

PRELIMINARY OFFICIAL STATEMENT DATED JULY 26, 2018

In the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, assuming continued compliance with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing law, interest on the Bonds is not includable in gross income for federal income tax purposes and is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals. See "TAX EXEMPTION" herein for a more detailed discussion. The interest on the Bonds is exempt from taxable income of individuals, trusts and estates, for Minnesota income tax purposes, but such interest is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax.

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 CANBY, MINNESOTA (Yellow Medicine County)

\$1,395,000* GENERAL OBLIGATION BONDS, SERIES 2018A

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

PURPOSE/AUTHORITY/SECURITY: The \$1,395,000* General Obligation Bonds, Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 429, 444 and 475, by the City of Canby, Minnesota (the "City") for the purpose of financing the Storm Sewer portion of the City's Phase 2 and 3 Infrastructure Project including minor utility connections, and the construction of the Lexington Avenue Improvements in 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 Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota.

DATE OF BONDS: August 29, 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	\$40,000	2027	\$65,000	2034	\$85,000
2021	55,000	2028	65,000	2035	75,000
2022	55,000	2029	75,000	2036	80,000
2023	55,000	2030	75,000	2037	80,000
2024	60,000	2031	75,000	2038	85,000
2025	60,000	2032	80,000	2039	85,000
2026	65,000	2033	80,000		

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: August 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: \$1,378,260

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$27,900 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Fryberger, Buchanan, Smith & Frederick, P.A.

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 OF CANBY
CITY COUNCIL**

		<u>Term Expires</u>
Nancy Bormann	Mayor	January 2021
Denise Hanson	Council Member	January 2021
Gene Bies	Council Member	January 2021
Ryan Feiock	Council Member	January 2019
Jackie Paulsen	Council Member	January 2019

ADMINISTRATION

Becca Schrupp, City Administrator

PROFESSIONAL SERVICES

Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, Duluth, 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 Canby, Minnesota (the "City") and the issuance of its \$1,395,000* General Obligation Bonds, Series 2018A (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 August 7, 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 August 29, 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 August 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, 444 and 475, by the City for the purpose of financing the construction of the Lexington Avenue Improvements (the "Improvement Portion") and a portion of the City's Phase 2 and 3 Infrastructure Project including minor utility connections (the "Storm Sewer Portion").

ESTIMATED SOURCES AND USES*

Sources	Improvement Portion	Storm Sewer Portion	Total Bond Issue
Par Amount of Bonds	\$285,000	\$1,110,000	\$1,395,000
PFA DWRF	-	6,175,608	6,175,608
PFA CWRF	<u>-</u>	<u>5,516,238</u>	<u>5,516,238</u>
Total Sources	\$285,000	\$12,801,846	\$13,086,846
Uses			
Total Underwriter's Discount (1.200%)	\$3,420	\$13,320	\$16,740
Costs of Issuance	9,602	37,398	47,000
Deposit to Project Construction Fund	271,151	12,749,383	13,020,535
Rounding Amount	<u>826</u>	<u>1,745</u>	<u>2,571</u>
Total Uses	\$285,000	\$12,801,846	\$13,086,846

Breakdown of Principal Payments:

Payment Date	Improvement Portion	Storm Sewer Portion	Total Bond Issue
2/01/2020	\$10,000	\$30,000	\$40,000
2/01/2021	10,000	45,000	55,000
2/01/2022	10,000	45,000	55,000
2/01/2023	10,000	45,000	55,000
2/01/2024	15,000	45,000	60,000
2/01/2025	15,000	45,000	60,000
2/01/2026	15,000	50,000	65,000
2/01/2027	15,000	50,000	65,000
2/01/2028	15,000	50,000	65,000
2/01/2029	20,000	55,000	75,000
2/01/2030	20,000	55,000	75,000
2/01/2031	20,000	55,000	75,000
2/01/2032	20,000	60,000	80,000
2/01/2033	20,000	60,000	80,000
2/01/2034	20,000	65,000	85,000
2/01/2035	10,000	65,000	75,000
2/01/2036	10,000	70,000	80,000
2/01/2037	10,000	70,000	80,000
2/01/2038	10,000	75,000	85,000
2/01/2039	<u>10,000</u>	<u>75,000</u>	<u>85,000</u>
Total	\$285,000	\$1,110,000	\$1,395,000

*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 on the Improvements portion will be paid from a combination of special assessments and property taxes levied against properties benefitted by improvements financed by the Bonds and property taxes.

The City anticipates that the debt service on the Storm Sewer portion will be paid from net revenues of the storm sewer system which is owned and operated by the City.

Receipt of special assessments, revenues 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.

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.

The City did not meet its disclosure obligation by not filing the following in the last five years as required by the Rule. Except to the extent that the following are deemed to be material, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The annual financial information and operating data and audited financial statements for fiscal year ending December 31, 2012 were due to be filed by December 31, 2013. The reports were not filed until September 29, 2014. The annual financial information and operating data and audited financial statements for fiscal year ending December 31, 2013 were due to be filed by December 31, 2014. The operating data report was filed August 19, 2015 and the audited financial statements were filed May 4, 2015. 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 Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, 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

Under federal and Minnesota laws, regulations, rulings and decisions in effect on the date of issuance of the Bonds, interest on the Bonds is not includable in gross income for federal income tax purposes, or in taxable net income of individuals, trusts and estates for Minnesota income tax purposes but is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), however, impose continuing requirements that must be met after the issuance of the Bonds in order for the interest thereon to be and remain not includable in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the City may cause the interest on the Bonds to be includable in gross income and in Minnesota taxable net income retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includable in federal gross income or Minnesota taxable net income.

Interest on the Bonds is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed by Section 55 of the Code on individuals or the Minnesota alternative minimum tax applicable to individuals, estates and trust. However, interest on the Bonds is includable in adjusted current earnings in determining the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includable in income of foreign corporations for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15% of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for a Subchapter S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than 25% of its gross receipts is passive investment income.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers should consult their tax advisers with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income.

From time to time, legislative proposals are introduced in Congress which, if enacted, could alter one or more of the federal tax matters referred to above or would adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any of the proposals may be enacted and whether, if enacted, such proposals will apply to obligations (such as the Bonds) issued prior to enactment.

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, 2017 have been audited by Kinner & Company Ltd., Tracy, 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 and storm sewer revenues) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

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

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

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

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

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

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

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

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

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

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

Cybersecurity: Municipalities are dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may be valued for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that they will not experience a breach with financial consequences that could have a material adverse impact.

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

2017/18 Economic Market Value \$81,326,768¹

	2017/18 Assessor's Estimated Market Value	2017/18 Net Tax Capacity
Real Estate	\$80,280,700	\$818,733
Personal Property	<u>2,638,600</u>	<u>49,605</u>
Total Valuation	<u>\$82,919,300</u>	\$868,338
Less: Captured Tax Increment Tax Capacity ²		<u>(198,028)</u>
Taxable Net Tax Capacity		<u>\$670,310</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Canby is about 102.03% 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 \$81,326,768.

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

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$397,758	45.81%
Agricultural	9,892	1.14%
Commercial/industrial	324,727	37.40%
Public utility	5,498	0.63%
Non-homestead residential	80,729	9.30%
Commercial & residential seasonal/rec.	129	0.01%
Personal property	49,605	5.71%
Total	<u>\$868,338</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	\$ 68,645,200	\$55,832,500	\$668,947	\$585,521	+ 3.80%
2014/15	76,198,200	63,182,600	754,494	655,210	+11.00%
2015/16	75,828,000	62,911,446	750,361	641,381	- 0.49%
2016/17	76,144,900	63,048,431	748,111	646,151	+ 0.42%
2017/18	82,919,300	69,466,511	868,338	670,310	+ 8.90%

¹ Net Tax Capacity includes tax increment values.

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

LARGER TAXPAYERS

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of City's Total Net Tax Capacity
Helena Chemical Company	Commercial	\$ 77,982	8.98%
Canby Farmers Grain Co.	Industrial	67,064	7.72%
Farmers Coop Association	Commercial	55,253	6.36%
Otter Tail Power Co.	Utility	42,048	4.84%
Canby Inn & Suites, LLC	Commercial	21,944	2.53%
Huber Real Estate, LLC	Commercial/Residential	7,834	0.90%
Minnesota Energy Resources Corp.	Utility	7,680	0.88%
Canby Professional Bldg, LLC	Commercial	6,574	0.76%
WF-DG N16288, LLC	Commercial	6,234	0.72%
Summit Properties of Canby, LLC	Commercial/Residential	5,079	0.58%
Total		<u><u>\$297,692</u></u>	<u><u>34.28%</u></u>

City's Total 2017/18 Net Tax Capacity \$868,338

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total g.o. debt being paid from revenues	\$ 13,996,000
Total g.o. debt being paid from tax increment revenues	1,585,000
Total g.o. debt being paid from taxes	125,904
Total g.o. debt being paid from taxes and tax increment revenues	1,510,000
Total g.o. debt being paid from special assessments and taxes	225,000
Total g.o. debt being paid from revenues and special assessments	1,435,000
Total g.o. debt being paid from tax abatement revenues and taxes	695,000
Total g.o. debt being paid from revenues, special assessments, and taxes (includes the Bonds)*	<u>1,395,000</u>
Total General Obligation Debt*	<u><u>\$ 20,966,904</u></u>

*Preliminary, subject to change.

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

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Revenues
(As of 8/29/18)

Fiscal Year Ending	Refunding 1) 2004 Bond		Storm Sewer Series 2010A		Drinking Water 2010 MPFA Loan		Clean Water 2010 MPFA Loan		Drinking Water 2014 MPFA Loan		Clean Water 2014 MPFA Loan		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest						
2019	35,000	4,069	55,000	32,984	130,000	33,260	157,000	50,911	80,000	23,580	128,000	37,820	585,000	182,624	767,624	13,411,000	4.18%	2019
2020	35,000	2,641	60,000	31,946	132,000	31,946	159,000	48,793	81,000	22,780	129,000	36,540	596,000	173,787	769,787	12,815,000	8.44%	2020
2021	35,000	814	60,000	29,266	133,000	30,410	161,000	46,648	81,000	21,970	131,000	35,250	601,000	164,358	765,358	12,214,000	12.73%	2021
2022			65,000	27,194	135,000	28,963	163,000	44,477	83,000	21,160	133,000	33,940	577,000	155,733	732,733	11,637,000	16.85%	2022
2023			65,000	24,960	136,000	27,494	166,000	42,278	83,000	20,340	133,000	32,520	583,000	147,691	730,691	11,054,000	21.02%	2023
2024			70,000	22,563	138,000	26,014	168,000	40,038	84,000	19,510	135,000	31,260	595,000	139,415	734,415	10,459,000	25.27%	2024
2025			70,000	20,008	139,000	24,513	170,000	37,772	85,000	18,570	136,000	29,540	600,000	130,902	730,902	9,859,000	29.56%	2025
2026			70,000	17,400	141,000	23,000	172,000	33,479	86,000	17,820	137,000	28,560	606,000	122,279	728,279	9,253,000	33.89%	2026
2027			75,000	14,644	142,000	21,466	174,000	33,158	87,000	16,980	139,000	27,210	617,000	113,438	730,438	8,636,000	42.78%	2027
2028			80,000	11,600	144,000	19,821	177,000	30,811	87,000	16,090	140,000	25,820	628,000	104,242	732,242	8,006,000	47.31%	2028
2029			80,000	8,400	145,000	18,355	179,000	28,423	88,000	15,220	142,000	24,420	634,000	94,818	728,818	7,374,000	51.92%	2029
2030			85,000	5,100	147,000	16,777	181,000	26,009	89,000	14,340	143,000	23,000	645,000	85,226	730,226	6,729,000	60.67%	2030
2031			85,000	1,700	148,000	15,178	184,000	23,967	90,000	13,450	144,000	21,570	651,000	75,465	726,465	6,078,000	56.57%	2031
2032					150,000	13,567	186,000	21,085	91,000	12,550	146,000	20,130	573,000	67,332	640,332	5,505,000	60.67%	2032
2033					152,000	11,935	189,000	18,576	92,000	11,640	147,000	18,670	580,000	60,821	640,821	4,925,000	64.81%	2033
2034					153,000	10,282	191,000	16,026	93,000	10,720	149,000	17,200	586,000	54,228	640,228	4,339,000	69.00%	2034
2035					155,000	8,617	194,000	13,450	94,000	9,790	150,000	15,710	593,000	47,567	640,567	3,746,000	73.24%	2035
2036					157,000	6,931	197,000	10,832	95,000	8,850	152,000	14,210	601,000	40,823	641,823	3,145,000	81.86%	2036
2037					158,000	5,222	199,000	8,175	96,000	6,940	153,000	12,690	606,000	33,987	639,987	2,539,000	86.25%	2037
2038					160,000	3,503	202,000	5,490	97,000	5,970	155,000	11,160	614,000	27,084	641,084	1,925,000	90.68%	2038
2039					162,000	1,763	205,000	2,765	97,000	4,020	156,000	9,610	614,000	20,108	640,108	1,305,000	92.51%	2039
2040									99,000	5,000	159,000	8,050	256,000	13,050	269,050	1,049,000	94.35%	2040
2041									99,000	4,020	159,000	6,470	258,000	10,490	268,490	791,000	96.21%	2041
2042									100,000	3,030	161,000	4,880	261,000	7,910	268,910	530,000	98.10%	2042
2043									102,000	2,030	163,000	3,270	264,000	5,300	269,300	266,000	100.00%	2043
2044									102,000	1,020	164,000	1,640	266,000	2,660	268,660	0	100.00%	2044
			105,000	7,524	3,057,000	379,016	3,774,000	584,765	2,358,000	331,350	3,782,000	531,690	13,986,000	2,081,348	16,077,348			

1) This issue refunded the 2005 through 2021 maturities of the City's \$740,000 General Obligation Sewer Revenue Bonds of 1991, dated July 19, 1991.

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Tax Incremental Revenues
(As of 8/29/18)

Fiscal Year Ending	Taxable TIF 1997		HRA TIF Note 2001		Taxable TIF Series 2012A		Taxable TIF Series 2012B		Taxable TIF Series 2014C		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest						
2018			0	0	30,000	13,913	10,000	8,481	25,000	11,781	75,000	36,388	111,388	1,510,000	4.73%	2018
2019			2,000	1,800	30,000	26,825	10,000	16,388	25,000	22,750	77,000	71,553	148,553	1,433,000	9.59%	2019
2020			2,000	1,620	30,000	26,025	10,000	15,813	25,000	21,938	77,000	68,350	145,350	1,356,000	14.45%	2020
2021			2,000	1,440	35,000	25,125	10,000	15,238	150,000	21,125	207,000	65,148	272,148	1,149,000	27.51%	2021
2022			2,000	1,260	35,000	24,075	15,000	14,663	150,000	15,500	212,000	56,978	268,978	937,000	40.88%	2022
2023			2,000	1,080	35,000	23,025	15,000	13,800	175,000	8,750	237,000	47,395	284,395	700,000	55.84%	2023
2024			2,000	900	35,000	21,625	15,000	12,938	15,000	8,750	52,000	35,463	87,463	646,000	59.12%	2024
2025			2,000	720	40,000	20,225	15,000	12,075	15,000	8,750	52,000	33,020	85,020	596,000	62.40%	2025
2026			2,000	540	40,000	18,825	15,000	11,213	15,000	8,750	57,000	30,578	87,578	539,000	65.99%	2026
2027			2,000	360	40,000	17,025	15,000	10,350	15,000	8,750	57,000	27,735	84,735	482,000	69.59%	2027
2028			2,000	180	40,000	15,425	15,000	9,488	15,000	8,750	55,000	24,893	81,893	425,000	73.19%	2028
2029					45,000	11,525	15,000	7,763	15,000	8,750	60,000	22,050	77,050	370,000	76.66%	2029
2030					45,000	9,388	15,000	6,900	15,000	8,750	60,000	19,288	79,288	310,000	80.44%	2030
2031					45,000	7,250	15,000	6,038	15,000	8,750	60,000	16,288	76,288	250,000	84.23%	2031
2032					50,000	5,000	15,000	5,175	15,000	8,750	65,000	13,288	73,288	190,000	88.01%	2032
2033					50,000	2,500	15,000	4,313	15,000	8,750	65,000	10,175	75,175	125,000	92.11%	2033
2034							15,000	3,450	15,000	8,750	65,000	6,813	71,813	60,000	96.21%	2034
2035							15,000	2,588	15,000	8,750	15,000	3,450	18,450	45,000	97.16%	2035
2036							15,000	1,725	15,000	8,750	15,000	2,588	17,588	30,000	98.11%	2036
2037							15,000	863	15,000	8,750	15,000	1,725	16,725	15,000	99.05%	2037
2038							15,000	863	15,000	8,750	15,000	863	15,863	0	100.00%	2038
			20,000	9,900	660,000	281,100	295,000	187,881	550,000	101,844	1,585,000	594,023	2,179,023			

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 8/29/18)

Fiscal Year Ending	Fire Truck 2008 Loan		Fire Truck USDA Loan 2011		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Principal	Interest						
2018	9/10/09 \$100,000	9/10	7,119	1,954	7,119	1,954	9,073	118,785	5.65%	2018
2019			7,413	1,660	15,949	4,919	20,868	102,837	18.32%	2019
2020			7,718	1,355	16,606	4,261	20,868	86,230	31.51%	2020
2021			8,037	1,036	17,291	3,576	20,868	68,939	45.24%	2021
2022			8,368	705	18,005	2,863	20,868	50,934	59.55%	2022
2023			8,713	359	18,747	2,120	20,868	32,187	74.44%	2023
2024					10,448	1,347	11,795	21,739	82.73%	2024
2025					10,879	916	11,795	10,860	91.37%	2025
2026					10,860	467	11,328	0	100.00%	2026
			47,368	7,069	125,904	22,424	148,328			

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes and Tax Increment Revenues
(As of 8/29/18)

GO TIF
Series 2015A

Dated Amount	06/01/15 \$1,630,000	Maturity 6/1	Fiscal Year		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest						
2019	60,000	67,663	60,000	67,663	127,663	1,450,000	3.97%	2019		
2020	60,000	66,163	60,000	66,163	126,163	1,390,000	7.95%	2020		
2021	70,000	64,188	70,000	64,188	134,188	1,320,000	12.58%	2021		
2022	70,000	61,738	70,000	61,738	131,738	1,250,000	17.22%	2022		
2023	70,000	59,288	70,000	59,288	129,288	1,180,000	21.85%	2023		
2024	70,000	56,575	70,000	56,575	126,575	1,110,000	26.49%	2024		
2025	80,000	53,388	80,000	53,388	133,388	1,030,000	31.79%	2025		
2026	80,000	49,988	80,000	49,988	129,988	950,000	37.09%	2026		
2027	80,000	46,288	80,000	46,288	126,288	870,000	42.38%	2027		
2028	80,000	42,288	80,000	42,288	122,288	790,000	47.68%	2028		
2029	90,000	38,038	90,000	38,038	128,038	700,000	53.64%	2029		
2030	90,000	33,538	90,000	33,538	123,538	610,000	59.60%	2030		
2031	95,000	28,913	95,000	28,913	123,913	515,000	65.89%	2031		
2032	95,000	24,163	95,000	24,163	119,163	420,000	72.19%	2032		
2033	105,000	19,163	105,000	19,163	124,163	315,000	79.14%	2033		
2034	105,000	13,781	105,000	13,781	118,781	210,000	86.09%	2034		
2035	105,000	8,269	105,000	8,269	113,269	105,000	93.05%	2035		
2036	105,000	2,756	105,000	2,756	107,756	0	100.00%	2036		
	1,510,000	736,181	1,510,000	736,181	2,246,181					

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Special Assessments & Taxes
(As of 8/29/18)

Parking Lot
Series 2011A

Dated Amount	9/1/11 \$265,000	Maturity	9/01		
Fiscal Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I
2018	10,000	4,650	10,000	4,650	14,650
2019	10,000	9,113	10,000	9,113	19,113
2020	10,000	8,738	10,000	8,738	18,738
2021	15,000	8,269	15,000	8,269	23,269
2022	15,000	7,706	15,000	7,706	22,706
2023	15,000	7,088	15,000	7,088	22,088
2024	15,000	6,413	15,000	6,413	21,413
2025	15,000	5,738	15,000	5,738	20,738
2026	15,000	5,063	15,000	5,063	20,063
2027	15,000	4,388	15,000	4,388	19,388
2028	15,000	3,713	15,000	3,713	18,713
2029	15,000	3,038	15,000	3,038	18,038
2030	20,000	2,250	20,000	2,250	22,250
2031	20,000	1,350	20,000	1,350	21,350
2032	20,000	450	20,000	450	20,450
	225,000	77,963	225,000	77,963	302,963
			Principal Outstanding	% Paid	Fiscal Year Ending
			215,000	4.44%	2018
			205,000	8.89%	2019
			195,000	13.33%	2020
			180,000	20.00%	2021
			165,000	26.67%	2022
			150,000	33.33%	2023
			135,000	40.00%	2024
			120,000	46.67%	2025
			105,000	53.33%	2026
			90,000	60.00%	2027
			75,000	66.67%	2028
			60,000	73.33%	2029
			40,000	82.22%	2030
			20,000	91.11%	2031
			0	100.00%	2032

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Revenues and Special Assessments
(As of 8/29/18)

G.O. Bonds
Series 2014D

Fiscal Year Ending	10/30/14		2/01		Total P & I	Total Interest	Total Principal	Principal Outstanding	% Paid	Fiscal Year Ending
	Amount		Principal	Interest						
2019			70,000	40,310	110,310	40,310	70,000	1,365,000	4.88%	2019
2020		\$1,630,000	70,000	39,190	109,190	39,190	70,000	1,295,000	9.76%	2020
2021			70,000	38,070	108,070	38,070	70,000	1,225,000	14.63%	2021
2022			75,000	36,666	111,666	36,666	75,000	1,150,000	19.86%	2022
2023			75,000	34,979	109,979	34,979	75,000	1,075,000	25.09%	2023
2024			75,000	33,291	108,291	33,291	75,000	1,000,000	30.31%	2024
2025			85,000	31,173	116,173	31,173	85,000	915,000	36.24%	2025
2026			85,000	28,623	113,623	28,623	85,000	830,000	42.16%	2026
2027			85,000	26,073	111,073	26,073	85,000	745,000	48.08%	2027
2028			90,000	23,380	113,380	23,380	90,000	655,000	54.36%	2028
2029			90,000	20,545	110,545	20,545	90,000	565,000	60.63%	2029
2030			95,000	17,631	112,631	17,631	95,000	470,000	67.25%	2030
2031			90,000	14,718	104,718	14,718	90,000	380,000	73.52%	2031
2032			90,000	11,725	101,725	11,725	90,000	290,000	79.79%	2032
2033			95,000	8,488	103,488	8,488	95,000	195,000	86.41%	2033
2034			95,000	5,163	100,163	5,163	95,000	100,000	93.03%	2034
2035			100,000	1,750	101,750	1,750	100,000	0	100.00%	2035
			1,435,000	411,773	1,846,773	411,773	1,435,000			

1) The Utility portion of this issue is payable entirely from revenues (\$1,345,000 current principal outstanding).

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes and Tax Abatement Revenues
(As of 8/29/18)

GO Tax Abatement
Series 2015B

Fiscal Year Ending	Dated Amount	Maturity	9/24/15		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest						
2019			20,000	22,940	20,000	22,940	42,940	675,000	2.88%	2019
2020	\$695,000		30,000	22,415	30,000	22,415	52,415	645,000	7.19%	2020
2021			30,000	21,785	30,000	21,785	51,785	615,000	11.51%	2021
2022		2/01	35,000	21,103	35,000	21,103	56,103	580,000	16.55%	2022
2023			35,000	20,368	35,000	20,368	55,368	545,000	21.58%	2023
2024			35,000	19,475	35,000	19,475	54,475	510,000	26.62%	2024
2025			35,000	18,425	35,000	18,425	53,425	475,000	31.65%	2025
2026			35,000	17,375	35,000	17,375	52,375	440,000	36.69%	2026
2027			35,000	16,325	35,000	16,325	51,325	405,000	41.73%	2027
2028			40,000	15,200	40,000	15,200	55,200	365,000	47.48%	2028
2029			40,000	13,800	40,000	13,800	53,800	325,000	53.24%	2029
2030			40,000	12,200	40,000	12,200	52,200	285,000	58.99%	2030
2031			45,000	10,500	45,000	10,500	55,500	240,000	65.47%	2031
2032			45,000	8,700	45,000	8,700	53,700	195,000	71.94%	2032
2033			45,000	6,900	45,000	6,900	51,900	150,000	78.42%	2033
2034			50,000	5,000	50,000	5,000	55,000	100,000	85.61%	2034
2035			50,000	3,000	50,000	3,000	53,000	50,000	92.81%	2035
2036			50,000	1,000	50,000	1,000	51,000	0	100.00%	2036
			695,000	256,510	695,000	256,510	951,510			

CITY OF CANBY, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Revenues, Special Assessments and Taxes
(As of 8/29/18)

G.O. Bonds
Series 2018A

Fiscal Year Ending	Dated Amount	Maturity	Estimated		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
			Principal	Interest						
2019	8/29/18	2/01	0	41,646	0	41,646	1,395,000	0.00%	2019	
2020	\$1,395,000*		40,000	46,965	40,000	46,965	1,355,000	2.87%	2020	
2021			55,000	45,798	55,000	45,798	1,300,000	6.81%	2021	
2022			55,000	44,395	55,000	44,395	1,245,000	10.75%	2022	
2023			55,000	42,938	55,000	42,938	1,190,000	14.70%	2023	
2024			60,000	41,355	60,000	41,355	1,130,000	19.00%	2024	
2025			60,000	39,645	60,000	39,645	1,070,000	23.30%	2025	
2026			65,000	37,800	65,000	37,800	1,005,000	27.96%	2026	
2027			65,000	35,818	65,000	35,818	940,000	32.62%	2027	
2028			65,000	33,770	65,000	33,770	875,000	37.28%	2028	
2029			75,000	31,493	75,000	31,493	800,000	42.65%	2029	
2030			75,000	28,980	75,000	28,980	725,000	48.03%	2030	
2031			75,000	26,393	75,000	26,393	650,000	53.41%	2031	
2032			80,000	23,640	80,000	23,640	570,000	59.14%	2032	
2033			80,000	20,720	80,000	20,720	490,000	64.87%	2033	
2034			85,000	17,625	85,000	17,625	405,000	70.97%	2034	
2035			75,000	14,566	75,000	14,566	330,000	76.34%	2035	
2036			80,000	11,563	80,000	11,563	250,000	82.08%	2036	
2037			80,000	8,423	80,000	8,423	170,000	87.81%	2037	
2038			85,000	5,143	85,000	5,143	85,000	93.91%	2038	
2039			85,000	1,721	85,000	1,721	0	100.00%	2039	
			1,395,000	600,394	1,395,000	600,394	1,995,394			

*Preliminary, subject to change.

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 the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of the following: (1) obligations payable wholly or partly from special assessments levied against benefitted property (includes the Improvement portion of the Bonds); (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences (includes the Storm Sewer portion of the Bonds); (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any public revenue producing convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations issued to pay judgments against the City; and (8) 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	\$ 82,919,300
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 2,487,579
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	<u>(125,904)</u>
Unused Debt Limit*	<u><u>\$ 2,361,675</u></u>

*Preliminary, subject to change.

OVERLAPPING DEBT¹

Taxing District	2017/18 Taxable Net Tax Capacity	% In City	Total G.O. Debt ²	City's Proportionate Share
Yellow Medicine County	\$ 23,704,220	2.8278%	\$11,335,000	\$320,531
I.S.D. No. 891 (Canby Public Schools)	7,441,565	9.0076%	7,372,000 ³	<u>664,040</u>
City's Share of Total Overlapping Debt				<u><u>\$984,571</u></u>

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

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

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

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$81,326,768)	Debt/ Current Population Estimate (1,663)
Direct G.O. Debt Being Paid From:			
Revenues	\$ 13,996,000		
Tax Increment Revenues	1,585,000		
Taxes	125,904		
Taxes & Tax Increment Revenues	1,510,000		
Special Assessments & Taxes	225,000		
Revenue & Special Assessments	1,435,000		
Tax Abatement Revenues & Taxes	695,000		
Revenues, Special Assessments & Taxes*	<u>1,395,000</u>		
Total General Obligation Debt (includes the Obligations)*	\$ 20,966,904		
Less: G.O. Debt Paid Entirely from Revenues ¹	<u>(16,451,000)</u>		
Tax Supported General Obligation Debt*	\$ 4,515,904	5.55%	\$2,715.52
City's Share of Total Overlapping Debt	<u>\$ 984,571</u>	<u>1.21%</u>	<u>\$592.05</u>
Total*	<u>\$ 5,500,475</u>	<u>6.76%</u>	<u>\$3,307.56</u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

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

FUTURE FINANCING

The City plans to finance Notes for approximately \$4,345,382 through the Clean Water Public Facilities Authority and an estimated \$3,981,104 through the Drinking Water Public Facilities Authority 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. Includes the Utility portion of the City's General Obligation Bonds, Series 2014D (\$1,345,000 current principal outstanding) and the Storm Sewer portion of the Bonds of this offering (\$1,110,000 estimated principal outstanding), which are payable entirely from revenues.

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	\$ 725,958	\$705,790	\$724,102	99.74%
2014/15	724,623	713,335	722,903	99.76%
2015/16	732,606	716,033	727,053	99.24%
2016/17	736,052	718,568	718,568	97.62%
2017/18	735,180	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
Yellow Medicine County	34.012%	33.991%	39.812%	41.815%	63.669%
City of Canby	124.039%	110.634%	113.647%	113.201%	109.121%
I.S.D. No. 891 (Canby Public Schools)	7.861%	11.266%	11.937%	11.270%	11.618%
Upper Minnesota RDC	0.268%	0.269%	0.295%	0.297%	0.319%
Yellow Medicine County HRA	0.199%	0.196%	0.226%	0.234%	0.261%
LQP - Yellow Bank Watershed	1.187%	1.059%	1.155%	1.203%	1.287%

Referendum Market Value Rates:

I.S.D. No. 891 (Canby Public Schools)	0.14539%	0.13052%	0.29510%	0.30341%	0.29147%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Yellow Medicine County.

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.

LEVY LIMITS

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

THE ISSUER

CITY GOVERNMENT

The City of Canby was organized as a municipality in 1905. The City operates under a home rule charter form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator is responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 11 full-time, no part-time, and 42 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
IBEW Local 949	December 31, 2018
LELS Local 355	December 31, 2018
MAPE	December 31, 2018

POST EMPLOYMENT BENEFITS

The City does not have 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 June 30, 2018)

Fund	Total Cash and Investments
General	\$ 125,987
Special Revenue	225,536
Debt Service	841,629
Enterprise Funds	1,404,848
Total Funds on Hand	<u><u>\$2,598,000</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:

	2015	2016	2017
Storm Sewer			
Total Operating Revenues	\$ 124,513	\$ 133,332	\$ 133,398
Less: Operating Expenses	<u>(56,586)</u>	<u>(125,743)</u>	<u>(123,490)</u>
Operating Income	\$ 67,927	\$ 7,589	\$ 9,908
Plus: Depreciation	<u>54,651</u>	<u>109,834</u>	<u>112,869</u>
Revenues Available for Debt Service	<u><u>\$ 122,578</u></u>	<u><u>\$ 117,423</u></u>	<u><u>\$ 122,777</u></u>
Wastewater			
Total Operating Revenues	\$ 232,080	\$ 281,345	\$ 282,498
Less: Operating Expenses	<u>(389,643)</u>	<u>(546,218)</u>	<u>(558,663)</u>
Operating Income	\$ (157,563)	\$ (264,873)	\$ (276,165)
Plus: Depreciation	<u>259,614</u>	<u>418,758</u>	<u>431,120</u>
Revenues Available for Debt Service	<u><u>\$ 102,051</u></u>	<u><u>\$ 153,885</u></u>	<u><u>\$ 154,955</u></u>
Water			
Total Operating Revenues	\$ 392,788	\$ 439,008	\$ 442,860
Less: Operating Expenses	<u>(431,206)</u>	<u>(597,495)</u>	<u>(603,510)</u>
Operating Income	\$ (38,418)	\$ (158,487)	\$ (160,650)
Plus: Depreciation	<u>229,109</u>	<u>402,909</u>	<u>414,634</u>
Revenues Available for Debt Service	<u><u>\$ 190,691</u></u>	<u><u>\$ 244,422</u></u>	<u><u>\$ 253,984</u></u>

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2017 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				2018 Adopted Budget ¹
	2014 Audited	2015 Audited	2016 Audited	2017 Audited	
Revenues					
Interest revenue	\$ 2,126	\$ 2,903	\$ 2,368	\$ 2,000	\$ 2,350
Intergovernmental revenues	1,337,135	1,474,003	917,877	835,879	736,348
Property taxes	571,290	590,538	414,143	414,546	400,724
Special assessments	4,577	3,471	4,131	2,901	2,200
License and permits	3,333	3,140	2,918	2,660	3,160
Fines and forfeitures	3,724	4,579	4,686	3,111	4,000
Charges for services	86,487	131,031	92,444	109,823	247,605
Gain on sale of assets	72,365	0	0	125	0
Refunds and Reimbursements	431,819	70,848	88,730	61,832	110,733
Miscellaneous	241,212	161,212	198,913	121,631	137,450
Federal grants	0	0	134,714	788,231	0
Total Revenues	\$2,754,068	\$ 2,441,725	\$1,860,924	\$2,342,739	\$ 1,644,570
Expenditures					
Current:					
General government and administration	\$ 667,396	\$ 332,545	\$ 321,339	\$ 347,979	\$ 528,190
Public safety	309,423	292,820	330,987	364,267	397,731
Public works	302,442	191,923	220,116	287,526	288,540
Culture and recreation	238,816	240,981	222,285	201,121	271,340
Economic Development	0	0	0	0	13,000
Grant pass-through	278,804	0	0	0	0
Miscellaneous	313,011	185,960	145,811	180,734	129,350
Capital outlay	313,313	868,827	436,767	1,139,990	0
Interest and Charges on LT debt	7,838	7,301	6,741	6,158	0
Debt Service	13,030	13,568	14,127	14,710	0
Total Expenditures	\$2,444,073	\$ 2,133,925	\$1,698,173	\$2,542,485	\$ 1,628,151
Excess of revenues over (under) expenditures	\$ 309,995	\$ 307,800	\$ 162,751	\$ (199,746)	\$ 16,418
Other Financing Sources (Uses)					
Operating transfers in	\$ 5,523	\$ 0	\$ 0	\$ 0	
Operating transfers out	(30,000)	(729,577)	0	0	
Total Other Financing Sources (Uses)	\$ (24,477)	\$ (729,577)	\$ 0	\$ 0	
Net Changes in Fund Balances	\$ 285,518	\$ (421,777)	\$ 162,751	\$ (199,746)	
General Fund Balance January 1	1,217,772	1,503,290	1,081,512	1,244,262	
Prior Period Adjustment	0	(1)	(1)	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	\$1,503,290	\$ 1,081,512	\$1,244,262	\$1,044,516	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$ 29,953	\$ 34,184	\$ 45,195	\$ 43,300	
Restricted	52,398	52,529	52,661	127,561	
Unassigned	1,420,939	994,799	1,146,406	873,655	
Total	\$1,503,290	\$ 1,081,512	\$1,244,262	\$1,044,516	

¹ The 2018 budget was adopted on December 20, 2017.

GENERAL INFORMATION

LOCATION

The City of Canby, with a 2010 U.S. Census population of 1,795 and a current population estimate of 1,663, and comprising an area of 1,395 acres, is located approximately 160 miles west of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the City of Canby include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Sanford Canby Medical Center	Healthcare	420
I.S.D. No. 891 (Canby Public Schools)	Elementary and secondary education	110
FCA Automotive Services	Tire service	50
Jim's Market	Grocers-retail	46
Minnesota West Community and Technical College	Community and technical college	40
Duke Energy Renewables	Renewable energy	27
REM Southwest Services	Disability services	30
Fertilizer Plant	Fertilizers	18
Dairy Queen	Restaurant and ice cream parlor	15
Spuds One Stop Trucking	Transportation services	15
PK Eagans Family Restaurant	Restaurant	14
Canby Inn & Suites LLC	Hotels & Motels	14

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

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

BUILDING PERMITS

	2014	2015	2016	2017	2018 ¹
<u>New Single Family Homes</u>					
No. of building permits	3	1	2	2	0
Valuation	\$690,000	\$350,000	\$570,000	\$650,000	\$0
<u>New Commercial/Industrial</u>					
No. of building permits	3	4	1	0	2
Valuation	\$47,000	\$4,546,000	\$275,000	\$0	\$2,700,000
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	16	38	21	11	5
Valuation	\$885,490	\$2,017,500	\$521,389	\$425,460	\$27,000

Source: The City.

¹ As of July 5, 2018.

U.S. CENSUS DATA

Population Trend: City of Canby, Minnesota

2000 U.S. Census population	1,903
2010 U.S. Census population	1,795
2016 State Demographer's Estimate	1,663
Percent of Change 2000 - 2010	-5.68%

Income and Age Statistics

	City of Canby	Yellow Medicine County	State of Minnesota	United States
2016 per capita income	\$23,971	\$27,686	\$33,225	\$29,826
2016 median household income	\$42,708	\$54,717	\$63,217	\$55,322
2016 median family income	\$62,125	\$64,276	\$79,595	\$67,871
2016 median gross rent	\$529	\$568	\$873	\$928
2016 median value owner occupied units	\$81,800	\$98,100	\$191,500	\$184,700
2016 median age	49.7 yrs.	43.0 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
City % of 2016 per capita income	72.15%	80.37%
City % of 2016 median family income	78.05%	91.53%

Housing Statistics

	<u>City of Canby</u>		
	2000	2016	Percent of Change
All Housing Units	918	881	-4.03%

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>	
	Yellow Medicine County	Yellow Medicine County	State of Minnesota
2014	5,264	4.1%	4.2%
2015	5,329	3.7%	3.7%
2016	5,228	3.9%	3.8%
2017	5,213	3.6%	3.5%
2018, June	5,221	3.0%	2.9%

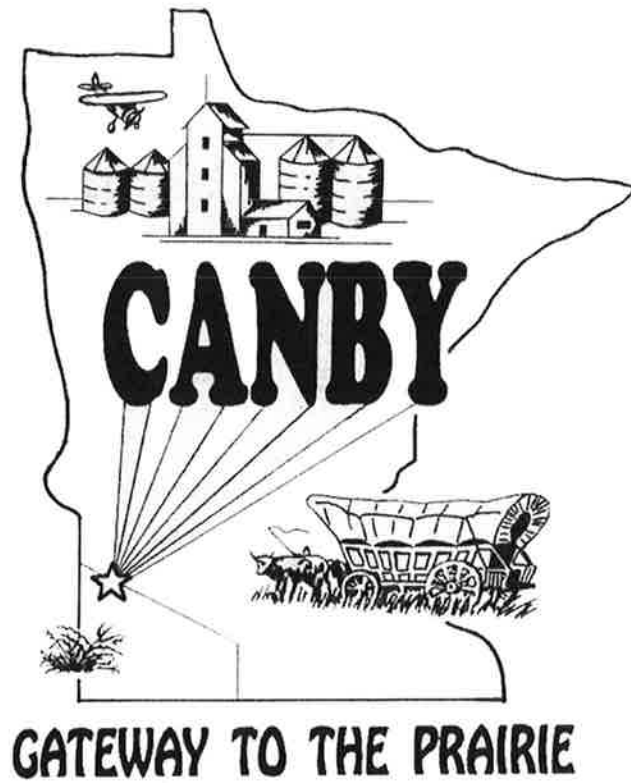
Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

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

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

**City of Canby
Audit Report
For the Year Ended
December 31, 2017**



Kinner & Company Ltd
Certified Public Accountants
Taxes, QuickBooks &
Investments



Kinner & Company Ltd Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Canby
Canby, Minnesota 56220

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining non-major fund information of the City of Canby, Minnesota as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 Schedule of City's Proportionate Share of Net Pension Liability, and Schedule of City's Contributions and notes to required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018, on our consideration of the City of Canby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Canby's internal control over financial reporting and compliance.



Kinner & Company Ltd
Certified Public Accountants

June 5, 2018

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Visit our website at www.kinner.co

CITY OF CANBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

This section of the City of Canby's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2017 to meet the required reporting by the Government Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. Statement No. 34 is designed to make the annual reports easier for the public to understand and more useful to stakeholders.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. In addition to the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, and 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 position presents information on all of the City's assets, deferred outflows, liabilities and deferred inflows. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also water, wastewater, storm sewer and garbage. The water, wastewater, storm sewer and garbage, although 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.

CITY OF CANBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of 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 government fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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 12-15 of this report.

Proprietary Funds

The City maintains four business-type activities in the proprietary funds. These accounts are for the water, wastewater, storm sewer and garbage funds.

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, wastewater, storm sewer and garbage, all of which are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 16-18 of this report.

CITY OF CANBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,125,967 and \$14,987,162 at the close of fiscal years 2017 and 2016.

The City uses 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.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for the City as a whole.

Governmental activities

The City's governmental activities net position increased by \$400,617 in 2017 and it decreased by \$19,589 in 2016.

Table 1

Net Position	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Current and other assets	3,821,726	4,109,013	5,581,331	5,653,934
Capital assets	7,191,066	6,497,957	21,086,209	21,164,496
Total assets	11,012,792	10,606,970	26,667,540	26,818,430
Deferred Outflows of Resources	465,939	603,639	68,962	88,519
Long-term liabilities outstanding	4,804,849	5,612,041	15,709,918	17,355,508
Other liabilities	257,784	258,495	1,693,373	808,509
Total liabilities	5,062,633	5,870,536	17,403,291	18,164,017
Deferred Inflows of Resources	548,690	133,777	72,652	29,063
Net assets	2,979,500	2,124,681	4,764,209	9,788,525
Net position -Restricted	1,496,715	1,582,842	0	0
Net position -Unrestricted	1,389,193	1,757,268	4,496,350	(266,154)
Total Net Position	5,865,408	5,464,791	9,260,559	9,522,371

At the end of the current fiscal year, the City is able to report positive balances for governmental and business type activities for the city as a whole.

CITY OF CANBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		2017 Total
	2017	2016	2017	2016	
Revenues					
Program Revenues					
Charges for services	144,261	126,790	988,660	988,427	1,132,921
Operating grants and contributions	41,437	54,575			41,437
Capital grants and contributions	838,452	282,067	0	0	838,452
General Revenues					
Property taxes	571,090	588,374	303,961	302,610	875,051
Special Assessments	3,103	7,115	13,730	264,239	16,833
Intergovernmental Revenue	755,021	735,149			755,021
Fines and Forfeits	3,111	4,688			3,111
Licenses and Permits	2,660	2,918			2,660
to specific programs					0
Unrestricted Investment Earnings	61,181	73,440	103,488	105,415	164,669
Miscellaneous	152,431	284,175	14,395	11,263	166,826
Total Revenues	2,572,747	2,159,291	1,424,234	1,671,954	3,996,981
Expenses					
Governmental activities	2,172,130	2,178,880			2,172,130
Business-type activities			1,686,046	1,659,895	1,686,046
Total Expenses	2,172,130	2,178,880	1,686,046	1,659,895	3,858,176
Transfers In (Out)	0	0	0	0	0
Increase (Decrease) in net position	400,617	(19,589)	(261,812)	12,059	138,805
Net position, January 1	5,464,791	5,484,380	9,522,371	9,510,312	14,987,162
Net position, December 31	5,865,408	5,464,791	9,260,559	9,522,371	15,125,967

The City's total net position increased by \$138,805 in 2017 and decreased by \$7,530 in 2016. The increase was due to the large amount of grant dollars received from the State of MN for airport hangar.

CITY OF CANBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

Business-type activities

Business-type activities decreased the City's net position by \$261,812 and increased by \$12,059 in 2016, accounting for 100 percent of the city's total decrease in 2017 and 100 percent of the increase in 2016 is the infrastructure projects.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of 2017 and 2016, the City's governmental funds reported ending balances of \$2,931,673 and \$3,363,327. Twenty one and thirty two percent of the total amount of \$621,900 and \$1,075,568 constitutes unassigned fund balances, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it is committed to a specific area.

Proprietary fund

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total Net Position in the proprietary funds decreased by \$261,812.

The Storm Sewer net position decreased by \$42,120 in 2017 and increased \$199,847 in 2016.

Wastewater net position decreased by \$174,791 in 2017 and decreased by \$160,987 in 2016.

Water net position decreased by \$24,859 in 2017 and decreased in 2016 by \$18,175.

Solid Waste net position decreased by \$20,042 in 2017 and decreased by \$8,626 in 2016.

The decreases are mainly due to operating deficits due to depreciation and debt service

CITY OF CANBY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2017 and 2016 amounts to \$28,277,275 and \$27,662,453 (net of accumulated depreciation). The increase is due to new airport hangar. The investment in capital assets includes land, buildings, system improvements, machinery, equipment and park facilities.

More detailed information about the City's capital assets is presented in Note 1 and Note 3.

Long-Term Debt

During 2017, the City issued no new debt and retired \$933,710 of debt. At the end of 2017 and 2016, the City had total bonded debt outstanding of \$20,533,566 and \$21,467,276.

2017 General Fund Budget Variances to Actual

Total general fund budgeted revenues for 2017, including the transfer in, is \$1,685,737. The actual revenues for 2017, including transfer in, is \$2,342,739. The revenues were over budget by \$657,002. The majority of the variance is due to the airport hangar grant and other small grants not being included in the budget number. This amount totaled \$629,868 for 2017 and was not included in the budget.

Total general fund budgeted expenses for 2017, including the transfer out, is \$2,597,870. The actual expenses for 2017 is \$2,542,485. The expenses were under budget by \$55,385. The city over budgeted planning expenses, equipment and improvement and insurance accounts to cause this variance.

Economic Factor and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates and fees that will be charged for the business-type activities. The Council expects operations to remain consistent with 2017. Overall budget amounts for 2018 will be re-evaluated to make sure the revenues and expenses are consistent with the budget and operations.

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 Administrator, City of Canby, 110 Oscar Avenue North, Canby, Minnesota 56220.

City of Canby
Statement of Net Position
December 31, 2017

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Total
ASSETS				
<i>Current Assets</i>				
Cash and cash equivalents	\$ 1,903,965	\$ 1,859,994	\$ 3,763,959	\$ 510,694
Investments		1,529	1,529	
Grant Receivable	6,932		6,932	
Accounts Receivable	6,746	95,797	102,543	
Taxes Receivable	17,162	11,444	28,606	328
Delinquent Taxes Receivable	21,199	7,590	28,789	
Special Assessments Receivable	4,673	28,082	32,755	
Notes Receivable Current	63,645		63,645	10,568
Prepaid and other assets	24,165	12,193	36,358	2,579
Inventory	19,135		19,135	
Due from other Entity				9,718
Total Current Assets	<u>2,067,622</u>	<u>2,016,629</u>	<u>4,084,251</u>	<u>533,887</u>
<i>Noncurrent Assets</i>				
Special Assessments - Deferred	96,216	3,459,702	3,555,918	
Notes receivable - Non Current	1,140,648		1,140,648	58,177
Non-depreciable	759,750	1,003,191	1,762,941	202,566
Depreciable, net	6,431,316	20,083,018	26,514,334	562,183
Net Pension Asset	274,114		274,114	
<i>Internal Balances*</i>	243,126	105,000		
Total Assets	<u>11,012,792</u>	<u>26,667,540</u>	<u>37,332,206</u>	<u>1,356,783</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Pension Resources	463,939	68,962	532,901	-
Total Deferred Outflows of Resources	<u>463,939</u>	<u>68,962</u>	<u>532,901</u>	<u>-</u>
LIABILITIES				
<i>Current Liabilities</i>				
Accounts payable	11,824	877,119	888,943	75,138
Security Deposit Payable				5,358
Unearned Revenue				46,715
LT Debt Due Within One Year	162,445	778,000	940,445	42,478
Due to Other Entity	9,718		9,718	
Total Current Liabilities	<u>183,987</u>	<u>1,655,119.0</u>	<u>1,839,106</u>	<u>169,689</u>
<i>Noncurrent Liabilities</i>				
Net Pension Liability	419,795	153,725	573,520	
LT Debt Due Beyond One Yr.	4,049,121	15,544,000	19,593,121	1,031,558
Compensated Absences	73,797	38,254	112,051	
<i>Internal Balances*</i>	335,933	12,193	-	
Total Liabilities	<u>5,062,633</u>	<u>17,403,291</u>	<u>22,117,798</u>	<u>1,201,247</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Pension Resources	548,690	72,652	621,342	
Total Deferred Inflows of Resources	<u>548,690</u>	<u>72,652</u>	<u>621,342</u>	
NET POSITION				
Net Investment in Capital Assets	2,979,500	4,764,209	7,743,709	764,749
Restricted	1,496,715		1,496,715	188,410
Unrestricted	1,389,193	4,496,350	5,885,543	(797,623)
Total Net Position	<u>\$ 5,865,408</u>	<u>\$ 9,260,559</u>	<u>\$ 15,125,967</u>	<u>\$ 155,536</u>

* Amounts have been eliminated in total column

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government and Administration	\$ 366,668	\$ --	\$ --	\$ --	\$ (366,668)	\$ --	\$ (366,668)	
Public Safety	435,130	48,313	30,637	--	(356,180)	--	(356,180)	
Public Works	356,873	--	--	--	(356,873)	--	(356,873)	
Culture and Recreation	351,979	--	--	--	(351,979)	--	(351,979)	
Economic Development	26,494	--	10,800	--	(15,694)	--	(15,694)	
Miscellaneous	424,898	95,948	--	838,452	509,502	--	509,502	
Interest and Other Charges	210,088	--	--	--	(210,088)	--	(210,088)	
<i>Total Governmental Activities</i>	<u>2,172,130</u>	<u>144,261</u>	<u>41,437</u>	<u>838,452</u>	<u>(1,147,980)</u>	<u>--</u>	<u>(1,147,980)</u>	
Business-type Activities:								
Solid Waste	149,979	129,904	--	--	--	(20,075)	(20,075)	
Storm Sewer	201,616	133,398	--	--	--	(68,218)	(68,218)	
Wastewater	660,617	282,498	--	--	--	(378,119)	(378,119)	
Water	673,834	442,860	--	--	--	(230,974)	(230,974)	
<i>Total Business-type Activities</i>	<u>1,686,046</u>	<u>988,660</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(697,386)</u>	<u>(697,386)</u>	
<i>Total Primary Government</i>	<u>\$ 3,858,176</u>	<u>\$ 1,132,921</u>	<u>\$ 41,437</u>	<u>\$ 838,452</u>	<u>\$ (1,147,980)</u>	<u>\$ (697,386)</u>	<u>\$ (1,845,366)</u>	
Totals Component Unit	284,182	90,971	--	--	--	--	--	(193,211)
General Purpose Revenues and Transfers:								
Revenues								
Interest revenue					61,181	103,488	164,669	3,742
Gain on sale of assets					125	125	250	
Miscellaneous					90,474	--	90,474	16,828
Property Taxes					571,090	303,961	875,051	14,946
Special Assessments					3,103	13,730	16,833	
License and Permits					2,660	--	2,660	
Intergovernmental Revenues					755,021	--	755,021	
Fines and Forfeits					3,111	--	3,111	
Refunds and Reimbursements					61,832	4,862	66,694	7,043
Rental Income					--	9,408	9,408	
Transfers					--	--	--	
<i>Total General Revenues and Transfers</i>					<u>1,548,597</u>	<u>435,574</u>	<u>1,984,171</u>	<u>42,559</u>
<i>Change in Net Position</i>					<u>400,617</u>	<u>(261,812)</u>	<u>138,805</u>	<u>(150,652)</u>
<i>Net Position at Beginning of Period</i>					<u>5,464,791</u>	<u>9,522,371</u>	<u>14,987,162</u>	<u>306,188</u>
<i>Net Position at End of Period</i>					<u>\$ 5,865,408</u>	<u>\$ 9,260,559</u>	<u>\$ 15,125,967</u>	<u>\$ 155,536</u>

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

**City of Canby
Balance Sheet
Governmental Funds
December 31, 2017**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 827,667	\$ 1,076,298	\$ 1,903,965
Taxes Receivable	15,601	1,561	17,162
Delinquent Taxes Receivable	17,935	3,264	21,199
Grant Receivable	6,932	--	6,932
Special Assessments Receivable	195	4,478	4,673
Accounts Receivable	6,155	591	6,746
Notes Receivable Current	--	63,645	63,645
Prepaid and other assets	24,165	--	24,165
Inventory	19,135	--	19,135
Special Assessments - Deferred	3,660	92,556	96,216
Notes receivable - Non Current	--	1,140,648	1,140,648
Advances to other funds	163,157	79,969	243,126
<i>Total Assets</i>	<u>1,084,602</u>	<u>2,463,010</u>	<u>3,547,612</u>
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 1,084,602</u>	<u>\$ 2,463,010</u>	<u>\$ 3,547,612</u>
LIABILITIES			
Accounts payable	\$ 11,723	\$ 101	\$ 11,824
Due to Other Entity	--	9,718	9,718
Advances from other funds	--	335,933	335,933
<i>Total Liabilities</i>	<u>11,723</u>	<u>345,752</u>	<u>357,475</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue-Taxes	24,507	4,824	29,331
Unavailable Revenue- Special Assessments	3,856	95,016	98,872
Unavailable Revenue- Notes receivable	--	130,261	130,261
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>40,086</u>	<u>575,853</u>	<u>615,939</u>
FUND BALANCE			
Nonspendable	43,300	--	43,300
Restricted	127,561	2,080,409	2,207,970
Assigned	--	58,503	58,503
Unassigned	873,655	(251,755)	621,900
<i>Total Fund Balance</i>	<u>1,044,516</u>	<u>1,887,157</u>	<u>2,931,673</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 1,084,602</u>	<u>\$ 2,463,010</u>	<u>\$ 3,547,612</u>

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

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

Total Fund Balance - Governmental Funds	\$ 2,931,673
Compensated absences expensed as paid in governmental fund statements, expensed as incurred in entity wide statements, and reflected as liability on Statement of Net Position.	(73,797)
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.	7,191,067
Tax revenue deferred in governmental fund statements if not received within sixty days	29,331
Long- term debt reflected on Statement of Net Position not in governmental funds balance sheet.	(4,211,566)
Deferred revenue on development loans in governmental funds are susceptible to full accrual on the government-wide statements	130,259
Special assessment revenue deferred in governmental fund statements if not received within sixty days	98,872
Net pension assets are not available to pay for current period expenditures and therefore are deferred in the funds.	274,114
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.	(419,795)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.	(548,688)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.	463,938
Total Net Position-Governmental Funds	\$ <u>5,865,408</u>

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

City of Canby
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2017

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Intergovernmental Revenues	835,879	--	835,879
Property Taxes	414,546	165,954	580,500
Special Assessments	2,901	5,338	8,239
Interest revenue	\$ 2,000	\$ 59,181	\$ 61,181
License and Permits	2,660	--	2,660
Fines and Forfeits	3,111	--	3,111
Charges for Services	109,823	--	109,823
Refunds and Reimbursements	61,832	--	61,832
Miscellaneous	121,631	36,469	158,100
Federal Grants	788,231	10,800	799,031
Total Revenues	<u>2,342,614</u>	<u>277,742</u>	<u>2,620,356</u>
Expenditures			
General Government and Administration	347,979	--	347,979
Public Safety	364,267	--	364,267
Public Works	287,526	--	287,526
Culture and Recreation	201,121	--	201,121
Economic Development	--	56,294	56,294
Miscellaneous	180,734	102,426	283,160
Capital outlay	1,139,990	--	1,139,990
Debt - principal	14,710	147,000	161,710
Interest and Other Charges	6,158	203,930	210,088
Total Expenditures	<u>2,542,485</u>	<u>509,650</u>	<u>3,052,135</u>
Excess of Revenues Over (Under) Expenditures	<u>(199,746)</u>	<u>(231,908)</u>	<u>(431,654)</u>
Other Financing Sources (Uses)			
Transfers from other funds	--	64,587	64,587
Gain on sale of assets	125	--	125
Transfers to other funds	--	(64,587)	(64,587)
Net Other Financing Sources (Uses)	<u>125</u>	<u>--</u>	<u>125</u>
Net Change in Fund Balance	(199,746)	(231,908)	(431,654)
<i>Fund Balance at Beginning of Period</i>	<u>1,244,262</u>	<u>2,119,065</u>	<u>3,363,327</u>
Fund Balance at End of Period	\$ 1,044,516	\$ 1,887,157	\$ 2,931,673

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

City of Canby
Reconciliation of Governmental Funds Statement of
Revenues, Expenditures and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ (431,654)
Tax revenue earned but not collected within sixty days deferred in governmental fund statements, recognized as revenue in Statement of Activities.	(9,504)
Principal payments on long-term expensed in governmental fund statements, treated as reductions of outstanding debt in Entity wide statements.	161,710
Capital assets expensed as capital outlay in governmental fund statements, capitalized as fixed assets in Statement of Net Position.	1,139,991
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.	(446,880)
Accrued leave is reported in the government-wide statement of activities and changes in net position, but does not required the use of current financial resources; therefore, accrued leave is not reported as an expenditure in the government funds.	(2,168)
Deferred revenue on development loans in governmental funds are susceptible to full accrual on the government-wide statements	29,800
Revenues from development loans in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds	(33,188)
Special assessment revenue earned but not collected within sixty days deferred in governmental fund statements, recognized as revenue in Statement of Activities.	(5,042)
In the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.	(2,446)
Changes in Net Position-Governmental Funds	\$ <u>400,617</u>

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

City of Canby
Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds				
	Storm Sewer	Wastewater	Water	Other Enterprise Funds	Total Enterprise Funds
ASSETS					
<i>Current Assets</i>					
Cash and cash equivalents	\$ 371,756	\$ 379,037	\$ 1,077,383	\$ 31,818	\$ 1,859,994
Investments	--	767	477	285	1,529
Taxes Receivable	--	5,894	5,550	--	11,444
Delinquent Taxes Receivable	--	4,087	3,503	--	7,590
Special Assessments Receivable	1,731	11,558	14,793	--	28,082
Accounts Receivable	12,815	28,804	42,984	11,194	95,797
Prepaid and other assets	--	6,457	5,736	--	12,193
Total Current Assets	386,302	436,604	1,150,426	43,297	2,016,629
<i>Noncurrent Assets</i>					
Special Assessments - Deferred	308,805	1,627,279	1,523,618	--	3,459,702
Non-depreciable	--	79,835	898,240	25,116	1,003,191
Depreciable, net	2,371,605	9,150,974	8,560,439	--	20,083,018
Advances to other funds	--	105,000	--	--	105,000
Total Assets	3,066,712	11,399,692	12,132,723	68,413	26,667,540
DEFERRED OUTFLOWS OF RESOURCES					
Aggregated deferred outflows Pensions	--	27,264	35,283	6,415	68,962
Total Deferred Outflows of Resources	--	27,264	35,283	6,415	68,962
LIABILITIES					
<i>Current Liabilities</i>					
Accounts payable	31	31	877,026	31	877,119
LT Debt Due Within One Year	125,000	320,000	333,000	--	778,000
Total Current Liabilities	125,031	320,031	1,210,026.0	31	1,655,119
<i>Noncurrent Liabilities</i>					
Compensated Absences	--	14,459	18,456	5,339	38,254
Net Pension Liability	--	60,775	78,651	14,299	153,725
LT Debt Due Beyond One Yr.	2,355,000	7,715,000	5,474,000	--	15,544,000
Advances from other funds	--	6,457	5,736	--	12,193
Total Liabilities	2,480,031	8,116,722	6,786,869	19,669	17,403,291
DEFERRED INFLOWS OF RESOURCES					
Aggregated deferred inflows Pensions	--	28,723	37,170	6,759	72,652
Total Deferred Inflows of Resources	--	28,723	37,170	6,759	72,652
NET POSITION					
Net Investment in Capital Assets	(108,395)	1,195,809	3,651,679	25,116	4,764,209
<i>Unrestricted</i>	695,076	2,085,702	1,692,288	23,284	4,496,350
Total Net Position	\$ 586,681	\$ 3,281,511	\$ 5,343,967	\$ 48,400	\$ 9,260,559

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

City of Canby
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

Business-type Activities - Enterprise Funds					
	Storm Sewer	Wastewater	Water	NonMajor Garbage	Total Enterprise Funds
Operating Revenues					
Charges for Services	\$ 133,398	\$ 282,498	\$ 442,860	\$ 129,904	\$ 988,660
Total Operating Revenues	133,398	282,498	442,860	129,904	988,660
Operating Expenses					
Labor	--	71,611	78,502	15,608	165,721
Employee Benefits	--	24,973	27,406	5,521	57,900
Supplies	1,415	3,487	22,169	2,332	29,403
Repairs	4,761	4,852	20,458	--	30,071
Utilities	--	2,964	16,232	--	19,196
Fuel	--	620	669	--	1,289
Telephone	--	460	1,473	--	1,933
Insurance	--	6,348	5,675	--	12,023
Auditing	--	1,750	1,750	1,300	4,800
Miscellaneous	227	715	1,256	1,844	4,042
Contracted Services	--	7,617	4,916	69,122	81,655
Tipping Expenses	--	--	--	22,501	22,501
Travel	--	536	521	--	1,057
Motor Fuel	--	1,060	1,135	--	2,195
Water Purchases	--	--	154	--	154
Truck Expense	--	80	658	--	738
Dues and License	--	470	5,902	130	6,502
Construction	--	--	--	6,336	6,336
Legal & Professional	4,218	--	--	14,669	18,887
Assessment	--	--	--	994	994
Depreciation	112,869	431,120	414,634	--	958,623
Total Operating Expenses	123,490	558,663	603,510	140,357	1,426,020
Operating Income (Loss)	9,908	(276,165)	(160,650)	(10,453)	(437,360)
Non-Operating Revenues (Expenses)					
Interest revenue	14,041	46,179	43,235	33	103,488
Property Taxes	--	156,570	147,391	--	303,961
Special Assessments	12,057	--	1,673	--	13,730
Gain on sale of assets	--	--	125	--	125
Refunds and Reimbursements	--	579	4,283	--	4,862
Rental Income	--	--	9,408	--	9,408
Interest expense	(78,126)	(101,954)	(65,635)	--	(245,715)
Sales Tax Expense	--	--	(4,689)	(9,622)	(14,311)
Net Non-Operating Revenues (Expenses)	(52,028)	101,374	135,791	(9,589)	175,548
Income Before Contributions and Transfers	(42,120)	(174,791)	(24,859)	(20,042)	(261,812)
Transfers from other funds	--	--	--	--	--
Transfers to other funds	--	--	--	--	--
Change In Net Position	(42,120)	(174,791)	(24,859)	(20,042)	(261,812)
Net Position at Beginning of Period	628,801	3,456,302	5,368,826	68,442	9,522,371
Net Position at End of Period	\$ 586,681	\$ 3,281,511	\$ 5,343,967	\$ 48,400	\$ 9,260,559

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

**City of Canby
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2017**

	Business-Type Activities				Totals 2017
	Storm Sewer	Wastewater	Water	Non-Major Garbage	
	Fund	Fund	Fund	Fund	
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 133,248	\$ 282,336	\$ 433,838	\$ 129,797	\$ 979,219
Cash Paid to Suppliers	(10,614)	(53,552)	(87,727)	(135,299)	(287,192)
Cash Paid to Employees		(71,611)	(101,574)	(15,608)	(188,793)
Net Cash Flows Provided (Used) by Operating Activities	122,634	157,173	244,537	(21,110)	503,234
Cash Flows From Noncapital Financing Activities:					
General Property Taxes		155,399	146,234		301,633
Special Assessments	19,234	51,098	48,484		118,816
Rental Income			9,408		9,408
Refunds & Reimbursements			4,283		4,283
Cash Received from (paid on) Due to Other Funds		(104,891)	61		(104,830)
Net Cash Flows Provided (Used) by Noncapital Financing Activities	19,234	101,606	208,470	-	329,310
Cash Flows from Capital and Related Financing Activities:					
Sale of Capital Assets		(6)	125		119
Cash Paid for Principal on Debt	(125,000)	(317,000)	(330,000)		(772,000)
Cash Paid for Interest on Debt	(78,126)	(101,954)	(65,635)		(245,715)
Acquisition of Capital Assets			(3,484)		(3,484)
Net Cash Flows from Capital and Related Financing Activities	(203,126)	(418,960)	(398,994)	-	(1,021,080)
Cash Flows From Investing Activities:					
Interest Earned on Investments	14,041	46,179	43,235	33	103,488
Net Cash Flows from Investing Activities	14,041	46,179	43,235	33	103,488
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (47,217)	\$ (114,002)	\$ 97,249	\$ (21,077)	\$ (85,047)
Cash and Cash Equivalents - Beginning of Year	418,973	493,039	980,134	52,895	1,945,041
Cash and Cash Equivalents - End of Year	\$ 371,756	\$ 379,037	\$ 1,077,383	\$ 31,818	\$ 1,859,994

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ 9,908	\$ (276,165)	\$ (160,650)	\$ (10,453)	\$ (437,360)
Other Expense		579	(4,689)	(9,623)	(13,733)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and Amortization	112,869	431,120	414,634	-	958,623
Change in Pension Expense		1,539	2,025	363	3,927
Changes in Assets and Liabilities:					
Accounts Receivable	(150)	(741)	(9,025)	(106)	(10,022)
Prepaid Expense		(109)	(61)		(170)
Accounts Payable-Operating	7	(744)	(9)	(1,570)	(2,316)
Accrued Vacation		1,694	2,312	279	4,285
Net Cash Provided (Used) by Operating Activities	\$ 122,634	\$ 157,173	\$ 244,537	\$ (21,110)	\$ 503,234
Noncash Capital and Related Financing Activities					
Payment on Construction in Progress through an accounts payable account			\$ 876,895	\$ -	\$ 876,895

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

City of Canby
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Over (Under)
				Final to Actual
Revenues				
Local and County Revenue:				
General Property Taxes	\$ 397,850	\$ 398,370	\$ 414,546	\$ 16,176
Special Assessments	2,200	2,200	2,901	701
Licenses and Permits:				
Business	1,500	1,810	1,500	(310)
Liquor	1,250	1,150	1,100	(50)
Non-Business	200	200	60	(140)
Intergovernmental Revenue:				
Local Government Aid	708,231	708,750	708,750	--
Market Value Assistance	--	--	226	226
Local Performance Aid & PERA Aid	2,312	2,312	19,899	17,587
State Aid - Police	22,000	22,000	26,146	4,146
Public Safety - Canby & Porter	--	--	22,000	22,000
Other Grants	--	--	50,221	50,221
Airport Hangar Grant Revenues	167,000	167,000	796,868	629,868
Charges for Services:				
Lot Sales	1,000	1,000	4,050	3,050
Perpetual Care	--	--	50	50
Fire Control Income	7,500	7,500	13,875	6,375
Fines & Forfeitures:				
Traffic and Ordinance Fines	3,000	4,000	3,111	(889)
Miscellaneous:				
Interest Income	2,350	2,350	2,000	(350)
Rents	2,000	2,000	1,880	(120)
Airport Hangar Rent	10,000	10,000	19,765	9,765
Airport Farm Rent	2,565	16,081	15,811	(270)
Airport Gas, Gravel Sales, and Fly-in	73,764	73,764	56,272	(17,492)
Cable Franchise Fee	38,000	39,000	41,303	2,303
Insurance Refunds & Reimbursements	15,000	15,000	52,985	37,985
Pop Machine	14,300	15,750	668	(15,082)
Donations	1,500	1,500	19,971	18,471
Other Miscellaneous Revenue	52,500	69,000	66,656	(2,344)
Total Revenues	<u>1,525,897</u>	<u>1,560,737</u>	<u>2,342,739</u>	<u>781,877</u>
Other Financing Sources				
Sale of Assets	--	--	125	125
Transfers from other funds	125,000	125,000	--	(125,000)
Total Revenues and Other Financing Sources	<u>1,651,022</u>	<u>1,685,737</u>	<u>2,342,739</u>	<u>657,002</u>

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

City of Canby
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under) Final to Actual</u>
Expenditures				
GENERAL GOVERNMENT				
Mayor and Council:				
Salaries	7,200	7,200	7,200	--
Payroll Taxes & Benefits	926	971	944	27
Travel and Conference	500	--	--	--
Subscriptions and Memberships	60	60	30	30
General Insurance	95,000	94,200	83,044	11,156
Election	1,550	250	191	59
City Administration:				
Salaries	102,000	95,100	95,022	78
Payroll Tax & Benefits	15,500	13,350	13,300	50
Insurance	13,720	17,895	17,846	49
Office Supplies	4,850	10,350	5,816	4,534
Maintenance and Repairs	200	1,400	1,297	103
Communications	4,500	5,000	4,782	218
Travel, Conference and Schools	3,000	2,700	2,364	336
Printing and Publishing	3,000	1,600	1,394	206
Contractual Services	2,250	2,250	1,989	261
Miscellaneous	3,100	3,100	2,447	653
Assessor	15,600	15,600	15,534	66
Accounting and Legal	30,000	29,900	27,139	2,761
Planning and Zoning	13,000	49,000	33,835	15,165
Municipal Building:				
Maintenance and Repair	4,500	12,000	12,353	(353)
Supplies	1,725	1,725	1,631	94
Utilities	12,750	13,150	11,449	1,701
Contractual Services	3,000	5,100	5,410	(310)
Miscellaneous	10	10	--	10
Equipment and Improvements	--	14,000	13,972	28
Miscellaneous:				
Public Restroom Service	2,000	700	620	80
Printing and Publishing	6,500	9,750	9,713	37
Utilities	2,500	2,650	2,694	(44)
Christmas Decorations Utilities	500	300	268	32
PUBLIC SAFETY				
Police Protection:				
Wages	152,000	168,500	163,281	5,219
Payroll Taxes/PERA	27,000	27,800	27,783	17
Insurance	20,180	23,380	23,291	89
Office/General Supplies	6,500	11,400	10,475	925
Motor Fuel and Lubes	10,000	6,300	6,255	45
Maintenance and Repair	5,000	10,500	9,837	663
Communications	4,000	3,850	3,779	71

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

City of Canby
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Over (Under)
				<u>Final to Actual</u>
Police Protection Continued:				
Travel, Conference, and Schools	900	1,250	1,198	52
Subscription and Memberships	325	435	435	--
Contractual Services	6,000	6,400	6,325	75
Professional Services	20,000	25,000	26,739	(1,739)
Equipment and Improvements	--	39,050	39,016	34
Fire Protection:				
Wages	20,000	18,065	18,065	--
Payroll Taxes/PERA	1,550	1,400	1,382	18
Interest	6,741	6,158	6,158	--
Principal	14,127	14,710	14,710	--
Supplies	2,500	2,500	2,504	(4)
Motor Fuel and Lubes	2,500	2,500	1,876	624
Maintenance and Repair	6,250	24,250	25,566	(1,316)
Communications	500	500	460	40
Travel, Conference and Schools	3,500	4,400	4,311	89
Utilities	5,500	6,500	6,001	499
Contracted Services	1,000	1,000	718	282
Miscellaneous	470	470	445	25
Equipment and Improvements	--	157,000	172,310	(15,310)
Civil Defense:				
Utilities	500	500	487	13
Supplies	220	220	--	220
Animal Control:				
Supplies	--	50	6	44
PUBLIC WORKS				
Streets:				
Wages	92,000	97,000	96,028	972
Payroll Taxes/PERA	14,000	14,000	13,773	227
Insurance	15,095	15,770	15,722	48
Motor Fuel and Lubes	15,000	5,000	5,591	(591)
Maintenance and Repair	40,000	116,000	112,859	3,141
Travel, Conferences and Schools	300	300	265	35
Utilities	450	550	522	28
Supplies	6,000	4,000	2,886	1,114
Capital Expenditures	3,750	250	125	125
Miscellaneous	150	150	64	86
Snow Removal	2,500	--	--	--
City Garage:				
Utilities	6,000	5,000	4,851	149
Maintenance and Repair	3,500	3,500	2,705	795
Supplies	500	1,300	1,261	39
Miscellaneous	10	10	10	--
Equipment	31,000	10,000	10,412	(412)
Dues and Licenses	10	10	10	--

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

City of Canby
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund (Continued)
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Over (Under) Final to Actual
Street Lighting	--	32,500	30,614	1,886
CULTURE AND RECREATION				
Library				
Communications	505	755	745	10
Contracted Services	73,573	73,573	73,537	36
Recreation Council:				
Wages	45,000	54,500	54,404	96
Payroll Taxes	3,500	4,170	4,162	8
Utilities	1,600	2,450	2,447	3
Parks:				
Salaries and Wages	19,750	18,900	18,886	14
Payroll Taxes/PERA	2,975	2,445	2,415	30
Insurance	2,300	2,455	2,421	34
Motor Fuels & Lubes	4,250	2,300	2,215	85
Maintenance and Repair Building	5,250	3,550	3,648	(98)
Utilities	1,750	2,000	1,988	12
Supplies	3,000	2,450	2,415	35
Contracted Services	500	500	728	(228)
Subscriptions and Memberships	200	250	231	19
Equipment Purchase	1,750	33,300	33,437	(137)
Miscellaneous	50	50	30	20
Swimming Pool:				
Communication	250	550	511	39
Utilities	13,000	10,000	9,750	250
Maintenance and Repair Equipment	2,000	1,050	971	79
Maintenance and Repair Building	1,000	--	--	--
Supplies	8,500	6,050	5,969	81
Miscellaneous	700	630	620	10
Communications	875	925	901	24
Utilities	9,000	11,300	10,684	616
Supplies	--	200	132	68
Maintenance and Repairs	325	200	191	9
Miscellaneous	2,300	2,846	2,852	(6)
Motor Fuels and Lubes	1,150	1,250	1,008	242
Maintenance and Repairs	3,000	4,200	36,531	(32,331)
Theatre:				
Communications	3,000	3,000	2,615	385
Utilities	5,500	7,700	7,419	281
Supplies	2,000	2,000	1,893	107
License and Taxes	6,775	5,235	5,187	48
Airport:				
Merchandise for Resale	65,000	31,000	32,410	(1,410)
Contracted Services	25,000	27,400	27,844	(444)
Miscellaneous	900	1,100	1,672	(572)

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

City of Canby
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund(Continued)
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over</u> <u>(Under)</u> <u>Final to Actual</u>
Expansion Project	150,000	900,000	874,596	25,404
Equipment and Improvements	--	33,000	8,090	24,910
Cemetery:				
Wages	12,500	11,900	11,897	3
Payroll Taxes/PERA	1,875	1,475	1,471	4
Utilities	150	150	160	(10)
Maintenance and Repair	100	900	551	349
Supplies	500	800	771	29
Insurance	890	960	934	26
Miscellaneous	10	10	10	--
Other:				
Canby Area Business Service	8,420	9,640	9,633	7
Insect and Pest Control	5,500	8,850	8,789	61
Equipment Replacement Reserve	100,505	--	--	--
Miscellaneous	32,375	31,162	29,319	1,843
Total Expenditures	<u>1,526,022</u>	<u>2,597,870</u>	<u>2,542,485</u>	<u>55,385</u>
Other Financing Uses				
Transfers to other funds	125,000	--	--	--
Total Expenditures and Other Financing Uses	<u>1,651,022</u>	<u>2,597,870</u>	<u>2,542,485</u>	<u>55,385</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>(912,133)</u>	<u>(199,746)</u>	<u>712,387</u>
Net Change in Fund Balance	<u>--</u>	<u>(912,133)</u>	<u>(199,746)</u>	<u>712,387</u>
<i>Fund Balance at Beginning of Period</i>	1,244,262	1,244,262	1,244,262	--
Fund Balance at End of Period	<u>\$ 1,244,262</u>	<u>\$ 332,129</u>	<u>\$ 1,044,516</u>	<u>\$ 712,387</u>

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

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so.

The more significant accounting policies established by GAAP and used by the City are discussed below.

A. REPORTING ENTITY

The City of Canby, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted. The City was formed and operates pursuant to applicable Minnesota laws and statutes. The City operates under an elected Mayor and four member council form of government. The council has control over all activities related to the City of Canby. The City provides the following services: sanitation, recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the City (the primary government) and have no component units. The City follows the standards promulgated by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* to define the reporting entity. The City includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity to comprise the primary government presentation. Currently, the City has one blended component unit, the Economic Development Authority.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has one discretely presented component unit, Canby Housing and Redevelopment Authority(HRA).

The HRA operates as a local government unit for the purpose of providing housing and redevelopment services to the Canby area. The HRA cannot issue bonds pledging as security the full-faith and credit of the City.

The complete audited financial statements of the HRA may be obtained from the HRA executive director at the following address:

Housing and Redevelopment Authority of Canby
110 Oscar Avenue N
Canby, MN 56220

Related Organization

A related organization is included in the financial reporting entity in accordance with GASB Statement No. 68. The City's accountability does not extend beyond the Mayor, Clerk-Treasurer and Fire Chief being ex officio members of the board. The related organization is as follows:

Canby Fire Relief Association – The Association is organized as a non-profit organization by its members to provide pension and other benefits to members in accordance with Minnesota statutes. The Association's Board of Directors consists of seven members elected by the membership of the Association and three ex officio members, the Mayor, Clerk-Treasurer and Fire Chief. All funding is obtained in accordance with Minnesota statutes whereby state aids and tax levies, which are determined by the Association, flow through PERA. The Canby Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan, an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). More information is included in the Note 4.G.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all activities of the City. For the most part, the effect of interfund activity 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. They include all funds of the reporting entity except for fiduciary funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues subject to accrual are property taxes, interest on investments, and intergovernmental revenues. Property taxes are recorded as revenues in the fiscal year in which they are levied, provided they are collected in the current period or within sixty days thereafter. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column on the fund financial statements.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The city maintains the economic development special revenue fund.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Debt Service Funds - The Debt Service Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Ad valorem taxes are used for the payment of principal and interest on the City's judgment. The city maintains multiple debt service funds.

Capital Projects Funds - Capital Projects Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments). The City maintains capital project fund TIF 1-25 and Pool project fund.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains water, wastewater, storm sewer and solid waste enterprise funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for financial resources not accounted for and reported in another fund.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the City's water system.

The *Wastewater Fund* accounts for the operations of the City's wastewater system.

The *Storm Sewer Fund* accounts for the operations of the City's storm sewer system.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The City has elected not to follow subsequent private sector guidance.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes.

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

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

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE

Deposits and Investments

For the purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

Investments are carried at fair value, based on quoted market price at the reporting date.

Receivables and Payables

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

All trade (utility) and property tax receivables are shown at a gross amount, since both taxes and trade (utility) receivable are assessable to the property taxes and are collectible upon sale of the assessed property.

The City levies its property tax for the subsequent year during the month of October. Property taxes attach as an enforceable lien on property as of January 1. Revenues are accrued and recognized in the year collectible.

December 31 is the last day the City can certify a tax levy to the County Auditor for collection the following year. The County Auditor makes up the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City. Assessments receivable consist of the portion of improvements made by the City and charged against the properties affected.

These assessments are payable with interest over a period of years. The County Auditor remits a list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January each year. The County Treasurer mails copies of all real estate and personal property tax statements.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Real property taxes may be paid in two equal installments. The first payment is due on May 15 for both non-agricultural and agricultural property and the second payment is due on October 15 for non-agricultural property and November 15 for agricultural property. Personal property taxes may be paid on May 15 and October 15. The County is the collection agent for the levy. The County provides tax settlements to cities and other taxing districts three times a year in January, June, and December. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

Portions of the tax levy paid by the state in the form of market value assistance are included in intergovernmental revenue. Only that portion collected directly from property owners is reflected in tax revenue. Delinquent property taxes are deferred and recognized when received or in the hands of the collection agency in the fund financial statements since they do not constitute "available spendable resources". In the government-wide financial statements, under the accrual basis of accounting, they are recognized as revenues since they are earned. No allowance for uncollectible taxes has been provided because such amounts are not expected to be material.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories

Inventory is valued at lower of cost or market using the first-in, first-out method. The City maintains inventory in the general fund for the airport fuel. The cost of other consumable materials and supplies on hand are immaterial to the financial statements and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

Restricted Assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts.

Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of \$2,500 or more and an estimated life in excess of one year. Capital assets include property, plant, equipment, infrastructure assets (i.e., roads, bridges, sidewalks, drainage, and similar items), and intangible assets are reported in the application governmental or business-type activities column of the government-wide financial statements.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 required that the City report and depreciate new infrastructure assets effective fiscal year ending December 31, 2004. Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to December 31, 2003, were not required to be capitalized by the City. These infrastructure assets are likely to be the largest asset class of the City. Neither the historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required for cities of this size. City has elected not to record infrastructure values retroactively as allowed by accounting principles generally accepted in the United States of America.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide statement of net position.

Capital assets of the enterprise funds are capitalized in the funds.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements and in the enterprise fund financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

Land	Not Depreciated
Infrastructure	15-65 Years
Buildings	10-50 Years
Improvements	15-50 Years
Machinery and Equipment	3-20 Years

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Bond premium and discounts, as well as issuance costs, are recognized as an outflow of resources and expensed in the period they are incurred. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and expensed in the period they are incurred.

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

Compensated Absences

The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements and the proprietary fund types. In the governmental funds of the fund financial statements, vacation and sick pay are recorded as expenditures and accrued as a current liability only if they have matured, for example, as a result of employee's resignations and retirements.

IBEW (International Brotherhood of Electrical Workers) Local 949 Union Contracts

Vacation leave - All regular employees who have been employed 10 years or less will accumulate one day's credit for each month worked with a maximum of 10 days which can be earned each year. Any regular employee who has been employed more than ten but less than twenty years by the city will accumulate one and one-half day's credit for each month worked with a maximum of 15 days which can be earned each year. Any regular employee who has been employed more than twenty years by the city will accumulate two day's credit for each month worked with a maximum of 20 days which can be earned each year, and in addition thereto shall be entitled to one additional day for each year of employment over twenty years with a maximum of five additional days which can be earned each year. The maximum vacation leave which can be earned by an employee of more than twenty-five years shall be 25 days.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

An employee may accrue up to a maximum of 20 days of vacation into the next year.

Years of Service	Payment-% of Unused Vacation Leave
0 - 4	0%
5 - 9	10%
10 - 14	25%
15 - 19	40%
20 - 25	55%
Over 25	70%

Sick leave – Sick leave will be earned on the basis of one day for each month worked, for a total of 12 possible days per year. Sick leave may be accrued for a total of 90 days of work allowance. Sick leave may also be transferred from one employee to another as needed for an extended illness. Such situations would be approved by the city administrator when they arise. This would be a maximum of 5 days to be transferred by employees. This is charged to expense in the year paid.

Severance pay, which is received upon termination of employment, consists of unused sick pay accrued through the date of termination. This is paid at the former employee's hourly pay rate. Severance pay may also include a portion of unpaid sick leave. In the event a regular employee terminates employment and has given proper notice, the regular employee shall be entitled to the following benefits:

Years of Service	Payment-% of Unused Sick Leave
0 - 4	0%
5 - 9	10%
10 - 14	25%
15 - 19	40%
20 - 25	55%
Over 25	70%

Compensatory Time – Time over 40 hours per week and having received approval will be considered overtime at the rate of time and one-half which may be taken as pay or compensatory time at the employee's discretion. An employee may not exceed 120 hours of compensatory time. Any comp time above the 120 maximum will be dealt with by one of two ways. First, the employee may choose to have their accrued comp time over 120 hours paid out down to the maximum or two, the employee may choose to keep their accrued comp time and use it as time off until the amount reaches 120 hours.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

MAPE (Minnesota Association of Professional Employees) Union Contract

Vacation leave - All regular employees who have been employed 10 years or less will accumulate one day's credit for each month worked with a maximum of 10 days which can be earned each year. Any regular employee who has been employed more than ten but less than twenty years by the city will accumulate one and one-half day's credit for each month worked with a maximum of 15 days which can be earned each year. Any regular employee who has been employed more than twenty years by the city will accumulate two day's credit for each month worked with a maximum of 20 days which can be earned each year, and in addition thereto shall be entitled to one additional day for each year of employment over twenty years with a maximum of five additional days which can be earned each year. The maximum vacation leave which can be earned by an employee of more than twenty-five years shall be 25 days.

An employee may accrue up to a maximum of 20 days of vacation into the next year.

Years of Service	Payment-% of Unused Vacation Leave
0 - 4	0%
5 - 9	10%
10 - 14	25%
15 - 19	40%
20 - 25	55%
Over 25	70%

Sick leave – Sick leave will be earned on the basis of one day for each month worked, for a total of 12 possible days per year. Sick leave may be accrued for a total of 90 days of work allowance. Sick leave may also be transferred from one employee to another as needed for an extended illness. Such situations would be approved by the city administrator when they arise. This would be a maximum of 5 days to be transferred by employees. This is charged to expense in the year paid.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Severance pay, which is received upon termination of employment, consists of unused sick pay accrued through the date of termination. This is paid at the former employee's hourly pay rate. Severance pay may also include a portion of unpaid sick leave. In the event a regular employee terminates employment and has given proper notice, the regular employee shall be entitled to the following benefits:

Years of Service	Payment-% of Unused Sick Leave
0 - 4	0%
5 - 9	10%
10 - 14	25%
15 - 19	40%
20 - 25	55%
Over 25	70%

Compensatory Time - Time over 40 hours per week and having received approval will be considered overtime at the rate of time and one-half which may be taken as pay or compensatory time at the employee's discretion. An employee may not exceed 120 hours of compensatory time. Any comp time above the 120 maximum will be dealt with by one of two ways. First, the employee may choose to have their accrued comp time over 120 hours paid out down to the maximum or two, the employee may choose to keep their accrued comp time and use it as time off until the amount reaches 120 hours.

Law Enforcement Labor Services, Inc. Union Contract

Vacation leave - All regular employees who have been employed 10 years or less will accumulate one day's credit for each month worked with a maximum of 12 days which can be earned each year. Any regular employee who has been employed more than ten but less than twenty years by the city will accumulate one and one-half day's credit for each month worked with a maximum of 18 days which can be earned each year. Any regular employee who has been employed more than twenty years by the city will accumulate two day's credit for each month worked with a maximum of 24 days which can be earned each year, and in addition thereto shall be entitled to one additional day for each year of employment over twenty years with a maximum of five additional days which can be earned each year. The maximum vacation leave which can be earned by an employee of more than twenty-five years shall be 25 days.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

An employee may accrue up to a five days beyond annual accrued unused vacation days may be bank and carried over from year to year. When an employee terminates employment with the City in good standing he or she shall receive the value of 100% of vacation time earned but unused as severance.

Sick leave - Sick leave will be earned on the basis of one day for each month worked, for a total of 12 possible days per year. Sick leave may be accrued for a total of 90 days of work allowance. Sick leave may also be transferred from one employee to another as needed for an extended illness. Such situations would be approved by the city administrator when they arise. This would be a maximum of 24 days to be transferred by employees. This is charged to expense in the year paid.

Severance pay, which is received upon termination of employment, consists of unused sick pay accrued through the date of termination. This is paid at the former employee's hourly pay rate. Severance pay may also include a portion of unpaid sick leave. In the event a regular employee terminates employment and has given proper notice, the regular employee shall be entitled to the following benefits:

Years of Service	Payment-% of Unused Sick Leave
0 - 4	0%
5 - 9	10%
10 - 14	25%
15 - 19	40%
20 - 25	55%
Over 25	70%

Compensatory Time - Time over 40 hours per week and having received approval will be considered overtime at the rate of time and one-half which may be taken as pay or compensatory time at the employee's discretion. An employee may not exceed 120 hours of compensatory time. Any comp time above the 120 maximum will be dealt with by one of two ways. First, the employee may choose to have their accrued comp time over 120 hours paid out down to the maximum or two, the employee may choose to keep their accrued comp time and use it as time off until the amount reaches 120 hours.

There is also an administrative contract.

Fund Balance Classifications

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - consists of amounts that cannot be spent because it is not in spendable form, such as inventory; or are legally or contractually required to be maintained intact.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Fund Balance Classifications (Continued)

- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. To be reported as committed, amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned fund balance – consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

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

The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance between the range of 35%-50% of budgeted operating expenditures for cash flow timing needs. At December 31, 2017, the unassigned fund balance of the General Fund was 52% of the subsequent year's budgeted expenditures.

Net Position Classifications

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

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

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)

Deferred Outflows/Inflows of Resources

The City of Canby implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities for the year ended December 31, 2013. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City of Canby currently recognizes deferred outflows relating to pensions for reporting in this category. The length of the expense recognition period for deferred amounts related is equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time. The City of Canby has two types of items that qualify for reporting in this category; unearned property taxes and deferred inflows relating to pensions. These amounts are deferred and recognized as inflows of resources in the period that the amount is earned. Deferred amounts relating to pensions represent differences between projected and actual earnings on pension plan investments and are recognized over a five-year period.

As of December 31, 2017, the City has deferred outflows/inflows as follows:

	Deferred Outflow	Deferred Inflow
Unearned Property Taxes	\$ 0	\$ 28,363
Amounts relating to Pensions	532,901	230,101

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
D. ASSETS, LIABILITIES, AND NET POSITION or FUND BALANCE (Continued)
Grant Receivable

Grant revenues from the federal and state government are recognized as awarded and received. Expenditures are recognized when incurred in accordance with the provisions of the grants and contracts. As of December 31, 2017, grant receivable totaled \$6,932. This amount includes federal and state dollars.

E. USE OF ESTIMATES

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

F. PENSIONS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Amounts are allocated in accordance with the employees wages, Administrative 25%, Street, 25%, Park 4%, Cemetery 3%, Water 22%, Sewer 17% and Garbage 4%.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgets
 Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund.

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

1. The department heads submit to the city clerk a budget of estimated expenditures for the ensuing year after which the City Clerk subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15.
2. Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the budget ordinance is then published in the official newspaper of the City.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. BUDGETARY INFORMATION (CONTINUED)

3. At least ten days prior to October 1, the budget is legally enacted through the passage of an ordinance. The City Clerk is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revision that alters the total expenditures of any fund must be approved by the City Council.
4. Budgeted amounts are as originally adopted by the City Council. All supplemental appropriations require the approval of the City Council. There were no amendments to the original appropriations. The City prepared and adopted a legal budget.
5. All budgeted appropriations lapse at the end of the year. The legal level of budgetary control is at the functional level.

All budget amounts presented reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). The General Fund utilized the same basis of accounting for both budgetary purposes and actual results.

Encumbrances

The City does not utilize encumbrance accounting.

B. FUND BALANCE CLASSIFICATION

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	General Fund	Other Govt Funds	Total
Nonspendable:			
Prepaid Expenses	24,165		24,165
Inventory	19,135		19,135
Restricted for:			
John Swenson Trust	52,792		52,792
Debt Service		2,080,409	2,080,409
Humane Society	10,098		10,098
Fire Dept	64,671		64,671
Assigned		58,503	58,503
Unassigned:	873,655	(251,755)	621,900
Total Fund Balances	<u>1,044,516</u>	<u>1,887,157</u>	<u>2,931,673</u>

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There are no major governmental funds with excess expenditures over appropriations.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

D. DEFICIT FUND BALANCES

The following funds had deficit fund balances as of December 31, 2017:

Debt Service Funds:	
TIF 1-10	20,336
TIF 1-18	1,353
TIF 1-6	4,090
TIF 1-27	109,061
TIF 1-28	8,219
TIF 1-29	7,909
GO Tax Increment Bonds - 1997	34,868
GO Tax Increment Bonds - 2004	65,919

E. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Minnesota Statutes §475.53, subd. 3 limit the amount of outstanding general obligation bonded debt of the municipality. The City complies with such laws.

NOTE 3. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

Deposits

In accordance with Minnesota Statutes, 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 insured, protected by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance, surety bonds and letters of credit.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

Authorized collateral includes all treasury bills, notes, and bonds; issues of U.S. governmental agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank and certificates of deposit. Minnesota statutes also require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City does not have any deposit policies that would further limit deposit choices.

According to Minnesota Statutes, the aggregate of a municipality's time/savings accounts, i.e., savings accounts, NOW accounts, and time deposits (CD's) with the same depository are insured up to a total of \$250,000. The aggregate of a municipality's demand accounts, i.e., non-interest and interest-bearing checking accounts, are insured up to a total of \$250,000 and are insured separately from the municipality's other deposits. This separate \$250,000 coverage for non-interest bearing accounts only applies if the depository is in the same state as the municipality.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits in financial institutions, reported as components of cash, and cash equivalents had a bank balance of \$3,880,050 at December 31, 2017, which was fully insured by depository insurance or secured with collateral held by the City's agent in its name. The carrying amount of these deposits at December 31, 2017 was \$3,765,488.

Investment Policy

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- a.) Direct obligations guaranteed by the United States or its agencies;
- b.) Shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; General obligations of the State of Minnesota or its municipalities
- c.) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- d.) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

A. DEPOSITS AND INVESTMENTS (Continued)

- e.) Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- f.) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.
- g.) Guaranteed investment contract (GIC's) issued or guaranteed by United States Commercial Banks or domestic branches of foreign banks or United State insurance company and with a credit quality in one of the top two highest categories.

The City does not have any investment policies that would further limit investment choice

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation. The City only invests in certificates of deposits and the 4M Fund to limit its interest rate risk. Investments in certificates of deposit are made so maturities coincide with cash flow needs and investments in the 4M Fund are not subject to maturities so there is no interference with cash flows.

As of December 31, 2017, the City had the following investments:

2016 Investment	Fair Value	Weighted Average Maturity (Years)
4M Fund	\$1,529	*

*Is not subject to weighted average maturity policy.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The investment policy of the City limits their investment options to those authorized by the State of Minnesota as described above.

Concentrations of Credit Risk: The risk of loss attributed to the magnitude of the City's investments in a single issuer. The City places no limit on the amount that may be invested in any one issuer. As of December 31, 2017, 100% of the City's investments are in the 4M Fund.

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

Custodial Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of December 31, 2017, all investments were insured or registered or the securities were held by the City or its agent in the City's name.

A reconciliation of cash and investments as shown on the Statement of Net Position as of 12/31/17:

Checking	\$1,776,022
Savings and Money Market	1,935,146
Certificates of Deposit	52,792
Investments	<u>1,529</u>
Total	<u>\$3,765,488</u>
Deposits	\$3,763,959
Investments	<u>1,529</u>
Total	<u>\$3,765,488</u>

B. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. No allowance for uncollectible accounts is deemed necessary at year end.

Accounts receivable of the governmental activities consists almost entirely of delinquent taxes and special assessments. Delinquent taxes and special assessments have been offset by deferred inflows of resources for delinquent taxes and special assessments not received within 60 days after year-end in the governmental fund financial statements. The deferred inflow amount as of December 31, 2017 is \$258,464 for taxes and special assessments.

C. NOTES RECEIVABLE

The Economic Development Authority of Canby has established the Economic Development Fund to provide low interest loans to assist business with economic development. The loans have been collateralized and call for periodic payments of principal and interest. In the fund financial statements, under the modified accrual basis of accounting, the loans have been completely offset by deferred inflows of resources. Therefore, no revenues will be recognized until the payments are actually received. In the government-wide financial statements, under the accrual basis of accounting, revenues are earned and therefore, recognized.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

C. NOTES RECEIVABLE(Continued)

The Notes Receivable from the Canby HRA is for its share of the debt of the City's GOIB 2012B, 2014C and 2015A. As payments are due on the bond, the HRA will remit its share to the City and the City will issue one check to the bonding company.

The following is a summary of notes receivable transactions for the year ended December 31, 2017:

	Balance 1-1-17	Amount Advanced	Payments Received	Adjustments	Balance 12-31-17
EDA Loans	\$133,647	\$29,800	\$33,188	\$0	\$130,259
Canby HRA Note	349,792	0	15,208	0	334,581
Canby HRA Note	530,000	0	19,509	0	510,491
Canby HRA Note	236,720	0	7,760	0	228,960
	<u>1,250,159</u>	<u>\$29,800</u>	<u>75,665</u>	<u>0</u>	<u>1,204,291</u>

The Economic Development Authority of Canby has established the Economic Development Fund to provide low interest loans to assist business with economic development. Payments are made to the city from the various businesses. The loans have been collateralized. Payment terms range from \$45.00 to \$300.00 per month. Interest Rates range from 5-6%.

The Canby HRA Note Receivables are setup to pay off the bond reimbursement. Since the City holds the debt, the HRA pays the city after the payment has been sent in. These include the GOIB Bonds of 2012B, 2014C and 2015A.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

D. CAPITAL ASSETS

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

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	696,216			696,216
Construction in Progress	201,814	8,090	146,370	63,534
Total Capital Assets Not Being Depreciated	898,030	8,090	146,370	759,750
Capital Assets Being Depreciated:				
Buildings	3,072,917	161,864		3,234,781
Improvements Other Than Buildings	4,471,292	1,162,241		5,633,533
Infrastructure	982,955			982,955
Machinery & Equipment	2,233,938	116,275	162,109	2,188,104
Total Capital Assets Being Depreciated	10,761,103	1,440,380	162,109	12,039,374
Less Accumulated Depreciation for:				
Buildings	2,320,197	66,458		2,386,655
Improvements Other Than Buildings	1,089,459	202,570		1,292,029
Infrastructure	139,653	46,391		186,044
Machinery & Equipment	1,611,868	131,462		1,743,330
Total Accumulated Depreciation	5,161,177	446,880	0	5,608,057
Total Capital Assets Being Depreciated, Net	5,599,926	993,499	162,109	6,431,316
Total Capital Assets	6,497,956	1,001,589	308,479	7,191,066
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	126,295			126,295
Construction in Progress	0	876,895		876,895
Total Capital Assets Not Being Depreciated	126,295	876,895	0	1,003,190
Capital Assets Being Depreciated:				
Projects	20,469,579			20,469,579
Buildings	2,088,194			2,088,194
Improvements other than Buildings	1,210,771			1,210,771
Equipment	2,993,472	3,341		2,996,813
Total Capital Assets Being Depreciated	26,762,016	3,341	0	26,765,357
Less Accumulated Depreciation for:				
Projects	2,216,743	818,681		3,035,424
Buildings	1,019,964	48,683		1,068,647
Improvements other than Buildings	921,834	25,397		947,231
Equipment	1,565,276	65,760		1,631,036
Total Accumulated Depreciation	5,723,818	958,521	0	6,682,338
Total Capital Assets Being Depreciated, Net	21,038,198	(955,180)	0	20,083,019
Business-Type Activity Capital Assets, Net	21,164,493	(78,285)	0	21,086,209

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

D. CAPITAL ASSETS (CONTINUED)

Depreciation Expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$18,277
Public Safety	71,399
Public Works	65,251
Culture & Recreation	150,215
Miscellaneous	141,738
Total Depreciation Expense-	
Governmental Activities	<u>\$446,880</u>

Business-Type Activities:

Water	\$414,532
Wastewater	431,120
Storm Sewer	<u>112,869</u>
Total Depreciation Expense-	
Business-Type Activities	<u>\$958,521</u>

E. ACCOUNTS PAYABLE

Payables in the general, major governmental funds and enterprise funds are composed almost entirely of payables to vendors.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

F. LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2017:

	Original Issuance	Maturity Date	Interest Rate	Balance 12/31/16	Reductions	Additions	Balance 12/31/17	Amounts Due in One Year
Governmental Activities								
Bonds Payable								
1997 TIF Bonds-USBANK	220,000	12/2023	6.95%	70,000	10,000		60,000	10,000
TIF Note, Series 2001-A-HRA Canby	35,000	08/2018	9.00%	24,000	2,000		22,000	2,000
2008 GO Fire Truck- USDA Rural Development	100,000	09/2017	4.125%	54,256	6,835		47,421	7,119
2011 GO Fire Truck- USDA Rural Development	130,000	07/2026	4.125%	95,020	7,875		87,145	8,326
2011 GO Parking Lot Bond	265,000	07/2023	3.00%	235,000	10,000		225,000	10,000
GO TIF Bond 2014C	600,000	11/2035	3.25%	575,000	25,000		550,000	25,000
			3.00%					
2012A GO Tax Increment Bond	750,000	09/2034	5.00%	690,000	30,000		660,000	30,000
2012B GO Tax Increment Bond	335,000	12/2038	5.750%	305,000	10,000		295,000	10,000
2013B Tax Abatement Bond	695,000	02/2036	2.100%	695,000	*		695,000	*
2015A GO Tax Increment Bond	1,630,000	12/2036	2.500%	1,630,000	60,000		1,570,000	60,000
Compensated Absences				71,629	31,170	33,338	73,797	
Net Pension Liability				<u>924,423</u>	<u>390,826</u>	<u>86,158</u>	<u>419,795</u>	
Total Long Term Liabilities Governmental Activities				<u>5,369,328</u>	<u>783,706</u>	<u>119,536</u>	<u>4,705,158</u>	<u>162,445</u>
Business-Type Activities								
Water Fund								
1998 GO Water Bonds-MN Dept of Trade	1,830,000	08/2018	1.79%	245,000	122,000		123,000	123,000
2010 Drinking Water Revolving MN PFA	3,012,055	08/2039	1.088%	3,314,000	128,000		3,186,000	129,000
2014 MNPFA Drinking Water Revolving Wastewater Fund	298,153	08/2044	1.00%	2,578,000	80,000		2,498,000	81,000
2004 GO Refunding Bonds-US Bank	540,000	01/2021	1.10%	140,000	35,000		105,000	35,000
2010 Clean Water Revolving MN PFA	2,843,424	08/2039	1.349%	4,082,000	153,000		3,929,000	155,000
2014 MNPFA Clean Water Revolving Storm Sewer Fund	280,033	08/2044	1.00%	4,130,000	129,000		4,001,000	130,000
General Obligation Bond, Series 2014D	1,630,000	02/2035	3.30%	1,575,000	70,000		1,505,000	70,000
2010 GO Revenue Bond- Bond Trust Services	1,280,000	02/2031	3.00%	1,030,000	55,000	0	975,000	55,000
Compensated Absences				33,969	17,174	21,459	38,254	
Net Pension Liability				<u>212,926</u>	<u>82,274</u>	<u>23,023</u>	<u>153,725</u>	
Total Long-Term Liabilities Business-Type Activities				<u>17,340,945</u>	<u>871,448</u>	<u>0</u>	<u>16,513,979</u>	<u>778,000</u>

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

F. LONG-TERM DEBT (Continued)

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital improvements. General obligation revenue bonds have been issued for governmental activities. The bonds are direct obligations and pledge the full faith, credit and taxing power of the City.

General Tax Increment Bonds

In 1997, 2001, 2004, 2012, 2014 and 2015 the City issued taxable tax increment bonds. General obligation revenue bonds have been issued for governmental activities. These bonds are backed by the full faith, credit and taxing power of the City and are serviced by debt service funds.

Notes Payable

In 2008 and 2011 the City entered into promissory notes with USDA Rural Development for the acquisition of fire trucks. The notes provide for annual payments of \$9,073 and \$11,795 each at 4.125% for 15 years. Payments are made out of the General Fund. The balances at December 31, 2016 were \$54,256 and \$95,020.

General Obligation Revenue and Revenue Refunding Bonds

General obligation revenue and revenue refunding bonds are recorded as liabilities in the water and wastewater funds. The bonds are payable from revenues derived from the operations of those utilities and are backed by the full faith, credit and taxing power of the City.

Minnesota Public Facilities Authority Loans

The loans are secured by the City's general obligation and revenue pledges

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

F. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2017, excluding compensated absences over the life of the debt, are summarized as follows:

	GO Bonds		GO Tax Increment Bonds	
	Principal	Interest	Principal	Interest
Governmental-Type Activities				
2018	10,000	32,600	137,000	143,918
2019	30,000	32,053	137,000	139,215
2020	40,000	31,153	137,000	134,508
2021	45,000	30,054	157,000	129,330
2022	50,000	28,809	162,000	123,215
2023-2027	250,000	120,655	810,000	513,865
2028-2032	300,000	71,200	902,000	312,843
2033-2037	195,000	15,900	700,000	79,228
2038-2042			15,000	863
Totals	\$920,000	\$362,423	\$3,157,000	\$1,576,983
	Governmental Activities			
	<u>Notes Payable</u>		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	15,445	5,423	778,000	235,586
2019	16,082	4,786	660,000	223,600
2020	16,745	4,123	671,000	213,393
2021	17,436	3,432	641,000	202,994
2022	18,155	2,713	657,000	193,730
2023-2027	50,463	3,897	3,432,000	813,753
2028-2032	0	0	3,613,000	519,631
2033-2037	0	0	3,340,000	301,356
2038-2042	0	0	1,368,837	17,633
Totals	134,326	24,374	15,160,837	2,721,676

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

G. INTERFUND TRANSACTIONS

Interfund Transfers

Transfers between funds of the primary government for the year ended December 31, 2017 were as follows:

	Transfer From:	
Transfers To:	Non-Major Gov't Funds	Total
Non-Major Gov't Funds	64,587	64,587
Total	<u>\$64,587</u>	<u>\$64,587</u>

All transfers between funds were for bond payments.

	Transfers In	Transfers Out	Net Transfers/ Internal Activity
Reconciliation to Fund Financial Statements:			
Governmental Funds	64,587	(64,587)	
Enterprise Funds	0	(0)	
Total Transfers	<u>64,587</u>	<u>(64,587)</u>	

	Transfers In	Transfers Out	Net Transfers/ Internal Activity
Reconciliation to Statement of Activities:			
Net Transfers for Governmental Activities	64,587	(64,587)	(0)
Net Transfers for Business-Type Activities	0	0	0

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 3. DETAIL NOTES ON ALL FUNDS (Continued)

G. INTERFUND TRANSACTIONS (Continued)

Interfund Balances

At December 31, 2017, the following interfund balances were owed between funds and not expected to be fully repaid within one year:

Advances To	Advances From	Amount	Purpose
Water Fund	General Fund	\$5,736	To cover operating
Wastewater Fund	General Fund	6,457	To cover operating
TIF 1-6	General Fund	5,259	To reimburse TIF expense
TIF 1-10	General Fund	21,000	To reimburse TIF expense
TIF 1-18	General Fund	7,991	To reimburse TIF expense
GO Tax Inc 1997	General Fund	28,790	To cover debt service
GOIB 2004	General Fund	65,919	To cover debt service
TIF 1-27	General Fund	6,056	Bond payment
TIF 1-25	General Fund	5,422	Bond payment
TIF 1-4	GO Tax Inc 1997	4,474	To reimburse TIF expense
GOIB 2012B	TIF 1-4	12,905	Bond payment
GOIB 2015A	General Fund	57,168	To cover debt service
TIF 1-28	General Fund	8,040	To cover TIF expense
TIF 1-29	General Fund	7,909	To cover TIF expense
TIF 1-28	Wastewater	5,000	To cover TIF expense
TIF 1-27	Wastewater	<u>100,000</u>	To cover TIF expense
Total Interfund Balances		<u>\$347,955</u>	

Due to Canby HRA-Component Unit

The City has amounts due to the Canby HRA for amount owed for debt proceeds and other related transfer items to the TIF's in the HRA. These are expected to be fully repaid within one year:

Due to TIF 1-4	Amount	Purpose
	<u>9,718</u>	To cover amount owed for debt proceeds and related items
Total Due to HRA	<u>\$9,718</u>	

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Intergovernmental Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to participating cities if a deficiency occurs. The LMCIT is self-sustaining through member premiums and re-insures through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies.

As of December 31, 2017, the City did not have any claims which were probable and measurable and therefore no liability is recorded in the financial statements presented. The City has not had any claims which exceeded its deductible during the past three years.

B. COMMITMENTS AND CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning authority, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as the result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

C. LEASE AGREEMENT

The City of Canby entered into a lease agreement with Tenant, Michael Tesch. The Tenant operates the Canby Theatre's including concessions. This agreement will continue on a year to year basis unless terminated in writing. There is no rental revenue from this lease or will be in the future. The City has no operational revenue from the theatre.

The City of Canby entered into a lease agreement with Tenant, Sherry Kern dba Deputy Registrar. The agreement will continue on a year to year basis unless terminated in writing. This agreement states that the lessor will pay monthly rent of \$150 for the use of some office space at 107 St. Olaf Avenue N. The city received \$1,800 of rent in 2017.

D. TAX ABATEMENTS

The City approved a property tax abatement on December 7, 2010, starting payable 2013 through 2022. The abatement terms shall be for a maximum of 10 years. This property tax abatement agreement is between the Canby Inn & Suites, LLC and the City. This abatement shall be for 100% of the City's share of the increased ad valorem property taxes generated by the property as a result of the proposed development of the property. The City's expense for 2017 is \$21,547.

The City approved a property tax abatement on May 3, 2011, starting payable 2013 and ending 2022. The abatement terms shall be for a maximum of 10 years. This property tax abatement agreement is between Farmers Cooperative Association and the City. This abatement shall be for 100% of the City's share of the increased ad valorem property taxes generated by the property as a result of the proposed development of the property. The City's expense for 2017 is \$4,865.

E. FEDERAL AIDS – SINGLE AUDIT ACT

The City did not expended more than \$750,000 of federal financial assistance and is not required to do a Single Audit under Uniform Guidance.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

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

General Employees Retirement Plan

All full time and certain part time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to either 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.

Public Employees Police and Fire Fund Plan

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 a local relief association 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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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 used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for the Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age of 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 the 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% after ten years of credited service. Benefits for Police and Fire members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire 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.

Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employee fund for the years ended December 31, 2017, 2016 and 2015 were \$28,120, \$27,376 and \$28,906, respectively. The City's contributions were equal to the required contributions as set by the state statute.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for Police and Fire members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, 2016 and 2015 were \$25,548, \$26,015 and \$24,523. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$357,500 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of the special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$4,498. The net pension was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0056% which was a decrease of 0.001% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$14,976 for its proportionate share of General Employee's pension expense. In addition, the City recognized an additional \$130 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.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

At December 31, 2017, the City reported its proportionate share of General Employee's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 11,782	\$ 25,488
Changes in Actuarial Assumptions	64,652	\$35,839
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$9,161	-
Changes in Proportion		
Contributions Subsequent to the Measurement Date	14,078	\$46,927
Totals	\$ 99,673	\$ 108,254

\$14,078 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	(\$651)
2019	\$8,620
2020	(\$5,303)
2021	(\$15,175)
2022	\$0
Thereafter	\$0

Police and Fire Pension Costs

At December 31, 2017, the City reported a liability of \$216,019 for its proportionate share of the Police and Fire fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was .016% which was 0.001% less than proportion measured as of June 30, 2016.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

For the year ended December 31, 2017, the City recognized a credit to pension expense of \$27,979 for its proportionate share of the Police and Fire's pension expense. The City also recognized \$1,440 for the year ended December 31, 2017, as revenue 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, 2017, the City reported its proportionate share of the Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 4,972	\$ 58,856
Changes in Actuarial Assumptions	\$ 282,704	\$ 306,693
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 3,957	-
Changes in Proportion	\$ 12,347	\$ 7,575
Contributions Subsequent to the Measurement Date	\$ 303,980	\$ -
Totals	\$ 608,960	\$ 673,124

\$12,347 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$1,994
2019	\$1,994
2020	(\$15,757)
2021	(\$28,051)
2022	\$994
Thereafter	\$0

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabled members were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	7.5%
Alternative Assets	20%	5.90%
Cash	2%	0.0%

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire 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.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

F. DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

PENSION LIABILITY SENSITIVITY

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

Sensitivity of Net Pension Liability at Current Single Discount Rate (in thousands)

	General Employees Fund	Police and Fire Fund
1% Lower	\$554,510	\$406,827
Current		
Discount Rate	7.50%	7.50%
1% Higher	196,212	8,50%
	357,500	216,019
	196,212	58,497

PENSION PLAN FIDUCIARY NET POSITION

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

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

G. DEFINED BENEFIT PENSION PLANS – STATEWIDE VOLUNTEER FIREFIGHTERS FUND

Defined Benefit Pension Plan

Plan Description

The Canby Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2016, the plan covered 24 active firefighters and 8 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City of Canby. Members are eligible for a lump-sum retirement benefit at 50 years of age with 5 years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*. The State of Minnesota contributed \$26,171 in fire state aid to the plan for the year ended December 31, 2016. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2016 were \$0. The City's contributions were equal to the required contributions as set by state statute, if applicable.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

G. DEFINED BENEFIT PENSION PLANS – STATEWIDE VOLUNTEER FIREFIGHTERS FUND

Pension Costs

At December 31, 2017, the City of Canby reported a net pension asset of \$274,114 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a-b)
Beginning Balance 12/31/16	\$220,658	\$453,135	(\$232,477)
Changes for the Year			
Service Cost	10,407		10,407
Interest on Pension Liability	13,863		13,863
Projected Investment Earnings		27,188	(27,188)
Actuarial Experience (Gains)/Losses	(8,755)		(8,755)
Changes in Benefit Level	0		0
Contributions (ER/State)		26,171	(26,171)
Asset Gain/Loss		4,638	(4,638)
	0	0	0
Benefit Payouts		(845)	845
PERA Administrative Fee			
Net Changes	\$15,515	\$57,152	(\$41,637)
Balance End of Year 12/31/17	\$236,173	\$510,287	(\$274,114)

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

G. DEFINED BENEFIT PENSION PLANS – STATEWIDE VOLUNTEER FIREFIGHTERS FUND (Continued)

There were no provision changes during the measurement period.

For the year ended December 31, 2017, the City of Canby recognized a credit to pension expense of \$4,752. At December 31, 2017, the City of Canby reported deferred inflows of resources if contributions were made after the measurement date and for state contributions received by PERA after the measurement date which can be found at: <http://bit.ly/1M40s8c> related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial Experience Gains/Losses	\$0	\$7,004
Difference between projected and actual investment earnings	0	3,710
Total	\$0	\$10,714

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	\$833
2018	\$833
2019	\$833
2020	(\$2,764)
2021	0
Thereafter	0

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

G. DEFINED BENEFIT PENSION PLANS – STATEWIDE VOLUNTEER FIREFIGHTERS FUND (Continued)

Actuarial Assumptions

The total pension liability at December 31, 2016, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0%
- Inflation rate of 3.0%

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Asset Sensitivity

The following presents the City of Canby's net pension asset for the Volunteer Firefighter Fund, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City of Canby net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	(\$264,568)	(\$274,114)	(\$283,063)

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

G. DEFINED BENEFIT PENSION PLANS – STATEWIDE VOLUNTEER FIREFIGHTERS FUND (Continued)

Plan Investments

Investment Policy:

The Minnesota State Board of Investment (SBI) established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. OTHER INFORMATION (Continued)

G. DEFINED BENEFIT PENSION PLANS – STATEWIDE VOLUNTEER FIREFIGHTERS FUND (Continued)

Description of significant investment policy changes during the year: The SBI made no significant changes to their investment policy during 2017 for the Statewide Volunteer Firefighter Retirement Plan.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2016, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mmpera.org.

H. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 5, 2018, which is the date the financial statements were available to be issued. No significant, unusual or infrequent events or transactions have occurred after the financial statement date but before the issuance of the financial statements.

I. TAX INCREMENT FINANCING DISTRICTS

The City of Canby is the administering authority for the following tax increment finance districts which were established in various years. During 2017, the City of Canby received \$157,601 from these districts in tax revenue. This revenue is transferred to the General Fund on an annual basis. In 1997, the City created a new municipal development district and merged all existing Districts into the new District. All existing Districts were renamed. Detailed information on these districts is listed below.

The above estimates are because Minnesota now uses tax capacity instead of assessed value.

Tax Increment Financing District No. 1-12 County (TIF 1-4)

Type of district – Redevelopment/Canby Farmers Grain

Authorizing law – Minnesota Statute #469

Year established – 1999

Duration – not to exceed twenty-five (25) years of increment-2024

Original tax capacity –	8,749
Current tax capacity –	59,908
Captured tax capacity –	51,070
Retained by authority –	51,070
Shared with other authorities –	-
Total bonds issued -	224,600
Total loans incurred -	-

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 4. OTHER INFORMATION (Continued)

I. TAX INCREMENT FINANCING DISTRICTS (Continued)

<u>Tax Increment Financing District No. 1-14 County (TIF 1-8)</u>	
Type of district – Redevelopment/Borderline	
Authorizing law – Minnesota Statute #469	
Year established – 2001	
Duration – not to exceed twenty-five (25) years of increment-2026	
Original tax capacity –	28
Current tax capacity –	1,784
Captured tax capacity –	1,756
Retained by authority –	1,756
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	19,000

<u>Tax Increment Financing District No. 1-15 County (TIF 1-9)</u>	
Type of district – Redevelopment/Sieve Grong Construction	
Authorizing law – Minnesota Statute #469	
Year established – 1999	
Duration – not to exceed twenty-five (25) years of increment	
Original tax capacity –	139
Current tax capacity –	1,731
Captured tax capacity –	1,592
Retained by authority –	1,592
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	25,000

<u>Tax Increment Financing District No. 1-17 County (TIF 1-11)</u>	
Type of district – Redevelopment/John Lair Redevelopment	
Authorizing law – Minnesota Statute #469	
Year established – 2002	
Duration – not to exceed twenty-five (25) years of increment-2027	
Original tax capacity –	149
Current tax capacity –	1,382
Captured tax capacity –	1,233
Retained by authority –	1,233
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	24,500

<u>Tax Increment Financing District No. 1-19 County (TIF 1-6)</u>	
Type of district – Redevelopment/Clark-Hanson VFW Post 117	
Authorizing law – Minnesota Statute #469	
Year established – 2000	
Duration – not to exceed twenty-five (25) years of increment-2024	
Original tax capacity –	33
Current tax capacity –	1,868
Captured tax capacity –	1,835
Retained by authority –	1,835
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	29,326

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017
NOTE 4 OTHER INFORMATION (Continued)

I. TAX INCREMENT FINANCING DISTRICTS (Continued)

<u>Tax Increment Financing District No. 1-20 County (TIF 1-12)</u>	
Type of district – Redevelopment/Janiszewski	
Authorizing law – Minnesota Statute #469	
Year established – 2002	
Duration – not to exceed twenty-five (25) years of increment-2027	
Original tax capacity –	41
Current tax capacity –	1,675
Captured tax capacity –	1,634
Retained by authority –	1,634
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	20,000

<u>Tax Increment Financing District No. 1-22 County (TIF 1-14)</u>	
Type of district – Redevelopment/Janiszewski	
Authorizing law – Minnesota Statute #469	
Year established – 2002	
Duration – not to exceed twenty-five (25) years of increment-2027	
Original tax capacity –	25
Current tax capacity –	1,462
Captured tax capacity –	1,437
Retained by authority –	1,437
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	-0-

<u>Tax Increment Financing District No. 1-26 County (TIF 1-18)</u>	
Type of district – Redevelopment	
Authorizing law – Minnesota Statute #469	
Year established – 2004	
Duration – not to exceed twenty-five (25) years of increment-2028	
Original tax capacity –	261
Current tax capacity –	3,294
Captured tax capacity –	3,033
Retained by authority –	3,033
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	-0-

<u>Tax Increment Financing District No. 1-34 County (TIF 1-24)</u>	
Type of district – Soils Condition	
Authorizing law – Minnesota Statute #469	
Year established – 2012	
Duration – twenty (20) years from receipt of the first tax increment	
Original tax capacity –	784
Current tax capacity –	29,478
Captured tax capacity –	28,694
Retained by authority –	28,694
Shared with other authorities –	-0-
Total bonds issued -	-0-
Total loans incurred -	-0-

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 OTHER INFORMATION (Continued)

I. TAX INCREMENT FINANCING DISTRICTS (Continued)

Tax Increment Financing District No. 1-37 County (TIF 1-25)
 Type of district – Economic Development
 Authorizing law – Minnesota Statute #469
 Year established – 2013
 Duration – eight (8) years from first receipt of tax increment
 Original tax capacity – 660
 Current tax capacity – 46,914
 Captured tax capacity – 46,254
 Retained by authority – 46,254
 Shared with other authorities – -0-
 Total bonds issued - -0-
 Total loans incurred - -0-

Tax Increment Financing District No. 1-41 County (TIF 1-26)
 Type of district – Redevelopment
 Authorizing law – Minnesota Statute #469
 Year established – 2015
 Duration – twenty-five (25) years from the receipt of the first tax increment - 2040
 Original tax capacity – 3,104
 Current tax capacity – 10,880
 Captured tax capacity – 7,776
 Retained by authority – 7,776
 Shared with other authorities – -0-
 Total bonds issued - -0-
 Total loans incurred - -0-

Tax Increment Financing District No. 1-43 County (TIF 1-27)
 Type of district – Redevelopment
 Authorizing law – Minnesota Statute #469
 Year established – 2015
 Duration – twenty-five (25) years from the receipt of the first tax increment - 2042
 Original tax capacity – 3,198
 Current tax capacity – 9,643
 Captured tax capacity – 6,445
 Retained by authority – 6,445
 Shared with other authorities – -0-
 Total bonds issued - -0-
 Total loans incurred - -0-

CITY OF CANBY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 OTHER INFORMATION (Continued)

I. TAX INCREMENT FINANCING DISTRICTS (Continued)

Tax Increment Financing District No. 1-46 County (TIF 1-28)
 Type of district – Redevelopment
 Authorizing law – Minnesota Statute #469
 Year established – 2018
 Duration – twenty-five (25) years from the receipt of the first tax increment - 2043
 Original tax capacity – 809
 Current tax capacity – 809
 Captured tax capacity – -0-
 Retained by authority – -0-
 Shared with other authorities – -0-
 Total bonds issued - -0-
 Total loans incurred - -0-

Tax Increment Financing District No. 1-47 County (TIF 1-29)
 Type of district – Redevelopment
 Authorizing law – Minnesota Statute #469
 Year established – 2018
 Duration – twenty-five (25) years from the receipt of the first tax increment - 2027
 Original tax capacity – 62
 Current tax capacity – 62
 Captured tax capacity – -0-
 Retained by authority – -0-
 Shared with other authorities – -0-
 Total bonds issued - -0-
 Total loans incurred - -0-

CITY OF CANBY
SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
December 31, 2015	\$28,491	\$28,906	(415)	\$385,415	7.50%
December 31, 2016	\$27,376	\$27,376	-	\$365,010	7.50%
December 31, 2017	\$28,120	\$28,120	-	\$374,877	7.50%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 **For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

CITY OF CANBY
SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES POLICE AND FIRE EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
December 31, 2015	\$24,885	\$24,523	362	\$151,377	16.20%
December 31, 2016	\$26,015	\$26,015	-	\$160,585	16.20%
December 31, 2017	\$25,548	\$25,548	-	\$157,702	16.20%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 **For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

CITY OF CANBY
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share Net Pension Liability Associated with the City (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (c)	Employer's Proportionate Share of the Covered-Employee Payroll (d)	Employer's Proportionate Share of the Net Pension Liability (Asset) (e)	Percentage of the Covered-Employee Payroll (d) (a/b)	Plan Fiduciary Net Position (f)	Percentage of the Total Pension Liability (g)
June 30, 2015	\$492,500	\$6,490	\$499,000	\$165,010	\$185,510	13.69%	\$1,340,000	13.84%
June 30, 2016	\$492,016	\$0	\$492,016	\$183,415	\$342,046	81.75%	\$1,340,000	78.27%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 **For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

CITY OF CANBY
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES POLICE AND FIRE EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share Net Pension Liability Associated with the City (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (c)	Employer's Proportionate Share of the Covered-Employee Payroll (d)	Employer's Proportionate Share of the Net Pension Liability (Asset) (e)	Percentage of the Covered-Employee Payroll (d) (a/b)	Plan Fiduciary Net Position (f)	Percentage of the Total Pension Liability (g)
June 30, 2015	\$612,108	\$0	\$612,108	\$177,005	\$177,005	99.88%	\$1,340,000	14.33%
June 30, 2016	\$193,160	\$0	\$193,160	\$151,377	\$193,160	127.60%	\$1,340,000	78.27%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
 **For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

CITY OF CANBY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

General Employees Fund

2017 Changes

Changes in Actuarial Assumptions:

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

Police and Fire Fund

2017 Changes

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.



Kinner & Company Ltd
Certified Public Accountants

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

Honorable Mayor and Members of the Council
City of Canby
Canby, Minnesota 56220

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Canby, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Canby, Minnesota's basic financial statements and have issued our report thereon dated June 5, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* over financial reporting 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 on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses, or significant deficiencies and, therefore, material weaknesses may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness, 2017-1.

**CITY OF CANBY
SCHEDULE OF PRIOR AND CURRENT YEAR FINDINGS
DECEMBER 31, 2017**

PRIOR YEAR FINANCIAL FINDINGS

- 2016-1: The City does not maintain an adequate segregation of duties among its accounting personnel- This finding continues to exist and has been restated as finding 2017-1
- 2016-2: The City did not follow MN Statutes for transferring money between TIF districts and the general fund- This finding continues to exist and has been restated as finding 2017-2

FINDINGS – FINANCIAL STATEMENT AUDIT

2017-1: The City does not maintain an adequate segregation of duties among its accounting personnel.

Condition: A lack of segregation of duties over revenues and expenditures exists which could result in errors not being found in a timely manner.

Criteria: Internal controls can help the City of Canby achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

Cause: The City has a limited number of accounting personnel to perform financial reporting duties.

Effect: The City of Canby has a limited number of employees who prepare all records for revenue and expenditures. This is undesirable from an internal control viewpoint and could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation: We recommend the City Council take a more active role in their oversight over revenue and expenditures.

Corrective Action Plan and Council Response:

The following compensating controls are presently in place:

- The City Council reviews and approves all bills
- The City Council and/or other personnel periodically review various expenditure reports for amounts, classifications and comparison to budget.

Due to limited personnel, it is not practical to implement a complete segregation of duties. However, the City will continue to review its procedures to determine if any improvements can be made using the limited personnel available.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Canby, Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Canby's Response to Findings

City of Canby's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Canby's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Canby, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Prior and Current Findings and Responses as items 2017-2. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Canby's noncompliance with the above referenced provisions.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Kimber + Company Ltd.

Kimber & Company Ltd
Certified Public Accountants

June 5, 2018

CITY OF CANBY
SCHEDULE OF PRIOR AND CURRENT YEAR FINDINGS
DECEMBER 31, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

2017-2: According to the Minnesota Legal Compliance Manual, the city is not compliant with Minnesota Statute 469.178, subd. 7. The city did not authorize by resolution before money was transferred within the TIF districts and the general fund. The city does not have terms and conditions for repayment setup for these interfund loans.

Condition: There is a lack of knowledge in the accounting department with the Minnesota Legal Compliance Guide.

Criteria: The accounting department will review the Minnesota Legal Compliance Guide each year.

Cause: The City has a limited number of accounting personnel that are familiar with the TIF districts and the Minnesota Legal Compliance guide.

Effect: The City of Canby was not compliant with the Minnesota Legal Compliance guide and should review this guide for assistance each year.

Recommendation: We recommend the City setup resolutions and payment terms to comply with the Minnesota Legal Compliance Guide.

Corrective Action Plan and Council Response: The council will setup a resolution for each interfund loan and payment terms so the city is compliant with the Minnesota Legal Compliance Guide.

City of Canby
Combining Balance Sheet
Municipal Governmental Funds
December 31, 2017

Account	DECEMBER 31, 2017									
	GA	GA	GA	GA	GA	GA	GA	GA	GA	GA
ASSETS										
Current Assets	15,300	15,300	3,799	99,316	1,008	21,614	40,879	24,579	1,409	13,181
Cash	99	99						436		
Accounts Receivable					158		1,222			
Inventory										
Prepaid Expenses	21,404	21,404			1,706		6,556			
Other Receivables	19,897	19,897		211,208						
Due from Other Funds										
Total Assets	146,794	146,794	3,799	99,316	372,519	21,614	144,657	24,579	1,409	13,181
LIABILITIES										
Accounts Payable	188,744	188,744	3,728	89,244	333,832	33,812	124,425	124,425	1,102	13,181
Due to Other Funds										
Total Liabilities	188,744	188,744	3,728	89,244	333,832	33,812	124,425	124,425	1,102	13,181
NET POSITION	15,300	15,300	271	10,072	138,687	17,802	20,232	20,154	307	
Unassigned	15,300	15,300								
Assigned										
Total Net Position	15,300	15,300	271	10,072	138,687	17,802	20,232	20,154	307	
Total Liabilities and Net Position	188,744	188,744	3,728	89,244	333,832	33,812	124,425	124,425	1,409	13,181
Total Liabilities and Net Position	188,744	188,744	3,728	89,244	333,832	33,812	124,425	124,425	1,409	13,181

City of Clark
 Council of City Officials
 Municipal Governmental Funds (Continued)
 December 31, 2017

	2017 Year Ended		2016 Year Ended	
	Total	Per Capita	Total	Per Capita
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 36,833	\$ 15,941	\$ 34,938	\$ 14,036
Accounts receivable	2,337	-	-	3,264
Prepaid expenses	941	-	1,418	591
Inventory	-	-	-	6,641
Notes receivable	-	-	-	1,106,648
Other receivables	-	-	-	79,667
Due from other funds	70,324	13,824	42,024	2,103,074
Total	\$ 109,435	\$ 43,825	\$ 81,410	\$ 2,813,311
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 9,318
Accrued salaries	-	-	-	333,021
Deferred payments	-	-	-	252,522
Deferred payments of revenues	2,117	-	-	230,161
Unexpended capital assets	1,321	-	-	275,522
Total	3,438	15,941	42,024	2,080,544
Total	\$ 112,873	\$ 59,766	\$ 123,434	\$ 4,893,855

ASSETS
 Cash and cash equivalents
 Accounts receivable
 Prepaid expenses
 Inventory
 Notes receivable
 Other receivables
 Due from other funds
 DEFERRED PAYMENTS OF REVENUES
 Accounts payable
 Accrued salaries
 Deferred payments
 Deferred payments of revenues
 Unexpended capital assets
 Total Liabilities, Deferred Payments of Revenues and Fund Balance

City of Clark
 Council of City Officials
 Municipal Governmental Funds (Continued)
 December 31, 2017

	2017 Year Ended						2016 Year Ended					
	TIF 1-0	TIF 1-1	TIF 1-2	TIF 1-4	TIF 1-8	GOV BAL	TIF 1-2	TIF 1-4	TIF 1-8	TIF 1-2	TIF 1-4	TIF 1-8
ASSETS												
Current assets:												
Cash and cash equivalents	\$ 64	\$ 5,440	\$ 13,141	\$ 12,200	\$ 6,518	\$ -	\$ 2,417	\$ 4,971	\$ 9,259	\$ 4,251	\$ -	
Accounts receivable	-	-	-	-	-	-	-	-	179	-	-	
Prepaid expenses	-	-	-	-	-	-	-	-	-	-	-	
Inventory	-	-	-	-	-	-	-	-	-	-	-	
Notes receivable	-	-	-	-	-	-	-	19,599	-	-	-	
Other receivables	-	-	-	-	-	-	-	-	-	-	-	
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	
Total	\$ 64	\$ 5,440	\$ 13,141	\$ 12,200	\$ 6,518	\$ -	\$ 2,417	\$ 19,570	\$ 9,438	\$ 4,251	\$ -	
LIABILITIES												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,417	\$ 4,971	\$ 9,259	\$ 4,251	\$ -	
Accrued salaries	-	-	-	-	-	-	-	-	-	-	-	
Deferred payments	-	-	-	-	-	-	-	-	-	-	-	
Deferred payments of revenues	2,117	-	-	-	-	-	-	-	-	-	-	
Unexpended capital assets	1,321	-	-	-	-	-	-	-	-	-	-	
Total	\$ 3,438	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,417	\$ 4,971	\$ 9,259	\$ 4,251	\$ -	
Total	\$ 64	\$ 5,440	\$ 13,141	\$ 12,200	\$ 6,518	\$ -	\$ 4,834	\$ 24,541	\$ 18,697	\$ 8,502	\$ -	

ASSETS
 Cash and cash equivalents
 Accounts receivable
 Prepaid expenses
 Inventory
 Notes receivable
 Other receivables
 Due from other funds
 DEFERRED PAYMENTS OF REVENUES
 Accounts payable
 Accrued salaries
 Deferred payments
 Deferred payments of revenues
 Unexpended capital assets
 Total Liabilities, Deferred Payments of Revenues and Fund Balance

City of Cudahy
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 For the Year Ended December 31, 2017

Special Revenue	Data Source									
	COB 1/1/16	COB 1/1/17	COB 1/1/18	COB 1/1/19	COB 1/1/20	COB 1/1/21	COB 1/1/22	COB 1/1/23	COB 1/1/24	COB 1/1/25
Revenue										
Property Taxes	3,389	3,445	3,500	3,555	3,610	3,665	3,720	3,775	3,830	3,885
Intergovernmental	13,148	13,148	13,148	13,148	13,148	13,148	13,148	13,148	13,148	13,148
Federal Grants	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Other	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Expenditures										
Personnel	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Materials	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Travel	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Utilities	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Telephone	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Printing	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Repairs and Maintenance	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Capital Outlay	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Debt Principal	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Debt Interest	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Other	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Change in Fund Balance	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Beginning Fund Balance	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ending Fund Balance	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000

City of Cudahy
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 For the Year Ended December 31, 2017

Data Source	Data Source									
	COB 1/1/16	COB 1/1/17	COB 1/1/18	COB 1/1/19	COB 1/1/20	COB 1/1/21	COB 1/1/22	COB 1/1/23	COB 1/1/24	COB 1/1/25
Revenue										
Property Taxes	1,792	1,847	1,902	1,957	2,012	2,067	2,122	2,177	2,232	2,287
Intergovernmental	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Federal Grants	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Other	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Expenditures										
Personnel	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Materials	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Travel	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Utilities	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Telephone	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Printing	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Repairs and Maintenance	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Capital Outlay	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Debt Principal	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Debt Interest	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Other	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Change in Fund Balance	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Beginning Fund Balance	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792
Ending Fund Balance	3,584	3,584	3,584	3,584	3,584	3,584	3,584	3,584	3,584	3,584

Net Other Financing Sources (Uses)
 Net Change in Fund Balance
 Fund Balance at End of Period

City of Cedar
 Water and Sewer Department
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
 For the Year Ended December 31, 2017

	RWSS		WFLS		DFSL	
	2017	2016	2017	2016	2017	2016
Revenues						
Interest	\$ 18	\$ 18	\$ 18	\$ 18	\$ 18	\$ 18
Property Taxes	513	513	513	513	513	513
Miscellaneous	2	2	2	2	2	2
Total Revenues	533	533	533	533	533	533
Expenditures						
Administrative	1,145	1,145	1,145	1,145	1,145	1,145
Construction	17,000	17,000	17,000	17,000	17,000	17,000
Debt Principal	102,204	102,204	102,204	102,204	102,204	102,204
Debt Interest	117,000	117,000	117,000	117,000	117,000	117,000
Total Expenditures	237,349	237,349	237,349	237,349	237,349	237,349
Change in Accumulated Other Comprehensive Income	327	327	327	327	327	327
Other Reporting Sources (Loss)			(1,145)	(1,145)	(1,145)	(1,145)
Increase from other					14,437	14,437
Total Change in Accumulated Other Comprehensive Income	327	327	(818)	(818)	13,292	13,292
Net Other Financing Sources (Uses)					(64,827)	(64,827)
Net Change in Fund Balance	313	313	313	313	17,959	17,959
Fund Balance at Beginning of Year	36,284	36,284	36,284	36,284	36,284	36,284
Fund Balance at End of Year	37,001	37,001	37,001	37,001	54,243	54,243

FORM OF LEGAL OPINION

(See following page)

FRYBERGER

— LAW FIRM —

August 29, 2018

City of Canby
110 Oscar Avenue North
Canby, MN 56220

[PURCHASER]

RE: City of Canby, Minnesota
\$ _____ General Obligation Bonds, Series 2018A

We have acted as Bond Counsel in connection with the authorization, issuance and delivery by the City of Canby, Minnesota, Yellow Medicine County, Minnesota (the “Issuer”), of the above-referenced bonds dated the date hereof (the “Bonds”). The Bonds are issued pursuant to Minnesota Statutes, Chapters 429, 444 and 475.

A. Scope of Examination. For the purpose of rendering this opinion letter, we have examined the following:

1. a resolution of the Issuer adopted on August 7, 2018 authorizing the issuance and delivery of the Bonds (the “Resolution”);
2. the Officers’ Certificate of the Issuer dated the date hereof setting forth and certifying as to certain matters, including but not limited to the use and investment of the proceeds of the Bonds (the “Tax Certificate”);
3. applicable law and certified copies of certain proceedings taken, and certain affidavits and certificates furnished by the Issuer and others with respect to the authorization, sale and issuance of the Bonds; and
4. such other documents as we consider necessary in order to render this opinion.

B. Reliance. As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officers of the Issuer and others without undertaking to verify such facts by independent investigation. We have also relied, without independent investigation, upon representations and certifications made by the Issuer in the Tax Certificate and the representations and certifications made by the Issuer, agents of the Issuer and others in connection with the issuance of the Bonds as to: (a) the nature, cost, use and useful economic life of the facilities and/or improvements financed by the Bonds, (b) the application to be made of the proceeds of the Bonds, (c) the investment of such proceeds and (d) other matters material to the tax-exempt status of the interest borne by the Bonds, including the anticipated sources of repayment of the Bonds.

FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A.

DULUTH
302 W. Superior Street, Ste. 700
Duluth, MN 55802
p: (218) 722-0861
f: (218) 725-6800

SUPERIOR
1409 Hammond Avenue, Ste. 330
Superior, WI 54880
p: (715) 392-7405
f: (715) 392-7407

ST. PAUL
380 St. Peter Street, Ste. 710
St. Paul, MN 55102
p: (651) 221-1044
f: (651) 221-1035

1. In rendering the opinions contained in Section D below, we have assumed: (a) the legal capacity for all purposes relevant hereto of all natural persons, (b) with respect to all parties to agreements or instruments relevant hereto other than the Issuer, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, (c) that such agreements or instruments are the valid, binding and enforceable obligations of each such party, other than the Issuer, (d) the authenticity of all documents submitted to us as originals and the authenticity of the originals, (e) the conformity to original documents of all documents submitted to us as certified or photostatic copies, (f) the genuineness of the signatures on all documents submitted to us, and (g) the accuracy of the facts and representations stated in all documents submitted to us.

2. In rendering the opinions contained in paragraphs 3 and 4 of Section D below, we have assumed that the proceeds of the Bonds will be applied in accordance with the provisions of the Resolution and the representations made by the Issuer in the Tax Certificate and that the Issuer will make or cause to be made any necessary calculations and pay to the United States any amounts required under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

3. For the purpose of rendering the opinion set forth in paragraph 3 of Section D, below, we have also assumed compliance by the Issuer with requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. The Issuer has covenanted to comply with each such requirement.

D. Opinions. Based upon such examination, assumptions and reliance, on the basis of federal and State of Minnesota (the "State") laws, regulations, rulings and decisions in effect on the date hereof, but excluding any pending legislation which may have a retroactive date prior to the date hereof, and subject to certain limitations set forth in Section E below, it is our opinion that:

1. The Bonds are valid and binding general obligations of the Issuer enforceable in accordance with their terms.

2. All taxable property in the territory of the Issuer is subject to ad valorem taxation without limitation as to rate or amount to pay the principal of and interest on the Bonds.

3. The Bonds, as of their date of issuance, bear interest which is not includable in gross income of the recipient for federal income tax purposes or in taxable net income of individuals, trusts and estates for State income tax purposes, but such interest is includable in taxable income of corporations and financial institutions for purposes of State franchise tax. Interest on the Bonds is not an item of tax preference which is included in alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on individuals or the State alternative minimum tax imposed on individuals, trusts and estates.

4. Based solely on factual representations by the Issuer, the Bonds have been designated by the Issuer as "qualified tax-exempt obligations" under and within the meaning of Section 265(b)(3)(b) of the Code.

E. Qualifications and Limitations. The opinions expressed in Section D above are subject to the following:

1. We express no opinion as to federal or state tax consequences arising from ownership of the Bonds other than as set forth in Section D hereof.

August 29, 2018

Page 3

2. The rights of the owners and enforceability of the Bonds are subject to and may be limited by (a) state and federal laws, rulings, decisions and principles of equity affecting remedies, including (without limitation) concepts of materiality, reasonableness, good faith and fair dealing, and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law); (b) the effect of any applicable bankruptcy, moratorium, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors' or secured creditors' rights or laws relating to creditors' or secured creditors' rights against public instrumentalities heretofore or hereafter enacted to the extent constitutionally applicable; (c) the exercise of judicial discretion in appropriate cases; and (d) federal and state securities laws and public policy relating thereto.

3. Failure by the Issuer to comply with applicable requirements of the Code could cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income taxation, either prospectively or retroactively to the date hereof.

4. Our opinions expressed in Section D above are limited to the law of the State and the federal law of the United States of America, and we assume no responsibility as to the applicability to this transaction, or the effect thereon, of the law of any other jurisdiction.

5. Except as expressly stated in this opinion, we express no opinion as to compliance with any federal securities laws or any state securities or Blue Sky laws.

6. This opinion is rendered as of the date set forth above and we express no opinion as to circumstances or events which may occur subsequent to such date.

7. The foregoing opinions are being furnished to you solely for your benefit and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

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

Respectfully submitted,

Fryberger, Buchanan, Smith & Frederick, P.A.

APPENDIX C

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)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Canby, Minnesota (the “Issuer”) in connection with the issuance of the General Obligation Bonds, Series 2018A, dated August 29, 2018 (the “Obligations”). The Obligations are being issued pursuant to a Resolution of the Issuer dated August 7, 2018 (the “Resolution”). The Issuer covenants and agrees as follows:

Section 1. (a) Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the Rule (defined below). References in this Disclosure Certificate to holders of the Obligations shall include the beneficial owners of the Obligations. This Disclosure Certificate constitutes the written understanding under the Rule.

(b) Filing Requirements. Any filing under this Disclosure Certificate must be made solely by transmitting such filing to the MSRB (defined herein) through the Electronic Municipal Market Access (“EMMA”) System at www.emma.msrb.org in the format prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by the identifying information prescribed by the MSRB.

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

“Annual Report” means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Audited Financial Statements” means the Issuer’s annual financial statements, which are currently prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and which the Issuer intends to continue to prepare in substantially the same form.

“Code” means the Internal Revenue Code of 1986, as amended.

“Dissemination Agent” means such person from time to time designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“IRS” means the Internal Revenue Service of the Department of the Treasury.

“Listed Events” means any of the events listed in Sections 5(a) and 5(b) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, whose current address is 1300 I Street NW, Suite 1000, Washington, DC 20005.

“Official Statement” means the Official Statement, dated August ___, 2018, delivered in connection with the original issuance and sale of the Obligations, together with any amendments thereto or supplements thereof.

“Participating Underwriter” means any of the original underwriter(s) of the Obligations required to comply with the Rule in connection with offering of the Obligations.

“Rule” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” means the Securities and Exchange Commission or any successor to its functions governing state and municipal securities.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 12 months after the end of the fiscal year (presently December 31), commencing with the fiscal year ended December 31, 2018, provide to the MSRB, filed in accordance with Section 1(b) of this Disclosure Certificate, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audited Financial Statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date; provided, however, unaudited financial information will be provided and the Audited Financial Statements will be submitted to the MSRB when and if available. The Issuer may provide the Annual Report by specific reference to documents previously provided to the MSRB or filed with the SEC; provided, however, that if the document so referenced is a final official statement within the meaning of the Rule, such final official statement must be available from the MSRB.

(b) Not later than 15 days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Issuer is not the Dissemination Agent).

(c) If the Issuer is unable or fails to provide an Annual Report by the date required in subsection (a), the Issuer shall send in a timely manner a notice of such fact to the MSRB in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 4. Content of Annual Reports. The Issuer’s Annual Report shall contain or incorporate by reference the Audited Financial Statements and updates of the following sections of the Official Statement to the extent such financial information and operating data are not included in the Audited Financial Statements:

(a) Current Property Valuations

- (b) Direct Debt
- (c) Tax Levies & Collections
- (d) U.S. Census Data/Population Trend
- (e) Employment/Unemployment Data

Section 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given notice of the occurrence of any of the following events with respect to the Obligations, in a timely manner not in excess of 10 business days after the occurrence of the event:

- (1) principal and interest payment delinquencies;
- (2) unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) substitution of credit or liquidity providers, if any, or their failure to perform;
- (5) adverse tax opinions or the issuance by the IRS of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
- (6) tender offers;
- (7) defeasances;
- (8) rating changes; or
- (9) bankruptcy, insolvency, receivership or similar event of the Issuer.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations, *if material*, in a timely manner not in excess of 10 business days after the occurrence of the event:

- (1) non-payment related defaults;
- (2) unless described in (a)(5) above, other notices or determinations by the IRS with respect to the tax-exempt status of the Obligations, or other events affecting the tax-exempt status of the Obligations;
- (3) modifications to rights of holders of the Obligations;

- (4) bond calls;
- (5) release, substitution or sale of property securing repayment of the Obligations;
- (6) the consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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; or
- (7) appointment of a successor or additional trustee or the change of name of a trustee.

(c) For the purposes of the event identified in subsection (a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(d) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under subsection (b), the Issuer shall as soon as possible determine if such event would constitute material information for holders of Obligations.

(e) Unless otherwise required by law, the Issuer shall submit the information in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

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

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of

nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertaking 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.

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

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Obligations may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Obligations.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Obligations, and shall create no rights in any other person or entity.

Section 13. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Certificate if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated as of August 29, 2018.

CITY OF CANBY, MINNESOTA

By _____
Mayor

By _____
Administrator

M:\DOCS\09894\000029\CER\16W9318.DOCX

APPENDIX E

TERMS OF PROPOSAL

\$1,395,000* GENERAL OBLIGATION BONDS, SERIES 2018A CITY OF CANBY, MINNESOTA

Proposals for the purchase of \$1,395,000* General Obligation Bonds, Series 2018A (the "Bonds") of the City of Canby, 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 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on August 7, 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, 444 and 475, by the City, for the purpose of financing the Storm Sewer portion of the City's Phase 2 and 3 Infrastructure Project including minor utility connections, and the construction of the Lexington Avenue Improvements in the City. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated August 29, 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	\$40,000	2027	\$65,000	2034	\$85,000
2021	55,000	2028	65,000	2035	75,000
2022	55,000	2029	75,000	2036	80,000
2023	55,000	2030	75,000	2037	80,000
2024	60,000	2031	75,000	2038	85,000
2025	60,000	2032	80,000	2039	85,000
2026	65,000	2033	80,000		

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 August 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 August 29, 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 Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$1,378,260 plus accrued interest on the principal sum of \$1,395,000 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 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

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

A good faith deposit ("Deposit") in the amount of \$27,900 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 will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has 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 requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, 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 requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party 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 requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party 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 requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, 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 third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with 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 either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party 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 third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(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 or selling group agreement 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 a party to a third-party 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 third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) 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 third-party 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 (A) more than 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), (B) 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 (C) 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 Canby, Minnesota

PROPOSAL FORM

The City Council
City of Canby, Minnesota

August 7, 2018

RE: \$1,395,000* General Obligation Bonds, Series 2018A
DATED: August 29, 2018

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$ _____ (not less than \$1,378,260) 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 \$27,900, 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 August 29, 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 August 29, 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 Canby, Minnesota, on August 7, 2018.

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