and more customers, with the largest increases in the costs of providing water (\$64,190) and sewer (\$155,600) services.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**Governmental Funds** – At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$11,634,008, a decrease of \$1,620,056 in comparison with the prior year. The use of \$572,172 of fund balance is restricted by various externally imposed constraints. An additional \$7,270,949 is assigned for internally imposed spending constraints. Fund balance of \$84,154 represents assets, such as prepaid items, that are not considered to be in spendable form. Finally, the remaining \$3,706,733 of fund balance is unassigned and may be used for any approved public purpose.

**General Fund** – The fund balance of the General Fund increased by \$128,452 to \$3,790,887 at December 31, 2016. This fund balance is equal to 70.1 percent of 2016 General Fund expenditures, which puts the General Fund in an excellent financial position. The City's fund balance policy includes a goal requiring the total year-end General Fund balance to be at least 50.0 percent of General Fund expenditures for the year then ended. Thus, as the City's General Fund expenditures increase, the fund balance must also increase.

The City managed to improve the fund balance of the General Fund in 2016, as well as transfer \$1,082,596 to other funds for various capital projects and equipment purchases.

**2010IC Refunding PIR Bonds Debt Service Fund** – This bond was issued to finance an advance crossover refunding of the 2014 through 2026 maturities of the 2005C PIR Bonds. Principal and interest payments out of this fund were funded through transfers into the fund.

**Permanent Improvement Revolving Capital Projects Fund** – Fund balance decreased by \$333,744 in 2016 due to a planned spenddown of fund balance to partially finance prior year capital improvements through transfers for debt service payments.

**General Fund Budgetary Highlights**

The City adopted an original General Fund budget that projected a fund balance increase of \$1,422 in 2016, which was not changed by subsequent amendments adopted during the year.

Building permit revenue was anticipated to be \$335,000, but exceeded the budget by \$174,674 due to a higher than expected level of development.

Intergovernmental aid received was \$35,004 more than budgeted. State fire aid was \$12,779 more than the budgeted amount and market value credit was \$11,849 over budget. The City also received various miscellaneous aids that exceeded budgeted amounts by \$10,376 overall.

Revenue for charges for services was \$23,738 more than budgeted due to development-related activity, while other revenues were \$42,856 more than budgeted due to a \$32,500 larger than expected dividend received from the League of Minnesota Cities Insurance Trust.

The City has developed a practice of spending to needs, not budgets. Therefore, expenditures in many departments came in under budget. In total, expenditures were \$45,153 less than budgeted.

Engineering expenditures were \$62,417 less than budgeted due to the untimely passing of an engineer technician who was not replaced during the year.

Street maintenance expenditures were \$46,696 less than budgeted due to the price of fuel being lower than anticipated at the time of budgeting, in addition to less fuel being used with an extended summer and a milder winter.

Snow plowing and removal costs were less than expected in 2016 due to a mild winter season. The snow and ice control budget was decreased \$42,137 from the prior year based on the weather experienced in previous years, but actual costs were still under budget by \$67,633.

Legal services were \$150,908 over budget due to ongoing legal proceedings.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City's elected and appointed officials considered many factors when they developed the 2016 budget and tax levy and when they set the appropriate fees that will be charged for business-type activities. These factors include:

- 1) Keeping tax increases as low as possible, which is challenging, due to the following factors:
  - a. Independent School District (ISD) No. 885, St. Michael – Albertville School District, another taxing authority that levies taxes on city residents, carries a relatively high debt burden due to levy increases for new schools, including a new elementary school and high school, which opened in the fall of 2007 and 2009, respectively.
  - b. Due to state cutbacks, school districts such as ISD No. 885 have had to rely more and more on property tax referendums to finance operations.
- 2) In February 2017, voters passed a \$36.1 million bond referendum for the St. Michael – Albertville School District. As part of the referendum, 12 classrooms will be added to the high school, 8 classrooms will be added to the primary school, an all-purpose facility will be constructed, and a second sheet of ice will be added to the ice arena. The City's building inspectors have been certified by the state to inspect the projects. The engineering staff will also perform inspections.
- 3) Building permit revenue can fluctuate so the City budgets conservatively. The number of building permits for single family homes since 2012 has been 28, 56, 38, 35, and 74. There were three new commercial/industrial permits in 2014, 2015, and 2016.
- 4) Maintaining a high level of customer service to citizens as noted in the Strategic Plan. The City has a desire to provide high quality infrastructure and services at the lowest possible cost.
- 5) Ensuring current operational needs are met as well as meeting long-term capital requirements. The City has 10-year budgets for capital project funds.
- 6) The Consumer Price Index (CPI) average for the year was 2.1. Although the CPI for medical care services was 3.9 in 2016, the City saw an increase of 8.2 percent with its 2017 renewal.
- 7) The City maintains the AA- bond rating received in 2008. This rating was reaffirmed with the bonds sold in 2014. It is the City's long-term goal to continue to improve the bond rating with careful fiscal management and planning.

**REQUESTS FOR INFORMATION**

This comprehensive annual financial report is designed to provide a general overview of the City's finances for all those interested in the government's finances. If you have any questions about this report or need additional information, contact the City's Finance Department at 11800 Town Center Drive, Suite 300, St. Michael, Minnesota 55376; or (763) 497-2041.

**Capital Assets** – The City's investment in capital assets for its governmental and business-type activities amounted to \$53,115,282 (net of accumulated depreciation) at year-end. The investment in capital assets includes: land, buildings, park facilities, equipment, streets, storm sewers, and water and sanitary sewer lines. The total decrease in the City's capital assets for the current fiscal year was \$231,290 (a 2.7 percent decrease for governmental activities and a 2.1 percent increase in business-type activities).

	Governmental Activities		Business-Type Activities		Total
	2016	2015	2016	2015	
Land	\$ 6,211,486	\$ 5,963,483	\$ 579,466	\$ 6,790,952	\$ 6,542,949
Easements	–	–	19,181	19,181	19,181
Buildings and improvements	8,139,805	8,337,582	–	8,139,805	8,337,582
Improvements other than buildings	1,299,430	1,413,524	6,656,530	5,074,217	6,487,741
Machinery and equipment	2,027,310	1,876,557	81,431	57,872	2,108,741
Sewer and water system	–	–	13,757,526	13,609,375	13,609,375
Infrastructure	9,712,707	10,607,179	4,486,556	4,292,603	14,210,263
Construction in progress	26,104	–	97,750	1,515,531	123,854
Total capital assets	\$27,456,842	\$28,198,325	\$25,678,440	\$25,148,247	\$53,115,282

Major capital assets added during the current fiscal year included the following:

- Mowgandal Development Project: \$949,730 (business-type);
- Sludge Storage Project at the Wastewater Treatment Facility – \$241,336 (business-type);
- Caterpillar Loader Equipment – \$192,190 (public works); and
- Melby Avenue South Land – \$147,103 (general government).

Additional details of the City's capital asset activity for the year can be found in Note 4 of the notes to basic financial statements.

**Long-Term Debt** – The City has \$22.4 million in outstanding bonded debt at December 31, 2016, compared to \$28.1 million last year. The City made regularly scheduled principal payments to retire \$2,895,000 of its outstanding bonds in 2016, and also redeemed \$2,820,000 of its 2007B PIR Fund Bonds through a crossover refunding. The following table reflects the City's total outstanding debt:

	Governmental Activities		Business-Type Activities		Total
	2016	2015	2016	2015	
General obligation bonds	\$ 1,985,000	\$ 1,985,000	\$ –	\$ –	\$ 1,985,000
Special assessment bonds	14,709,811	19,444,438	–	–	14,709,811
Revenue bonds	–	–	5,345,189	6,325,562	5,345,189
Premiums on bonds	244,507	282,486	85,387	95,343	329,894
Total	\$ 16,939,318	\$ 21,711,924	\$ 5,430,576	\$ 6,420,905	\$ 28,132,829

The City's bond rating is AA-. The rating reflects the City's rapidly expanding tax base with diverse growth expected to continue over the mid-term, historically strong financial operations with favorable General Fund reserve levels, and a high debt burden mitigated by considerable debt service reserves and alternate funding sources.

Additional information on the City's long-term debt can be found in Note 8 of the notes to basic financial statements.

CITY OF ST. MICHAEL

Statement of Net Position  
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>Assets</b>				
Cash and investments	\$ 11,435,276	\$ 4,113,969	\$ 15,549,245	\$ 296,739
Receivables				
Accounts	116,201	15,982	132,183	35,540
Interest	27,200	—	27,200	—
Taxes and tax increments	55,236	—	55,236	957
Special assessments – delinquent	44,256	713	44,969	—
Special assessments – deferred	3,153,100	11,229	3,164,329	—
Due from other governmental units	432,353	354,360	786,713	524
Allowance for doubtful accounts	—	(713)	(713)	—
Due from component unit	109,908	—	109,908	—
Loans receivable from component unit	358,560	—	358,560	—
Inventories	—	23,160	23,160	—
Prepaid items	84,154	7,455	91,609	—
Land held for resale	—	—	—	178,762
Net pension asset – fire relief	169,029	—	169,029	—
Capital assets				
Not being depreciated	6,237,590	696,397	6,933,987	—
Depreciated, net of accumulated depreciation	21,199,252	24,982,043	46,181,295	—
Total assets	43,422,115	30,204,595	73,626,710	512,522
<b>Deferred outflows of resources</b>				
Pension plan deferments – PERA	839,784	—	839,784	—
Pension plan deferments – fire relief	267,064	—	267,064	—
Total deferred outflows of resources	1,106,848	—	1,106,848	—
Total assets and deferred outflows of resources	\$ 44,528,963	\$ 30,204,595	\$ 74,733,558	\$ 512,522
<b>Liabilities</b>				
Accounts payable	\$ 419,258	\$ 67,737	\$ 486,995	\$ —
Accrued salaries and wages	110,386	4,992	115,378	226
Accrued interest	185,153	57,218	242,371	—
Due to primary government	—	—	—	109,908
Loans payable to primary government	—	—	—	358,560
Claims and judgements payable	542,000	—	542,000	—
Long-term liabilities				
Due within one year	2,674,707	497,792	3,172,499	—
Due in more than one year	16,675,772	4,932,784	21,608,556	—
Total long-term liabilities	19,350,479	5,430,576	24,781,055	—
Total liabilities	20,607,276	5,560,523	26,167,799	468,694
<b>Deferred inflows of resources</b>				
Pension plan deferments – PERA	275,113	—	275,113	—
Pension plan deferments – fire relief	94,779	—	94,779	—
Total deferred inflows of resources	369,892	—	369,892	—
<b>Net position</b>				
Net investment in capital assets	10,497,524	20,247,864	30,745,388	—
Restricted for park improvements	572,172	—	572,172	—
Restricted for fire relief pensions	341,314	—	341,314	—
Restricted for economic development	—	—	—	2,070,985
Unrestricted	12,140,785	4,396,208	16,536,993	(2,027,157)
Total net position	23,551,795	24,644,072	48,195,867	43,828
Total liabilities, deferred inflows of resources, and net position	\$ 44,528,963	\$ 30,204,595	\$ 74,733,558	\$ 512,522

See notes to basic financial statements

CITY OF ST. MICHAEL

Statement of Activities  
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 1,977,116	\$ 216,010	\$ 15,243	\$ 100,900
Public safety	1,577,009	624,370	143,135	93,279
Public works	3,088,960	317,417	254,922	314,139
Culture and recreation	980,697	439,482	42,089	103,454
Interest on long-term debt	449,281	—	—	—
Total governmental activities	<u>8,073,063</u>	<u>1,597,279</u>	<u>455,389</u>	<u>611,772</u>
Business-type activities				
Water	652,319	684,058	—	326,740
Sewer	1,632,103	2,534,303	—	282,009
Storm water	214,658	253,590	—	339,674
Recycling	214,813	171,518	26,081	—
Total business-type activities	<u>2,713,893</u>	<u>3,643,469</u>	<u>26,081</u>	<u>948,423</u>
Total primary government	<u>\$ 10,786,956</u>	<u>\$ 5,240,748</u>	<u>\$ 481,470</u>	<u>\$ 1,560,195</u>
Component unit				
Economic development authority	<u>\$ 204,785</u>	<u>\$ 4,722</u>	<u>\$ —</u>	<u>\$ —</u>

General revenues  
 Property taxes  
 Tax increments  
 Franchise and other taxes  
 Unrestricted grants and contributions  
 Unrestricted investment earnings  
 Miscellaneous  
 Gain on sale of capital assets  
 Transfers  
 Total general revenues and transfers

Change in net position

Net position – beginning

Net position – ending

See notes to basic financial statements

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,644,963)	\$ —	\$ (1,644,963)	\$ —
(716,225)	—	(716,225)	—
(2,202,482)	—	(2,202,482)	—
(395,672)	—	(395,672)	—
(449,281)	—	(449,281)	—
<u>(5,408,623)</u>	<u>—</u>	<u>(5,408,623)</u>	<u>—</u>
—	358,479	358,479	—
—	1,184,209	1,184,209	—
—	378,606	378,606	—
—	(17,214)	(17,214)	—
<u>—</u>	<u>1,904,080</u>	<u>1,904,080</u>	<u>—</u>
(5,408,623)	1,904,080	(3,504,543)	—
—	358,479	358,479	(200,063)
5,596,962	—	5,596,962	89,726
—	—	—	172,570
427,299	—	427,299	—
280,542	—	280,542	192
148,906	51,236	200,142	51,985
6,866	—	6,866	—
24,733	—	24,733	—
240,694	(240,694)	—	—
<u>6,726,002</u>	<u>(189,458)</u>	<u>6,536,544</u>	<u>314,473</u>
1,317,379	1,714,622	3,032,001	114,410
<u>22,234,416</u>	<u>22,929,450</u>	<u>45,163,866</u>	<u>(70,582)</u>
<u>\$ 23,551,795</u>	<u>\$ 24,644,072</u>	<u>\$ 48,195,867</u>	<u>\$ 43,828</u>

CITY OF ST. MICHAEL

Balance Sheet  
Governmental Funds  
December 31, 2016

	General	2010C Refunding PIR Bonds	Permanent Improvement Revolving	Nonmajor	Total
<b>Assets</b>					
Cash and investments	\$ 3,891,841	\$ —	\$ 4,593,277	\$ 2,950,158	\$11,435,276
<b>Receivables</b>					
Accounts	69,049	—	29,364	17,788	116,201
Interest	27,200	—	—	—	27,200
Taxes and tax increments	49,089	—	6,147	—	55,236
Special assessments – delinquent	—	—	44,256	—	44,256
Special assessments – deferred	7,918	—	3,145,182	—	3,153,100
Due from other governmental units	27,206	—	405,147	—	432,353
Due from component unit	109,908	—	—	—	109,908
Loans receivable from component unit	—	—	358,560	—	358,560
Prepaid items	84,154	—	—	—	84,154
<b>Total assets</b>	<b>\$ 4,266,365</b>	<b>\$ —</b>	<b>\$ 8,581,933</b>	<b>\$ 2,967,946</b>	<b>\$15,816,244</b>
<b>Liabilities</b>					
Accounts payable	\$ 308,085	\$ —	\$ 103,273	\$ 7,900	\$ 419,258
Accrued salaries and wages	110,386	—	—	—	110,386
<b>Total liabilities</b>	<b>418,471</b>	<b>—</b>	<b>103,273</b>	<b>7,900</b>	<b>529,644</b>
<b>Deferred inflows of resources</b>					
<b>Unavailable revenue from</b>					
Property taxes	49,089	—	6,147	—	55,236
Special assessments	7,918	—	3,189,438	—	3,197,356
Long-term receivables	—	—	400,000	—	400,000
<b>Total deferred inflows of resources</b>	<b>57,007</b>	<b>—</b>	<b>3,595,585</b>	<b>—</b>	<b>3,652,592</b>
<b>Fund balances</b>					
Nonspendable	84,154	—	—	—	84,154
Restricted	—	—	—	572,172	572,172
Assigned	—	—	4,883,075	2,387,874	7,270,949
Unassigned	3,706,733	—	—	—	3,706,733
<b>Total fund balances</b>	<b>3,790,887</b>	<b>—</b>	<b>4,883,075</b>	<b>2,960,046</b>	<b>11,634,008</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,266,365</b>	<b>\$ —</b>	<b>\$ 8,581,933</b>	<b>\$ 2,967,946</b>	<b>\$15,816,244</b>

See notes to basic financial statements

CITY OF ST. MICHAEL

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

Total fund balances – governmental funds	\$ 11,634,008
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Net pension assets are only recorded in the government-wide financial statements as they are not current financial resources to governmental funds.	169,029
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	43,531,556
Less accumulated depreciation	(16,094,714)
Certain revenues (including delinquent taxes, special assessments, and long-term receivables) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	3,652,592
Governmental funds do not report certain long-term amounts related to pensions that are included in governmental activities net position.	
Deferred outflows – pension plan deferments	1,106,848
Deferred inflows – pension plan deferments	(369,892)
Long-term liabilities, including bonds payables, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Claims and judgements payable	(542,000)
Bonds payable	(16,694,811)
Unamortized bond premiums and discounts	(244,507)
Accrued interest	(185,153)
Compensated absences payable	(389,404)
Net pension liability – PERA	<u>(2,021,757)</u>
Total net position – governmental activities	<u>\$ 23,551,795</u>

See notes to basic financial statements



CITY OF ST. MICHAEL

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended December 31, 2016

	General	2010C Refunding PIR Bonds	Permanent Improvement Revolving	Nonmajor	Total
<b>Revenue</b>					
Property taxes	\$ 4,943,442	\$ —	\$ 647,930	\$ —	\$ 5,591,372
Franchise and other taxes	271,457	—	116,882	38,960	427,299
Special assessments	5,686	—	503,353	—	509,039
Licenses and permits	563,934	—	—	—	563,934
Intergovernmental	461,737	—	315,931	383,421	1,161,089
Charges for services	235,602	—	277,787	412,925	926,314
Contributions and donations	2,100	—	9,496	2,500	14,096
Investment earnings	54,361	—	59,040	35,505	148,906
Other revenues	76,856	—	—	20,441	97,297
<b>Total revenue</b>	<b>6,615,175</b>	<b>—</b>	<b>1,930,419</b>	<b>893,752</b>	<b>9,439,346</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	1,162,385	—	—	3,940	1,166,325
Public safety	1,489,467	—	—	—	1,489,467
Public works	2,008,745	—	19,870	6,163	2,034,778
Culture and recreation	747,497	—	—	—	747,497
Capital outlay	—	—	155,791	475,694	631,485
<b>Debt service</b>					
Principal	—	940,000	—	1,464,815	2,404,815
Interest and fiscal charges	—	133,550	—	394,938	528,488
<b>Total expenditures</b>	<b>5,408,094</b>	<b>1,073,550</b>	<b>175,661</b>	<b>2,345,550</b>	<b>9,002,855</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>1,207,081</b>	<b>(1,073,550)</b>	<b>1,754,758</b>	<b>(1,451,798)</b>	<b>436,491</b>
<b>Other financing sources (uses)</b>					
Sale of capital assets	3,967	—	—	28,604	32,571
Paid to refunded bonds escrow agent	—	—	—	(2,329,812)	(2,329,812)
Transfers in	—	1,073,550	534,594	2,511,343	4,119,487
Transfers (out)	(1,082,596)	—	(2,623,096)	(173,101)	(3,878,793)
<b>Total other financing sources (uses)</b>	<b>(1,078,629)</b>	<b>1,073,550</b>	<b>(2,088,502)</b>	<b>37,034</b>	<b>(2,056,547)</b>
<b>Net change in fund balances</b>	<b>128,452</b>	<b>—</b>	<b>(333,744)</b>	<b>(1,414,764)</b>	<b>(1,620,056)</b>
<b>Fund balances</b>					
Beginning of year	3,662,435	—	5,216,819	4,374,810	13,254,064
End of year	<u>\$ 3,790,887</u>	<u>\$ —</u>	<u>\$ 4,883,075</u>	<u>\$ 2,960,046</u>	<u>\$ 11,634,008</u>

See notes to basic financial statements

CITY OF ST. MICHAEL

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

Total net change in fund balances – governmental funds \$ (1,620,056)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	603,058
Capital asset contributions	129,306
Depreciation expense	(1,492,874)

A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balance.

(973)

Net pension assets are only recorded in the government-wide financial statements as they are not current financial resources to governmental funds.

(109,609)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

4,734,627

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

Claims and judgements payable	(542,000)
Accrued interest	41,228
Amortization of bond premiums and discounts	37,979
Compensated absences payable	20,395
Net pension liability – PERA	(658,755)

Governmental funds do not report additions or deletions to certain long-term amounts related to pensions that are included in the change governmental activities net position.

Deferred outflows – pension plan deferments	758,784
Deferred inflows – pension plan deferments	(128,730)

Certain revenues (including delinquent taxes, special assessments, and long-term receivables) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.

(455,001)

Change in net position – governmental activities

\$ 1,317,379

See notes to basic financial statements

CITY OF ST. MICHAEL

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 General Fund – Budget and Actual  
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 4,951,500	\$ 4,951,500	\$ 4,943,442	\$ (8,058)
Franchise and other taxes	266,000	266,000	271,457	5,457
Special assessments	2,500	2,500	5,686	3,186
Licenses and permits				
Building permits	335,000	335,000	509,674	174,674
Other licenses and permits	33,325	33,325	54,260	20,935
Intergovernmental revenues	426,733	426,733	461,737	35,004
Charges for services	211,864	211,864	235,602	23,738
Contributions and donations	2,200	2,200	2,100	(100)
Investment earnings	39,000	39,000	54,361	15,361
Other revenues	34,000	34,000	76,856	42,856
Total revenues	<u>6,302,122</u>	<u>6,302,122</u>	<u>6,615,175</u>	<u>313,053</u>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Mayor and council	23,750	23,750	19,198	(4,552)
City administrator	79,979	79,979	83,091	3,112
City clerk	88,041	88,041	93,928	5,887
Elections	19,975	19,975	19,994	19
Computer	24,675	24,675	27,003	2,328
Auditing and accounting	140,966	140,966	127,791	(13,175)
Assessing	74,948	74,948	75,391	443
Legal services	60,000	60,000	210,908	150,908
Planning	169,669	169,669	165,992	(3,677)
Other general government	480,584	319,666	339,089	19,423
Total general government	<u>1,162,587</u>	<u>1,001,669</u>	<u>1,162,385</u>	<u>160,716</u>
<b>Public safety</b>				
Police	784,704	784,704	784,704	-
Fire protection	355,975	355,975	346,691	(9,284)
Building inspections	363,179	363,179	352,364	(10,815)
Civil defense/animal control	8,700	8,700	5,708	(2,992)
Total public safety	<u>1,512,558</u>	<u>1,512,558</u>	<u>1,489,467</u>	<u>(23,091)</u>
<b>Public works</b>				
Engineering	169,396	169,396	106,979	(62,417)
Street maintenance	1,852,350	1,852,350	1,805,654	(46,696)
Snow and ice control	163,745	163,745	96,112	(67,633)
Total public works	<u>2,185,491</u>	<u>2,185,491</u>	<u>2,008,745</u>	<u>(176,746)</u>

See notes to basic financial statements

(continued)

CITY OF ST. MICHAEL

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 General Fund – Budget and Actual (continued)  
 Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Expenditures (continued)				
Current (continued)				
Culture and recreation				
Senior citizen center	115,570	115,570	113,168	(2,402)
Park maintenance	598,259	598,259	592,599	(5,660)
Branch library	85,235	39,700	41,730	2,030
Total culture and recreation	<u>799,064</u>	<u>753,529</u>	<u>747,497</u>	<u>(6,032)</u>
Total expenditures	<u>5,659,700</u>	<u>5,453,247</u>	<u>5,408,094</u>	<u>(45,153)</u>
Excess of revenue over expenditures	642,422	848,875	1,207,081	358,206
Other financing sources (uses)				
Sale of capital assets	-	-	3,967	3,967
Transfers (out)	<u>(641,000)</u>	<u>(847,453)</u>	<u>(1,082,596)</u>	<u>(235,143)</u>
Total other financing sources (uses)	<u>(641,000)</u>	<u>(847,453)</u>	<u>(1,078,629)</u>	<u>(231,176)</u>
Net change in fund balances	<u>\$ 1,422</u>	<u>\$ 1,422</u>	128,452	<u>\$ 127,030</u>
Fund balances				
Beginning of year			<u>3,662,435</u>	
End of year			<u>\$ 3,790,887</u>	

See notes to basic financial statements

CITY OF ST. MICHAEL

Statement of Net Position  
 Proprietary Funds  
 December 31, 2016

	Water	Sewer	Storm Water	Recycling	Total
Assets					
Current assets					
Cash and investments	\$ 1,053,189	\$ 2,860,352	\$ 189,510	\$ 10,918	\$ 4,113,969
Receivables					
Accounts	1,109	14,873	-	-	15,982
Special assessments – delinquent	163	381	82	87	713
Special assessments – deferred	135	8,067	1,251	1,776	11,229
Due from other governmental units	68,977	227,992	22,845	34,546	354,360
Allowance for doubtful accounts	(163)	(381)	(82)	(87)	(713)
Inventories	23,160	-	-	-	23,160
Prepaid items	173	7,282	-	-	7,455
Total current assets	<u>1,146,743</u>	<u>3,118,566</u>	<u>213,606</u>	<u>47,240</u>	<u>4,526,155</u>
Noncurrent assets					
Capital assets					
Land	82,891	496,575	-	-	579,466
Land easements	-	19,181	-	-	19,181
Improvements other than buildings	-	9,963,200	-	-	9,963,200
Machinery and equipment	-	488,287	-	-	488,287
Sewer and water system	4,980,030	17,951,645	-	-	22,931,675
Infrastructure	-	-	5,740,122	-	5,740,122
Construction in progress	-	97,750	-	-	97,750
Less accumulated depreciation	<u>(1,523,847)</u>	<u>(11,363,828)</u>	<u>(1,253,566)</u>	<u>-</u>	<u>(14,141,241)</u>
Total capital assets, net of accumulated depreciation	<u>3,539,074</u>	<u>17,652,810</u>	<u>4,486,556</u>	<u>-</u>	<u>25,678,440</u>
Total assets	<u>\$ 4,685,817</u>	<u>\$ 20,771,376</u>	<u>\$ 4,700,162</u>	<u>\$ 47,240</u>	<u>\$ 30,204,595</u>
Liabilities and Net Position					
Liabilities					
Current liabilities					
Accounts payable	\$ 16,008	\$ 1,825	\$ 10,593	\$ 39,311	\$ 67,737
Accrued salaries and wages	2,496	2,496	-	-	4,992
Accrued interest	9,366	44,699	3,153	-	57,218
Bonds payable – current portion	82,922	396,753	18,117	-	497,792
Total current liabilities	<u>110,792</u>	<u>445,773</u>	<u>31,863</u>	<u>39,311</u>	<u>627,739</u>
Noncurrent liabilities					
Bonds payable	<u>846,856</u>	<u>3,810,129</u>	<u>275,799</u>	<u>-</u>	<u>4,932,784</u>
Total liabilities	<u>957,648</u>	<u>4,255,902</u>	<u>307,662</u>	<u>39,311</u>	<u>5,560,523</u>
Net position					
Net investment in capital assets	2,609,296	13,445,928	4,192,640	-	20,247,864
Unrestricted	<u>1,118,873</u>	<u>3,069,546</u>	<u>199,860</u>	<u>7,929</u>	<u>4,396,208</u>
Total net position	<u>3,728,169</u>	<u>16,515,474</u>	<u>4,392,500</u>	<u>7,929</u>	<u>24,644,072</u>
Total liabilities and net position	<u>\$ 4,685,817</u>	<u>\$ 20,771,376</u>	<u>\$ 4,700,162</u>	<u>\$ 47,240</u>	<u>\$ 30,204,595</u>

See notes to basic financial statements

CITY OF ST. MICHAEL

Statement of Revenue, Expenses, and Changes in Net Position  
 Proprietary Funds  
 Year Ended December 31, 2016

	Water	Sewer	Storm Water	Recycling	Total
<b>Operating revenue</b>					
Charges for services	\$ 585,821	\$ 1,734,299	\$ 253,590	\$ 171,518	\$ 2,745,228
Connection fees	91,377	795,980	-	-	887,357
Other	6,860	4,024	-	-	10,884
<b>Total operating revenue</b>	<b>684,058</b>	<b>2,534,303</b>	<b>253,590</b>	<b>171,518</b>	<b>3,643,469</b>
<b>Operating expenses</b>					
Salaries and wages	23,346	32,760	-	-	56,106
Supplies	20,193	5,208	-	24,148	49,549
Professional fees	409,766	958,070	58,377	189,350	1,615,563
Repairs and maintenance	10,396	31,240	3,282	1,315	46,233
Insurance	331	21,446	-	-	21,777
Depreciation	166,000	483,058	145,723	-	794,781
<b>Total operating expenses</b>	<b>630,032</b>	<b>1,531,782</b>	<b>207,382</b>	<b>214,813</b>	<b>2,584,009</b>
<b>Operating income (loss)</b>	<b>54,026</b>	<b>1,002,521</b>	<b>46,208</b>	<b>(43,295)</b>	<b>1,059,460</b>
<b>Nonoperating income (expense)</b>					
Intergovernmental	-	-	-	26,081	26,081
Investment earnings	14,265	34,736	2,053	182	51,236
Interest and fiscal charges	(22,287)	(100,321)	(7,276)	-	(129,884)
<b>Total nonoperating income (expense)</b>	<b>(8,022)</b>	<b>(65,585)</b>	<b>(5,223)</b>	<b>26,263</b>	<b>(52,567)</b>
<b>Income (loss) before contributions and transfers</b>	<b>46,004</b>	<b>936,936</b>	<b>40,985</b>	<b>(17,032)</b>	<b>1,006,893</b>
Capital contributions	326,740	282,009	339,674	-	948,423
Transfers in	20,768	7,265	1,352	-	29,385
Transfers (out)	(43,589)	(166,256)	(60,234)	-	(270,079)
<b>Changes in net position</b>	<b>349,923</b>	<b>1,059,954</b>	<b>321,777</b>	<b>(17,032)</b>	<b>1,714,622</b>
<b>Net position</b>					
Beginning of year	3,378,246	15,455,520	4,070,723	24,961	22,929,450
End of year	<b>\$ 3,728,169</b>	<b>\$ 16,515,474</b>	<b>\$ 4,392,500</b>	<b>\$ 7,929</b>	<b>\$ 24,644,072</b>

See notes to basic financial statements

## CITY OF ST. MICHAEL

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

	Water	Sewer	Storm Water	Recycling	Total
<b>Cash flows from operating activities</b>					
Receipts from customers and users	\$ 682,561	\$ 2,556,369	\$ 254,884	\$ 172,549	\$ 3,666,363
Payments to vendors	(452,360)	(1,078,276)	(51,372)	(190,857)	(1,772,865)
Payments to employees	(22,969)	(32,383)	—	—	(55,352)
Net cash flows from operating activities	<u>207,232</u>	<u>1,445,710</u>	<u>203,512</u>	<u>(18,308)</u>	<u>1,838,146</u>
<b>Cash flows from noncapital financing activities</b>					
Intergovernmental grants	—	—	—	26,081	26,081
Transfers from other funds	20,768	7,265	1,352	—	29,385
Transfers to other funds	(43,589)	(166,256)	(60,234)	—	(270,079)
Net cash flows from noncapital financing activities	<u>(22,821)</u>	<u>(158,991)</u>	<u>(58,882)</u>	<u>26,081</u>	<u>(214,613)</u>
<b>Cash flows from capital and related financing activities</b>					
Acquisition of capital assets	—	(376,551)	—	—	(376,551)
Principal paid on capital debt	(427,592)	(512,247)	(40,534)	—	(980,373)
Interest paid on capital debt	(27,147)	(113,143)	(8,120)	—	(148,410)
Net cash flows from capital and related activities	<u>(454,739)</u>	<u>(1,001,941)</u>	<u>(48,654)</u>	<u>—</u>	<u>(1,505,334)</u>
<b>Cash flows from investing activities</b>					
Interest received	14,265	34,736	2,053	182	51,236
Increase in cash and cash equivalents	(256,063)	319,514	98,029	7,955	169,435
Cash and cash equivalents – beginning	1,309,252	2,540,838	91,481	2,963	3,944,534
Cash and cash equivalents – ending	<u>\$ 1,053,189</u>	<u>\$ 2,860,352</u>	<u>\$ 189,510</u>	<u>\$ 10,918</u>	<u>\$ 4,113,969</u>
<b>Reconciliation of operating income (loss) to net cash flows from operating activities</b>					
Operating income (loss)	\$ 54,026	\$ 1,002,521	\$ 46,208	\$ (43,295)	\$ 1,059,460
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation	166,000	483,058	145,723	—	794,781
Decrease (increase) in assets					
Accounts receivable	(1,109)	(630)	—	—	(1,739)
Special assessments receivable	457	7,632	720	814	9,623
Due from other governmental units	(845)	15,064	574	217	15,010
Inventories	(20,744)	—	—	—	(20,744)
Prepaid items	(56)	(267)	—	—	(323)
Increase (decrease) in liabilities					
Accounts payable	9,126	(62,045)	10,287	23,956	(18,676)
Accrued salaries and wages	377	377	—	—	754
Net cash flows from operating activities	<u>\$ 207,232</u>	<u>\$ 1,445,710</u>	<u>\$ 203,512</u>	<u>\$ (18,308)</u>	<u>\$ 1,838,146</u>
<b>Noncash capital financing activities</b>					
Amortization of bond premiums	<u>\$ 1,015</u>	<u>\$ 8,453</u>	<u>\$ 488</u>	<u>\$ —</u>	<u>\$ 9,956</u>
Capital contributed by developers	<u>\$ 326,740</u>	<u>\$ 282,009</u>	<u>\$ 339,674</u>	<u>\$ —</u>	<u>\$ 948,423</u>

See notes to basic financial statements

CITY OF ST. MICHAEL

Statement of Fiduciary Net Position  
Agency Fund  
December 31, 2016

<b>Assets</b>	
Cash and investments	<u>\$ 446,325</u>
<b>Liabilities</b>	
Accounts payable	\$ 12,469
Deposits due to developers	<u>433,856</u>
Total liabilities	<u>\$ 446,325</u>

See notes to basic financial statements



CITY OF ST. MICHAEL

Notes to Basic Financial Statements  
December 31, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of St. Michael, Minnesota (the City) was incorporated in 1890 and operates under a council/administrator form of government. The City provides the following services as authorized by its charter: public safety, highways and streets, sanitation, culture and recreation, public improvements, community development, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

**A. Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the government is considered financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

**Discretely Presented Component Unit** – The St. Michael Economic Development Authority (EDA) was established to promote new business development and to expand and retain existing businesses within the City. The City is financially accountable for the EDA because: the seven-member governing body of the EDA consists of two City Council members and five residents appointed by the City Council; and the City Council approves the EDA's budget and commits its taxing powers to provide tax increment levies utilized by the EDA to finance development projects. The EDA does not issue separate financial statements. Information on the EDA's governmental funds is presented as supplemental information elsewhere in this report.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City, except for the fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses. 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.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

**C. Fund Financial Statement Presentation**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances or net position, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for in, individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, while aggregated information for the remaining nonmajor funds is reported in a single column. Fiduciary funds are presented in the fiduciary fund financial statements by fund type. Since, by definition, fiduciary fund assets are held for the benefit of a third party and cannot be used for activities or obligations of the City, these funds are excluded from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year-end. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue that is susceptible to accrual includes property taxes, special assessments, intergovernmental revenue, charges for services, and interest earned on investments. Major revenue that is not susceptible to accrual includes licenses and permits, fees, and miscellaneous revenue. Such revenue is recorded only when received because it is not measurable until collected.

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, claims and judgments, and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting, similar to the government-wide financial statements. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The City reports the following major governmental funds:

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

**2010C Refunding PIR Bonds Debt Service Fund** – This fund is used to account for debt service and related revenue for the City's general obligation special assessment bond issue 2010C.

**Permanent Improvement Revolving Capital Projects Fund** – This fund is used to account for street improvement projects primarily financed through special assessment bonds and state aid.

The City reports the following major proprietary funds:

**Water Fund** – This fund is used to account for revenues and expenses to operate the municipal water utility.

**Sewer Fund** – This fund is used to account for revenues and expenses to operate the municipal sewer utility.

**Storm Water Fund** – This fund is used to account for revenues and expenses to operate the municipal storm water utility.

**Recycling Fund** – This fund is used to account for revenue and expenses to operate the municipal recycling program.

Additionally, the City reports the following fund type:

**Agency Fund** – This fund is used to account for assets held by the City in a custodial capacity for escrow deposits from development and contractors.

**D. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Budgets**

Annual budgets are legally adopted for all governmental funds on a modified accrual basis consistent with accounting principles generally accepted in the United States of America. Appropriations are authorized by the City Council at the fund level, which is the legal level of budgetary control. Appropriations lapse at year-end; however, the City Council may approve the carryover of specific amounts.

**F. Cash and Investments**

Cash balances from all funds are combined and invested to the extent available in short-term investments. Earnings from the pooled investments are allocated to the individual funds based on the average monthly cash and investment balances of the respective funds.

For purposes of the Statement of Cash Flows, the City considers all highly liquid debt instruments with an original maturity at the time of purchase of three months or less to be cash equivalents. The proprietary funds' portion of the government-wide cash and investment pool is considered to be cash equivalent.

The City reports investments other than mutual funds at fair value. All mutual funds currently held by the City are reported at net asset value (NAV), have no unfunded commitments, and have daily redemption frequencies with no redemption notice required.

Fair value measurements are categorized within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. See Note 2 for the City's recurring fair value measurements at year-end.

**G. Receivables**

Utility and miscellaneous accounts receivable are reported at gross. The City is generally able to certify delinquent amounts for collection as special assessments; however, an allowance for uncollectible accounts is recorded for utility receivables that remain delinquent after having been certified to the county. Receivables not expected to be received within one year include: delinquent taxes; special assessments; and \$400,000 due from Wright County for its share of a street improvement project completed by the City in 2010 that is being paid in annual installments of \$200,000 through 2018.

**H. Interfund Receivables/Payables**

In the fund financial statements, activity between funds that is representative of lending or borrowing arrangements is reported as either "due to/from other funds" (current portion) or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**I. Property Taxes**

Property tax levies are set by the City Council prior to December 31 of each year and are certified to Wright County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Property tax levies are based on property values assessed on January 2 of the preceding year. The county spreads levies over all taxable property in the City.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Such taxes become a lien on January 1 of the current year. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to cities three times a year.

Revenues are accrued and recognized in the government-wide financial statements in the year levied. In the governmental fund financial statements, taxes that remain unpaid at December 31 are classified as delinquent taxes and are fully offset by deferred inflows of resources because it is not known when they will be available to finance current expenditures.

**J. Special Assessments**

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

The City recognizes special assessment revenue in the government-wide and proprietary fund financial statements when the assessment rolls are levied. In the governmental fund financial statements, the City recognizes special assessment revenue when it becomes both measurable and available. Current assessments which remain unpaid at December 31 are classified as delinquent receivables and, together with deferred assessments, are fully offset by deferred inflows of resources because it is not known when they will be available to finance current expenditures.

**K. Inventories**

Inventories of supplies in the Water Fund are valued at cost using the first-in, first-out method.

**L. Prepaid Items**

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

**M. Land Held for Resale**

Land held for resale represents property purchased by the EDA with the intent to resell in the future for redevelopment. The use of the future sale proceeds will be restricted for economic development. These assets are stated at the lower of cost or fair value (based on Level 2 inputs as described in Note 1. F.).

**N. Capital Assets**

Capital assets, which include land, easements, buildings, machinery and equipment, mains and lines, construction in progress, and infrastructure assets (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 two years. Such assets are recorded at historical cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition value as of the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Land, easements, and construction in progress are not depreciated. Sewer and water systems, buildings and improvements, machinery and equipment, and infrastructure of the City are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives are as follows:

Sewer and water systems	30–50 years
Buildings and improvements	15–50 years
Improvements other than buildings	10–40 years
Machinery and equipment	7–20 years
Infrastructure	20–40 years

**O. Deferred Outflows/Inflows of Resources**

In addition to assets, statements of financial position will sometimes report a separate section for deferred outflows of resources, which represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, deferred outflows of resources related to pensions reported in the government-wide and enterprise funds Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources, which represent acquisitions of net position that apply to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items which qualify for reporting in this category.

The first item, unavailable revenue, arises only under a modified accrual basis of accounting and therefore is only reported in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from three sources: property taxes, special assessments, and long-term receivables. These amounts are deferred and recognized as inflows of resources in the period they become available.

The second item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and difference between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

**P. Long-Term Obligations**

In the government-wide and proprietary 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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.



## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Q. Compensated Absences

City employees hired before January 1, 2016 are compensated for unused vacation leave up to a maximum of 320 hours. Full-time employees earn sick leave at a rate of one day per month. Part-time employees earn sick leave on a pro-rata basis. The maximum amount of accumulated sick leave is 900 hours. In addition, hourly employees may accumulate compensatory time off in lieu of overtime pay up to a maximum of 240 hours. Employees hired on or after January 1, 2016 earn personal time off (PTO) rather than vacation and sick leave, which may be accumulated up to a maximum of 520 hours. Employees hired before January 1, 2016 were given the option to convert to the PTO plan. PTO for employees that converted may be accumulated up to a maximum of 720 hours. Employees in good standing are paid for any unused PTO upon termination. Compensated absences are recognized when they mature in the governmental fund financial statements, and accrued when earned, or in the case of sick leave when it becomes probable that it will be paid out at termination, in government-wide and proprietary fund financial statements. Compensated absences are generally financed by the General Fund and the enterprise funds. The enterprise funds' portion of this liability is insignificant, and has been included in accrued salaries and wages payable in those funds.

### R. Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from the PERA's fiduciary net position have been determined on the same basis as they are reported by the PERA except that the 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.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

### S. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other elements of net position that do not meet the definition of "restricted" or "net investment in capital assets."

The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### T. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints on amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council resolution, the City Administrator is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

The City's fund balance policy includes a goal of maintaining a total fund balance at year-end in the General Fund equal to at least 50 percent of the General Fund expenditures for the year then ended.

### U. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool for its general property and casualty, workers' compensation, and other miscellaneous insurance coverage. The LMCIT operates as a common risk management and insurance program for a large number of cities in Minnesota. The City pays an annual premium to the LMCIT for insurance coverage. The LMCIT agreement provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The City also carries commercial insurance for certain other risks of loss. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in the current year.

**NOTE 2 – LEGAL COMPLIANCE**

**A. Deficit Fund Balances**

Fund balance deficits existed in certain individual funds of the EDA (discretely presented component unit) at December 31, 2016 as follows:

Downtown TIF District Special Revenue Fund	\$ 1,563,411
Conerstone TIF District Special Revenue Fund	\$ 461,424
Marksman Metal TIF District Special Revenue Fund	\$ 2,322

No formal action is required or anticipated regarding these deficits. These deficits are expected to be eliminated through normal operations in future years.

**B. Excess of Expenditures Over Appropriations**

Actual expenditures for 2016 exceeded appropriations (budget) in the following individual funds:

<u>City (Primary Government)</u>	
2007B PIR Bonds Debt Service Fund	3
2010A Refunding PIR Bonds Debt Service Fund	\$ 100,750
Street Light Replacement Capital Project Fund	\$ 3,663
<u>EDA (Discretely Presented Component Unit)</u>	
Downtown TIF District Special Revenue Fund	\$ 60
Conerstone TIF District Special Revenue Fund	\$ 568
Kwik Trip Signal TIF District Special Revenue Fund	\$ 2,908

**NOTE 3 – CASH AND INVESTMENTS**

**A. Components of Cash and Investments**

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

Cash on hand	\$ 100
Deposits	6,068,497
Investments	10,223,712
Total cash and investments	<u>\$ 16,292,309</u>

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

Primary government	
Statement of Net Position	\$ 15,549,245
Statement of Fiduciary Net Position	446,325
Total – primary government	<u>15,995,570</u>
Component unit – EDA	
Statement of Net Position	296,739
Total – reporting entity	<u>\$ 16,292,309</u>

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

**B. Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council, including checking accounts and certificates of deposit.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the City's deposits was \$6,068,497, while the balance on the bank records was \$6,605,692. At December 31, 2016, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the City's agent in the City's name.

**C. Investments**

The City had the following investments at year-end:

Investment Type	Credit Risk Rating - Agency	Fair Value Measurements Using	Interest Risk - Maturity Duration in Years			Concentration Risk Greater Than 5 Percent	
			Less Than 1	1 to 5	6 to 10		
U.S. agency debt securities							
Federal Home Loan Mortgage Corporation	S&P	Level 1	\$ 150,219	\$ 294,837	\$ 336,723	\$ 781,781	Yes
Federal Home Loan Bank	S&P	Level 1	-	-	163,579	163,579	No
Federal Farm Credit Bureau	S&P	Level 1	-	-	597,684	597,684	Yes
Negotiable certificates of deposit	N/A	Level 1	591,072	6,023,266	1,647,563	8,261,901	No
Mutual funds							
U.S. Government Money Market Fund	Moody's	NAV	378,189	-	-	378,189	No
U.S. Government Money Market Fund	Moody's	NAV	26,223	-	-	26,223	No
UBS Select Prime Institutional Fund	Moody's	NAV	14,364	-	-	14,364	No
Total investments			\$ 1,165,098	\$ 6,318,103	\$ 2,945,551	\$ 10,223,712	

N/A - Not Applicable

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

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

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy addressing this risk, but typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "A" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City's investment policies do not further address credit risk.

**Concentration Risk** – This is the risk associated with investing a significant portion of the City's investment (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City's investment policies do not limit the concentration of investments.

**Interest Rate Risk** – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City's investment policy limits maturities beyond 5 years to no more than 40 percent of the City's cash and investment portfolio, and limits maturities to a maximum of 10 years.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 was as follows:

**A. Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 5,963,483	\$ 248,003	\$ -	\$ 6,211,486
Construction in progress	26,104	274,107	-	26,104
Total capital assets, not being depreciated	5,963,483	274,107	-	6,237,590
Capital assets, being depreciated				
Buildings and improvements	10,003,243	11,562	-	10,014,805
Improvements other than buildings	3,021,643	28,406	-	3,050,049
Machinery and equipment	6,250,684	418,289	69,822	6,599,151
Infrastructure	17,629,961	458,237	69,822	17,629,961
Total capital assets, being depreciated	36,905,531	458,237	69,822	37,293,966
Less accumulated depreciation on				
Buildings and improvements	1,665,661	209,339	-	1,875,000
Improvements other than buildings	1,608,119	142,500	-	1,750,619
Machinery and equipment	4,374,127	266,563	68,849	4,571,841
Infrastructure	7,022,782	874,472	-	7,897,254
Total accumulated depreciation	14,670,689	1,492,874	68,849	16,094,714
Net capital assets, being depreciated	22,234,842	(1,034,617)	973	21,199,252
Net capital assets	\$ 28,198,325	\$ (760,510)	\$ 973	\$ 27,436,842

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

Governmental activities	
General government	\$ 242,418
Public safety	55,047
Public works	1,006,415
Culture and recreation	188,994
Total depreciation expense – governmental activities	\$ 1,492,874

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

**B. Business-Type Activities**

	Beginning Balance	Increase	Decrease	Completed Construction	Ending Balance
Capital assets, not being depreciated					
Land	\$ 579,466	\$ —	\$ —	\$ —	\$ 579,466
Buildings	19,181	—	—	—	19,181
Construction in progress	1,515,531	339,086	—	(1,756,867)	97,750
Total capital assets, not being depreciated	2,114,178	339,086	—	(1,756,867)	696,337
Capital assets, being depreciated					
Improvements other than buildings	8,206,333	—	—	1,756,867	9,963,200
Machinery and equipment	452,128	36,159	—	—	488,287
Sewer and water system	22,321,620	610,055	—	—	22,931,675
Infrastructure	5,400,448	339,674	—	5,740,122	—
Total capital assets, being depreciated	36,380,529	985,888	—	1,756,867	39,123,284
Less accumulated depreciation on					
Improvements other than buildings	3,132,116	174,554	—	—	3,306,670
Machinery and equipment	394,256	12,600	—	—	406,856
Sewer and water system	8,712,245	461,904	—	—	9,174,149
Infrastructure	1,107,843	145,723	—	—	1,253,566
Total accumulated depreciation	13,346,460	794,781	—	—	14,141,241
Net capital assets, being depreciated	23,034,069	191,107	—	1,756,867	24,982,043
Net capital assets	\$ 25,148,247	\$ 510,193	\$ —	\$ —	\$ 25,678,440

Depreciation expense was charged to the various business-type activities of the City as follows:

Business-type activities	
Water	\$ 166,000
Sewer	483,058
Storm water	145,723
Total depreciation expense – business-type activities	\$ 794,781

**NOTE 5 – ADVANCES DUE FROM/TO OTHER FUNDS**

In the EDA component unit, the EDA General Fund advanced \$1,564,032 to the Downtown TIF District Special Revenue Fund to provide interim financing for construction projects and other tax increment financing (TIF) related purposes. Principal and interest payments of \$48,981 were made in 2016 on this advance, which bears an interest rate of 3 percent.

**NOTE 6 – INTERFUND TRANSFERS**

The City made the following transfers during 2016:

	Transfers In	Transfers Out	Amount
2010 Refunding PIR Bonds		Permanent Improvement Revolving	\$ 1,073,550 (1)
Permanent Improvement Revolving		General Fund	150,000 (2)
		Nonmajor governmental	119,594 (2)
		Water	40,000 (2)
		Sewer	165,000 (2)
		Storm Water	60,000 (2)
Nonmajor governmental		General	932,596 (2)
		Permanent Improvement Revolving	1,549,546 (1)
		Nonmajor governmental	24,122 (1)
		Water	3,589 (1)
		Sewer	1,256 (1)
		Storm Water	234 (1)
Water		Nonmajor governmental	20,768 (1)
Sewer		Nonmajor governmental	7,265 (1)
Storm Water		Nonmajor governmental	1,352 (1)
Total transfers			\$ 4,148,872

The purposes of these interfund transfers are as follows:

- (1) Transfers for annual debt service requirements
- (2) Transfers for capital projects and equipment

**NOTE 7 – LOANS FROM PRIMARY GOVERNMENT TO COMPONENT UNIT**

In 2012, the City's Permanent Improvement Revolving Capital Project Fund made an open-ended loan to the Cornerstone TIF District Special Revenue Fund, bearing an interest rate of 4 percent. Activity on this loan during 2016 was as follows:

	Loan Receivable – City Fund	Loan Payable – EDA Fund	Beginning Balance	Additions	Reductions	Ending Balance
Permanent Improvement Revolving			\$ 344,769	\$ 13,791	\$ —	\$ 358,560
Cornerstone TIF District Special Revenue Fund						

In addition, the City's General Fund had receivables of \$107,586 and \$2,322 due from the EDA Cornerstone TIF District and Marksman Metals TIF District Special Revenue Funds, respectively, for short-term cash flow purposes.

**NOTE 8 – LONG-TERM DEBT**

**A. General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations backed by the full faith and credit of the City and are payable through tax levies. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Original Issue	Maturity	Balance at Year-End
G.O. Taxable Library Bonds of 2009C	\$ 1,985,000	5.90–6.10 %	12/10/2009	02/01/2035	\$ 1,985,000

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2017	\$	119,865
2018	–	119,865
2019	–	119,865
2020	–	119,865
2021	–	119,865
2022	–	119,865
2023	–	119,865
2024	–	119,865
2025	–	119,865
2026	–	119,865
2027	195,000	114,113
2028	205,000	102,312
2029	210,000	90,070
2030	215,000	77,318
2031	215,000	64,202
2032	225,000	50,783
2033	230,000	36,905
2034	240,000	22,570
2035	250,000	7,625
	<u>\$ 1,985,000</u>	<u>\$ 1,764,548</u>

The G.O. Taxable Library Bonds of 2009C are “Qualified Build America Bonds – Recovery Zone Economic Development Bonds – Direct Pay” under the authorization of the American Recovery and Reinvestment Act of 2009. This designation provides for a federal subsidy credit to be paid to the City for a portion of the interest paid to investors in these bonds. The credit will be received semiannually to coincide with the debt service payment schedule.

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**B. Special Assessment Bonds**

The City issues special assessment bonds to provide funds for the construction of streets and utilities in new residential developments or refunding previous issues. These bonds will be repaid from special assessments levied against the properties benefiting from this construction. The City is obligated for payment of special assessments debt not covered through the collection of special assessments from property owners. Any obligation by the City would be paid from property taxes. Special assessment bonds with governmental commitment currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Original Issue	Maturity	Balance at Year-End
G.O. Permanent Improvement Revolving Fund Bonds of 2009D	\$ 4,700,000	2.25–3.50%	12/10/2009	02/01/2018	\$ 735,000
G.O. Permanent Improvement Revolving Fund Bonds of 2010C	\$ 7,930,000	2.00–3.13%	10/20/2010	02/01/2026	4,635,000
G.O. Permanent Improvement Revolving Fund Bonds of 2011A	\$ 2,715,000	2.00–2.625%	11/03/2011	02/01/2024	2,715,000
G.O. Refunding Bonds of 2012A	\$ 4,229,811	2.00%	03/27/2012	02/01/2024	3,604,811
G.O. Refunding Bonds of 2012B	\$ 3,440,000	0.35–1.90%	12/20/2012	02/01/2026	2,420,000
G.O. Permanent Improvement Revolving Fund Bonds of 2014A	\$ 620,000	2.00–3.00%	07/08/2014	02/01/2025	600,000
Total special assessment bonds					<u>\$ 14,709,811</u>

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2017	\$ 2,512,208	\$ 298,457
2018	2,596,123	243,673
2019	2,337,648	191,143
2020	1,363,068	154,626
2021	1,261,983	128,489
2022	1,196,113	101,068
2023	1,222,638	72,321
2024	1,180,030	42,971
2025	555,000	20,758
2026	485,000	6,598
	<u>\$ 14,709,811</u>	<u>\$ 1,260,104</u>



**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**C. Enterprise Fund Revenue Bonds**

The City issues bonds where the City pledges income derived from a constructed asset to pay debt service. Enterprise fund revenue bonds currently outstanding are as follows:

Description	Authorized and issued	Interest Rate	Original Issue	Maturity	Balance at Year-End
G.O. Sewer Revenue Refunding Bonds of 2010B	\$ 3,710,000	2.05%	09/21/2010	02/01/2020	\$ 1,565,000
G.O. Revenue Refunding Bonds of 2012A	\$ 490,189	2.00%	03/27/2012	02/01/2024	490,189
G.O. Revenue Bonds of 2014A	\$ 3,340,000	2.00-3.00%	07/08/2014	02/01/2030	3,290,000
Total revenue bonds					<u>\$ 5,345,189</u>

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

Year Ending December 31,	Business-Type Activities	
	Principal	Interest
2017	\$ 497,792	\$ 132,275
2018	508,877	122,095
2019	522,352	111,450
2020	506,933	100,089
2021	333,018	90,887
2022	338,887	82,717
2023	347,361	72,980
2024	354,969	63,058
2025	300,000	55,550
2026	310,000	44,400
2027	320,000	34,950
2028	325,000	25,275
2029	335,000	15,325
2030	345,000	5,175
	<u>\$ 5,345,189</u>	<u>\$ 954,226</u>

**D. Refundings**

In March 2012, the City issued \$4,720,000 of General Obligation Bonds, Series 2012A. The proceeds of this issue were used to retire, in advance of their stated maturities, the 2017 through 2024 maturities of the G.O. Permanent Improvement Revolving Fund Bonds, Series 2007B and the G.O. Revenue Bonds, Series 2007B, on their February 1, 2016 call date. These crossover refundings decreased the City's total future debt service payments by \$207,347 and resulted in a net present value savings of \$188,608.

**E. Other Long-Term Liabilities**

The City provides its employees with various benefits, including compensated absences and pension benefits. These benefits are primarily paid by the General Fund.

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**F. Changes in Long-Term Debt**

Long-term debt activity for the year ended December 31, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,985,000	\$ -	\$ -	\$ 1,985,000	\$ -
Special assessment bonds	19,444,438	-	4,734,627	14,709,811	2,512,208
Add					
Premiums on bonds	282,486	-	37,979	244,507	-
Compensated absences payable	409,799	162,499	182,894	389,404	162,499
Net pension liability – PERA	1,363,002	1,008,491	349,736	2,021,757	-
Total governmental activities	<u>\$ 23,484,725</u>	<u>\$ 1,170,990</u>	<u>\$ 5,305,236</u>	<u>\$ 19,350,479</u>	<u>\$ 2,674,707</u>
Business-type activities					
Revenue bonds	\$ 6,325,562	\$ -	\$ 980,373	\$ 5,345,189	\$ 497,792
Add					
Premiums on bonds	95,343	-	9,956	85,387	-
Total business-type activities	<u>\$ 6,420,905</u>	<u>\$ -</u>	<u>\$ 990,329</u>	<u>\$ 5,430,576</u>	<u>\$ 497,792</u>

**G. Legal Debt Margin**

Minnesota Statutes limit the net bonded indebtedness of the City to 3 percent of the estimated market value. The legal debt limit as of December 31, 2016 was \$41,705,331. The City had a legal debt margin of \$39,720,331.

**H. Pledged Revenue**

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue	Use of Proceeds	Revenue Pledged		Remaining Principal and Interest	Current Year Pledged Revenue Received
		Term of Remaining Pledge	Principal and Interest Paid *		
Sewer Revenue Bonds Series 2010B	Sewer utility improvements	2017-2020	\$ 1,635,000	\$ 412,063	\$ 2,534,303
Revenue Bonds Series 2007B, 2012A, and 2014A	Water, sewer, and stormwater charges	2017-2030	\$ 4,664,415	\$ 226,532	\$ 3,471,951

\*Principal and interest paid excludes amounts paid from crossover refunding escrow.

**NOTE 9 – DEFINED BENEFIT PENSION PLAN – STATE-WIDE**

**A. Plan Description**

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF), a cost-sharing multiple-employer defined benefit pension plan administered by the PERA of Minnesota, established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. The PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**B. Benefits Provided**

The 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 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.

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

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 the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at age 66.

**C. GERF Contributions**

Minnesota Statute, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in calendar year 2016. The City was required to contribute 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ended December 31, 2016 were \$111,147. The City's contributions were equal to the required contributions as set by state statute.

**NOTE 9 – DEFINED BENEFIT PENSION PLAN – STATE-WIDE (CONTINUED)**

**D. GERF Pension Costs**

At December 31, 2016, the City reported a liability of \$2,021,757 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2016. The state of Minnesota is considered a non-employer contributing entity and the state of Minnesota'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 \$26,379. 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 the 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 the PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0249 percent, which was a decrease of 0.0014 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$244,424 for its proportionate share of the GERF's pension expense. In addition, the City recognized an additional \$7,865 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the GERF.

At December 31, 2016, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 395,861	\$ 166,676
Changes in actuarial assumptions	388,890	—
Differences between projected and actual investment earnings	—	108,437
Changes in proportion	—	—
Contributions paid to the PERA subsequent to the measurement date	55,033	—
<b>Total</b>	<b>\$ 839,784</b>	<b>\$ 275,113</b>

Deferred outflows of resources reported \$55,033 related to pensions resulting from city contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2017	\$ 128,897
2018	\$ 128,897
2019	\$ 178,814
2020	\$ 73,030

**NOTE 9 – DEFINED BENEFIT PENSION PLAN – STATE-WIDE (CONTINUED)**

**E. Actuarial Assumptions**

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

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

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

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 GERS was completed in 2015.

The following changes in actuarial assumptions for the GERS occurred in 2016:

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

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

**NOTE 9 – DEFINED BENEFIT PENSION PLAN – STATE-WIDE (CONTINUED)**

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on these assumptions, fiduciary net position of the GERS was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following presents the City's proportionate share of the net pension liability for the plan 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 <hr/> 6.50%		Discount Rate <hr/> 7.50%		1% Increase in Discount Rate <hr/> 8.50%
The City's proportionate share of the GERS net pension liability	\$ 2,871,493		\$ 2,021,757		\$ 1,321,805

**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 PERA website at [www.mnpera.org](http://www.mnpera.org).

**NOTE 10 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION**

**A. Plan Description**

All members of the St. Michael Fire Department (the Department) are covered by a defined benefit plan administered by the St. Michael Firemen's Relief Association (the Association). As of December 31, 2015, the plan covered 30 active firefighters and 9 vested terminated firefighters whose pension benefits are deferred. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, Chapter 69.

The Association maintains a separate Special Fund to accumulate assets to fund the retirement benefits earned by the Department's membership. The Association is governed by a Board of six officers and trustees elected by the members of the Association. The chief of the City's fire department, the mayor, and the treasurer of the City are ex-officio, non-voting members of the Board of Trustees. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes 1980). Funds are also derived from investment income.

**B. Benefits Provided**

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

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as described by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

**C. Contributions**

Minnesota Statutes, Chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings, and, if necessary, employer contributions as specified in Minnesota Statutes and voluntary city contributions (if applicable). The firefighters have no obligation to contribute to the plan. Nonemployer pension contributions include state aid from the state of Minnesota and municipal contributions from the City. On behalf of state aid payments from the state of Minnesota are received initially by the City and subsequently remitted to the Association. These on-behalf of state aid payments in addition to the City's municipal contribution payments to the Association plan are recognized as revenues and expenditures in the City's General Fund during the period received.

The state of Minnesota contributed \$94,779 in fire state aid to the plan on behalf of the Department for the year ended December 31, 2016, which the City reports as a revenue and expenditure. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2016 were \$0; however, the City made a voluntary contribution of \$28,000 to the plan.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION (CONTINUED)**

**D. Pension Costs**

At December 31, 2016, the City reported a net pension liability (asset) of \$(169,029) for the plan. The net pension liability (asset) was measured as of December 31, 2015. The total pension liability used to calculate the net pension liability (asset) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68 was determined by Hildi, Inc. applying an actuarial formula to specific census data certified by the Department as of December 31, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$33,191. The City also recognized \$93,413 as revenue for the state of Minnesota's on-behalf contributions to the Department.

The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning balance – January 1, 2016	\$ 836,808	\$ 1,115,446	\$ (278,638)
Changes for the year			
Service cost	29,314	–	29,314
Interest on pension liability (asset)	61,327	–	61,327
Plan changes	76,845	–	76,845
Projected investment earnings	–	86,513	(86,513)
Contributions (employer)	–	28,000	(28,000)
Contributions (state)	–	93,413	(93,413)
Asset (gain)/loss	–	(142,982)	142,982
Benefit payments	(38,236)	(38,236)	–
Administrative costs	–	(7,067)	7,067
Total net changes	129,250	19,641	109,609
Ending balance – December 31, 2016	\$ 966,058	\$ 1,135,087	\$ (169,029)

**NOTE 10 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION  
(CONTINUED)**

At December 31, 2016, the City reported deferred inflows of resources and deferred outflows of resources, its contributions subsequent to the measurement date, related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ 144,285	\$ —
City contributions subsequent to the measurement date	28,000	—
State aid to the City subsequent to the measurement date	94,779	94,779
<b>Total</b>	<b>\$ 267,064</b>	<b>\$ 94,779</b>

Deferred outflows of resources totaling \$122,779 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Deferred inflows of resources totaling \$94,779 related to state aid received subsequent to the measurement date will be recognized for its impact on the net pension liability in the year ended December 31, 2017.

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

Year Ending December 31,	Pension Expense Amount
2017	\$ 38,564
2018	\$ 38,564
2019	\$ 38,563
2020	\$ 28,594

**E. Actuarial Assumptions**

The total pension liability at December 31, 2015 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at 100 percent service pension at age 50 with 20 years of service, early vested retirement at age 50 with 10 years of service vested at 60 percent and increased by 4 percent for each additional year of service up to 20 years and eligibility for deferred service
- Salary increases 2.50% per year
- Cost of living increases 2.00% per year
- Investment rate of return 7.50%
- 20-year municipal bond yield 3.50%

The benefit level per year of service increased from \$2,700 to \$3,000 for active plan members in 2015.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION  
(CONTINUED)**

The 7.5 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using the plan's target investment allocation along with long-term return expectations by asset class. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	4.00 %	2.00 %
Fixed income	5.00	4.50
Equities	91.00	8.00
<b>Total</b>	<b>100.00 %</b>	

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability (Asset) Sensitivity**

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

	1% Decrease (6.50%)	Current (7.50%)	1% Increase (8.50%)
Defined benefit plan	\$ (157,884)	\$ (169,029)	\$ (179,572)

**H. Pension Plan Fiduciary Net Position**

The Association issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the St. Michael Firemen's Relief Association, 216 Main Street South, St. Michael, Minnesota 55376 or by calling (763) 497-6054.



**NOTE 11 – FUND BALANCES**

At December 31, 2016, a summary of the City's governmental fund balance classifications are as follows:

	General	Permanent Improvement Revolving	Nonmajor Funds	Total
Nonspendable				
Prepaid items	\$ 84,154	\$ -	\$ -	\$ 84,154
Restricted				
Park improvements	-	-	572,172	572,172
Assigned				
Capital projects		4,883,075	-	4,883,075
Street light replacement		-	185,105	185,105
Fire equipment		-	282,173	282,173
Other equipment		-	987,030	987,030
City buildings		-	933,566	933,566
Total assigned		4,883,075	2,387,874	7,270,949
Unassigned				
General Fund	3,706,733	-	-	3,706,733
Total	\$ 3,790,887	\$ 4,883,075	\$ 2,960,046	\$ 11,634,008

**NOTE 12 – JOINT POWERS WATER BOARD**

The City is a member of the Joint Powers Water Board (the Board) which distributes water and maintains the water equipment and related infrastructure for the City and the cities of Albertville and Hanover. The members of the Board agreed that each city will own all water mains in their respective communities. The Board will sell water to the communities at a base rate with each city being responsible for maintenance and operation of water mains.

The financial statements of the Board are audited on an annual basis. The financial statements for the year ended December 31, 2015, the most recent fiscal year for which information is available, reflected total net position of \$20,423,200, an increase of \$836,228 from the previous year-end. Additional financial information can be obtained by writing to Eric Ote at the Joint Powers Water Board, 11100 – 50th Street Northeast, Albertville, Minnesota 55301; by calling (761) 497-3611; or by e-mailing Eric Ote at Eric.Ote@veolia.com.

The City established the Water Fund in 1998 to account for the revenues and expenses related to the water mains. Water is billed to residents through the Board and the City receives the portion of revenues billed for the City's distribution lines.

**NOTE 13 – TAX ABATEMENT AGREEMENTS**

A common economic development vehicle, used by the City to spur economic development and redevelopment, is the creation of TIF districts as authorized under Minnesota Statute, Chapter 469.178. In these districts, tax increment revenue is generated on the incremental increase in value of the improved property above a base value established on the date that the TIF district is created, which may be used to assist in financing the improvements to the property within the TIF district. The City may enter into private development and redevelopment agreements to encourage a developer to construct, expand, or improve new or existing properties and buildings or clean-up and redevelop blighted areas within these areas. These agreements may in substance be a tax abatement depending on their individual circumstances. The City currently has one such agreement that would be considered a tax abatement under GASB Statement No. 77.

In 1999, the City entered into a development agreement with St. Michael Business Center, LLC to assist the developer with the financing of commercial development near Interstate 94. As part of this agreement, the City has agreed to reimburse the developer for certain improvement costs through a pay-as-you-go tax increment note. The note provides for the payment of principal equal to the developer's costs, plus interest at 6 percent. Payments of the note will be made at the lesser of the scheduled note payments or 90 percent of the actual net tax increment received during the period specified in the agreement, ending February 1, 2026. The note will be cancelled at the end of the agreement term, whether it has been fully repaid or not. This note is not included in the City's long-term debt, because repayment is required only to the extent sufficient tax increments are received. The City's position is that this is an obligation to assign future and uncertain revenue sources and, as such, is not actual debt in substance. The outstanding principal balance as of December 31, 2016, for this agreement was \$925,742, and tax increment revenue rebated were \$69,338 for the current year.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

**A. Legal Claims**

The City's government-wide financial statements include an estimate for claims and judgements payable of \$542,000 related to legal actions being litigated by the City's insurance carrier. The likelihood or range of any potential additional liability related to legal matters cannot be determined at this time. Management is not aware of any other legal claims expected to have a material financial effect.

**B. Federal and State Receivables**

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

**C. Tax Increment Districts**

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

CITY OF ST. MICHAEL

PERA – General Employees Retirement Fund  
 Schedule of City's and Non-Employer Proportionate Share of Net Pension Liability

City Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	City's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the City's Share of the State of Minnesota's Share of the Net Pension Liability	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	06/30/2015	0.0263%	\$ 1,363,002	\$ –	\$ 1,363,002	\$ 1,545,422	88.20%	78.20%
12/31/2016	06/30/2016	0.0249%	\$ 2,021,757	\$ 26,379	\$ 2,048,136	\$ 1,544,920	130.86%	68.90%

PERA – General Employees Retirement Fund  
 Schedule of City Contributions

City Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2015	\$ 117,590	\$ 117,590	\$ –	\$ 1,567,869	7.50%
12/31/2016	\$ 111,147	\$ 111,147	\$ –	\$ 1,481,954	7.50%

Note 1: **Changes in Plan Provisions.** On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the GERS, 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.

Note 2: **Changes in Actuarial Assumptions.** (1) 2015 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter. (2) 2016 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Note 3: The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This schedule is intended to present 10-year trend information. Additional years will be reported as they become available.

CITY OF ST. MICHAEL

St. Michael Firemen's Relief Association  
 Schedule of Changes in Net Pension Asset and Related Ratios

City fiscal year-end dated December 31,	<u>2015</u>	<u>2016</u>
Measurement period	<u>December 31, 2014</u>	<u>December 31, 2015</u>
<b>Total pension liability</b>		
Service cost	\$ 26,604	\$ 29,314
Interest	64,818	61,327
Plan changes	—	76,845
Benefit payments	<u>(109,415)</u>	<u>(38,236)</u>
Net change in total pension liability	(17,993)	129,250
Total pension liability – beginning	<u>854,801</u>	<u>836,808</u>
Total pension liability – ending	<u>\$ 836,808</u>	<u>\$ 966,058</u>
<b>Plan fiduciary net position</b>		
Contributions (state and local)	\$ 112,836	\$ 121,413
Net investment income	31,353	(56,469)
Benefit payments	(109,415)	(38,236)
Administrative costs	<u>(210)</u>	<u>(7,067)</u>
Net change in plan fiduciary net position	34,564	19,641
Total plan fiduciary net position – beginning	<u>1,080,882</u>	<u>1,115,446</u>
Total plan fiduciary net position – ending	<u>\$ 1,115,446</u>	<u>\$ 1,135,087</u>
Net pension liability (asset) – ending	<u>\$ (278,638)</u>	<u>\$ (169,029)</u>
Plan fiduciary net position as a percentage of the total pension liability	133.30%	117.50%

Note: The City implemented GASB Statement No. 68 in fiscal 2015 (using a December 31, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be reported as they become available.



CITY OF ST. MICHAEL  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 December 31, 2016

	Park Dedication Special Revenue	Debt Service	Capital Projects	Total
Cash and investments	\$ 572,172	\$ -	\$ 2,377,986	\$ 2,950,158
Receivables	-	-	17,788	17,788
Accounts	-	-	-	-
Total assets	\$ 572,172	\$ -	\$ 2,395,774	\$ 2,967,946
Liabilities				
Accounts payable	\$ -	\$ -	\$ 7,900	\$ 7,900
Fund balances				
Restricted	572,172	-	-	572,172
Assigned	-	-	2,387,874	2,387,874
Total fund balances	\$ 572,172	\$ -	\$ 2,387,874	\$ 2,960,046
Total liabilities and fund balances	\$ 572,172	\$ -	\$ 2,395,774	\$ 2,967,946

CITY OF ST. MICHAEL  
 St. Michael Firemen's Relief Association  
 Schedule of City Contributions and Non-Employer Contributing Entities

City Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions		Non-Employer Contribution State 2% Fire Aid
		Contribution (Deficiency) Excess	Excess	
12/31/2014	\$ -	\$ 28,000	\$ 28,000	\$ 84,836
12/31/2015	\$ -	\$ 28,000	\$ 28,000	\$ 91,413
12/31/2016	\$ -	\$ 28,000	\$ 28,000	\$ 94,779

Note: The City implemented GASB Statement No. 68 in fiscal 2015 (using a December 31, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be reported as they become available.

CITY OF ST. MICHAEL

Nonmajor Governmental Funds  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
Year Ended December 31, 2016

	Park Dedication Special Revenue	Debt Service	Capital Projects	Total
Revenue				
Franchise and other taxes				
Intergovernmental		\$ 38,960	\$ 38,960	\$ 38,960
Charges for services	400,032	75,048	308,373	383,421
Contributions and donations			12,893	412,925
Investment earnings	4,683	6,300	2,500	2,500
Other revenues	20,195	246	24,522	35,505
Total revenue	424,910	81,348	387,494	893,752
Expenditures				
Current				
General government			3,940	3,940
Public works			6,163	6,163
Capital outlay			475,694	475,694
Debt service		1,464,815		1,464,815
Principal		394,938		394,938
Interest and fiscal charges		1,859,753	485,797	2,345,550
Total expenditures		(1,778,405)	(98,303)	(1,451,798)
Excess (deficiency) of revenue over expenditures	424,910	(1,778,405)	(98,303)	(1,451,798)
Other financing sources (uses)				
Sale of capital assets			28,604	28,604
Paid to refunded bonds escrow agent		(2,329,812)		(2,329,812)
Transfers in	(20,195)	1,784,706	726,637	2,511,343
Transfers (out)	(20,195)	(53,507)	(99,399)	(173,101)
Total other financing sources (uses)	(20,195)	(598,613)	655,842	37,034
Net change in fund balances	404,715	(2,377,018)	557,539	(1,414,764)
Fund balances				
Beginning of year	167,457	2,377,018	1,830,335	4,374,810
End of year	\$ 572,172	\$	\$ 2,387,874	\$ 2,960,046

CITY OF ST. MICHAEL

Nonmajor Debt Service Funds  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
Year Ended December 31, 2016

	2007B PIR Bonds	2009C Library Bonds	2009D Refunding PIR Bonds	2010A Refunding PIR Bonds
Revenue				
Intergovernmental				
Investment earnings	6,300	75,048		
Total revenue	6,300	75,048		
Expenditures				
Debt service	309,815		355,000	145,000
Principal	53,241	120,315	30,600	4,729
Interest and fiscal fees	363,056	120,315	385,600	149,729
Total expenditures	(356,756)	(45,267)	(385,600)	(149,729)
Excess (deficiency) of revenue over expenditures	(2,329,812)			
Other financing sources				
Paid to refunded bonds escrow agent	363,057	45,267	385,600	149,729
Transfers in	(53,507)			
Transfers (out)	(2,020,262)	45,267	385,600	149,729
Total other financing sources (uses)	(2,377,018)			
Net change in fund balances	(2,377,018)			
Fund balances				
Beginning of year	2,377,018			
End of year	\$	\$	\$	\$

CITY OF ST. MICHAEL

Nonmajor Capital Projects Funds  
 Combining Balance Sheet  
 December 31, 2016

	Street Light Replacement	Capital Improvements	Future City Buildings	Totals
Cash and temporary investments	\$ 175,317	\$ 1,261,203	\$ 941,466	\$ 2,377,986
Receivables	9,788	8,000	—	17,788
Accounts	—	—	—	—
<b>Total assets</b>	<b>\$ 185,105</b>	<b>\$ 1,269,203</b>	<b>\$ 941,466</b>	<b>\$ 2,395,774</b>
<b>Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 7,900</b>	<b>\$ 7,900</b>
Accounts payable	—	—	7,900	7,900
Fund balances	185,105	—	—	185,105
Assigned for street light replacement	—	282,173	—	282,173
Assigned for fire equipment	—	987,030	—	987,030
Assigned for other equipment	—	—	—	—
Assigned for city buildings	—	—	933,566	933,566
<b>Total fund balances</b>	<b>185,105</b>	<b>1,269,203</b>	<b>933,566</b>	<b>2,387,874</b>
<b>Total liabilities and fund balances</b>	<b>\$ 185,105</b>	<b>\$ 1,269,203</b>	<b>\$ 941,466</b>	<b>\$ 2,395,774</b>

	2011A Refunding Bonds	2012A PIR Bonds	2012B Refunding Bonds	2014A Refunding Bonds	Totals
\$	—	—	\$ —	\$ —	\$ 75,048
	—	—	—	—	6,300
	—	—	—	—	81,348
	—	290,000	345,000	20,000	1,464,815
60,484	79,725	30,356	15,488	394,938	394,938
60,484	369,725	375,356	35,488	1,859,753	1,859,753
(60,484)	(369,725)	(375,356)	(35,488)	(1,778,405)	(1,778,405)
	—	—	—	—	(2,329,812)
60,484	369,725	375,356	35,488	1,784,706	1,784,706
60,484	369,725	375,356	35,488	(53,507)	(53,507)
	—	—	—	—	(598,613)
	—	—	—	—	(2,377,018)
	—	—	—	—	2,377,018
\$	\$ —	\$ —	\$ —	\$ —	\$ —

CITY OF ST. MICHAEL

Nonmajor Capital Projects Funds  
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Year Ended December 31, 2016

	Street Light Replacement	Capital Improvements	Future City Buildings	Totals
Revenue				
Franchise and other taxes	\$ 38,960	\$ -	\$ -	\$ 38,960
Intergovernmental	-	265,779	42,594	308,373
Charges for services	5,853	-	7,040	12,893
Contributions and donations	-	2,500	-	2,500
Investment earnings	2,287	14,430	7,805	24,522
Other revenues	246	-	-	246
Total revenue	47,346	282,709	57,439	387,494
Expenditures				
Current				
General government	-	-	3,940	3,940
Public works	6,163	-	-	6,163
Capital outlay	-	441,232	34,462	475,694
Total expenditures	6,163	441,232	38,402	485,797
Excess (deficiency) of revenue over expenditures	41,183	(158,523)	19,037	(98,303)
Other financing sources (uses)				
Sale of capital assets	-	28,604	-	28,604
Transfers in	-	253,000	473,637	726,637
Transfers (out)	-	-	(99,399)	(99,399)
Total other financing sources (uses)	-	281,604	374,238	655,842
Net change in fund balances	41,183	123,081	393,275	557,539
Fund balances				
Beginning of year	143,922	1,146,122	540,291	1,830,335
End of year	\$ 185,105	\$ 1,269,203	\$ 933,566	\$ 2,387,874

CITY OF ST. MICHAEL

2010C Refunding PIR Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Final Budget	Actual
Expenditures				
Debt service				
Principal	\$ 940,000	\$ 940,000	\$ -	\$ 930,000
Interest and fiscal fees	133,550	133,550	-	152,250
Total expenditures	1,073,550	1,073,550	-	1,082,250
Other financing sources				
Transfers in	1,073,550	1,073,550	-	1,082,250
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

CITY OF ST. MICHAEL

Permanent Improvement Revolving Capital Projects Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Final Budget	Actual
<b>Revenues</b>				
Property taxes	\$ 654,500	\$ 647,930	\$ (6,570)	\$ 600,914
Franchise and other taxes	113,000	116,882	3,882	115,122
Special assessments	400,200	503,353	103,153	612,258
Intergovernmental revenues	450,000	315,931	(134,069)	1,189,851
Charges for services	100,000	277,787	177,787	168,027
Contributions and donations	9,496	9,496	—	9,979
Investment earnings	33,790	59,040	25,250	61,896
Total revenues	1,760,986	1,930,419	169,433	2,758,047
<b>Expenditures</b>				
Current				
Public works				
General professional services	25,000	19,870	(5,130)	25,684
Capital outlay	206,000	155,791	(50,209)	980,338
Total expenditures	231,000	175,661	(55,339)	1,006,022
Excess of revenue over expenditures	1,529,986	1,754,758	224,772	1,752,025
<b>Other financing sources (uses)</b>				
Transfers in	533,623	534,594	971	578,509
Transfers out	(2,528,005)	(2,623,096)	(95,091)	(2,527,869)
Total other financing sources (uses)	(1,994,382)	(2,088,502)	(94,120)	(1,949,360)
Net change in fund balances	\$ (464,396)	\$ (333,744)	\$ 130,652	(197,335)
Fund balances				
Beginning of year		5,216,819		5,414,154
End of year		\$ 4,883,075		\$ 5,216,819

CITY OF ST. MICHAEL

Park Dedication Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Charges for services				
Park dedication fees	\$ 75,000	\$ 400,032	\$ 325,032	\$ 62,481
Investment earnings	—	4,683	4,683	1,823
Other revenues	19,224	20,195	971	19,234
Total revenue	94,224	424,910	330,686	83,538
<b>Expenditures</b>				
Current				
Community development	—	—	—	—
Excess of revenue over expenditures	94,224	424,910	330,686	83,538
<b>Other financing (uses)</b>				
Transfers out	(19,224)	(20,195)	(971)	(19,234)
Net change in fund balances	\$ 75,000	404,715	\$ 329,715	64,304
Fund balances				
Beginning of year		167,457		103,153
End of year		\$ 572,172		\$ 167,457

CITY OF ST. MICHAEL

2007B PIR Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Revenue	\$ -	\$ 6,300	\$ 6,300	\$ 12,711
Investment earnings				
Expenditures				
Debt service				
Principal	309,815	309,815	-	293,292
Interest and fiscal fees	53,238	53,241	3	111,893
Total expenditures	363,053	363,056	3	405,185
Excess (deficiency) of revenue over expenditures	(363,053)	(356,756)	6,297	(392,474)
Other financing sources (uses)				
Paid to refunded bonds escrow agent	(2,329,811)	(2,329,812)	(1)	-
Transfers in	363,841	363,057	(784)	405,185
Transfers (out)	(35,285)	(53,507)	(18,222)	(48,244)
Total other financing sources (uses)	(2,001,255)	(2,020,262)	(19,007)	356,941
Net change in fund balances	\$ (2,364,308)	(2,377,018)	\$ (12,710)	(35,533)
Fund balances				
Beginning of year		2,377,018		2,412,551
End of year	\$ -	\$ -	\$ -	\$ 2,377,018

CITY OF ST. MICHAEL

2009C Library Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Revenue	\$ 74,780	\$ 75,048	\$ 268	\$ 74,844
Intergovernmental				45,471
Lease payments	-	-	-	120,315
Total revenue	74,780	75,048	268	120,315
Expenditures				
Debt service				
Interest and fiscal fees	120,315	120,315	-	120,315
Excess (deficiency) of revenue over expenditures	(45,535)	(45,267)	268	-
Other financing sources				
Transfers in	45,535	45,267	(268)	-
Net change in fund balances	\$ -	\$ -	\$ -	-
Fund balances				
Beginning of year				
End of year	\$ -	\$ -	\$ -	\$ -

CITY OF ST. MICHAEL

2009D Refunding PIR Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
Debt service				
Principal	\$ 355,000	\$ 355,000	\$ --	\$ 345,000
Interest and fiscal fees	30,600	30,600	--	40,238
Total expenditures	385,600	385,600	--	385,238
Other financing sources				
Transfers in	385,600	385,600	--	385,238
Net change in fund balances	\$ --	\$ --	\$ --	--
Fund balances				
Beginning of year	--	--	--	--
End of year	\$ --	\$ --	\$ --	--

CITY OF ST. MICHAEL

2010A Refunding PIR Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
Debt service				
Principal	\$ 45,000	\$ 145,000	\$ 100,000	\$ 45,000
Interest and fiscal fees	3,979	4,729	750	5,036
Total expenditures	48,979	149,729	100,750	50,036
Other financing sources				
Transfers in	48,979	149,729	100,750	50,036
Net change in fund balances	\$ --	\$ --	\$ --	--
Fund balances				
Beginning of year	--	--	--	--
End of year	\$ --	\$ --	\$ --	--

CITY OF ST. MICHAEL

2011A Refunding Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
Debt service				
Interest and fiscal fees	\$ 60,484	\$ 60,484	\$ -	\$ 60,484
Other financing sources				
Transfers in	60,484	60,484	-	60,484
Net change in fund balances	\$ -	\$ -	\$ -	-
Fund balances				
Beginning of year				
End of year	\$ -	\$ -	\$ -	\$ -

CITY OF ST. MICHAEL

2012A PIR Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
Debt service				
Principal	\$ 290,000	\$ 290,000	\$ -	\$ 280,000
Interest and fiscal fees	85,250	79,725	(5,525)	90,950
Total expenditures	375,250	369,725	(5,525)	370,950
Other financing sources				
Transfers in	375,250	369,725	(5,525)	370,950
Net change in fund balances	\$ -	\$ -	\$ -	-
Fund balances				
Beginning of year				
End of year	\$ -	\$ -	\$ -	\$ -



CITY OF ST. MICHAEL

2012B Refunding Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Lease payments	\$ -	\$ -	\$ -	\$ 161,642
Expenditures				
Debt service				
Principal	345,000	345,000	-	345,000
Interest and fiscal fees	30,357	30,356	(1)	32,081
Total expenditures	375,357	375,356	(1)	377,081
Excess (deficiency) of revenue over expenditures	(375,357)	(375,356)	1	(215,439)
Other financing sources				
Transfers in	375,357	375,356	(1)	215,439
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances				
Beginning of year				
End of year	\$ -	\$ -	\$ -	\$ -

CITY OF ST. MICHAEL

2014A Refunding Bonds Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures				
Debt service				
Principal	\$ 20,000	\$ 20,000	\$ -	\$ -
Interest and fiscal fees	15,850	15,488	(362)	16,686
Total expenditures	35,850	35,488	(362)	16,686
Other financing sources				
Transfers in	35,850	35,488	(362)	16,686
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances				
Beginning of year				
End of year	\$ -	\$ -	\$ -	\$ -

CITY OF ST. MICHAEL

Street Light Replacement Capital Projects Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Franchise and other taxes	\$ 37,500	\$ 38,960	\$ 1,460	\$ 38,374
Charges for services	—	5,853	5,853	—
Investment earnings	—	2,287	2,287	1,841
Other revenues	—	246	246	—
Total revenue	37,500	47,346	9,846	40,215
<b>Expenditures</b>				
Current				
Public works	2,500	6,163	3,663	6,498
Net change in fund balances	\$ 35,000	41,183	\$ 6,183	33,717
<b>Fund balances</b>				
Beginning of year		143,922		110,205
End of year		\$ 185,105		\$ 143,922

CITY OF ST. MICHAEL

Capital Improvement Capital Projects Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Intergovernmental	\$ 269,000	\$ 265,779	\$ (3,221)	\$ 175,000
Contributions and donations	5,000	2,500	(2,500)	4,800
Investment earnings	1,100	14,430	13,330	11,367
Total revenue	275,100	282,709	7,609	191,167
<b>Expenditures</b>				
Capital outlay	504,000	441,232	(62,768)	203,261
Excess (deficiency) of revenue over expenditures	(228,900)	(158,523)	70,377	(12,094)
<b>Other financing sources</b>				
Sale of capital assets	—	28,604	28,604	—
Transfers in	253,000	253,000	—	318,000
Total other financing sources	253,000	281,604	28,604	318,000
Net change in fund balances	\$ 24,100	123,081	\$ 98,981	305,906
<b>Fund balances</b>				
Beginning of year		1,146,122		840,216
End of year		\$ 1,269,203		\$ 1,146,122

CITY OF ST. MICHAEL

Future City Buildings Capital Project Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Intergovernmental	\$ 42,594	\$ 42,594	\$ --	\$ 38,556
Charges for services	7,040	7,040	--	7,040
Investment earnings	--	7,805	7,805	7,737
Total revenue	49,634	57,439	7,805	53,333
<b>Expenditures</b>				
Current				
General government	5,000	3,940	(1,060)	4,260
Capital outlay	53,000	34,462	(18,538)	33,242
Total expenditures	58,000	38,402	(19,598)	37,502
Excess (deficiency) of revenue over expenditures	(8,366)	19,037	27,403	15,831
Other financing sources (uses)				
Transfers in	238,000	473,637	235,637	115,744
Transfers (out)	(99,399)	(99,399)		(104,275)
Total other financing sources (uses)	138,601	374,238	235,637	11,469
Net change in fund balances	\$ 130,235	\$ 393,275	\$ 263,040	\$ 27,300
Fund balances				
Beginning of year		540,291		512,991
End of year		\$ 933,566		\$ 540,291

CITY OF ST. MICHAEL

Agency Fund  
 Statement of Changes in Assets and Liabilities  
 Year Ended December 31, 2016

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Assets</b>				
Cash and investments	\$ 366,816	\$ 464,120	\$ 384,611	\$ 446,325
<b>Liabilities</b>				
Accounts payable	\$ 7,521	\$ 252,311	\$ 247,363	\$ 12,469
Deposits due to developers	359,295	501,623	427,062	433,856
Total liabilities	\$ 366,816	\$ 753,934	\$ 674,425	\$ 446,325

CITY OF ST. MICHAEL  
 Economic Development Authority Component Unit  
 Combining Balance Sheet  
 December 31, 2016

	Economic Development Authority General Fund	Special Revenue Funds	
		Business Center TIF District	Downtown TIF District
<b>Assets</b>			
Cash and temporary investments	\$ 205,334	\$ 13,434	\$ 621
Receivables			
Accounts receivable	30,818	-	-
Taxes and tax increments	957	-	-
Due from other governmental units	524	-	-
Advances to other funds	1,564,032	-	-
Land held for resale	178,762	-	-
<b>Total assets</b>	<b>\$ 1,980,427</b>	<b>\$ 13,434</b>	<b>\$ 621</b>
<b>Liabilities</b>			
Accrued salaries and wages	\$ 226	\$ -	\$ -
Due to primary government	-	-	-
Loans payable to primary government	-	-	-
Advances from other funds	-	-	1,564,032
<b>Total liabilities</b>	<b>226</b>	<b>-</b>	<b>1,564,032</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue — property taxes	957	-	-
<b>Fund balances (deficits)</b>			
Restricted for economic development	1,979,244	13,434	-
Unassigned	-	-	(1,563,411)
<b>Total fund balances (deficits)</b>	<b>1,979,244</b>	<b>13,434</b>	<b>(1,563,411)</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,980,427</b>	<b>\$ 13,434</b>	<b>\$ 621</b>

	Cornerstone TIF District	Kwik Trip Signal TIF District	Marksman Metals TIF District	Totals
	\$ -	\$ 77,350	\$ -	\$ 296,739
	4,722	-	-	35,540
	-	-	-	957
	-	-	-	524
	-	-	-	1,564,032
	-	-	-	178,762
<b>Total</b>	<b>\$ 4,722</b>	<b>\$ 77,350</b>	<b>\$ -</b>	<b>\$ 2,076,554</b>
	\$ -	\$ -	\$ -	\$ 226
	107,586	-	2,322	109,908
	358,560	-	-	358,560
	466,146	-	2,322	1,564,032
<b>Total</b>	<b>466,146</b>	<b>-</b>	<b>2,322</b>	<b>2,032,726</b>
	-	-	-	957
	-	77,350	-	2,070,028
	(461,424)	-	(2,322)	(2,027,157)
<b>Total</b>	<b>(461,424)</b>	<b>77,350</b>	<b>(2,322)</b>	<b>42,871</b>
<b>Total fund balances — Economic Development Authority</b>	<b>\$ 4,722</b>	<b>\$ 77,350</b>	<b>\$ -</b>	<b>\$ 2,076,554</b>
<b>Total fund balances — Economic Development Authority</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,871</b>

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

Certain revenues (including and tax increments) included in net position are excluded from fund balances until available to liquidate liabilities of the current period.

Total net position — Economic Development Authority

957

\$ 43,828

CITY OF ST. MICHAEL

Economic Development Authority Component Unit  
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Year Ended December 31, 2016

	Economic Development Authority General Fund	Special Revenue Funds		Totals
		Business Center TIF District	Downtown TIF District	
<b>Revenue</b>				
Property taxes	\$ 89,695	\$ --	\$ --	\$ 89,695
Tax increments	--	70,540	49,924	172,570
Intergovernmental	192	--	--	192
Investment earnings	50,823	91	200	51,985
Other revenue	4,722	--	--	4,722
Total revenue	140,710	70,631	50,124	319,164
<b>Expenditures</b>				
Current	65,341	70,966	48,548	204,785
Community development	75,369	(335)	1,576	114,379
Net change in fund balances	1,903,875	13,769	(1,564,987)	(71,508)
Fund balances (deficits)				
Beginning of year	\$ 1,979,244	\$ 13,434	\$ (1,563,411)	\$ 42,871
End of year				\$ 114,379
Change in fund balances - Economic Development Authority				\$ (2,322)
Amounts reported for the in the Statement of Activities are different because:				
Certain revenues (taxes and tax increments) included in net position are excluded from fund balances until available to liquidate liabilities of the current period.				31
Change in net position - Economic Development Authority				\$ 114,410

CITY OF ST. MICHAEL

Economic Development Authority General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Property taxes	\$ 90,750	\$ 89,695	\$ (1,055)	\$ 90,025
Intergovernmental	—	192	192	203
Investment earnings	49,788	50,823	1,035	50,691
Total revenue	140,538	140,710	172	140,919
<b>Expenditures</b>				
Current	71,722	65,341	(6,381)	119,843
Community development	—	—	—	—
Net change in fund balances	\$ 68,816	\$ 75,369	\$ 6,553	21,076
<b>Fund balances</b>				
Beginning of year	—	1,903,875	—	1,882,799
End of year	—	\$ 1,979,244	—	\$ 1,903,875

CITY OF ST. MICHAEL

Business Center TIF District Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Tax increments	\$ 107,000	\$ 70,540	\$ (36,460)	\$ 73,658
Investment earnings	125	91	(34)	142
Total revenue	107,125	70,631	(36,494)	73,800
<b>Expenditures</b>				
Current	106,500	70,966	(35,534)	108,034
Community development	—	—	—	—
Net change in fund balances	\$ 625	(335)	\$ (960)	(34,234)
<b>Fund balances</b>				
Beginning of year	—	13,769	—	48,003
End of year	—	\$ 13,434	—	\$ 13,769

CITY OF ST. MICHAEL

Downtown TIF District Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Tax increments	\$ 50,000	\$ 49,924	\$ (76)	\$ 50,491
Investment earnings	—	200	200	194
Total revenue	50,000	50,124	124	50,685
<b>Expenditures</b>				
Current	48,488	48,548	60	48,536
Community development	1,512	1,576	64	2,149
Net change in fund balances	\$ 1,512	\$ 1,576	\$ 64	
Fund balances (deficit)				
Beginning of year		(1,564,987)		(1,567,136)
End of year		\$ (1,563,411)		\$ (1,564,987)

CITY OF ST. MICHAEL

Comerstone TIF District Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Tax increments	\$ 25,000	\$ 26,149	\$ 1,149	\$ 25,267
Other revenue	5,871	4,722	(1,149)	10,260
Total revenue	30,871	30,871	—	35,527
<b>Expenditures</b>				
Current	14,790	15,358	568	14,764
Community development	16,081	15,513	(568)	20,763
Net change in fund balances	\$ 16,081	\$ 15,513	\$ (568)	
Fund balances (deficit)				
Beginning of year		(476,937)		(497,700)
End of year		\$ (461,424)		\$ (476,937)

CITY OF ST. MICHAEL  
 Schedule of Bonds Payable  
 Year Ended December 31, 2016

	Date of Issue	Maturity Date	Final Interest Rate
Bonds payable from governmental funds			
General obligation bonds			
General Obligation Taxable Library Bonds of 2009C	12/10/2009	02/01/2035	5.90-6.10 %
Special assessment bonds with government commitment			
Permanent Improvement Revolving Fund Bonds of 2007B	12/27/2007	02/01/2024	4.00
Permanent Improvement Revolving Fund Bonds of 2009D	12/10/2009	02/01/2018	2.25-3.50
Permanent Improvement Revolving Fund Bonds of 2010A	04/29/2010	02/01/2018	0.65-3.00
Permanent Improvement Revolving Fund Bonds of 2010C	10/20/2010	02/01/2026	2.00-3.13
Permanent Improvement Revolving Fund Bonds of 2011A	11/03/2011	02/01/2024	2.00-2.625
General Obligation Bonds of 2012A	03/27/2012	02/01/2024	2.00
General Obligation Refunding Bonds of 2012B	12/20/2012	02/01/2026	0.35-1.90
General Obligation Bonds of 2014A	07/08/2014	02/01/2025	2.00-3.00
Total special assessment bonds with government commitment			
Total bonds payable from governmental funds			
Bonds payable from enterprise funds			
General obligation revenue bonds			
G.O. Revenue Bonds of 2007B	12/27/2007	02/01/2024	4.00
G.O. Sewer Revenue Refunding Bonds of 2010B	09/21/2010	02/01/2020	2.05
G.O. Revenue Refunding Bonds of 2012A	03/27/2012	02/01/2024	2.00
G.O. Revenue Bonds of 2014A	07/08/2014	02/01/2030	2.00-3.00
Total bonds payable from enterprise funds			
Total bonds outstanding			

CITY OF ST. MICHAEL  
 Kwik Trip Signal TIF District Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual  
 Year Ended December 31, 2016  
 (With Comparative Actual Amounts for the Year Ended December 31, 2015)

	2016		2015	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Tax increments	\$ 30,000	\$ 25,957	\$ (4,043)	\$ 28,731
Investment earnings	150	871	721	549
Total revenue	30,150	26,828	(3,322)	29,280
Expenditures				
Current	1,000	3,908	2,908	1,504
Community development				
Net change in fund balances	\$ 29,150	22,920	\$ (6,230)	27,776
Fund balances				
Beginning of year		54,430		26,654
End of year		\$ 77,350		\$ 54,430



CITY OF ST. MICHAEL

Net Position by Component  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)

	2007	2008	2009	Fiscal Year 2010
Governmental activities				
Net investment in capital assets	\$ (3,387,786)	\$ (6,488,524)	\$ (4,585,507)	\$ (187,200)
Restricted	18,881,097	19,385,621	18,837,930	2,234,775
Unrestricted	1,724,669	2,293,273	2,703,978	14,546,626
Total governmental activities net position	\$ 17,217,980	\$ 15,190,370	\$ 16,956,401	\$ 16,594,201
Business-type activities				
Net investment in capital assets	\$ 18,657,832	\$ 19,240,793	\$ 19,882,174	\$ 20,098,242
Unrestricted	3,113,936	1,798,862	1,561,218	1,039,141
Total business-type activities net position	\$ 21,771,768	\$ 21,039,655	\$ 21,443,392	\$ 21,137,383
Primary government				
Net investment in capital assets	\$ 15,270,046	\$ 12,752,269	\$ 15,296,667	\$ 19,911,042
Restricted	18,881,097	19,385,621	18,837,930	2,234,775
Unrestricted	4,838,605	4,092,135	4,265,196	15,585,767
Total primary government net position	\$ 38,989,748	\$ 36,230,025	\$ 38,399,793	\$ 37,731,584

Note 1: The City implemented GASB Statement No. 65 in fiscal 2012. Net position for 2011 was restated for the effects of implementing this standard. Net position for previous years has not been restated.

Note 2: Beginning in 2013, the EDA is reported as a discretely presented component unit. Prior to 2013, the EDA was reported as a blended component unit.

Note 3: The City implemented GASB Statement No. 68 in fiscal 2015, recording a change in accounting principle that decreased governmental activities net position. Prior year balances were not restated.

Issued Previously	Issued 2016	Retired Previously	Retired 2016	Outstanding
\$ 1,985,000	\$ -	\$ -	\$ -	\$ 1,985,000
4,135,000	-	1,495,373	2,639,627	-
4,700,000	-	3,610,000	355,000	735,000
560,000	-	415,000	145,000	-
7,930,000	-	2,355,000	940,000	4,635,000
2,715,000	-	-	-	2,715,000
4,229,811	-	335,000	290,000	3,604,811
3,440,000	-	675,000	345,000	2,420,000
620,000	-	-	20,000	600,000
28,329,811	-	8,885,373	4,734,627	14,709,811
30,314,811	-	8,885,373	4,734,627	16,694,811
870,000	-	314,627	555,373	-
3,710,000	-	1,770,000	375,000	1,565,000
490,189	-	-	-	490,189
3,340,000	-	-	50,000	3,290,000
8,410,189	-	2,084,627	980,373	5,345,189
\$ 38,725,000	\$ -	\$ 10,970,000	\$ 5,715,000	\$ 22,040,000

CITY OF ST. MICHAEL

Changes in Net Position  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year			
	2007	2008	2009	2010
<b>Expenses</b>				
Governmental activities				
General government	\$ 1,425,490	\$ 1,467,994	\$ 1,043,742	\$ 1,425,536
Public safety	2,002,392	1,963,832	1,582,908	1,460,711
Public works	5,091,644	9,610,047	7,269,399	2,835,483
Culture and recreation	418,818	672,310	771,451	810,030
Community development	104,414	135,676	100,548	378,583
Interest on long-term debt	1,319,687	1,475,429	1,422,109	1,534,584
Total governmental activities expenses	10,362,445	15,325,288	12,190,157	8,444,927
Business-type activities				
Water	454,174	557,437	607,858	530,486
Sewer	1,838,235	1,948,569	1,992,868	1,318,971
Storm water utility	91,862	86,176	104,088	100,798
Recycling	-	-	-	-
Total business-type activities expenses	2,384,271	2,592,182	2,704,814	1,950,255
Total primary government expenses	\$12,746,716	\$17,917,470	\$14,894,971	\$10,395,182
<b>Program revenues</b>				
Governmental activities				
Charges for services	\$ 81,127	\$ 79,706	\$ 192,236	\$ 93,653
General government	749,288	485,081	273,537	249,098
Public safety	303,460	248,632	332,910	172,469
Public works	57,016	16,445	33,751	150,259
Culture and recreation	231,976	222,497	198,517	178,080
Community development	293,268	296,142	359,135	375,070
Operating grants and contributions	3,581,132	5,313,406	8,462,366	612,735
Capital grants and contributions	5,297,267	6,661,909	9,852,432	1,831,364
Total governmental activities program revenues	538,586	572,997	478,869	439,974
Business-type activities				
Charges for services	1,562,490	1,433,738	1,161,443	1,408,016
Water	134,495	147,404	137,181	134,584
Sewer	-	-	-	-
Storm water utility	-	-	-	-
Recycling	-	-	-	-
Operating grants and contributions	-	-	-	-
Capital grants and contributions	-	-	-	-
Total business-type activities program revenues	2,235,571	2,154,139	1,777,493	1,982,574
Total primary government program revenues	\$ 7,532,838	\$ 8,816,048	\$11,625,945	\$ 3,813,938

	2011	2012	2013	2014	2015	2016
\$ 1,418,526	\$ 2,624,898	\$ 4,922,649	\$ 7,049,002	\$ 8,816,212	\$ 10,497,524	
2,165,055	3,425,923	36,417	103,153	513,962	913,486	
13,595,875	12,319,712	15,579,083	14,518,448	12,904,242	12,140,785	
\$ 17,179,456	\$ 18,370,533	\$ 20,538,149	\$ 21,670,603	\$ 22,234,416	\$ 23,551,795	
\$ 20,326,076	\$ 20,156,842	\$ 20,015,909	\$ 19,629,997	\$ 19,527,227	\$ 20,247,864	
1,164,480	1,532,955	2,112,509	2,605,895	3,402,223	4,396,208	
\$ 21,490,556	\$ 21,689,797	\$ 22,128,418	\$ 22,235,892	\$ 22,929,450	\$ 24,644,072	
\$ 21,744,602	\$ 22,781,740	\$ 24,938,558	\$ 26,678,999	\$ 28,343,439	\$ 30,745,388	
2,165,055	3,425,923	36,417	103,153	513,962	913,486	
14,760,355	13,852,667	17,691,592	17,124,343	16,306,465	16,536,993	
\$ 38,670,012	\$ 40,060,330	\$ 42,666,567	\$ 43,906,495	\$ 45,163,866	\$ 48,195,867	

CITY OF ST. MICHAEL

Changes in Net Position (continued)  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)

	2007	2008	2009	Fiscal Year 2010
Net (expense) revenue				
Governmental activities	\$ (5,065,178)	\$ (8,663,379)	\$ (2,337,705)	\$ (6,613,563)
Business-type activities	(148,700)	(438,043)	(927,321)	32,319
Total primary government net expense	\$ (5,213,878)	\$ (9,101,422)	\$ (3,265,026)	\$ (6,581,244)
General revenues and other changes in net position				
Governmental activities				
Taxes	\$ 4,585,939	\$ 5,096,316	\$ 5,278,225	\$ 5,149,484
Property taxes and tax increments	235,222	225,468	335,744	309,184
Franchise taxes	215,980	104,674	38,529	6,742
Unrestricted grants and contributions	759,717	581,199	436,644	413,641
Investment earnings	240,328	230,831	—	—
Miscellaneous	858,811	397,281	(1,276,393)	372,312
Transfers	6,895,997	6,635,769	4,812,749	6,251,363
Total governmental activities	—	—	—	—
Business-type activities				
Unrestricted grants and contributions	192,915	103,211	54,665	33,984
Investment earnings	(858,811)	(397,281)	1,276,393	(372,312)
Transfers	(665,896)	(294,070)	1,331,058	(338,328)
Total business-type activities	\$ 6,230,101	\$ 6,341,699	\$ 6,143,807	\$ 5,913,035
Total primary government	\$ 1,830,819	\$ (2,027,610)	\$ 2,475,044	\$ (362,200)
Governmental activities	(814,596)	(732,113)	403,737	(306,009)
Business-type activities	\$ 1,016,223	\$ (2,759,723)	\$ 2,878,781	\$ (668,209)

Note 1: The City implemented GASB Statement No. 65 in fiscal 2012. Changes in net position for 2011 were restated for the effect of implementing this standard. Changes in net position for previous years have not been restated.

Note 2: Beginning in 2013, the EDA is reported as a discretely presented component unit. Prior to 2013, the EDA was reported as a blended component unit.

	2011	2012	2013	2014	2015	2016
\$ 1,111,952	\$ 1,210,207	\$ 1,184,606	\$ 1,430,613	\$ 1,433,104	\$ 1,977,116	
1,458,328	1,575,253	1,518,469	1,575,381	1,529,703	1,577,009	
2,975,390	3,027,515	3,046,199	2,964,090	3,449,919	3,088,960	
810,300	811,802	849,287	908,887	904,502	980,697	
170,893	518,607	—	—	—	—	
1,420,800	1,210,646	781,829	611,622	560,593	449,281	
7,947,663	8,354,030	7,380,390	7,490,593	7,877,821	8,073,063	
502,241	495,782	523,703	592,952	588,129	652,319	
1,329,294	1,365,880	1,357,256	1,520,293	1,476,503	1,632,103	
119,525	164,343	134,371	150,555	165,079	214,658	
—	176,517	181,781	186,782	196,080	214,813	
1,951,060	2,202,522	2,197,111	2,450,582	2,425,791	2,713,893	
\$ 9,898,723	\$10,556,552	\$ 9,577,501	\$ 9,941,175	\$10,303,612	\$10,786,956	
\$ 107,390	\$ 137,619	\$ 316,799	\$ 494,680	\$ 369,142	\$ 216,010	
227,795	286,703	436,866	454,956	436,683	624,370	
51,332	100,678	69,735	114,169	434,123	317,417	
55,554	86,439	78,745	135,536	130,411	439,482	
204,726	194,837	—	—	—	—	
393,288	377,896	396,685	423,400	447,986	455,389	
2,752,362	2,060,928	599,430	669,612	1,200,294	611,772	
3,792,447	3,245,100	1,898,260	2,292,353	3,038,639	2,664,440	
522,268	644,503	596,370	526,906	538,698	684,058	
1,403,156	1,515,766	1,906,605	1,985,971	1,914,336	2,534,303	
108,499	146,141	134,186	141,998	218,336	253,590	
—	166,394	157,755	167,172	170,123	171,518	
—	23,828	27,099	—	26,308	26,081	
—	—	—	—	409,900	948,423	
2,033,923	2,496,632	2,822,012	2,849,146	3,277,701	4,617,973	
\$ 5,826,370	\$ 5,741,732	\$ 4,720,272	\$ 5,141,499	\$ 6,316,340	\$ 7,282,413	

(continued)

CITY OF ST. MICHAEL

Governmental Activities Tax Revenues by Source  
Last Ten Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year		Property Taxes		Franchise Taxes		Total			
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	4,585,939	5,096,316	5,278,225	5,149,484	5,053,419	5,461,271	5,134,107	5,163,237	5,366,646	5,596,962
	235,222	225,468	335,744	309,184	370,477	402,553	420,770	432,022	427,299	427,299
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	4,821,161	5,321,784	5,613,969	5,458,668	5,423,896	5,863,824	5,552,336	5,584,007	5,798,668	6,024,261

	2011	2012	2013	2014	2015	2016
	\$ (4,155,216)	\$ (5,108,930)	\$ (5,482,130)	\$ (5,198,240)	\$ (4,839,182)	\$ (5,408,623)
	82,863	294,110	624,901	398,564	851,910	1,904,080
	\$ (4,072,353)	\$ (4,814,820)	\$ (4,857,229)	\$ (4,799,676)	\$ (3,987,272)	\$ (3,504,543)
	\$ 5,053,419	\$ 5,461,271	\$ 5,134,107	\$ 5,163,237	\$ 5,366,646	\$ 5,596,962
	370,477	402,553	418,229	420,770	432,022	427,299
	4,630	9,437	9,854	246,477	275,721	280,542
	243,094	300,928	53,461	146,112	146,719	148,906
		9,596		12,201		31,599
	(341,316)	116,222	188,353	341,897	215,155	240,694
	5,330,304	6,300,007	5,804,004	6,330,694	6,436,263	6,726,002
		7,724				
	15,169	13,629	2,073	50,807	56,803	51,236
	341,316	(116,222)	(188,353)	(341,897)	(215,155)	(240,694)
	356,485	(94,869)	(186,280)	(291,090)	(158,352)	(189,458)
	\$ 5,686,789	\$ 6,205,138	\$ 5,617,724	\$ 6,039,604	\$ 6,277,911	\$ 6,536,544
	\$ 1,175,088	\$ 1,191,077	\$ 321,874	\$ 1,132,454	\$ 1,597,081	\$ 1,317,379
	439,348	199,241	438,621	107,474	693,558	1,714,622
	\$ 1,614,436	\$ 1,390,318	\$ 760,495	\$ 1,239,928	\$ 2,290,639	\$ 3,032,001

CITY OF ST. MICHAEL  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

	2007	2008	2009	Fiscal Year	
				2010	
General Fund					
Reserved	\$ 87,798	\$ 69,317	\$ 70,618	\$ 53,108	
Unreserved	2,409,718	2,534,846	2,559,353	2,588,295	
Nonspendable	-	-	-	-	
Unassigned	-	-	-	-	
Total General Fund	\$ 2,497,516	\$ 2,604,163	\$ 2,629,971	\$ 2,641,403	
All other governmental funds					
Reserved	\$ 1,739,198	\$ 2,040,133	\$ 6,416,192	\$ 11,707,046	
Unreserved, reported in	(305,995)	(407,509)	(366,525)	(17,122)	
Special revenue funds	(3,374)	(3,684)	-	-	
Debt service funds	14,169,325	14,392,630	16,171,151	8,297,840	
Capital project funds	-	-	-	-	
Restricted	-	-	-	-	
Assigned	-	-	-	-	
Unassigned, reported in	-	-	-	-	
Special revenue funds	(3,027,019)	(2,556,678)	-	-	
Total all other governmental funds	\$ 15,599,154	\$ 16,021,570	\$ 22,220,818	\$ 19,987,764	

Note 1: The City implemented GASB Statement No. 54 in 2011, which changed the classifications of fund balances. Prior year information has not been restated.

Note 2: Beginning in 2013, the EDA is reported as a discretely presented component unit. Prior to 2013, the EDA was reported as a blended component unit.

	2011	2012	2013	2014	2015	2016
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -
63,753	65,451	75,955	63,896	59,932	84,154	
2,618,085	2,788,097	2,896,313	3,375,037	3,602,503	3,706,733	
\$ 2,681,838	\$ 2,853,548	\$ 2,972,268	\$ 3,438,933	\$ 3,662,435	\$ 3,790,887	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
13,599,057	13,857,719	3,700,429	2,562,794	2,544,475	572,172	
8,618,289	8,070,562	7,393,088	6,830,476	7,047,154	7,270,949	
(3,027,019)	(2,556,678)	-	-	-	-	
\$ 19,190,327	\$ 19,371,603	\$ 11,093,517	\$ 9,393,270	\$ 9,591,629	\$ 7,843,121	

CITY OF ST. MICHAEL

Changes in Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2007	2008	2009	2010
<b>Revenues</b>				
Property taxes	\$ 4,527,331	\$ 5,062,790	\$ 5,258,099	\$ 5,062,027
Licenses and permits	774,836	515,844	302,699	277,454
Intergovernmental	3,297,366	3,748,225	7,328,732	927,930
Charges for services	568,416	445,760	709,768	321,358
Investment earnings	759,717	581,199	436,644	413,641
Special assessments	1,225,819	1,592,118	1,936,051	949,381
Other	740,150	727,674	4,236,671	550,748
<b>Total revenues</b>	<b>11,893,635</b>	<b>12,673,610</b>	<b>20,208,664</b>	<b>8,502,539</b>
<b>Expenditures</b>				
General government	1,020,098	984,106	1,100,285	1,251,993
Public safety	1,906,543	1,885,605	1,404,786	1,383,610
Public works	2,085,755	1,939,202	2,180,403	1,926,895
Culture and recreation	502,892	506,113	587,721	632,352
Community development	100,402	132,675	94,194	373,637
Capital outlay - not capitalized	2,791,048	7,678,731	5,864,868	114,551
Construction/acquisition of capital assets	1,203,915	1,132,139	3,828,618	6,362,392
Debt service				
Principal	2,155,991	2,686,993	6,707,922	3,364,897
Interest and fiscal charges	1,444,505	1,382,239	1,528,851	1,477,507
<b>Total expenditures</b>	<b>13,211,149</b>	<b>18,327,803</b>	<b>23,297,648</b>	<b>16,887,834</b>
Excess of revenues over (under) expenditures	(1,317,514)	(5,654,193)	(3,088,984)	(8,385,295)
<b>Other financing sources (uses)</b>				
Transfers in	10,336,567	5,437,186	4,833,535	5,279,924
Transfers out	(8,873,349)	(4,330,186)	(4,458,535)	(4,904,924)
Refunding bonds issued			5,655,000	8,490,000
Bonds issued	4,870,000	4,865,000	4,082,000	
Premium on bonds issued	22,440	59,679	146,637	117,257
Discount on bonds issued	(1,700)			
Paid to refunded bonds escrow agent			(945,000)	(2,845,000)
Sales of capital assets	26,801	151,580	400	26,416
<b>Total other financing sources (uses)</b>	<b>6,380,759</b>	<b>6,183,259</b>	<b>9,314,037</b>	<b>6,163,673</b>
<b>Net change in fund balances</b>	<b>\$ 5,063,245</b>	<b>\$ 529,066</b>	<b>\$ 6,225,033</b>	<b>\$ (2,221,622)</b>
Debt service as a percentage of noncapital expenditures	30.0 %	23.7 %	42.3 %	46.0 %

	2011	2012	2013	2014	2015	2016
<b>Revenues</b>						
Property taxes	\$ 5,190,976	\$ 5,484,442	\$ 5,131,754	\$ 5,245,911	\$ 5,396,719	\$ 5,591,372
Licenses and permits	250,295	246,293	364,314	384,566	389,873	563,934
Intergovernmental	2,862,716	1,866,454	821,603	1,023,513	1,968,282	1,161,089
Charges for services	135,125	534,532	241,065	373,156	525,823	926,314
Investment earnings	243,094	300,928	53,461	146,112	146,719	148,906
Special assessments	697,369	536,208	631,265	786,563	614,825	509,039
Other	830,173	966,282	878,982	895,882	930,428	538,692
<b>Total revenues</b>	<b>10,209,748</b>	<b>9,935,139</b>	<b>8,122,444</b>	<b>8,855,703</b>	<b>9,972,669</b>	<b>9,438,346</b>
<b>Expenditures</b>						
General government	1,150,405	1,296,901	1,040,638	1,171,395	1,172,673	1,166,325
Public safety	1,448,865	1,460,132	1,451,246	1,521,189	1,566,369	1,489,467
Public works	2,084,966	1,971,871	2,109,892	1,941,514	2,076,605	2,034,778
Culture and recreation	634,881	662,613	662,495	664,406	682,550	747,497
Community development	168,467	536,302				
Capital outlay - not capitalized	192,346	51,964	32,881	93,273	423,508	28,427
Construction/acquisition of capital assets	775,139	1,242,603	582,110	701,682	793,333	603,058
Debt service						
Principal	3,510,805	2,577,852	3,065,113	3,062,637	2,418,292	2,404,815
Interest and fiscal charges	1,427,491	1,342,509	996,826	726,781	632,633	528,488
<b>Total expenditures</b>	<b>11,393,365</b>	<b>11,142,747</b>	<b>9,941,201</b>	<b>9,882,877</b>	<b>9,765,963</b>	<b>9,002,855</b>
Excess of revenues over (under) expenditures	(1,183,617)	(1,207,608)	(1,818,757)	(1,027,174)	206,706	436,491
<b>Other financing sources (uses)</b>						
Transfers in	4,828,804	4,812,755	5,496,150	4,212,387	3,598,521	4,119,487
Transfers out	(4,698,804)	(4,696,535)	(5,275,501)	(3,870,490)	(3,583,366)	(3,878,793)
Refunding bonds issued	2,715,000	7,079,811				
Bonds issued		590,000		620,000		
Premium on bonds issued	36,250	189,965		24,494		
Discount on bonds issued						
Paid to refunded bonds escrow agent	(2,380,000)	(6,425,000)	(7,207,000)	(1,205,000)		(2,329,812)
Sales of capital assets		9,596		12,201		32,571
<b>Total other financing sources (uses)</b>	<b>501,250</b>	<b>1,560,592</b>	<b>(6,986,351)</b>	<b>(206,608)</b>	<b>215,155</b>	<b>(2,056,547)</b>
<b>Net change in fund balances</b>	<b>\$ (682,367)</b>	<b>\$ 352,984</b>	<b>\$ (8,805,108)</b>	<b>\$ (1,233,582)</b>	<b>\$ 421,861</b>	<b>\$ (1,620,056)</b>
Debt service as a percentage of noncapital expenditures	46.5 %	39.6 %	43.4 %	41.3 %	34.0 %	34.9 %

CITY OF ST. MICHAEL

General Governmental Tax Revenues by Source  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

Fiscal Year	Property Tax	Franchise Tax	Total
2007	\$ 4,527,331	\$ 235,222	\$ 4,762,553
2008	5,062,790	225,468	5,288,258
2009	5,258,099	335,744	5,593,843
2010	5,062,027	309,184	5,371,211
2011	5,190,976	370,476	5,561,452
2012	5,484,442	402,553	5,886,995
2013	5,131,754	418,229	5,549,983
2014	5,245,911	420,770	5,666,681
2015	5,396,719	432,022	5,828,741
2016	5,591,372	427,299	6,018,671

CITY OF ST. MICHAEL

Assessed Value (Tax Capacity) and Estimated Actual Value of Taxable Property  
Last Ten Fiscal Years

Levy Collectible in Fiscal Year	Assessed Value (Tax Capacity)			Less Tax Increment
	Agricultural Property	Real Property Non-Agricultural Property	Personal Property	
2007	\$ 532,914	\$ 14,533,754	\$ 168,703	\$ 297,973
2008	605,719	15,824,018	163,070	485,179
2009	572,046	16,308,036	158,090	496,390
2010	603,307	15,113,395	157,736	485,312
2011	557,264	13,779,423	176,660	399,105
2012	528,652	12,299,932	181,275	339,624
2013	562,725	11,195,168	207,844	351,880
2014	564,959	11,952,755	206,912	305,947
2015	634,502	13,388,172	214,032	258,325
2016	636,986	14,017,136	226,518	150,956

Source: Wright County

CITY OF ST. MICHAEL

Property Tax Rates (2)  
Direct and Overlapping (1) Governments  
Last Ten Fiscal Years

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value	City of St. Michael			Overlapping Rates	
				General Operating	Debt Service	Total City	St. Michael/EDA	Wright County
Fiscal Year			%					
\$ 14,937,398	29.051	\$ 1,437,367,000	1.04	27,425	1,626	29,051	1.073	34,414
16,107,628	28.682	1,547,935,200	1.04	27,196	1,486	28,682	0.919	32,567
16,541,782	28.533	1,580,926,100	1.05	26,481	2,052	28,533	0.803	30,714
15,389,126	30.581	1,463,571,000	1.05	28,376	2,205	30,581	1.055	31,648
14,114,242	34.421	1,333,583,400	1.06	31,013	3,408	34,421	1.027	32,655
12,670,435	39.110	1,191,833,700	1.06	34,210	4,900	39,110	0.710	43,452
11,613,857	43.968	1,093,066,300	1.06	38,176	5,792	43,968	0.775	44,275
12,418,679	41.843	1,169,937,000	1.06	37,414	4,429	41,843	0.725	43,450
13,978,381	38.657	1,327,770,800	1.05	34,365	4,292	38,657	0.644	40,620
14,729,684	37.772	1,390,177,700	1.06	33,359	4,413	37,772	0.611	39,970

(1) Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district).

(2) Tax capacity rate per \$1,000 of assessed value.

Source: Wright County



CITY OF ST. MICHAEL

Principal Property Taxpayers  
Current Year and Nine Years Ago

Taxpayer	2016			2007		
	Estimated Taxable Value	Rank	Percentage of Total Estimated Taxable Value	Estimated Taxable Value	Rank	Percentage of Total Estimated Taxable Value
Legacy Partners of St. Michael	\$ 7,056,200	1	0.51 %	\$ -	-	-
Minegasco Inc	5,724,000	2	0.41	4,328,600	5	0.30
Mahron's St. Michael Marketplace, Inc.	5,625,000	3	0.40	-	-	-
J & B Cold Storage LLC	5,193,700	4	0.37	4,371,600	4	0.30
Xcel Energy	5,161,300	5	0.37	4,048,700	6	0.28
TC/American Monorail Inc.	5,081,300	6	0.37	4,758,900	2	0.33
LSREF2 Cobalt (MN) LLC	4,917,100	7	0.35	-	-	-
Individual - industrial	4,067,100	8	0.29	2,802,000	10	0.19
J & B R E Inc.	3,762,200	9	0.27	4,508,900	3	0.31
First American Bank	2,880,100	10	0.21	3,453,200	8	0.24
St. Michael Haller LLC	-	-	-	8,536,400	1	0.59
OM Investments LLC	-	-	-	3,807,600	7	0.26
Mpls Electrical Jr A&T Tr Fund	-	-	-	3,003,100	9	0.21
Total	\$ 49,468,000		3.56 %	\$ 43,619,000		3.03 %

Source: Wright County

St. Michael - Albertville	Total Direct and Overlapping Rates			
	School District	Including St. Michael - Albertville School District	Including Buffalo - Hanover - Montrose Schools	Including Elk River Area School District
32,964	33,232	97,502	97,770	97,386
42,874	27,768	105,042	89,936	98,118
45,259	31,663	105,309	91,713	93,258
46,192	28,308	109,476	91,592	95,628
46,687	26,383	114,790	94,486	104,191
52,646	35,165	135,918	118,437	128,820
57,152	36,919	146,170	125,937	140,308
51,570	33,882	137,588	119,900	137,304
50,849	31,248	130,770	111,169	130,794
49,102	34,489	127,455	112,842	117,619

CITY OF ST. MICHAEL

Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year		Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years		Total Collections to Date	
	Amount	Percentage of Levy	Amount	Percentage of Levy	Amount	Percentage of Levy	Amount	Percentage of Levy
2007	\$ 4,459,500	97.15 %	\$ 4,332,530	97.15 %	\$ 125,813	99.97 %	\$ 4,458,343	99.97 %
2008	4,790,000	96.91	4,642,190	96.91	146,627	99.98	4,788,817	99.98
2009	4,890,000	97.49	4,767,081	97.49	122,706	100.00	4,889,787	100.00
2010	4,841,100	97.06	4,698,538	97.06	142,562	100.00	4,841,100	100.00
2011	4,923,194	98.17	4,832,869	98.17	90,204	100.00	4,923,073	100.00
2012	5,045,319	98.05	4,946,693	98.05	98,534	100.00	5,045,227	100.00
2013	5,196,344	98.33	5,109,377	98.33	86,342	99.99	5,195,719	99.99
2014	5,286,344	99.17	5,242,238	99.17	43,010	99.98	5,285,248	99.98
2015	5,493,694	99.24	5,451,984	99.24	36,311	99.90	5,488,295	99.90
2016	5,653,694	99.20	5,608,577	99.20	-	99.20	5,608,577	99.20

Note: Collections include tax credits paid through state aid, abatements, and adjustments.

CITY OF ST. MICHAEL

Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-Type Activities			
	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Tax Increment Revenue Note	Capital Leases	Revenue Bonds	Capital Leases	
2007	\$ 130,000	\$ 29,745,000	\$ 5,425,000	\$ 394,854	\$ 39,284	\$ 7,344,000	\$ 79,324	
2008	-	32,480,000	5,135,000	297,145	-	6,386,000	-	
2009	1,985,000	35,800,000	2,097,000	114,223	-	5,357,000	-	
2010	1,985,000	38,194,326	2,097,000	-	-	4,535,674	-	
2011	1,985,000	35,084,521	2,031,000	-	-	4,155,479	-	
2012	1,989,013	34,270,505	1,926,000	-	-	4,285,136	-	
2013	1,988,830	25,896,141	-	-	-	3,861,911	-	
2014	1,988,648	22,190,877	-	-	-	6,862,566	-	
2015	1,988,465	19,723,459	-	-	-	6,420,905	-	
2016	1,988,283	14,951,035	-	-	-	5,430,576	-	

N/A - Not Available

(1) See the Schedule of Demographic and Economic Statistics for population data.

Note: Outstanding debt includes unamortized premiums and discounts beginning in 2012.

CITY OF ST. MICHAEL

Ratios of General Bonded Debt Outstanding  
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less Amounts Available in Debt Service Fund	Total	Percentage of	
				Estimated Actual Taxable Value of Property (1)	Per Capita (2)
2007	\$ 130,000	\$ -	\$ 130,000	0.01	\$ 9
2008	-	-	-	-	-
2009	1,985,000	-	1,985,000	0.13	130
2010	1,985,000	-	1,985,000	0.14	121
2011	1,985,000	-	1,985,000	0.15	120
2012	1,989,013	-	1,989,013	0.17	119
2013	1,988,830	-	1,988,830	0.18	118
2014	1,988,648	-	1,988,648	0.17	117
2015	1,988,465	-	1,988,465	0.15	116
2016	1,988,283	-	1,988,283	0.14	N/A

N/A - Not Available

(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics.

Note: Details regarding the City's outstanding debt can be found in the notes to basic financial statements.

Total	Percentage of Personal Income (1)	Per Capita (1)
\$43,157,462	8.02 %	\$ 2,900
44,298,145	7.81	2,932
45,353,223	8.31	2,969
46,812,000	7.88	2,855
43,256,000	6.79	2,616
42,470,654	6.35	2,547
31,746,882	4.62	1,890
31,042,091	4.31	1,828
28,132,829	3.73	1,647
22,369,894	N/A	N/A

CITY OF ST. MICHAEL

Direct and Overlapping Governmental Activities Debt  
as of December 31, 2016

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping debt			
Wright County	\$ 59,935,000	10.64 %	\$ 6,377,084
ISD No. 885, St. Michael – Albertville (2)	159,675,000	68.58	109,505,115
ISD No. 728, Elk River	229,915,000	1.71	3,931,547
ISD No. 877, Buffalo	78,265,000	1.70	1,330,505
Total overlapping debt			121,144,251
City of St. Michael direct debt (3)	16,939,318	100.00	16,939,318
Total direct and overlapping debt			\$ 138,083,569

- (1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.
- (2) Currently, the state of Minnesota is paying approximately 43.2 percent of the principal and interest on the St. Michael – Albertville School District's general obligation bonds. Assuming this percentage continues for the life of the bonds, the state's proportionate share of principal is \$68,979,600.
- (3) Includes only governmental bonded debt.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore, responsible for repaying the debt of each overlapping government.

CITY OF ST. MICHAEL

Legal Debt Margin Information  
Last Ten Fiscal Years

	2007	2008	2009	Fiscal Year 2010
Debt limit	\$ 28,747,340	\$ 46,438,056	\$ 47,427,783	\$ 43,907,130
Total net debt applicable to limit	1,295,000	1,065,000	4,082,000	4,082,000
Legal debt margin	\$ 27,452,340	\$ 45,373,056	\$ 43,345,783	\$ 39,825,130
Total net debt applicable to the limit as a percentage of debt limit	4.50 %	2.29 %	8.61 %	9.30 %

Note: Under state finance law, the City's outstanding general obligation debt should not exceed 3 percent (2 percent for years prior to 2008) of total market property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF ST. MICHAEL

Pledged Revenue Coverage  
Last Ten Fiscal Years

Fiscal Year	Charges for Services and Other	Less Operating Expenses	Net Available Revenue	Revenue Bonds	
				Principal	Interest
2007	\$ 1,640,199	\$ 731,146	\$ 909,053	\$ 932,000	\$ 238,792
2008	2,257,350	1,237,119	1,020,231	1,037,324	236,761
2009	1,832,150	1,381,718	450,432	994,000	159,900
2010	2,016,558	1,198,175	818,383	1,069,326	147,142
2011	2,049,092	1,241,020	808,072	380,195	54,397
2012	2,320,039	1,254,797	1,065,242	402,148	98,682
2013	2,639,234	1,242,966	1,396,268	408,887	87,879
2014	2,705,548	1,369,022	1,336,526	417,363	71,285
2015	2,727,961	1,367,779	1,360,182	431,708	169,687
2016	3,523,005	1,574,415	1,948,590	490,185	148,410

Note 1: Year 2007 – Revenue bonds were paid from the Sewer Enterprise Fund.  
Years 2008–2016 – Revenue bonds were paid from the Water, Sewer, and Storm Water Enterprise Funds.

Note 2: Debt service excludes amounts paid from refunding escrows.

Note 3: Details regarding the City's outstanding debt can be found in the notes to basic financial statements. Charges for services include investment earnings, but not tap fees. Operating expenses do not include interest or depreciation.

2011	2012	2013	2014	2015	2016
\$ 40,007,502	\$ 35,755,011	\$ 32,791,989	\$ 35,098,110	\$ 39,833,124	\$ 41,705,331
4,016,000	3,911,000	1,985,000	1,985,000	1,985,000	1,985,000
\$ 35,991,502	\$ 31,844,011	\$ 30,806,989	\$ 33,113,110	\$ 37,848,124	\$ 39,720,331
10.04 %	10.94 %	6.05 %	5.66 %	4.98 %	4.76 %
Legal Debt Margin Calculation for Fiscal Year 2016					
Market value					
\$ 1,390,177,700					
Debt limit (3% of market value)					
41,705,331					
Debt applicable to limit					
1,985,000					
Legal debt margin					
\$ 39,720,331					

CITY OF ST. MICHAEL

Demographic and Economic Statistics  
Last Ten Fiscal Years

Fiscal Year	Population (1)	Total Personal Income (2)	Per Capita Personal Income (2)	Median Age (3)	School Enrollment (4)	Unemployment Rate (5)
2007	14,883	\$538,199,046	\$ 36,162	N/A	4,410	5.1
2008	15,110	567,380,500	37,550	N/A	4,624	6.1
2009	15,277	545,618,055	35,715	N/A	4,791	8.9
2010	16,399	593,840,588	36,212	33.1	5,046	8.0
2011	16,536	636,917,112	38,517	33.4	5,223	6.8
2012	16,673	669,037,471	40,127	34.1	5,446	5.8
2013	16,801	687,446,517	40,917	35.4	5,257	5.0
2014	16,983	720,877,401	42,447	36.1	5,667	4.2
2015	17,081	753,323,343	44,103	35.8	5,699	3.7
2016	N/A	N/A	N/A	N/A	6,083	3.8

N/A – Not Available

Sources:

- (1) Minnesota State Demographer, except for 2010 U.S. Census Bureau.
- (2) U.S. Bureau of Economic Analysis, figures available for Wright County only. Total personal income is income per capita times population.
- (3) U.S. Census Bureau.
- (4) Independent School District No. 885, St. Michael – Albertville figures only.
- (5) Minnesota Department of Employment and Economic Development for Wright County.

Coverage	Special Assessment Collections	Special Assessment Bonds		
		Principal	Debt Service Interest	Coverage
0.78	\$ 1,215,333	\$ 1,595,000	\$ 1,034,386	0.46
0.80	1,577,750	2,130,000	1,023,082	0.50
0.39	1,914,333	2,335,000	1,241,598	0.54
0.67	934,083	3,295,000	1,193,496	0.21
1.86	685,901	3,490,000	1,163,036	0.15
2.13	529,836	2,525,000	984,182	0.15
2.81	629,331	3,011,113	812,084	0.16
2.74	782,999	3,062,637	579,095	0.22
2.26	612,258	2,418,292	509,082	0.21
3.05	503,353	2,404,815	405,386	0.18

CITY OF ST. MICHAEL

Principal Employers  
Current Year and Nine Years Ago

Employer	2016			2007		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees (1)	Rank	Percentage of Total City Employment (2)
ISD No. 885, St. Michael - Albertville (3)	516	1	14.80 %	426	1	10.91 %
J & B Group	432	2	12.39	392	2	10.04
Rachel Contracting (4)	125	3	3.58	-	-	-
U.S. Water Services	106	4	3.04	-	-	-
Marksman Metals Company, Inc.	98	5	2.81	70	9	1.79
The Legacy of St. Michael	94	6	2.70	-	-	-
The Marketplace	90	7	2.58	100	4	2.56
B & D Plumbing & Heating	81	8	2.32	-	-	-
PCI Roads (5)	75	9	2.15	-	-	-
Nodland Construction	49	10	1.41	80	7	2.05
Progressive Contractors, Inc.	-	-	-	350	3	8.96
Jet Edge/TC American Monorail	-	-	-	82	5	2.10
Fox Hollow Golf Club	-	-	-	80	6	2.05
Plymouth Plumbing & Heating	-	-	-	71	8	1.82
Builders Carpet Design Center	-	-	-	59	10	1.51
<b>Total</b>	<b>1,666</b>		<b>47.78 %</b>	<b>1,710</b>		<b>43.78 %</b>

(1) Employee figures from Reference USA, written and telephone survey.

(2) Total employment figures taken from Minnesota Department of Employment and Economic Development.

(3) Includes number of ISD No. 885 employees working in the City only.

(4) Employs approximately 75 seasonal employees.

(5) Employs approximately 325 seasonal employees.

Source: St. Michael Finance Department

CITY OF ST. MICHAEL

Full-Time Equivalent City Government Employees by Function  
Last Ten Fiscal Years

Function	2007		2008		2009		Fiscal Year 2010	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
General government								
Administration	4.50		3.50		3.50		3.25	
Finance	1.75		1.75		2.00		2.00	
Planning/economic development	2.00		2.00		2.00		2.00	
Public safety								
Fire	1.25		1.25		0.50		0.50	
Inspections	6.00		5.00		5.00		5.00	
Public works								
Engineering	3.00		3.00		3.00		3.00	
Maintenance	7.00		7.00		7.00		7.00	
Culture and recreation	3.00		3.00		3.00		3.00	
<b>Total</b>	<b>28.50</b>		<b>26.50</b>		<b>26.00</b>		<b>25.75</b>	

Note 1: The City contracts with Wright County for police services.

Note 2: The City contracts with a private company (Veolia North America) to administer the wastewater treatment facility.

Source: Various city departments

CITY OF ST. MICHAEL

Operating Indicators by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2007	2008	2009	2010
Fire										
Number of calls answered	2.50	2.25	2.75	2.75	3.00	3.00	317	312	266	292
Inspections	1.50	1.50	1.00	1.00	1.00	1.00	6,690	8,059	5,898	4,106
Number of inspections (1)	1.75	1.00	1.00	1.00	1.00	1.50	N/A	N/A	N/A	N/A
Inspections for other cities										
Water										
New connections	0.50	0.50	0.50	0.50	0.50	0.95	84	54	55	16
Water main breaks	5.00	5.00	4.00	4.00	4.00	3.50	4	6	2	1
Average daily consumption (thousands of gallons)							1,431	1,372	1,332	1,138
Wastewater										
Average daily sewage treatment (thousands of gallons)	3.00	3.00	3.00	3.00	3.00	4.00	841	846	872	891
	24.25	22.75	22.75	22.75	23.25	22.70				

N/A – Not applicable

(1) In 2012, the City started performing inspection services for the City of Albertville.

Source: Various city departments



CITY OF ST. MICHAEL

Capital Asset Statistics by Function  
Last Ten Fiscal Years

Function	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2008	2009	2010
Public safety	258	275	253	308	285	332	2	2	2	2
Fire stations										
Public works	5,116	2,538	2,896	3,044	3,084	3,084	105.9	106.3	106.7	106.7
Streets (miles)	N/A	545	550	570	869	869	7	8	10	10
Traffic signals										
Culture and recreation	32	42	55	33	36	126	156	156	156	156
Parks acreage	-	1	2	4	1	6	13	13	13	13
Parks							9	9	9	9
Ball fields							12	12	12	12
Soccer fields	1,145	1,382	1,239	1,110	1,060	1,066	17.3	17.3	17.3	17.3
Trails (miles)										
Water										
Water mains (miles)	992	932	918	976	930	1,000	94.1	94.5	96.6	96.6
Fire hydrants							927	927	927	927
Maximum daily capacity							6,500	6,500	6,500	6,500
(thousands of gallons)										
Sewer										
Sanitary sewers (miles)							81.4	81.7	82.0	82.0
Storm sewers (miles)							54.7	55.1	59.8	59.8
Maximum daily treatment capacity							2,500	2,500	2,500	2,500
(thousands of gallons)							11	11	11	11
Lift stations										

Note: No capital asset indicators are available for the general government functions.

Source: Various city departments

	2011	2012	2013	2014	2015	2016
2		2	2	2	2	2
106.8	106.8	106.8	106.8	107.2	107.2	107.2
11	11	11	11	11	11	11
156	156	156	156	156	156	156
13	13	13	13	13	13	13
9	9	9	9	9	9	9
12	12	12	12	12	12	12
17.3	17.3	17.3	17.3	17.3	19.9	20.2
96.8	96.8	96.8	97.2	97.2	98.4	99.1
931	931	931	936	936	949	973
6,500	6,500	6,500	6,500	6,500	6,500	6,500
82.3	82.3	82.3	82.7	82.7	83.7	84.2
60.1	60.1	60.1	60.4	60.4	60.4	61.0
2,500	2,500	2,500	2,500	2,500	2,500	2,500
11	11	11	11	11	11	12

**FORM OF LEGAL OPINION**

(See following page)



2200 IDS Center  
80 South 8th Street  
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## PROPOSED FORM OF LEGAL OPINION

\$2,800,000  
GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2018A  
CITY OF ST. MICHAEL  
WRIGHT COUNTY  
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of St. Michael, Wright County, Minnesota (the "Issuer"), of its \$2,800,000 General Obligation Capital Improvement Plan Bonds, Series 2018A, bearing a date of original issue of May 17, 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.

(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

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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.

Dated at Minneapolis, Minnesota, this 17<sup>th</sup> day of May, 2018.

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](http://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.

**APPENDIX D**

**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 St. Michael, Minnesota (the "Issuer"), in connection with the issuance of its \$2,800,000 General Obligation Capital Improvement Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on April 24, 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 5 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.

A. Beginning in connection with the Fiscal Year ending on December 31, 2017, the Issuer shall, or shall cause the Dissemination Agent to provide to the MSRB by filing at [www.emma.msrb.org](http://www.emma.msrb.org), together with such identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking by not later than December 31, 2018, and by December 31 of each year thereafter.

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

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

The following financial information and operating data shall be supplied:

A. An update of the operating and financial data of the type of information contained in the Official Statement under the captions: Current Property Valuations; Direct Debt; Tax Levies and Collections; US Census Data/Population Trend; and Employment/Unemployment Data.

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

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

- (1) Principal and interest payment delinquencies;

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

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](http://www.emma.msrb.org), together with such identifying information as prescribed by the MSRB.

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

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

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

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official

interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

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

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

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

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

Dated: \_\_\_\_\_, 2018.

CITY OF ST. MICHAEL, MINNESOTA

By \_\_\_\_\_  
Its Mayor

By \_\_\_\_\_  
Its \_\_\_\_\_

## APPENDIX E

### TERMS OF PROPOSAL

#### **\$2,800,000\* GENERAL OBLIGATION CAPITAL IMPROVEMENT PLAN BONDS, SERIES 2018A CITY OF ST. MICHAEL, MINNESOTA**

Proposals for the purchase of \$2,800,000\* General Obligation Capital Improvement Plan Bonds, Series 2018A (the "Bonds") of the City of St. Michael, 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 24, 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 by the City pursuant to Minnesota Statutes, Section 475.521 and Chapter 475, for the purpose of financing the construction of a new public works facility. The Bonds are 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 17, 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>
2020	\$105,000	2027	\$125,000	2034	\$160,000
2021	110,000	2028	130,000	2035	165,000
2022	110,000	2029	135,000	2036	170,000
2023	115,000	2030	135,000	2037	175,000
2024	115,000	2031	140,000	2038	180,000
2025	120,000	2032	145,000	2039	190,000
2026	125,000	2033	150,000		

#### **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 2020 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 U.S. Bank National Association, St. Paul, Minnesota, to act as paying agent (the "Paying Agent"). 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, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 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 17, 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 \$2,766,400 plus accrued interest on the principal sum of \$2,800,000 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](mailto: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, 2<sup>nd</sup> 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 \$56,000 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 (5<sup>th</sup>) 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 (5<sup>th</sup>) 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](http://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 St. Michael, Minnesota



# PROPOSAL FORM

The City Council  
City of St. Michael, Minnesota

April 24, 2018

**RE: \$2,800,000\* General Obligation Capital Improvement Plan Bonds, Series 2018A**  
**DATED: May 17, 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 \$2,766,400) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____	% due	2020	_____	% due	2027	_____	% due	2034
_____	% due	2021	_____	% due	2028	_____	% due	2035
_____	% due	2022	_____	% due	2029	_____	% due	2036
_____	% due	2023	_____	% due	2030	_____	% due	2037
_____	% due	2024	_____	% due	2031	_____	% due	2038
_____	% due	2025	_____	% due	2032	_____	% due	2039
_____	% due	2026	_____	% due	2033			

\* 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 2020 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 \$56,000, 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 17, 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 17, 2018 of the above proposal is \$ \_\_\_\_\_ and the true interest cost (TIC) is \_\_\_\_\_%.

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The foregoing offer is hereby accepted by and on behalf of the City Council of the City of St. Michael, Minnesota, on April 24, 2018.

By: \_\_\_\_\_ By: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_