

PRELIMINARY OFFICIAL STATEMENT DATED MAY 11, 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 EAGLE BEND, MINNESOTA (Todd County)

\$295,000* GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2018B

PROPOSAL OPENING: May 21, 2018, 10:30 A.M., C.T.

CONSIDERATION: May 21, 2018, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$295,000* General Obligation Improvement Bonds, Series 2018B (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, by the City of Eagle Bend, Minnesota (the "City") for the purpose of financing various public improvements within the City. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Briggs and Morgan, Professional Association, Minneapolis, Minnesota.

DATE OF BONDS: June 14, 2018

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2020	\$10,000	2027	\$15,000	2034	\$15,000
2021	10,000	2028	15,000	2035	15,000
2022	10,000	2029	15,000	2036	20,000
2023	10,000	2030	15,000	2037	20,000
2024	10,000	2031	15,000	2038	20,000
2025	15,000	2032	15,000	2039	20,000
2026	15,000	2033	15,000		

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: \$290,575

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$5,900 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Briggs and Morgan, Professional Association

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

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



REPRESENTATIONS

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

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

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

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

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

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

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

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

CLOSING CERTIFICATES

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

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CITY COUNCIL

		<u>Term Expires</u>
John Chandler	Mayor	January 2019
Jessica Olson	Council Member	January 2021
Virginia Heldt	Council Member	January 2019
John Rachuy	Council Member	January 2021
Scott Johnson	Council Member	January 2019

ADMINISTRATION

Kevin Hess, City Administrator-Clerk-Treasurer

Twila Pierce, Deputy City Clerk

PROFESSIONAL SERVICES

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

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Eagle Bend, Minnesota (the "City") and the issuance of its \$295,000* General Obligation Improvement Bonds, Series 2018B (the "Bonds"). 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 authorizing the sale of the Bonds ("Award Resolution") to be adopted by the City Council on May 21, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the link to the Bond Sales 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 June 14, 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 Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 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 pursuant to Minnesota Statutes, Chapters 429 and 475, by the City for the purpose of financing a portion of the City's Phase 2 and 3 - 2018 Street and Utility Improvements that does not have watermain, sanitary sewer, or storm sewer as part of the street reconstruction, particularly (i) First Avenue West - Main Street to North Street and (ii) North Street - 2nd Avenue East to Main Street.

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	<u>\$295,000</u>	
Total Sources		\$295,000
Uses		
Total Underwriter's Discount (1.500%)	\$4,425	
Costs of Issuance	12,000	
Deposit to Capitalized Interest (CIF) Fund	6,397	
Deposit to Project Construction Fund	271,656	
Rounding Amount	<u>522</u>	
Total Uses		\$295,000

*Preliminary, subject to change

SECURITY

The Bonds are general obligations of the City for which its full faith, credit and taxing powers are pledged without limitation as to rate or amount. The City anticipates that the debt service will be paid from a combination of special assessments levied against properties benefitted by improvements financed by the Bonds and from ad valorem property taxes. Receipt of special assessments and collection of ad valorem taxes will be sufficient to provide not less than 105% of principal and interest on the Bonds as required by Minnesota law.

Should the revenues pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy additional taxes for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

CONCURRENT FINANCING

By means of a separate Preliminary Official Statement, the City will be issuing General Obligation Improvement and Utility Bonds, Series 2018A (the "Concurrent Obligations" or the "Series 2018A Bonds") on June 14, 2018.

RATING

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "A" 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. The City notes the following: Prior continuing disclosure undertakings entered into by the City included language stating that an Annual Report including the City's audited financial statements would be filed "as soon as available." Although the City did not always comply with this requirement, the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. The City has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

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

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

LEGAL OPINION

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

TAX EXEMPTION

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

Other Federal and State Tax Considerations

Other Tax Considerations

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

Original Issue Discount

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

Original Issue Premium

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

Proposed Changes in Federal and State Tax Law

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2016 have been audited by Dennis F. Bacon, CPA, Sauk Rapids, 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 (special assessments) 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, 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 ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,140,000 - 0.50% ² Over \$2,140,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,050,000 - 0.50% ² Over \$2,050,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,940,000 - 0.50% ² Over \$1,940,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$106,000 - .75% Over \$106,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$121,000 - .75% Over \$121,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

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

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

³ Exempt from referendum market value tax.

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

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

CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value \$24,784,004¹

	2017/18 Assessor's Estimated Market Value	2017/18 Net Tax Capacity
Real Estate	\$22,116,800	\$192,903
Personal Property	472,300	9,368
Total Valuation	<u>\$22,589,100</u>	<u>\$202,271</u>
Less: Captured Tax Increment Tax Capacity ²		<u>(8,631)</u>
Taxable Net Tax Capacity		<u>\$193,640</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Eagle Bend is about 75.57% 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 \$24,784,004.

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

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 93,818	46.38%
Agricultural	6,733	3.33%
Commercial/industrial	52,193	25.80%
Public utility	472	0.23%
Non-homestead residential	39,662	19.61%
Commercial & residential seasonal/rec.	25	0.01%
Personal property	9,368	4.63%
Total	<u>\$202,271</u>	<u>100.00%</u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Taxable Net Tax Capacity²	Percent +/- in Estimated Market Value
2013/14	\$15,590,900	\$11,734,500	\$132,413	\$130,521	- 8.02%
2014/15	16,703,500	12,554,400	140,431	138,455	+ 7.14%
2015/16	16,768,700	12,640,502	141,595	139,636	+ 0.39%
2016/17	18,764,600	14,364,844	159,816	157,633	+11.90%
2017/18	22,589,100	17,752,890	202,271	193,640	+20.38%

¹ Net Tax Capacity includes tax increment values.

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

LARGER TAXPAYERS¹

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Minnesota Power & Light Co.	Utility	\$ 9,762	4.83%
Individual	Apartments	9,304	4.60%
Agree Limited Partnership	Commercial	7,688	3.80%
Pro-Ag Farmers Cooperative	Commercial	6,770	3.35%
Lakewood-CentraCare LLC	Commercial	6,030	2.98%
Individual	Residential	5,244	2.59%
Individual	Residential	3,433	1.70%
Eagle Bend Housing Comm. Corp.	Apartments	3,175	1.57%
Individual	Residential	2,825	1.40%
Individual	Commercial	2,720	1.34%
Total		<u><u>\$56,951</u></u>	<u><u>28.16%</u></u>

City's Total 2017/18 Net Tax Capacity \$202,271

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

¹ In 2018, the estimated median commercial and industrial sales ratio used to equalize utility values in Todd County dropped below 90% to 75.73%, thereby resulting in lower valuations for this classification of property. Depreciation may also have affected the decrease in valuations.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total g.o. debt being paid from public utility revenues	\$ 979,600
Total g.o. debt being paid from revenues and special assessments	1,445,000
Total g.o. debt being paid from special assessments and taxes*	330,000
Total g.o. debt being paid from revenues, special assessments, and taxes (includes the Bonds)*	<u>1,745,000</u>
Total General Obligation Debt*	<u><u>\$4,499,600</u></u>

*Preliminary, subject to change.

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

CITY OF EAGLE BEND, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Public Utility Revenues
(As of 6/14/18)

Fiscal Year Ending	MPFA Loan 2009		MPFA Loan 2015		MPFA Loan 2015		Refunding 1) 2016A		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Dated Amount	Maturity	Dated Amount	Maturity	Dated Amount	Maturity						
2018									98,000	9,704	107,704	941,600	9.43%	2018
2019	8/17/09	8/20	8/17/2015	8/20	8/17/2015	8/20	1/13/16		104,000	12,454	116,454	837,600	19.43%	2019
2020	\$296,036		\$429,970		\$67,215		\$508,000		107,000	11,016	118,016	730,600	29.72%	2020
2021									106,000	9,466	115,466	624,600	39.92%	2021
2022									109,000	7,798	116,798	515,600	50.40%	2022
2023									108,000	6,021	114,021	407,600	60.79%	2023
2024									42,000	4,829	46,829	365,600	64.83%	2024
2025									42,000	4,265	46,265	323,600	68.87%	2025
2026									43,500	3,700	47,200	280,100	73.06%	2026
2027									44,000	3,111	47,111	236,100	77.29%	2027
2028									44,000	2,518	46,518	192,100	81.52%	2028
2029									27,000	1,924	28,924	165,100	84.12%	2029
2030									27,000	1,654	28,654	138,100	86.72%	2030
2031									27,000	1,383	28,383	111,100	89.31%	2031
2032									27,000	1,113	28,113	84,100	91.91%	2032
2033									28,000	842	28,842	56,100	94.60%	2033
2034									28,000	562	28,562	28,100	97.30%	2034
2035									28,100	281	28,381	0	100.00%	2035
									1,039,600	82,641	1,122,241			

1) This issue refunded the 2016 through 2023 maturities of the City's \$880,000 General Obligation Public Utility Revenue Refunding Bonds, Series 2004B, dated November 16, 2004.

CITY OF EAGLE BEND, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Revenues and Special Assessments
(As of 6/14/18)

Refunding 1)
Series 2012A

Fiscal Year Ending	Dated Amount	Maturity	4/17/12		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest						
	\$1,920,000	2/01			0	23,241	23,241	1,445,000	0.00%	2018
2019			85,000	45,208	85,000	45,208	130,208	1,360,000	5.88%	2019
2020			85,000	42,658	85,000	42,658	127,658	1,275,000	11.76%	2020
2021			90,000	40,033	90,000	40,033	130,033	1,185,000	17.99%	2021
2022			90,000	37,333	90,000	37,333	127,333	1,095,000	24.22%	2022
2023			95,000	34,558	95,000	34,558	129,558	1,000,000	30.80%	2023
2024			100,000	31,633	100,000	31,633	131,633	900,000	37.72%	2024
2025			100,000	28,633	100,000	28,633	128,633	800,000	44.64%	2025
2026			105,000	25,558	105,000	25,558	130,558	695,000	51.90%	2026
2027			105,000	22,408	105,000	22,408	127,408	590,000	59.17%	2027
2028			110,000	18,908	110,000	18,908	128,908	480,000	66.78%	2028
2029			115,000	14,970	115,000	14,970	129,970	365,000	74.74%	2029
2030			120,000	10,828	120,000	10,828	130,828	245,000	83.04%	2030
2031			120,000	6,568	120,000	6,568	126,568	125,000	91.35%	2031
2032			125,000	2,219	125,000	2,219	127,219	0	100.00%	2032
			1,445,000	384,750	1,445,000	384,750	1,829,750			

1) This issue refunded the 2013 through 2048 maturities of the City's \$1,900,000 General Obligation Wastewater Revenue Bond of 2008, dated December 10, 2008.

CITY OF EAGLE BEND, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Special Assessments and Taxes
(As of 6/14/18)

Fiscal Year Ending	Improvement Series 2008A		Improvement Series 2018B		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Dated Amount	Maturity						
2018	9/10/08 \$300,000	12/01	6/14/2018 \$295,000*	2/1	35,000	1,400	36,400	295,000	10.61%	2018
2019					0	11,492	11,492	295,000	10.61%	2019
2020			2.200%		10,080	10,080	20,080	285,000	13.64%	2020
2021			2.350%		10,000	9,853	19,853	275,000	16.67%	2021
2022			2.600%		10,000	9,605	19,605	265,000	19.70%	2022
2023			2.700%		10,000	9,340	19,340	255,000	22.73%	2023
2024			2.850%		10,000	9,063	19,063	245,000	25.76%	2024
2025			2.950%		15,000	8,699	23,699	230,000	30.30%	2025
2026			3.100%		15,000	8,245	23,245	215,000	34.85%	2026
2027			3.200%		15,000	7,773	22,773	200,000	39.39%	2027
2028			3.300%		15,000	7,285	22,285	185,000	43.94%	2028
2029			3.400%		15,000	6,783	21,783	170,000	48.48%	2029
2030			3.450%		15,000	6,269	21,269	155,000	53.03%	2030
2031			3.600%		15,000	5,740	20,740	140,000	57.58%	2031
2032			3.650%		15,000	5,196	20,196	125,000	62.12%	2032
2033			3.700%		15,000	4,645	19,645	110,000	66.67%	2033
2034			3.800%		15,000	4,083	19,083	95,000	71.21%	2034
2035			3.850%		15,000	3,509	18,509	80,000	75.76%	2035
2036			3.950%		20,000	2,825	22,825	60,000	81.82%	2036
2037			4.000%		20,000	2,030	22,030	40,000	87.88%	2037
2038			4.050%		20,000	1,225	21,225	20,000	93.94%	2038
2039			4.100%		20,000	410	20,410	0	100.00%	2039
					330,000	135,547	465,547			

*Preliminary, subject to change.

CITY OF EAGLE BEND, MINNESOTA
 Schedule of Bonded Indebtedness
 General Obligation Debt Being Paid From Special Assessments, Taxes, and Revenues
 (As of 6/14/18)

Fiscal Year Ending	GO Bonds 1) Series 2015A		Imp & Utility Rev 2) Series 2018A		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Dated Amount	Maturity						
2018	0	7,950	0	0	0	7,950	7,950	1,745,000	0.00%	2018
2019	45,000	15,630	0	39,306	45,000	54,936	99,936	1,700,000	2.58%	2019
2020	45,000	14,955	45,000	34,391	90,000	49,346	139,346	1,610,000	7.74%	2020
2021	50,000	14,100	45,000	33,435	95,000	47,535	142,535	1,515,000	13.18%	2021
2022	50,000	13,200	50,000	32,353	100,000	45,553	145,553	1,415,000	18.91%	2022
2023	50,000	12,200	50,000	31,153	100,000	43,353	143,353	1,315,000	24.64%	2023
2024	50,000	11,100	50,000	29,890	100,000	40,990	140,990	1,215,000	30.37%	2024
2025	50,000	10,000	50,000	28,553	100,000	38,553	138,553	1,115,000	36.10%	2025
2026	50,000	8,700	50,000	27,140	100,000	35,840	135,840	1,015,000	41.83%	2026
2027	50,000	7,200	50,000	25,665	100,000	32,865	132,865	915,000	47.56%	2027
2028	50,000	5,700	50,000	24,140	100,000	29,840	129,840	815,000	53.30%	2028
2029	55,000	4,125	55,000	22,485	110,000	26,610	136,610	705,000	59.60%	2029
2030	55,000	2,475	55,000	20,711	110,000	23,186	133,186	595,000	65.90%	2030
2031	55,000	825	55,000	18,883	110,000	19,708	129,708	485,000	72.21%	2031
2032			55,000	16,999	55,000	16,999	71,999	430,000	75.36%	2032
2033			55,000	15,088	55,000	15,088	70,088	375,000	78.51%	2033
2034			55,000	13,135	55,000	13,135	68,135	320,000	81.66%	2034
2035			60,000	11,050	60,000	11,050	71,050	260,000	85.10%	2035
2036			60,000	8,830	60,000	8,830	68,830	200,000	88.54%	2036
2037			60,000	6,565	60,000	6,565	66,565	140,000	91.98%	2037
2038			70,000	4,078	70,000	4,078	74,078	70,000	95.99%	2038
2039			70,000	1,365	70,000	1,365	71,365	0	100.00%	2039
	655,000	128,160	1,090,000	445,212	1,745,000	573,372	2,318,372			

*Preliminary, subject to change.

- 1) The Water Revenue Portion of this issue is payable entirely from revenues (\$120,000 current principal outstanding).
- 2) The Utility Revenue Portion of this issue is payable entirely from revenues (\$200,000 estimated 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 (includes a portion of the Bonds); (2) warrants or orders having no definite or fixed maturity; (3) obligations issued to finance any public revenue producing convenience (includes a portion of the Bonds); (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) funds held as sinking funds for payment of principal and interest on debt other than those deductible under 1-4 above; and (6) other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2017/18 Assessor's Estimated Market Value	\$ 22,589,100
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 677,673
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	<u>0</u>
Unused Debt Limit	<u><u>\$ 677,673</u></u>

OVERLAPPING DEBT¹

Taxing District	2017/18 Taxable Net Tax Capacity	% In City	Total G.O. Debt ²	City's Proportionate Share
Todd County	\$20,833,444	0.9295%	\$ 3,405,000	\$ 31,649
I.S.D. No. 786 (Bertha-Hewitt) ³	2,307,618	8.3913%	4,915,000	<u>412,432</u>
City's Share of Total Overlapping Debt				<u><u>\$444,082</u></u>

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

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

³ Independent School District No. 2759 (Eagle Valley Public Schools) was subject to dissolution on April 10, 2017, and a portion of the value was assigned to Independent School District No. 786 (Bertha-Hewitt). The remaining portion was assigned to Independent School District No. 787 (Browerville Public Schools). The operating debt of former Independent School District No. 2759 (Eagle Valley Public Schools) was allocated proportionately between these two districts.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$24,784,004)	Debt/ Current Population Estimate (479)
Direct G.O. Debt Being Paid From:			
Public Utility Revenues	\$ 979,600		
Revenues & Special Assessments	1,445,000		
Special Assessments & Taxes*	330,000		
Revenues, Special Assessments & Taxes*	<u>1,745,000</u>		
Total General Obligation Debt (includes the Obligations)*	\$4,499,600		
Less: G.O. Debt Paid Entirely from Revenues ¹	(1,299,600)		
Tax Supported General Obligation Debt*	\$3,200,000	12.91%	\$6,680.58
 City's Share of Total Overlapping Debt	 <u>\$ 444,082</u>	 <u>1.79%</u>	 <u>\$927.10</u>
 Total*	 <u><u>\$3,644,082</u></u>	 <u><u>14.70%</u></u>	 <u><u>\$7,607.69</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.

¹ Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt. This includes the Water Revenue Portion of the City's General Obligation Bonds, Series 2015A (\$120,000 current principal outstanding), and a portion of the Bonds (\$200,000 estimated principal outstanding).

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date ²	% Collected
2013/14	\$ 178,099	\$ 168,519	\$ 177,616	99.73%
2014/15	180,865	171,204	177,520	98.15%
2015/16	184,395	175,763	180,850	98.08%
2016/17	200,143	190,968	190,968	95.42%
2017/18	199,425	In process of collection		

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

TAX CAPACITY RATES⁴

	2013/14	2014/15	2015/16	2016/17	2017/18
Todd County	62.822%	65.691%	72.507%	73.842%	74.568%
City of Eagle Bend	136.377%	132.173%	133.208%	126.786%	103.210%
I.S.D. No. 2759 (Eagle Valley) ⁵	1.547%	9.909	16.077%	4.497%	13.219%
I.S.D. No. 786 (Bertha-Hewitt)	0.000%	0.000%	0.000%	0.000%	28.251%

Referendum Market Value Rates:

I.S.D. No. 786 (Bertha-Hewitt)	0.00000%	0.00000%	0.00000%	0.00000%	0.15473%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Todd County.

LEVY LIMITS

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

² Collections are through December 31, 2017.

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

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

⁵ Independent School District No. 2759 (Eagle Valley Public Schools) was subject to dissolution on April 10, 2017, and a portion of the value was assigned to Independent School District No. 786 (Bertha-Hewitt). The remaining portion was assigned to Independent School District No. 787 (Browerville Public Schools). The operating debt of former Independent School District No. 2759 (Eagle Valley Public Schools) was allocated proportionately between these two districts.

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 Eagle Bend was organized as a municipality in 1883. 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-Clerk-Treasurer and Deputy Clerk are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 5 full-time, 11 part-time, and 1 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

The City does not have any Recognized and Certified Bargaining Units.

POST EMPLOYMENT BENEFITS

The City does not have any Other Post Employment Benefits.

LITIGATION

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

MUNICIPAL BANKRUPTCY

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

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

FUNDS ON HAND (As of March 31, 2018)

Fund	Total Cash and Investments
General	\$ 428,544
Special Revenue	115,283
Debt Service	157,334
Capital Projects	82,338
Enterprise Funds	<u>1,134,367</u>
Total Funds on Hand	<u><u>\$1,917,867</u></u>

ENTERPRISE FUNDS

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

	2014	2015	2016
Municipal Liquor Store			
Total Operating Revenues	\$ 121,051	\$ 119,493	\$ 109,007
Less: Operating Expenses	<u>(113,310)</u>	<u>(126,153)</u>	<u>(107,382)</u>
Operating Income	\$ 7,741	\$ (6,660)	\$ 1,625
Plus: Depreciation	<u>5,778</u>	<u>5,952</u>	<u>5,994</u>
Revenues Available for Debt Service	<u>\$ 13,519</u>	<u>\$ (708)</u>	<u>\$ 7,619</u>
Water			
Total Operating Revenues	\$ 90,945	\$ 89,856	\$ 102,529
Less: Operating Expenses	<u>(52,477)</u>	<u>(55,851)</u>	<u>(59,022)</u>
Operating Income	\$ 38,468	\$ 34,005	\$ 43,507
Plus: Depreciation	<u>1,190</u>	<u>1,281</u>	<u>4,373</u>
Revenues Available for Debt Service	<u>\$ 39,658</u>	<u>\$ 35,286</u>	<u>\$ 47,880</u>
Sewer			
Total Operating Revenues	\$ 90,840	\$ 89,751	\$ 99,305
Less: Operating Expenses	<u>(42,200)</u>	<u>(46,335)</u>	<u>(88,669)</u>
Operating Income	\$ 48,640	\$ 43,416	\$ 10,636
Plus: Depreciation	<u>2,092</u>	<u>2,068</u>	<u>46,129</u>
Revenues Available for Debt Service	<u>\$ 50,732</u>	<u>\$ 45,484</u>	<u>\$ 56,765</u>
Gas			
Total Operating Revenues	\$ 185,082	\$ 145,995	\$ 190,149
Less: Operating Expenses	<u>(89,443)</u>	<u>(89,065)</u>	<u>(86,252)</u>
Operating Income	\$ 95,639	\$ 56,930	\$ 103,897
Plus: Depreciation	<u>34,241</u>	<u>34,574</u>	<u>34,858</u>
Revenues Available for Debt Service	<u>\$ 129,880</u>	<u>\$ 91,504</u>	<u>\$ 138,755</u>

SUMMARY GENERAL FUND INFORMATION

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

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2014 Audited	2015 Audited	2016 Audited	2017 Adopted Budget ¹	2018 Adopted Budget ²
Revenues					
Property taxes	\$ 79,968	\$ 85,642	\$ 87,759	\$ 199,850	\$ 199,850
Special Assessments	0	0	0	65,865	58,360
Licenses and permits	1,190	645	860	900	850
Intergovernmental	199,063	197,706	199,381	255,298	266,670
Fines and forfeitures	3,688	3,208	1,234	6,500	4,300
Charges for services	0	56,659	59,960	26,900	28,200
Interest	0	2,213	5,532	7,335	8,750
Other miscellaneous revenues	72,880	20,269	17,561	50,550	66,289
Total Revenues	\$ 356,789	\$ 366,342	\$ 372,287	\$ 613,198	\$ 633,269
Expenditures					
Current:					
General government	\$ 99,568	\$ 95,889	\$ 102,326	\$ 105,552	\$ 106,429
Public safety	124,478	121,435	122,541	183,084	172,241
Streets and highways	100,906	98,218	95,218	101,499	106,553
Parks and recreation	12,747	12,893	12,249	20,436	20,865
Community development	0	0	0	0	18,559
Libraries	8,294	6,449	4,834	0	0
Capital Outlay	0	0	0	39,300	45,300
Debt service	0	0	0	253,327	249,346
Total Expenditures	\$ 345,993	\$ 334,884	\$ 337,168	\$ 703,198	\$ 719,293
Excess of revenues over (under) expenditures	\$ 10,796	\$ 31,458	\$ 35,119	\$ (90,000)	\$ (86,024)
Other Financing Sources (Uses)					
Operating transfers in	\$ 9,320	\$ 1,180	\$ 360	\$ 90,000	\$ 103,024
Operating transfers out	(16,200)	(28,000)	(21,503)	0	(17,000)
Total Other Financing Sources (Uses)	\$ (6,880)	\$ (26,820)	\$ (21,143)	\$ 90,000	\$ 86,024
Net Changes in Fund Balances	\$ 3,916	\$ 4,638	\$ 13,976	\$ 0	\$ 0
General Fund Balance January 1	461,697	465,613	470,251		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance December 31	\$ 465,613	\$ 470,251	\$ 484,227		
DETAILS OF DECEMBER 31 FUND BALANCE					
Assigned	\$ 375,000	\$ 375,000	\$ 375,000		
Unassigned	90,613	95,251	109,226		
Total	\$ 465,613	\$ 470,251	\$ 484,226		

¹ The 2017 Budget was adopted on December 31, 2016.

² The 2018 budget was adopted on December 31, 2017.

GENERAL INFORMATION

LOCATION

The City of Eagle Bend, with a 2010 U.S. Census population of 535 and a current population estimate of 479, and comprising an area of 1.1 square miles, is located approximately 150 miles northwest of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

The City of Eagle Bend is primarily a residential community. Larger employers in a nearby city in Bertha include the following

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 786 (Bertha-Hewitt)	Elementary and secondary education	74
Diamond Tool and Engineering	Plastics & rubber industrial machinery & manufacturing	30
Rose City Electric Inc	Electric contractors	20
Blombeck Construction	Excavating contractors	14
Star Bank	Commercial Bank	12
St. Paul Lutheran Church	Churches	10
CC Morgan LLC	Privately-owned traded company	10
Braaten Aggregate Inc	Excavating contractors	8
Double Eagle Golf Club	Golf courses	7
Dollar General	Variety store	7

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

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

BUILDING PERMITS

	2014	2015	2016	2017	2018 ¹
<u>New Multiple Family Buildings</u>					
No. of building permits	0	0	1	0	0
Valuation	\$0	\$0	\$700,000	\$0	\$0
<u>New Commercial/Industrial</u>					
No. of building permits	0	1	2	2	0
Valuation	\$0	\$600,000	\$1,175,000	\$840,000	\$0
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	13	4	5	2	0
Valuation	\$127,000	\$7,500	\$35,000	\$20,600	\$0

Source: The City.

¹ As of March 31, 2018.

U.S. CENSUS DATA

Population Trend: City of Eagle Bend, Minnesota

2000 U.S. Census population	595
2010 U.S. Census population	535
2016 State Demographer's Estimate	479
Percent of Change 2000 - 2010	-10.08%

Income and Age Statistics

	City of Eagle Bend	Todd County	State of Minnesota	United States
2016 per capita income	\$31,107	\$24,410	\$33,225	\$29,826
2016 median household income	\$33,750	\$47,549	\$63,217	\$55,322
2016 median family income	\$59,000	\$57,863	\$79,595	\$67,871
2016 median gross rent	\$343	\$587	\$873	\$928
2016 median value owner occupied units	\$64,400	\$132,100	\$191,500	\$184,700
2016 median age	50.5 yrs.	43.1 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
City % of 2016 per capita income	93.63%	104.29%
City % of 2016 median family income	74.13%	86.93%

Housing Statistics

	<u>City of Eagle Bend</u>		
	2000	2016	Percent of Change
All Housing Units	284	301	5.99%

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

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Todd County		Todd County	State of Minnesota
2014	11,893		4.9%	4.2%
2015	12,341		4.4%	3.7%
2016	12,276		4.7%	3.9%
2017	12,440		4.3%	3.5%
2018, March	13,137		5.2%	3.8%

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

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

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

CITY OF EAGLE BEND
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

DENNIS F BACON
CERTIFIED PUBLIC ACCOUNTANT
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Sauk Rapids MN 56379
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INDEPENDENT AUDITORS REPORT

To the City Council
City of Eagle Bend, Minnesota

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Eagle Bend, Minnesota 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eagle Bend, Minnesota, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof 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 budgetary comparison information on pages 3-8 and 39-42 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

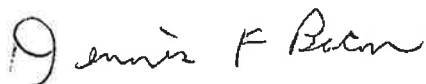
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eagle Bend, Minnesota's basic financial statements. The combining and individual nonmajor fund financial statements, and Statement of Revenues and Expenses - Proprietary Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated June 23, 2017, on my consideration of the City of Eagle Bend, Minnesota's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 City of Eagle Bend, Minnesota's internal control over financial reporting and compliance.



June 23, 2017

Management's Discussion and Analysis

As management of the City of Eagle Bend, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,504,020 (*net assets*). Of this amount, \$1,552,730 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$422,045. This increase resulted from growth of the governmental activities and business-type activities.

Overview of the Financial Statements

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

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cashflows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are primarily supported by taxes and governmental 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 of the City include general government, public safety, streets, parks, economic development, and culture and recreation. The business-type activities of the City include water and sewer.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also an Economic Development Authority for which the City is financially accountable. Financial information for this component unit is blended in the financial information presented for the primary government. The water and sewer utilities, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund Financial Statements

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

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

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

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, Fire fund, Special Purpose, the 2008 Improvement Project fund and the 2009 Water Treatment Plant. Other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these no major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 - 12 of this report.

Proprietary fund. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, natural gas, and municipal liquor store. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, natural gas, and municipal liquor store all of which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 13 - 15 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,504,020 at the close of the most recent fiscal year.

The City's net assets (60 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City as a Whole

The City's combined net assets were increased by approximately 7% - increasing from \$6,081,975 to \$6,504,020. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

CITY OF EAGLE BEND NET POSITION

	Governmental Activities		Business-type Activities		Total	Total Percentage Change 2015-2016	
	2016	2015	2016	2015			
Current and Other Assets	\$1,792,281	\$1,617,447	\$1,345,662	\$1,269,050	\$3,137,943	\$2,886,487	8.7%
Capital assets and Deferred Outflows	4,907,811	6,340,172	2,787,387	1,032,340	7,695,198	7,372,512	4.4%
TOTAL ASSETS	6,700,092	7,957,619	4,133,049	2,301,390	10,833,141	10,259,009	5.6%
Current Liabilities	361,668	205,775	120,457	105,466	482,115	311,274	55%
Long-Term Liabilities	3,270,005	3,225,760	577,600	642,000	3,847,005	3,865,700	0%
TOTAL LIABILITIES	3,631,673	3,431,535	697,457	747,466	4,329,121	4,177,024	4%
NET ASSETS	1,787,404	3,277,657	2,138,386	328,339	3,825,790	3,606,196	9%
Net investment in capital assets,	1,025,500	985,194	1,025,500	1,227,552	1,025,500	985,194	6%
Restricted	255,524	293,033	1,287,206	1,227,552	1,855,790	1,570,955	3%
Unrestricted	3,056,428	4,526,094	3,435,592	1,555,891	6,904,020	6,081,975	7%
TOTAL NET POSITION							

Net assets of the City's governmental activities decreased (\$3,068,428) compared to \$4,526,084). The main reason for the decrease is that \$1,820,393 of fixed assets were transferred to their business-type funds to be depreciated. Also the Net Pension Liability increased by \$32,934. If you put these items back in the Net Assets increased by \$395,671. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or other legal requirements - changed from \$283,033 to \$255,524.

The net assets of the business-type activities increased (\$3,435,592) compared to \$1,552,891) in 2015. Part of the increase is due to the transfer of fixed assets of \$1,820,393 to the business-type activities.

The following table shows the changes in the net assets as a result of increases or decreases in revenues and expenses from the previous year. The City's total revenues decreased by (23.6)%. Governmental activities showed a decrease in revenue, however, business-type activities showed an increase in revenues. The largest decrease coming in governmental from intergovernmental revenues. This is because of grant money for Community Kitchen in 2015. All the other revenues increased. The increase in the Business-Type Activities came from the City's Special Assessments. The increase in the net assets of the business-type activities was due to additional wages, supplies and repairs and additional proceeds for the fixed assets transferred over. Overall the City experienced a healthy increase in net assets.

CITY OF EAGLE BEND
CHANGES IN NET ASSETS
For The Year Ended December 31, 2016

	Governmental		Business-type Activities		Total	Total Percentage Change	
	2016	2015	2016	2015		2016	2015
Revenues							
Taxes	\$185,540	\$179,020			\$179,020		3.6%
License and permits	860	645			645		33.3%
Intergovernmental revenues	237,461	910,989			910,989		-73.9%
Fees and fines	2,434	6,908			6,908		-64.8%
Charges for services	93,804	391,983	325,602		485,787		18.6%
Special assessments	111,768	139,044			139,044		-20.0%
Interest on investments	7,622	3,381	7,446	5,339	15,068		72.6%
Liquor revenue	294,445	109,007	109,007	119,483	119,483		-8.6%
Miscellaneous revenues	503,332	1,406,881	626,531	465,872	1,429,663		187.8%
TOTAL REVENUES							-23.6%
Expenses							
Current							
General government	103,732	95,796			103,732		7.2%
Public safety	165,695	163,462			165,695		2.1%
Streets and highways	95,216	95,216			95,216		-3.1%
Parks and recreation	12,249	12,893			12,893		-5.0%
Library	4,634	6,449			6,449		-26.0%
Capital outlay	286,507	1,360,234			1,360,234		-78.9%
Miscellaneous	34,965	37,035			37,035		46.4%
Debt	0	34,806			34,806		0
Bond Issuance Costs	0	105,000			105,000		20.6%
Principal retirement	126,695	105,000			126,695		25.5%
Interest and fiscal changes	80,531	60,041	27,348	25,941	85,982		-14.9%
Liquor		107,382	126,153	107,382	126,153		5.7%
Water		59,022	55,851	59,022	55,851		91.4%
Sewer		88,669	48,335	88,669	48,335		-3.2%
Gas		86,252	89,065	86,252	89,065		-43.1%
TOTAL EXPENSES							
931,516	1,574,954	366,673	343,345	1,300,189	2,283,493		
Excess (deficiency) before transfers and loan	(28,164)	(566,063)	157,658	122,527	129,674	(410,730)	
Loan Proceeds	0	0	0	0	0	155,094	
Transfers in	121,603	156,094	0	0	121,603	(155,094)	
Transfers out	(23,054)	(71,064)	(86,549)	(84,010)	(121,603)		
Increase (decrease) in net assets	\$70,365	\$759,720	\$59,309	\$38,517	\$129,674	(\$410,730)	

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were due to increase in donations and Capital Outlay in the General Government.

Governmental Activities

The cost of all governmental activities this year was \$931,516 compared to last year's \$1,974,954. The decrease was mainly due to \$1,082,350 less on improvement project. The decrease in revenue was from the grants for the 2015 Improvement Project, Community Kitchen, and special assessments paid on the 2015 Utility Improvement Project. The Expenses were less in the Capital Outlay because of the 2015 Utility Improvement Project.

The following presents the cost of each of the City's four largest programs - public safety, streets and highways, parks and recreation, and library - as well as each program's net cost (total cost less revenue generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

CITY OF EAGLE BEND
NET COST OF GOVERNMENTAL ACTIVITIES
For The Year Ended December 31, 2016

	Total Cost of Services		Percentage of Change		Net Cost of Services		Percentage of Change	
	2016	2015	2015-2016		2016	2015	2015-2016	
Public safety	\$221,963	\$188,916	17.5%		\$39,251	\$3,272	1099.6%	
Streets and highways	156,370	125,551	24.5%		156,371	125,552	24.5%	
Parks and recreation	14,494	15,138	-4.3%		14,494	15,138	-4.3%	
Library	6,445	8,341	-22.7%		6,445	8,341	-22.7%	
Total	\$389,272	\$337,946	18.1%		\$216,561	\$152,303	42.2%	

Business-type Activities

Revenues of the City's business-type activities increased by \$60,659 with expenses increasing by \$25,328. The water and sewer activities sales increased because of rate increases, and the liquor sales were down, natural gas activities were up because of more use. The expenses were about the same as 2015 except for the Liquor fund, where expenses decreased by \$18,771 mostly in wages. The Sewer Fund expenses were larger because of additional depreciation of \$44,000 for the sewer ponds. They are looking at areas where sales can be increased. As the business-type activities of the City are to be funded by user fees, the city council will continue to monitor the user fees of each utility from time to time.

The City's Funds

As the City completed the year, its governmental funds (as presented in the balance sheet reported a combined fund balance of \$1,068,623 which is higher than last year's total of \$1,538,257 by about 3%.

Long-term debt: At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,544,600. Of this amount, \$70,000 is special assessment debt for which the City is liable in the event of default by the property owners. The remaining \$5,474,600 is General Obligation Revenue Bonds, and \$199,000 from a PFA loan. The G. O. Revenue Bond was refunded in 2016 for a lower interest rate.

Economic Factors and Next Year's Budgets and Rates

- There have been great signs indicating that the economy is starting to grow within our community. Houses are selling within a month of being put up for sale and citizens are remodeling and/or adding on to their homes. With the City being awarded the Department of Housing and Urban Development Grant through the Small Cities Development Program in 2016, an additional 1.5 homes will be remodeled, which has already begun. A new General Store was built in 2016 for community youth programs. A new pocket park was a new touchless car wash that will be built in 2017. A new playground is being constructed (costing one million dollars) of a three phase expansion. Business upgrading and some have changed hands and are in the process of upgrading and remodeling which is a positive sign since they are not closing. In the Housing and Urban Development Grant that the City was awarded includes the remodeling of Seven (7) businesses that are located on Main Street. The businesses have started remodeling. There were two – four plexus (8 units) built in 2016 with another two scheduled to be built in 2018. A new bread and breakfast has renovated one of the buildings in the commercial part of town and will open up in 2017 for business. With these very encouraging signs, the City is showing definite signs of growth and will continue to grow and become more stable for years to come.
- The debt incurred on the 2006 Wastewater Treatment Facilities Improvement Project, the 2008 Park Avenue Southwest Project, and the 2009 Water Treatment Plant Rehabilitation Project have steadily been declining. Upon the Auditors recommendation, the City Council paid off the 2004 Improvement Project along with the 2006 CS-AP #22 Reconfinement Project in 2013 for a savings of over \$20,000. The City has paid back in full 82% of the money owed in the enterprise funds at the end of 2016 with the rest being paid back by the end of 2017.
- The Minnesota State legislators have changed the LGA formula which will help the City of Eagle Bend. The City LGA increased by 15% over the past couple of years and with additional money approved in this year's budget, the City will be receiving an additional increase in the LGA funding. The City will use the extra money to start upgrading its equipment (which it has already started) and continue to maintain its roads and sidewalks.
- The City is continuing to upgrade its street and city utilities. In 2015, the City upgraded 9 blocks of water, sewer, and street reconstruction, along with storm sewer. With the passing of the bonding bill, in 2018 the City will be reconstructing Main Street and North Street along with city streets that are located between the two roads. This reconstruction will involve 14 blocks of water, sewer, and street reconstruction, along with Storm Sewer system. This will co-inside with the County replacing two bridges; one on North Street and one on Main Street.
- Since our high school was taken from our City in 2012, the City and citizens have had to make some adjustments. We are currently working with a group to see if the old school building can be used for a viable purpose. It is imperative that this building be used and not torn down. I believe we can make this building viable since it was built back in the 40's under the work program created by President Roosevelt. The building has been inspected by an architect and found to be sound and safe for the minor replacements and repairs. When the City received a grant for Senior Citizens building, the Meals on Wheels program is currently housed in the Senior Citizens building. This program has grown from 200 meals per month to 4200 meals per month and is expanding every year. The City has started construction on renovating part of the old school building for a new kitchen to produce the meals that will be delivered to the elderly. Currently they make meals for people in all of Todd and Wadena County along with some of Morrison County. Last year, this program made over 61,000 meals that were delivered and with the baby boomers starting to retire; the projections are that over 100,000 meals per year will need to be made to meet the growing demand. Private donations have been to the kitchen project totaling over \$120,000 along with \$216,000.00 of grant money from Northern Joint Powers Alliance and USDA – Rural Development. This Kitchen also provides bundle meals and is one of only two in Minnesota that does. This Kitchen will employ 8 to 10 people and be a huge asset to our community and region.
- The City continues to include expenditures in the budget for future growth and for the replacement of old and worn out utility lines; however, the City will need to be proactive in the replacement of all power and water lines. The City is planning forward to ensure that city taxes do not become a burden on its citizens and their quality of life. The City has started to take the necessary steps by setting up water and sewer rehabilitation funds which is setting aside 5% of water and sewer sales

for future projects. The City has already joined forces with neighboring towns by sharing services such as Police and also helping working together with the maintenance departments of neighboring towns in order to have cost savings for all cities.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk/Treasurer, City of Eagle Bend, 108 Main Street West, Eagle Bend, Minnesota 56446.

Sincerely,

Kevin Hess City Administrator

CITY OF EAGLE BEND
STATEMENT OF NET POSITION
December 31, 2016

	PRIMARY GOVERNMENT		
	Governmental	Business - Type	Totals
	Activities	Activities	
ASSETS			
Current Assets			
Cash	\$869,440	\$419,341	\$1,288,781
Investments	858,319	677,357	1,535,676
Inventories		49,461	49,461
Prepaid Insurance		4,244	4,244
Due from other funds	61,755	109,329	171,084
Accounts Receivable	2,767	85,930	88,697
Total Current Assets	<u>1,792,281</u>	<u>1,345,662</u>	<u>3,137,943</u>
Capital Assets			
Buildings, Improvements and Equipment	5,628,796	3,737,679	9,366,475
Less: Accumulated Depreciation	<u>(945,792)</u>	<u>(950,292)</u>	<u>(1,896,084)</u>
Total Capital Assets	<u>4,683,004</u>	<u>2,787,387</u>	<u>7,470,391</u>
Total Deferred Outflows of Resources	<u>224,807</u>		<u>224,807</u>
TOTAL ASSETS	<u><u>\$6,700,092</u></u>	<u><u>\$4,133,049</u></u>	<u><u>\$10,833,141</u></u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$12,574	\$48,457	\$61,031
Due from other funds	171,084		171,084
Current Portion of Long-Term Obligations	<u>178,000</u>	<u>72,000</u>	<u>250,000</u>
Total Current Liabilities	<u>361,658</u>	<u>120,457</u>	<u>482,115</u>
Non-current Liabilities			
Accrued Sick Leave	32,701		32,701
Net Pension Liability	468,603		468,603
Notes Payable, Non Current	<u>2,717,600</u>	<u>577,000</u>	<u>3,294,600</u>
Total Non-current Liabilities	<u>3,218,904</u>	<u>577,000</u>	<u>3,795,904</u>
Total Deferred Inflows of Resources	<u>51,102</u>		<u>51,102</u>
TOTAL LIABILITIES	<u>3,631,664</u>	<u>697,457</u>	<u>4,329,121</u>
NET POSITION			
Net Investment in Capital Assets	1,787,404	2,138,386	3,925,790
Restricted for:			
Equipment and Improvements	810,278		810,278
Debt Service	215,222		215,222
Assigned for:			
Operating Capital	185,000	200,000	385,000
Capital Outlay and Improvements	20,000	275,000	295,000
Unassigned	<u>50,524</u>	<u>822,206</u>	<u>872,730</u>
TOTAL NET POSITION	<u>3,068,428</u>	<u>3,435,592</u>	<u>6,504,020</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$6,700,092</u></u>	<u><u>\$4,133,049</u></u>	<u><u>\$10,833,141</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2016

FUNCTIONS/ PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUES AND CHANGES IN NET POSITION			
	DISBURSEMENTS	FEES, FINES AND CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:							
GOVERNMENTAL ACTIVITIES							
General Government	\$115,965	\$18,422		\$598	(\$96,945)		(\$96,945)
Public Safety	221,963	96,238	86,475	0	(39,251)		(39,251)
Streets and Highways	156,370	0		0	(156,371)		(156,371)
Park	14,494				(14,494)		(14,494)
Library	6,445		0		(6,445)		(6,445)
Miscellaneous	54,956	0	200,111	971	146,116		146,116
Interest and Fiscal Charges	80,531			111,168	30,637		30,637
TOTAL GOVERNMENTAL ACTIVITIES	650,734	114,659	286,586	112,737	(136,753)		(136,753)
BUSINESS-TYPE ACTIVITIES							
Water	62,981	102,529				39,548	39,548
Sewer	88,659	99,305				10,636	10,636
Natural Gas	95,641	190,149				94,508	94,508
Liquor	107,382	109,007				1,625	1,625
Total business-type activities	354,673	500,990				146,317	146,317
TOTAL PRIMARY GOVERNMENT	\$1,005,408	\$615,649	\$286,586	\$112,737	(136,753)	146,317	9,564
GENERAL REVENUES							
Property Taxes					185,540	0	185,540
Grants and Contributions not retracted to Specific Programs					175,809		175,809
Investment Earnings					7,622	7,446	15,068
Miscellaneous						18,095	18,095
Bond Expense						(14,000)	
Grant for Capital Projects					20,380		20,380
Transfers In					121,603		121,603
Transfers Out					(23,054)	(98,549)	(121,603)
Total General Revenues and Transfers					487,899	(87,008)	414,891
Change in Net Assets					351,146	59,309	410,455
Fixed Assets Transferred to Business Type Activities					(1,820,393)	1,820,393	0
Net Position - Beginning					4,537,675	1,555,890	6,093,565
Net Position - Ending					\$3,068,428	\$3,435,592	\$6,504,020

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General Fund	Fire Department	Special Purpose	Small Cities Development	Community Kitchen Project	Improvement Projects	Water and Sewer Rehabilitation	Other Governmental Funds	Total Governmental Funds
ASSETS									
Cash	\$83,226	\$99,897	\$90	\$0	\$615,130	\$0	\$490	\$71,608	\$869,440
Investments	400,000	220,000	0					238,319	858,319
Due from other Funds	10,807						50,948		61,755
Accounts Receivable	2,767								2,767
TOTAL ASSETS	\$496,800	\$318,897	\$90	\$0	\$615,130	\$0	\$51,438	\$309,926	\$1,792,281
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts Payable	\$12,574								\$12,574
Due to other funds				\$9,000		\$128,755		\$33,329	171,084
TOTAL LIABILITIES	12,574			9,000		128,755		33,329	183,658
FUND BALANCES									
Restricted for:									
Fire Equipment		\$220,000							220,000
Debt Service								215,222	215,222
Capital Projects			\$90	(9,000)	\$615,130	(128,755)	\$51,438	61,375	590,278
Assigned for:									
Capital Outlay and Improvements	200,000	20,000							220,000
Operating Capital	175,000	10,000							185,000
Unassigned	109,226	68,897							178,123
TOTAL FUND BALANCES	484,226	318,897	90	(9,000)	615,130	(128,755)	51,438	276,597	1,608,623
TOTAL LIABILITIES AND FUND BALANCES	\$496,800	\$318,897	\$90	\$0	\$615,130	\$0	\$51,438	\$309,926	\$1,792,281

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General	Fire Department	Special Purpose	Small Cities Development	Community Kitchen Project	2015 Improvement Project	Water and Sewer Rehabilitation	Other Governmental Funds
REVENUES								
Taxes	587,759							\$97,781
Licenses and permits	860							0
Intergovernmental revenues	199,381	17,700				20,380		1,200
Fees and fines	1,234							111,168
Charges for services	59,960	33,844						963
Special Assessments								971
Interest on investments	5,532	491			366		270	
Miscellaneous revenues	17,561	45,203	598	0	200,111			
TOTAL REVENUES	372,286	97,238	598	0	200,477	20,380	270	212,083
EXPENDITURES								
Current								
General government	102,326		656					750
Public safety	122,541	43,471						883
Streets and highways	95,218							0
Parks and recreation	12,249							0
Libraries	4,834							0
Capital Outlay		7,074						42,714
Miscellaneous				14,468	24,401	236,719	8,990	7,107
Debt service								
Bond Issuance Costs						0		0
Principal retirement								126,585
Interest and fiscal changes								80,531
TOTAL EXPENDITURES	337,168	50,545	656	14,468	24,401	243,826	8,990	251,463
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	35,118	46,693	(58)	(14,468)	176,076	(223,446)	(8,720)	(39,380)
OTHER FINANCING SOURCES (USES)								
Loan Proceeds						0		
Transfer in	360			0		5,303	9,549	106,391
Transfer out	(21,503)					0		(1,551)
TOTAL OTHER FINANCING SOURCES (USES)	(21,143)	0	0	0	0	5,303	9,549	104,840
FUND BALANCES, Beginning	470,251	272,204	148	6,468	439,054	89,388	50,609	211,137
FUND BALANCES, Ending	\$484,226	\$318,897	\$90	(\$9,000)	\$615,130	(\$128,755)	\$51,438	\$276,597

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
December 31, 2016

Total Fund Balance - Total Governmental Funds		\$1,608,623
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		4,683,004
Pension Items		
Deferred Outflows	224,807	
Deferred Inflows	<u>(51,102)</u>	173,705
Long term liabilities are not due and payable in the current period and, therefore they are not reported in the governmental funds balance sheet.		
Due within one year	\$178,000	
Net Pension Liability	\$468,603	
Due more than one year	<u>2,750,301</u>	<u>(3,396,904)</u>
Net Assets of Governmental Activities		<u>\$3,068,428</u>

CITY OF EAGLE BEND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

Net Change in Fund Balance - Total Governmental Funds		\$70,365
Governmental funds report capital outlay as expenditures. However in the government-wide statements of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in current period.		
		293,524
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds		
		(101,757)
Change in compensated absences not reported as expenditures in governmental funds		
		(4,635)
Difference in Pension Expense		
		(32,936)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premium, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond proceeds	\$0	
Bond principal retirement	<u>126,585</u>	<u>126,585</u>
		<u>\$351,146</u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
STATEMENT OF NET POSITION

PROPRIETARY FUNDS

December 31, 2016

	Enterprise Funds				Total
	Municipal Liquor Store	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	
CURRENT ASSETS					
Cash in Bank	\$230,514	\$292,996	\$223,088	\$350,100	\$1,096,698
Accounts receivable	1,786	16,287	13,973	53,884	85,930
Inventories	49,461				49,461
Prepaid insurance	2,183	665	1,095	301	4,244
Due from other funds	0	44,000	10,000	55,329	109,329
TOTAL CURRENT ASSETS	<u>283,944</u>	<u>353,948</u>	<u>248,156</u>	<u>459,614</u>	<u>1,345,662</u>
FIXED ASSETS, at cost, less accumulated depreciation					
	82,936	424,146	1,880,166	400,139	2,787,387
TOTAL ASSETS	<u>\$366,880</u>	<u>\$778,094</u>	<u>\$2,128,322</u>	<u>\$859,753</u>	<u>\$4,133,049</u>
CURRENT LIABILITIES					
Accounts payable	\$12,578	\$3,788	\$1,536	\$30,555	\$48,457
Current portion - Long-Term Debt		15,000		57,000	72,000
TOTAL CURRENT LIABILITIES	12,578	18,788	1,536	87,555	120,457
LONG-TERM DEBT		184,000	0	393,000	577,000
TOTAL LIABILITIES	<u>12,578</u>	<u>202,788</u>	<u>1,536</u>	<u>480,555</u>	<u>697,457</u>
NET POSITION					
Net Investment in capital assets	82,936	225,146	1,880,166	(49,861)	2,138,386
Unrestricted					
Designated	125,000	200,000	50,000	100,000	475,000
Undesignated	146,366	150,160	196,620	329,060	822,206
TOTAL NET POSITION	<u>\$354,302</u>	<u>\$575,306</u>	<u>\$2,126,786</u>	<u>\$379,198</u>	<u>\$3,435,592</u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended December 31, 2016

	Enterprise Funds				Total
	Municipal Liquor Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	
SALES AND COST OF SALES					
Sales	\$237,615			\$322,740	\$560,355
Cost of sales	(128,608)			(132,591)	(261,199)
GROSS PROFIT	109,007			190,149	299,156
OPERATING REVENUES					
Sales		102,529	99,305		201,834
TOTAL GROSS PROFIT AND OPERATING REVENUES	109,007	102,529	99,305	190,149	500,990
OPERATING EXPENSES					
Personal servies	70,925	28,075	28,149	28,150	155,299
Supplies	3,817	8,458	662	2,002	14,939
Utlilities	10,386	7,892	4,623	469	23,370
Repairs	2,672	3,243	3,328	634	9,877
Insurance	7,299	2,636	2,040	1,114	13,089
Advertising	2,625				2,625
Professional services		1,035	1,254		2,289
Licenses & Fees	3,334	2,734	2,263	18,875	27,206
Depreciation	5,994	4,373	46,129	34,858	91,354
Miscellaneous	330	576	221	150	1,277
TOTAL OPERATING EXPENSES	107,382	59,022	88,669	86,252	341,325
OPERATING INCOME (LOSS)	1,625	43,507	10,636	103,897	159,665
NONOPERATING REVENUES (EXPENSES)					
Interest income	1,214	2,227	2,112	1,893	7,446
Other income	18,095				18,095
Bond Issue Expense				(14,000)	(14,000)
Interest expense		(3,959)		(9,389)	(13,348)
Total Nonoperating Revenues (Expenses)	19,308	(1,732)	2,112	(21,496)	(1,808)
Income before Contributions and Transfers	20,933	41,775	12,748	82,401	157,857
Transfer Out	(14,000)	(49,773)	(34,776)	0	(98,549)
CHANGE IN NET POSITION	6,933	(7,998)	(22,028)	82,401	59,308
FIXED ASSETS TRANSFERRED		57,879	1,762,514		1,820,393
NET POSITION, January 1	347,369	525,425	386,300	296,797	1,555,891
NET POSITION, December 31	\$354,302	\$575,306	\$2,126,786	\$379,198	\$3,435,592

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF EAGLE BEND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2016

	Liquor Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Cash Flows from Operating Activities:					
Cash received from customers	\$240,457	\$126,428	\$96,789	\$310,987	\$774,661
Cash payments to suppliers	(174,381)	(61,239)	(22,762)	(177,672)	(436,054)
Cash payments to employees	(61,530)	(21,925)	(21,925)	(21,935)	(127,315)
Net Cash Provided by Operating Activities	4,546	43,264	52,102	111,380	211,293
Cash Flows from Noncapital Financing Activities:					
Operating transfer in (out) to other funds	(14,000)	(49,773)	(34,776)	0	(98,549)
Cash Flows from Capital and Related financing Activities					
Principal paid on capital debt		(15,000)		(54,000)	(69,000)
Interest paid on capital debt		(3,959)		(9,389)	(13,348)
Loans to other funds	17,926	(44,000)	(10,000)	(6,335)	(42,409)
Acquisition and construction of capital assets	0	(79,050)	0	(4,837)	(83,887)
Net Cash Used in Capital and Financing Activities	17,926	(142,009)	(10,000)	(74,561)	(208,644)
Cash Flows from Investing Activities:					
Interest on investments and other income	19,308	2,227	2,112	1,893	25,540
Investments Redeemed (Purchased)					0
Net Cash Provided From Investing Activities	19,308	2,227	2,112	1,893	25,540
Net Increase (Decrease) in cash and cash Equivalents	27,780	(146,291)	9,438	38,712	(70,361)
Cash and Cash equivalents at Beginning of Year	202,734	381,408	213,650	311,388	1,109,180
Cash and Cash Equivalents at end of Year	\$230,513	\$235,117	\$223,088	\$350,100	\$1,038,819
Cash Flows from Operating Activities:					
Operating Income	\$1,625	\$43,507	\$10,636	\$103,897	\$159,664
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	5,994	4,373	46,129	34,858	91,354
Changes in assets and liabilities:					
(Increase) decrease in inventory	1,702				1,702
(Increase) decrease in accounts receivables	1,305	(6,774)	(4,449)	(38,052)	(47,971)
(Increase) decrease in prepaid expenses	(9)	(25)	(493)	106	(420)
Increase (decrease) in accounts payable	(6,072)	2,183	278	10,571	6,960
Total Adjustments	2,920	(243)	41,466	7,483	51,625
Net Cash Provided by Operating Activities	\$4,546	\$43,264	\$52,102	\$111,380	\$211,289

The accompanying Notes to Financial Statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

Note 1 - Summary of Significant Accounting Policies

A. General Statement

The City of Eagle Bend the "City" operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public Safety - Police and Fire, Highways and Streets, Sanitation, Culture-Recreation, Public Improvements, Planning and Zoning, and General Administrative Services. The City also provides Water, Sewer, Gas and Municipal Liquor Store.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (FASB) (when applicable). As allowed in Section P80 of GASB'S Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's basis financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- * the organization is legally separate (can sue and be sued in their own name)
- * the City holds the corporate powers of the organization
- * the City appoints a voting majority of the organization's board
- * the City is able to impose its will on the organization
- * the organization has the potential to impose a financial benefit/burden on the City
- * there is fiscal dependency by the organization on the City

Based on the aforementioned criteria the City of Eagle Bend has no component units.

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

C. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on sources, uses, and balances of current financial resources. The City has presented the following major governmental funds:

General Fund-

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvements costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds -

Special Revenue Funds are used to account for the proceeds of specific revenues sources (other than expendable trust, or major

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

capital projects) that are legally restricted to expenditures for specified

Debt Service Fund -

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Capital Projects Funds -

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by Proprietary Funds and Trust Funds.

Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities are included on the statement of Net Assets. The City has presented the following major proprietary funds:

Liquor Fund-

Liquor fund is used to account for the operation of the municipal liquor store including administration, operation and maintenance.

Water and Sewer Funds-

Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Gas Fund-

Gas Fund is used to account for the provision of gas services to the residents and the surrounding area of the City. Activities of the fund include administration, operation and maintenance of the gas system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for gas debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting revenues are recognizes when earned, including unbilled water, sewer and gas services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means that 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. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences and arbitrage are recorded only when payment has matured and will be payable shortly after year-end.

The revenues sources susceptible to accrual include: property taxes, charges for services, interest income, special assessments, intergovernmental revenues, and investment income.

E. Cash and Temporary Investments

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

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

F. Receivables

Revenues are recorded when received except for the following items which receivable have been recorded:

1. Property tax revenue is recorded when collected by Todd County on behalf of the City. All other taxes receivable are offset by the full amount by an allowance for uncollectible property taxes.
2. The principal portion of special assessments is recognized as revenues in the year collected. The interest portion of special assessments is recognized as revenue in the year due. Both the principal and interest on special assessments are payable in installments over term of years that matches the scheduled payments for the bond issue which financed the project.
3. Interest on investments is recorded as revenue in the year when earned.
4. State aid for street construction and maintenance is recorded as revenue annually when allocations are made by statutory formula

5. Certain grants received by the City require that eligible expenditure be made in order to earn the grant. Revenue for these grants is recorded for the period in which eligible expenditures are made.

6. Utility service charges are recognized when earned with no allowance for uncollectible as delinquent accounts are certified as a special assessment lien against the property billed. The City does not have unbilled utility service charges in that all revenue earned has been billed as of year end.

G. Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

H. Bond Discount

The discount and issuance cost on long-term debt are expensed when incurred.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds.

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are value at their fair value on the date of donation. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has been capitalized during the construction period on capital assets.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$100,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method, with one-half year's depreciation in the year of acquisition. The estimated useful lives are as follows:

Water System	25-50 years
Sewer System	25-50 years
Buildings	30 years
Machinery and equipment	5-10 years
Improvements	20 years

J. Interfund transactions

During the course of normal operations, the city has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets and service debts. The governmental and proprietary type funds financial statements generally reflect such transactions as transfers. The proprietary funds record operating subsidies as other income whereas the fund paying the subsidy record it as either an expenditure or transfer.

K. Budgets and Budgetary Accounting

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

1. In accordance with the City Charter, prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimated for the current year and actual data for the two preceding years.

The City Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

3. Prior to September 30, the tentative budget is adopted and by December 15 the final budget is approved by the council.
4. The City Manager is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Debt Service Fund.
6. Budgets for the General, and Debt Service are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Budgetary data for the Capital Project Funds has not been presented in the accompanying combined and combining financial statements as such funds are budgeted over the life of the respective project and not on an annual basis.
8. The City Charter required the adoption of summary budget for proprietary funds.
9. Appropriations lapse at the end of each fiscal year.
10. The City Council may authorize supplemental appropriations during year.

L. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of the City Charter, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used for specific purposes determined by a formal action by City ordinance or resolution. This includes the Budget Reserve Account.
- Assigned - Amounts that are designated by the Council for a particular purpose but are not spendable until there is a majority vote approval (for capital projects) by the City Council.
- Unassigned - All amounts not included in other spendable classification.

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

M. Use of Restricted Resources:

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less - restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

O. Details on Classifications

The City has the following classifications.

Restricted	
Capital Outlay and Improvements	220,000
Fire - Fire Equipment and Building	584,702
Capital Projects	5,963
Revolving Loan	387
Administrative Fines	25,986
Improvement Fund	215,222
Debt Service	

P. Statement of Cash Flows

For purposes of reporting cash flows, all investments six months or less are considered to cash equivalents.

Q. Pensions

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

Note 2 - Cash and Investments

Deposits in Banks

In accordance with Minnesota statute, the City maintains deposits at those depository banks authorized by the City Council, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

bonds (140% in the case of mortgage notes pledged).

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City treasurer or in a financial institution other than that furnishing the collateral.

At December 31, 2016, the carrying amount of the City's checking accounts was \$1,288,781 and certificates of deposit were \$1,535,676. Of the total bank balance, \$250,000 was covered by the federal depository insurance (risk category 1) and \$2,574,457 was covered by collateral held in the pledging bank's trust department in the City's name (risk category 2).

Risk Category

- (1) Insured or collateralized by securities held by the City or its agent in the City's name.
- (2) Collateralized with securities held by the pledging institution's trust department in the City's name.
- (3) Uncollateralized or collateralized with securities held by the pledging institution, but not in the City's name.

Investments

Investments are held in certificate of deposits. These investments are in credit risk (1) investments that are insured or registered or for which the securities are held by the City's name.

Note 3 - Property Tax Calendar

Property taxes are collected and remitted to the City by Todd County. Taxes levied annually on January 1 are due one-half by May 15 and one-half by October 15. Major tax payments are received in June and December and are recognized as revenue in the year received.

Delinquent tax payments, received throughout the year, are recognized as revenue in the year received, except for those received within 60 days of year-end, which are recognized as revenue as of December 31.

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

Note 4 - Capital Assets

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

	Balance January 1 2016	Additions	Deletions	Balance December 31 2016
Governmental Activities:				
Land	\$ 107,765	\$	\$	\$ 107,765
Buildings	341,306			341,306
Improvements other than Buildings	6,114,505	238,042	1,820,393	4,532,154
Machinery and equipment	592,089	55,482		647,571
	<u>\$7,155,665</u>	<u>\$293,524</u>	<u>\$1,820,393</u>	<u>\$ 5,628,796</u>

Business-type activities:

Capital assets not being depreciated	\$ 114,000	\$	\$	\$ 114,000
Land				
Capital assets being depreciated	159,912			159,912
Buildings				
Improvements other than Buildings	1,476,617	1,837,243		3,313,860
Machinery and equipment	140,749	9,158		149,907
	<u>\$1,891,278</u>	<u>\$1,846,401</u>	<u>\$</u>	<u>\$3,737,679</u>

Capital assets for major Enterprise Funds was as follows:

	Liquor	Water	Sewer	Gas
Land	\$ 159,912	\$ 114,000		
Building				
Improvements other than buildings	2,312	472,887	1,837,821	\$1,000,832
Equipment	57,273	35,265	33,505	23,871
Total Cost	219,497	508,152	1,985,326	\$1,024,703
Accumulated Depreciation	(136,561)	(84,006)	(105,160)	(624,564)
Total	<u>\$82,936</u>	<u>\$424,146</u>	<u>\$1,880,166</u>	<u>\$ 400,139</u>

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
General government and administration	\$ 8,096
Public Safety	32,256
Street and Highways	57,549
Park	2,245
Library	1,611
Total depreciation expense - Governmental activities	<u>\$ 101,757</u>
Business-type activities	
Liquor	\$ 5,994
Water	4,373
Sewer	46,129
Gas	34,858
Total depreciation expense - Business-type activities	<u>\$ 91,354</u>

Note 5 - Long-term Debt

The long-term debt obligations outstanding and related maturities and interest rates are summarized below.

General Obligation Public Utility Revenue Refunding Bonds series 2004B, due in annual installments of \$40,000 to \$70,000 starting June 1, 2007 through 2023 at 2.35% to 4.5%. These bonds were paid early from the 2016 Refunding Bonds. These bonds are payable from the revenue from the Gas utility. Balance December 31 is \$0.

General Obligation Public Utility Revenue Refunding Bonds series 2016A, due in annual installments of \$57,000 to \$67,000 starting June 1, 2016 through 2023 at .9% to 1.9%. These bonds are payable from the revenue from the Gas utility. Balance December 31 is \$450,000.

General obligation Improvement Bonds, series 2008A due in annual installments of \$25,000 to \$35,000 starting December 1, 2009 through 2018 at 3.50% to 4.0%. These bonds are payable from taxes and special assessments. Balance December 31 \$70,000.

General Obligation Water and Sewer Revenue Refunding Bonds of 2012A due in annual installments of \$75,000 to \$125,000 starting February 1, 2013 through 2032 at 2.00% to 3.55%. These bonds are payable from special assessments and revenue from the water and sewer utility. Balance December 31 \$1,605,000.

\$296,036 General Obligation Water Revenue Note of 2009 due in annual installments of \$13,000 to \$19,000, starting August 20, 2010 through 2028 at 1.85%. This note is payable from revenue from the water

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

utility. Balance December 31 \$199,000

\$735,000 General Obligation Bonds, series 2015A due in annual installments of \$40,000 to \$55,000 starting February 1, 2017 through 2031 at 1.20% to 3.00%. These bonds are payable from special assessments, water revenue and taxes. Balance December 31 \$735,000.

Clean Water Revolving Fund Loan of 2015 from MPFA due in annual installments of \$3,000 to \$4,100, starting August 20, 2017 through 2035 at 1.00%. This loan is payable from revenue from water and sewer utility. Balance December 31 \$66,600

Drinking Water Revolving Fund Loan of 2015 from MPFA due in annual installments of \$20,000 to \$24,000, starting August 20, 2016 through 2035 at 1.00%. This loan is payable from revenue from water and sewer utility. Balance December 31 \$419,000.

Accrued Sick Leave - General Fund - Sick leave is carried as a long-term debt as there is no immediate obligation. The policy of the City is to accrue a maximum of 60 days. The City is obligated to pay 25% of the accrued sick leave upon termination of employment. The following is a summary of bond transactions of the city for the year ended December 31, 2016

	Balance 12-31-15	Issued in 2016	Paid in 2016	Balance 12-31-16
Governmental Type Activities				
General Obligation	\$ 3,022,185	\$	\$ 126,585	\$ 2,895,600
Accrued Sick Leave	28,066	4,635		32,701
Total Governmental	<u>3,050,251</u>	<u>4,635</u>	<u>126,585</u>	<u>2,928,301</u>
Business Type Activities				
G.O. Revenue Bonds	704,000	508,000	563,000	649,000
Total	<u>\$ 3,754,251</u>	<u>\$512,635</u>	<u>\$ 689,585</u>	<u>\$ 3,577,301</u>

The following is a summary as of December 31, 2016 of future debt service requirements.

	G.O. Revenue		General Obligation	
	Principal	Interest	Principal	Interest
2017	72,000	9,968	178,000	73,967
2018	75,000	9,089	178,000	69,856
2019	80,000	8,051	154,000	65,241
2020	83,000	6,853	154,000	61,776
2021	82,000	5,543	164,000	58,055
2022 - 2026	221,000	10,636	863,500	228,890
2027 - 2031	36,000	999	968,000	103,657
2032 - 2035			<u>236,100</u>	<u>5,017</u>
Total	<u>\$ 649,000</u>	<u>\$ 51,139</u>	<u>\$2,895,600</u>	<u>666,459</u>

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

Note 6 - Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Note 7 - Tax Increment District #1-2

The City of Eagle Bend is the administering authority for the following tax increment finance district:

Tax Increment District No. 1-2

Type of District: Housing
Authorizing Law: M.S. 469.174, subd 11
District Name: Housing Tax Increment Financing District No 1-2
Year Established: 2016
Duration of District: 25 years

Original Assessed Value	\$53,800
Current Assessed Value	53,800
Captured Assessed Value	0
Retained by Authority	0
Shared with other districts	0

Note 8 - Comparison of Proprietary Funds Budgets to Actual Expenditures

Budgets are adopted for the proprietary funds. Actual expenditures compared to budgeted expenditures are as follows:

Fund	2016 Expenditures		Variance
	Actual	Budget	
Liquor Store	\$ 107,382	\$ 135,772	Favorable
Water Fund	59,022	68,941	(Unfavorable)
Sewer Fund	88,669	93,972	\$ 28,390
Gas Fund	86,252	98,451	9,919
			5,303
			12,199

Note 9 - Defined Benefit Pension Plans

A. Plan Description

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

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

plans under Section 401 (a) of the Internal Revenue Code.

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

2. Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))
The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

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

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

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

1. General Employees Plan Benefits
General Employees Plan Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

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

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

B. Contributions

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

1. General Employees Fund Contributions
Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City of Eagle Bend was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City of Eagle Bend's contributions to the General Employees Fund for the year ended December 31, 2016 were \$14,905. The City of Eagle Bend entity's contributions were equal to the required contributions as set by state statute.

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

2. Police and Fire Fund Contributions
Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City of Eagle Bend was required to contribute 16.20 percent of pay for members in calendar year 2016. The City of Eagle Bend contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$8,199. The City of Eagle Bend's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

1. General Employees Fund Pension Costs
At December 31, 2016, the City of Eagle Bend reported a liability of \$267,944 for its proportionate share of the General Employees Fund's net pension liability. The City of Eagle Bend net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Eagle Bend totaled \$3,454. 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 of Eagle Bend's proportion of the net pension liability was based on the City of Eagle Bend's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employees. At June 30, 2016, the City of Eagle Bend's proportion share was .0033% which was a decrease of .0005 % from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City of Eagle Bend recognized pension expense of \$21,286 for its proportionate share of the General Employees Plan's pension expense. In addition, the City of Eagle Bend recognized an additional \$1,030 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$16,018
Changes in actuarial assumptions	\$52,464	
Difference between projected and actual investment earnings	\$38,714	
Changes in proportion		\$19,434
Contributions paid to PERA subsequent to the measurement date [to be calculated by employer]	\$91,478	
Total		\$35,453

\$7,569 reported as deferred outflows of resources related to pensions resulting from City of Eagle Bend contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	\$39,765
2018	\$44,427
2019	\$39,766
2020	\$7,090
2021	0
Thereafter	0

2. Police and Fire Fund Pension Costs
At December 31, 2016, the City of Eagle Bend reported a liability of \$200,659 for its proportionate share of the Police and Fire Fund's net pension liability. 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 of Eagle Bend's proportion of the net pension liability was based on the City of Eagle Bend's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City of Eagle Bend's proportion was .005% which was an increase/decrease of 0 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City of Eagle Bend recognized pension expense of \$34,752 for its proportionate share

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

of the Police and Fire Fund's pension expense. The City of Eagle Bend also recognized \$764 for the year ended December 31, 2016, as pension expense (and an offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2016, the City of Eagle Bend reported its proportionate share of the Police and Fire Plan'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		\$15,649
Changes in actuarial assumptions	\$110,431	
Difference between projected and actual investment earnings	\$23,198	
Changes in proportion		
Contributions paid to PERA subsequent to the measurement date [to be calculated by employer]		
Total	\$133,629	\$15,649

\$4,103 reported as deferred outflows of resources related to pensions resulting from City of Eagle Bend contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2017	\$47,582
2018	\$50,057
2019	\$47,582
2020	\$3,130
2021	0
Thereafter	0

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

D. 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 disableds were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the General Employees Plan and Police and Fire Plan

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004, through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employee Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study date June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% per year thereafter to 1% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

The State Board of Investment, which manages the investments of 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 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
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

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

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the fund's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date.

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

F. Pension Liability Sensitivity

The following presents the City of Eagle Bend's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Eagle Bend'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:

Sensitivity of Net Pension Liability at Current Single Discount Rate (in thousands)				
	General Employees Fund	Police and Fire Fund	Correctional Fund	
1% Higher	\$380,559	\$280,896	4.31%	\$0
Current Discount Rate	7.50%	5.60%	5.31%	0
1% Lower	267,944	135,099	6.31%	0
	175,179			

G. Pension Plan Fiduciary Net Position

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

Note 10 - Revolving Loan Fund

Loan funds are available to small businesses. Projects need to demonstrate financial gap, credit worthiness, as well as create or retain jobs that are taken by or available to low and moderate-income person. Applicant's equity position must be at least 10 percent after the project is completed. The interest rate of the loan will be set according to the needs of each individual project. In 2010 a \$29,000 loan was made. The loan is in default and has not made any repayments since 2011.

Note 11 - Grants

The City receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the

CITY OF EAGLE BEND

NOTES TO FINANCIAL STATEMENTS
For Year Ended December 31, 2016

opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2016.

Note 12 - Risk Management - Claims and Judgments

The City is exposed to various risks of loss related to torts, theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained insurance to cover these items and the cost is paid from each fund.

Note 13 - Due From Other Funds

Due to Gas Fund from 2006 CSAH#22 Project	\$33,329
Due to General Fund from 2016 Utility Extension	3,700
Due to Water Fund from 2016 Utility Extension	44,000
Due to Sewer Fund from 2016 Utility Extension	10,000
Due to Gas Fund from 2016 Utility Extension	22,000
Due to Water Rehab Fund from 2016 Utility Extension	20,512
Due to Water Rehab Fund from 2017 Utility Extension	5,157
Due to Sewer Rehab Fund from 2017 Utility Extension	16,279
Due to General Fund from TIF District 1-2	7,107

The loan was made to retire bonds early so the City could save interest cost. It will be paid back as the city receives the money each year from taxes and special assessments. The other loans are for utility extensions done in 2016 and waiting for reimbursement from bonds and grants. The TIF loan is for the administration expense for setting up the TIF District and will be paid back as TIF money is received.

CITY OF EAGLE BEND

BUDGETARY COMPARISON - GENERAL FUND

For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
TAXES				
General property tax	\$88,000	\$88,000	\$87,759	(\$241)
Franchise taxes			0	0
TOTAL TAXES	88,000	88,000	87,759	(241)
LICENSES AND PERMITS				
Business Licenses and Permits	300	300	260	(40)
Non-Business Licenses and Permits	500	500	600	100
TOTAL LICENSES AND PERMITS	800	800	860	60
INTERGOVERNMENTAL REVENUE				
State Grants	174,931	174,931	174,931	0
Local Governmental Aid	14,500	14,500	14,823	323
Police State aid	6,500	6,500	7,985	1,485
PERA Aid	784	784	764	(20)
Market Value Credit	0	0	876	876
TOTAL INTERGOVERNMENTAL REVENUE	196,715	196,715	199,381	2,666
FINES AND FOREFEITS				
Court fines	7,000	7,000	1,234	(5,766)
MISCELLANEOUS INCOME				
Interest	6,500	6,500	5,532	(968)
Insurance Refund	5,000	5,000	8,402	3,402
Miscellaneous income	300	300	4,623	4,323
Rent	800	800	50	(750)
Donation	55,460	55,460	3,012	(52,448)
Charges for Services			59,960	59,960
Sale of Assets			0	0
Other refunds and reimbursements	1,430	1,430	1,473	43
TOTAL MISCELLANEOUS INCOME	69,490	69,490	83,053	13,563
TRANSFER				
Administrative Fine	360	360	360	0
Liquor Fund	0	0	0	0
Water Fund	0	0	0	0
TOTAL TRANSFERS	360	360	360	0
TOTAL REVENUES	\$362,365	\$362,365	\$372,646	\$10,281

CITY OF EAGLE BEND

BUDGETARY COMPARISON - GENERAL FUND

Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
GENERAL GOVERNMENT				
Mayor and council	\$7,150	\$7,150	\$7,894	(\$744)
Wages	550	550	533	17
Pensions - Employer Portion	200	200	20	180
Seminars & Conventions	1,800	1,800	1,797	3
Printing and publishing	1,450	1,450	1,445	5
Dues and supplies				
Finance				
Municipal clerk, treasurer	45,714	45,714	49,128	(3,414)
Wages	9,794	9,794	7,313	(519)
Pensions - Employer Portion	7,346	7,346	3,107	4,241
Employee Benefits	2,300	2,300	1,909	391
Telephone	1,200	1,200	400	800
Travel and expense	3,130	3,130	2,438	692
Insurance	2,250	2,250	1,900	350
Office Supplies	200	200	0	200
Repairs	600	600	554	46
Miscellaneous	3,500	3,500	1,974	1,526
Community Events			0	0
Assessors Fee			6,000	6,000
Independent Accountants and Auditors			1,800	1,800
Election expense			7,000	7,000
Legal expense			5,561	1,439
General government buildings				
Supplies	700	700	360	340
Repairs	800	800	454	346
Miscellaneous	400	400	1,413	(1,013)
Utilities	5,750	5,750	4,325	1,425
Capital Outlay	1,800	1,800	437	1,363
TIF Payment			1,750	(1,750)
TOTAL GENERAL GOVERNMENT	108,436	108,436	102,326	6,110
PUBLIC SAFETY				
Police				
Wages	62,375	62,375	62,846	9,529
Employee Benefits & Pensions	17,995	17,995	9,037	8,958
Supplies	9,200	9,200	10,345	(1,145)
Telephone	1,400	1,400	1,748	(348)
Insurance	4,660	4,660	4,924	(274)
Training	900	900	545	355
Vehicle Expense	3,000	3,000	5,229	(2,229)
Miscellaneous	1,000	1,000	1,362	(362)
Seminars & Conventions	300	300	0	300
Dues & Subscriptions	200	200	330	(130)
Clothing Allowance	1,500	1,500	1,451	49
Motor vehicles	5,000	5,000	2,012	2,988
Office Equip & Furnishing	1,900	1,900	3,662	(1,762)

CITY OF EAGLE BEND

BUDGETARY COMPARISON - GENERAL FUND

Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
PUBLIC SAFETY				
Fire Protection	\$2,200	\$2,200	\$2,290	(\$90)
Materials & Supplies	3,500	3,500	2,451	1,049
Utilities	6,850	6,850	5,376	1,474
Insurance	100	100	35	65
Miscellaneous			0	0
Capital Outlay			0	0
Training	18,000	18,000	18,899	(899)
Fire relief	109	109	0	109
Civil Defense				
TOTAL PUBLIC SAFETY	140,179	140,179	122,541	17,638
STREET				
Wages	27,880	27,880	28,210	(330)
Employee Benefits & Pensions	10,150	10,150	9,263	887
Insurance	2,450	2,450	1,572	878
Supplies	3,300	3,300	2,469	831
Repairs	11,850	11,850	11,385	465
Miscellaneous	800	800	348	452
Meeting/Seminars	100	100		100
Motor Vehicles				0
Utilities	25,150	25,150	23,706	1,444
Capital Outlay	2,500	2,500	410	2,090
SNOW & ICE REMOVAL				
Wages	6,950	6,950	6,842	108
Employee Benefits & Pensions	2,536	2,536	2,312	224
Gas & oil	1,300	1,300	1,184	116
Supplies	200	200	1,595	(1,395)
Training				0
Repairs	7,200	7,200	4,183	3,017
Miscellaneous	900	900	420	480
Insurance	1,275	1,275	1,106	169
Capital Outlay	2,500	2,500	213	2,287
TOTAL STREETS	107,041	107,041	95,218	11,823

CITY OF EAGLE BEND

BUDGETARY COMPARISON - GENERAL FUND

Year Ended December 31, 2016

	Budgeted Amounts		Actual	Final Budget Positive (Negative)
	Original	Final		
PARK				
Wages	3,795	3,795	3,300	495
Employee Benefits & Pensions	1,292	1,292	1,158	134
Supplies	1,050	1,050	333	717
Utilities	1,000	1,000	1,061	(61)
Insurance	5,500	5,500	5,138	362
Repairs	1,200	1,200	1,021	179
Professional Services			0	0
Miscellaneous	200	200	238	(38)
Capital Outlay	1,000	1,000	0	1,000
TOTAL PARK	15,037	15,037	12,249	2,788
LIBRARY				
Wages	\$932	\$932	\$93	839
Employee Benefits & Pensions	72	72	7	65
Repairs	300	300	305	(5)
Insurance	1,250	1,250	996	254
Supplies	550	550	568	(18)
Utilities	2,700	2,700	2,697	3
Miscellaneous	230	230	168	62
Capital Outlay	5,900	5,900	0	5,900
TOTAL LIBRARY	11,934	11,934	4,834	7,100
TOTAL EXPENDITURES	382,627	382,627	337,168	45,459
TRANSFERS				
Transfer to other funds	5,303	5,303	5,303	0
Improvement Fund	16,200	16,200	16,200	0
Capital Projects Fund				0
TOTAL TRANSFERS	16,200	16,200	21,503	0
TOTAL EXPENDITURES	\$398,827	\$398,827	\$358,672	\$45,459

CITY OF EAGLE BEND
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 December 31, 2016

	Revolving Loan Fund	Administrative Fines	Debt Service				Capital Projects		Total Nonmajor Governmental Funds	
			2004 Improvement Project Debt Service	2006 Wastewater Project Debt Service	2006 CSAH #22 Project Debt Service	2008 Improvement Project Debt Service	2015 Improvement Project Debt Service	Improvement Fund		Capital Projects Fund
ASSETS										
Cash	\$5,963	\$387	\$1		\$15	\$5,843	\$39,374	\$10,986	\$9,039	\$71,608
Investments	0			\$103,318			100,000	15,000	20,000	238,318
TOTAL ASSETS	\$5,963	\$387	\$1	\$103,318	\$15	\$5,843	\$139,374	\$25,986	\$29,039	\$309,926
LIABILITIES										
Due to other funds			\$0		\$33,329					\$33,329
FUND BALANCES										
Restricted for:										
Capital Outlay and Improvements	\$5,963	\$387		\$103,318				\$25,986	\$29,039	\$61,375
Debt Service			1	\$103,318	(33,314)	\$5,843	\$139,374			215,222
TOTAL FUND BALANCES	\$5,963	\$387	\$1	\$103,318	(33,314)	\$5,843	\$139,374	\$25,986	\$29,039	\$276,597
TOTAL LIABILITIES AND FUND BALANCES	\$5,963	\$387	\$1	\$103,318	\$15	\$5,843	\$139,374	\$25,986	\$29,039	\$309,926

CITY OF EAGLE BEND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended December 31, 2016

	Revolving Loan Fund	Administrative Fine	Debt Service Funds				Capital Projects		Total Nonmajor Governmental Funds
			2004 Improvement Project Debt Service	2006 Wastewater Project Debt Service	2006 CSAH #22 Project Debt Service	2008 Improvement Project	2015 Improvement Project	Improvement Fund	
REVENUES									
Taxes			\$963	\$42,323	\$27,941	\$20,001	\$6,540	\$13	\$97,781
Intergovernmental revenues									0
Special Assessments			127	22,249	4,078	13,556	70,650	508	111,168
Fees and fines		\$1,200							1,200
Interest on investments	\$35	0	14	12	42	94	597	148	963
Miscellaneous revenues								971	971
TOTAL REVENUES	35	1,200	1,104	64,584	32,061	33,651	77,787	656	212,083
EXPENDITURES									
Current									
General government				375		375			750
Public safety		883							883
Streets and highways									0
Library									0
Park									0
Capital outlay								42,714	42,714
Bond Issurance Costs				80,000		35,000	11,585		0
Principal retirement				51,733		4,750	24,048		126,585
Interest and fiscal changes									80,531
TOTAL EXPENDITURES	0	883	0	132,108	0	40,125	35,633	0	251,463
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	35	317	1,104	(67,524)	32,061	(6,474)	42,154	656	(39,380)
OTHER FINANCING SOURCES (USES)									
Transfer in				89,000	1,191				16,200
Transfer out		(360)	(1,191)						(1,551)
TOTAL OTHER FINANCING SOURCES (USES)	0	(360)	(1,191)	89,000	1,191	0	0	0	104,840
NET CHANGE IN FUND BALANCE	35	(43)	(87)	21,476	33,252	(6,474)	42,154	656	(25,509)
FUND BALANCE, January 1	5,928	430	88	81,842	(66,566)	12,317	97,220	25,330	211,137
FUND BALANCE, December 31	\$5,963	\$387	\$1	\$103,318	(\$33,314)	\$5,843	\$139,374	\$25,986	\$276,597

CITY OF EAGLE BEND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 IMPROVEMENT PROJECT FUNDS
 For the Year Ended December 31, 2016

	2015 Improvement Project	2016 Utility Extension	2017 Utility Improvement Project	TIF District No 1-2	Total Nonmajor Governmental Funds
REVENUES					
Taxes					\$0
Intergovernmental revenues	20,380				20,380
Special Assessments					0
Fees and fines					0
Interest on investments					0
Miscellaneous revenues					0
TOTAL REVENUES	<u>20,380</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,380</u>
EXPENDITURES					
Current					
General government					0
Public safety					0
Streets and highways					0
Library					0
Miscellaneous				7,107	7,107
Capital outlay	115,071	100,212	21,436		236,719
TOTAL EXPENDITURES	<u>115,071</u>	<u>100,212</u>	<u>21,436</u>	<u>7,107</u>	<u>243,826</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(94,691)	(100,212)	(21,436)	(7,107)	(223,446)
OTHER FINANCING SOURCES (USES)					
Transfer in	5,303		0		5,303
Transfer out					0
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,303</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,303</u>
NET CHANGE IN FUND BALANCE	(89,388)	(100,212)	(21,436)	(7,107)	(218,143)
FUND BALANCE, January 1	89,388	0	0	0	89,388
FUND BALANCE, December 31	<u>\$0</u>	<u>(\$100,212)</u>	<u>(\$21,436)</u>	<u>(\$7,107)</u>	<u>(\$128,755)</u>

CITY OF EAGLE BEND

MUNICIPAL LIQUOR STORE OPERATIONS

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Years Ended December 31, 2016 and 2015

	2016	2015
SALES		
Liquor	\$86,862	\$95,792
Beer	134,530	148,331
Other Merchandise	16,223	16,697
TOTAL SALES	<u>237,615</u>	<u>260,720</u>
COST OF SALES		
Inventory, Beginning	51,163	48,638
Purchases	126,906	143,752
Freight	0	0
Total Merchandise Available for Sale	178,069	192,390
Less: Inventory, Ending	49,461	51,163
COST OF SALES	<u>128,608</u>	<u>141,227</u>
GROSS PROFIT ON SALES	<u>109,007</u>	<u>119,493</u>
Percentage of Gross Profit to Sales	45.9%	45.8%
OPERATING EXPENSES		
Operating Expenses	101,388	120,201
Depreciation	5,994	5,952
Total Operating Expense	<u>107,382</u>	<u>126,153</u>
Income (Loss) From Operations	1,625	(6,660)
NONOPERATING REVENUES	<u>19,308</u>	<u>16,155</u>
INCOME BEFORE TRANSFERS	<u>20,933</u>	<u>9,495</u>
TRANSFER OUT	<u>(14,000)</u>	<u>(10,000)</u>
CHANGES IN NET ASSETS	<u>6,933</u>	<u>(505)</u>
NET ASSETS - January 1	<u>347,369</u>	<u>347,874</u>
NET ASSETS - December 31	<u>\$354,302</u>	<u>\$347,369</u>

CITY OF EAGLE BEND

MUNICIPAL LIQUOR STORE OPERATIONS

COMPARATIVE STATEMENT OF OPERATING EXPENSE AND NONOPERATING REVENUES

Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING EXPENSES		
Wages	\$61,490	\$75,842
Pensions	8,199	11,048
Employee Benefits	1,235	1,451
Unemployment	0	0
Supplies	3,817	4,988
Miscellaneous	331	894
Utilities	9,063	11,302
Repairs	2,672	2,031
Insurance	7,299	5,545
Advertising	2,625	2,608
Telephone	1,323	513
Licenses	3,334	3,298
Training	0	681
Music	0	0
Total Operating Expenses before Depreciation	<u>101,388</u>	<u>120,201</u>
DEPRECIATION EXPENSE	<u>5,994</u>	<u>5,952</u>
TOTAL OPERATING EXPENSES	<u>\$107,382</u>	<u>\$126,153</u>
NONOPERATING REVENUES		
Machine Commissions	\$751	\$1,070
ATM Machine	1,285	1,170
Interest Income	1,214	718
Rent	16,058	13,197
TOTAL NONOPERATING REVENUES	<u>\$19,308</u>	<u>\$16,155</u>

CITY OF EAGLE BEND
SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

Years Ended December 31, 2016 and 2015

	2016	2015
REVENUE		
Sewer Charges	\$98,305	\$89,751
TOTAL REVENUES	99,305	89,751
OPERATING EXPENSES		
Salaries	22,110	21,833
Pensions	3,570	3,181
Employee Benefits	2,470	1,969
Supplies	662	487
Insurance	2,040	899
Utilities	4,623	4,287
Repairs and maintenance	3,328	5,863
Professional Fees	0	1,125
Plant Testing	1,254	818
Licenses & Fees	2,263	3,260
Miscellaneous	221	514
Mileage & Training	0	231
Depreciation	48,129	2,068
TOTAL OPERATING EXPENSES	88,669	46,335
INCOME FROM OPERATIONS	10,636	43,416
NONOPERATING REVENUES	2,112	1,720
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	12,748	45,136
CONTRIBUTED CAPITAL TRANSFER (OUT)	(34,776)	(44,495)
CHANGES IN NET ASSETS	(22,028)	641
FIXED ASSETS TRANSFERRED	1,762,514	
NET ASSETS, January 1	386,300	385,659
NET ASSETS, December 31	\$2,126,786	\$386,300

CITY OF EAGLE BEND
WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

Years Ended December 31, 2016 and 2015

	2016	2015
REVENUE		
Water Charges	\$102,529	\$89,656
OPERATING EXPENSES		
Salaries	22,045	21,686
Pensions	3,561	3,376
Employee Benefits	2,470	1,969
Supplies	8,458	7,134
Insurance	2,636	1,316
Utilities	7,892	8,073
Repairs and maintenance	3,243	3,165
Professional Fees	1,035	4,371
Training	322	111
Licenses & Fees	2,734	2,643
Miscellaneous	253	726
Depreciation	4,373	1,281
TOTAL OPERATING EXPENSES	59,022	55,851
INCOME FROM OPERATIONS	43,507	34,005
NONOPERATING REVENUES (EXPENSE)		
Interest Income	2,227	1,591
Interest Expense	(3,959)	(4,218)
TOTAL NONOPERATING REVENUES	(1,732)	(2,627)
INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL	41,775	31,378
CONTRIBUTED CAPITAL TRANSFER OUT	(49,773)	(9,515)
CHANGES IN NET ASSETS	(7,998)	21,863
FIXED ASSETS TRANSFERRED	57,879	
NET ASSETS, January 1	526,423	503,562
NET ASSETS, December 31	\$575,306	\$525,425

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CITY OF EAGLE BEND
GAS UTILITY FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

Year Ended December 31, 2016 and 2015

	2016	2015
REVENUE AND COST OF REVENUES		
Sales and Revenues	\$322,740	\$297,372
Cost of Sales	(132,591)	(151,378)
Gross Profit	190,149	145,994
	58.92%	49.09%
OPERATING EXPENSES		
Salaries	22,111	21,438
Pensions	3,570	3,376
Employee Benefits	2,470	1,969
Office Expense	662	0
Supplies	1,340	2,545
Utilities	469	397
Repairs	634	3,862
Insurance	1,114	336
License and Fees	18,975	17,963
Training	100	110
Depreciation	34,856	34,574
Miscellaneous	49	2,495
TOTAL OPERATING EXPENSES	86,252	89,065
INCOME FROM OPERATIONS	103,897	56,929
NONOPERATING REVENUES (EXPENSE)		
Interest Income	1,893	1,310
Bond Issuing Cost	(14,000)	-
Interest Expense	(9,388)	(21,723)
Total Nonoperating Revenues (Expense)	(21,495)	(20,413)
INCOME BEFORE TRANSFERS	82,401	36,516
TRANSFERS OUT	0	(20,000)
CHANGE IN NET ASSETS	82,401	16,516
NET ASSETS, January 1	296,797	280,281
NET ASSETS, December 31	\$379,198	\$296,797

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

To the City Council
City of Eagle Bend, Minnesota

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Eagle Bend, Minnesota, as of and for the year ended December 31, 2016, and the related notes to financial statements which collectively comprise the City of Eagle Bend, Minnesota's basic financial statements and have issued my report thereon dated June 23, 2017.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses I identify certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements and correct on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2016-1

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 2016-2

Compliance and Other Matters

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

CITY OF EAGLE BEND
SCHEDULE OF FINDINGS

Year Ended December 31, 2016

SUMMARY OF FINDINGS

Reportable condition and material weakness:

1) Segregation of Duties

The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control. Management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under this condition, the most effective control lies in management's knowledge of matters relating to the City's operations.

2) Oversight of the financial reporting process

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

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management is as responsible for outsourced functions performed by a service provider as it is when such functions are performed internally. Specifically, management in responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to financial statements. They were prepared from your working trial balance, and propose year end adjustments to convert cash basis records to accrual basis records. The outsourcing of these services is not unusual in Organizations of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements.

The absence of controls over the preparation of the financial statements is considered a material weakness because there is a reasonable possibility that a material misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the entity's internal control.

City of Eagle Bend's , Minnesota Response to Findings

City of Eagle Bend's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. City of Eagle Bend's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.


Purpose of this Report

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

Minnesota Legal Compliance

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes Sec 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions and Tax Increment Financing. My audit considered all the listed categories, except I did not test for compliance in Tax Increment Financing because the City does not have any.

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



June 23, 2017

CITY OF EAGLE BEND
 SCHEDULE OF RESPONSES
 Year Ended December 31, 2016

RESPONSE TO FINDINGS

The City Council reviews all bills and bank reconciliation are reviewed each month
 The Mayor and the City Clerk reviews the final statements before they are submitted to
 the State.

MINNESOTA LOCAL GOVERNMENT
 SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS FOR
 MUNICIPAL DEVELOPEMENT DISTRICT #1--2, A TAX INCREMENT FINANCING DISTRICT
 Year Ended December 31, 2016

	Original Budget	Accounted for in Prior Years	Current Year	Amount Remaining
Sources of Funds:				
Tax increments received	\$632,610	0	\$0	\$632,610
Interest income	6,326	0		6,326
Total	638,936	0	0	638,936
Uses of Funds:				
Land Acquisition	18,000			18,000
Site Improvements	30,000			30,000
Affordable Housing	201,063			201,063
Financing Costs	325,979		7,107	325,979
Administrative Costs	63,894			56,787
Total Uses of Funds	638,936	0	7,107	631,829
Transfer In (Out)			7,107	
District Balance (or Deficiency)	0	0	0	0

FORM OF LEGAL OPINION

(See following page)



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PROPOSED FORM OF LEGAL OPINION

\$ _____
GENERAL IMPROVEMENT OBLIGATION BONDS, SERIES 2018B
CITY OF EAGLE BEND
TODD COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Eagle Bend, Todd County, Minnesota (the "Issuer"), of its \$ _____ General Improvement Obligation Bonds, Series 2018B, bearing a date of original issue of June 14, 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

PROPOSED FORM OF LEGAL OPINION

thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

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

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

BRIGGS AND MORGAN
Professional Association

BOOK-ENTRY-ONLY SYSTEM

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

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

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 Eagle Bend, Minnesota (the "Issuer"), in connection with the issuance of its \$ _____ General Improvement Obligation Bonds, Series 2018B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on May 21, 2018 (the "Resolution"). Pursuant to the Resolution and this Undertaking, the Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dated: _____, 2018.

CITY OF EAGLE BEND, MINNESOTA

By _____
Its Mayor

By _____
Its Administrator-Clerk-Treasurer

APPENDIX E

TERMS OF PROPOSAL

\$295,000* GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2018B CITY OF EAGLE BEND, MINNESOTA

Proposals for the purchase of \$295,000* General Obligation Improvement Bonds, Series 2018B (the "Bonds") of the City of Eagle Bend, 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 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on May 21, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, by the City for the purpose of financing a portion of the City's Phase 2 and 3 - 2018 Street and Utility Improvements that does not have watermain, sanitary sewer, or storm sewer as part of the street reconstruction, particularly (i) First Avenue West - Main Street to North Street and (ii) North Street - 2nd Avenue East to Main Street.

DATES AND MATURITIES

The Bonds will be dated June 14, 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	\$10,000	2027	\$15,000	2034	\$15,000
2021	10,000	2028	15,000	2035	15,000
2022	10,000	2029	15,000	2036	20,000
2023	10,000	2030	15,000	2037	20,000
2024	10,000	2031	15,000	2038	20,000
2025	15,000	2032	15,000	2039	20,000
2026	15,000	2033	15,000		

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

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 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 June 14, 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 \$290,575 plus accrued interest on the principal sum of \$295,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or
- 3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

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

A good faith deposit ("Deposit") in the amount of \$5,900 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

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

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

AWARD

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

BOND INSURANCE

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

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

CUSIP NUMBERS

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

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

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

By Order of the City Council

City of Eagle Bend, Minnesota

PROPOSAL FORM

The City Council
City of Eagle Bend, Minnesota

May 21, 2018

RE: \$295,000* General Obligation Improvement Bonds, Series 2018B
DATED: June 14, 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 \$290,575) 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 \$5,900, 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 June 14, 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 June 14, 2018 of the above proposal is \$ _____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Eagle Bend, Minnesota, on May 21, 2018.

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