PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 4, 2018

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

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

New Issue **Rating Application Made: S&P Global Ratings**

CITY OF MENDOTA HEIGHTS, MINNESOTA
(Dakota County)

$1,125,000* GENERAL OBLIGATION IMPROVEMENT BONDS SERIES 2018A

PROPOSAL OPENING: October 16, 2018, 11:00A.M., C.T. **CONSIDERATION**: October 16, 2018, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $1,125,000* General Obligation Improvement Bonds Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, by the City of Mendota Heights, Minnesota (the "City") for the purpose of financing the 2018 Road Rehabilitation projects within the City. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Briggs and Morgan, Professional Association, Minneapolis, Minnesota.

DATE OF BONDS: November 1, 2018

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2021	$110,000	2025	$115,000	2029	$120,000
2022	110,000	2026	115,000	2030	95,000
2023	110,000	2027	115,000		
2024	115,000	2028	120,000		

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, 2027 and thereafter are subject to call for prior redemption on February 1, 2026 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $1,110,938.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $22,500 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Briggs and Morgan, Professional Association

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

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 MENDOTA HEIGHTS
CITY COUNCIL

		Term Expires
Neil Garlock	Mayor	January 2019
Ultan Duggan	Council Member	January 2019
Liz Petschel	Council Member	January 2019
Jay Miller	Council Member	January 2021
Joel Paper	Council Member	January 2021

ADMINISTRATION

Mark McNeill, City Administrator

Lorri Smith, City Clerk

Kristen Schabacker, Finance Director

PROFESSIONAL SERVICES

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

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Mendota Heights, Minnesota (the "City") and the issuance of its $1,125,000* General Obligation Improvement 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 October 16, 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 November 1, 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 2021 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, 2027 shall be subject to optional redemption prior to maturity on February 1, 2026 and on any date thereafter, at a price of par plus accrued interest.

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

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

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, by the City for the purpose of financing the City's 2018 Road Rehabilitation project, including Lexington Highlands, Mendakota Drive and South Plaza Drive projects.

ESTIMATED SOURCES AND USES*

Sources			
	Par Amount	$1,125,000	
	Planned Issuer Equity contribution	133,152	
	Prepaid Special Assessments	192,437	
	Total Sources		**$1,450,589**
Uses			
	Total Underwriter's Discount (1.250%)	$14,063	
	Costs of Issuance	36,000	
	Deposit to Project Construction Fund	1,400,527	
	Total Uses		**$1,450,589**

*Preliminary, subject to change

SECURITY

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

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

RATING

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

The City has requested a rating on this issue from S&P Global Ratings, 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 Global Ratings. 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.

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. In the interest of full disclosure, the City notes the following: Prior continuing disclosure undertakings entered into by the City included language stating that an Annual Report including the City's audited financial statements and operating data would be filed "as soon as available." Although the City did not always comply with this requirement, the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking. The City has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

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

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

LEGAL OPINION

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

TAX EXEMPTION

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

Other Federal and State Tax Considerations

Other Tax Considerations

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

Original Issue Discount

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

Original Issue Premium

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

Proposed Changes in Federal and State Tax Law

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, 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 Bergan KDV, Ltd., Minneapolis, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as “APPENDIX A – FINANCIAL STATEMENTS”. The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

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

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

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

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

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

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

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

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

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC 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: The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack 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%

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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	$2,120,111,137[1]

	2017/18 Assessor's Estimated Market Value	2017/18 Net Tax Capacity
Real Estate	$2,002,399,200	$23,196,899
Personal Property	21,562,200	426,170
Total Valuation	$2,023,961,400	$23,623,069
Less: Fiscal Disparities Contribution[2]		(2,562,571)
Taxable Net Tax Capacity		$21,060,498
Plus: Fiscal Disparities Distribution[2]		883,383
Adjusted Taxable Net Tax Capacity		$21,943,881

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1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Mendota Heights is about 95.39% 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 $2,120,111,137.

2 Each community in the seven-county metropolitan area contributes 40% of the growth in its commercial-industrial property tax base since 1972 to an area pool which is then distributed among the municipalities on the basis of population, and fiscal capacity indicated market value as determined by the Minnesota Department of Revenue. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$16,317,269	69.07%
Agricultural	1,806	0.01%
Commercial/industrial	6,093,527	25.79%
Public utility	302,066	1.28%
Railroad operating property	86,434	0.37%
Non-homestead residential	394,744	1.67%
Commercial & residential seasonal/rec.	1,053	0.00%
Personal property	426,170	1.80%
Total	$23,623,069	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Adjusted Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2013/14	$1,705,570,200	$1,656,457,934	$20,019,099	$18,163,290	+2.64%
2014/15	1,784,735,700	1,738,772,377	20,878,114	19,168,959	+4.64%
2015/16	1,882,759,400	1,840,777,309	22,008,867	20,282,731	+5.49%
2016/17	1,918,143,300	1,874,652,274	22,381,347	20,653,894	+1.88%
2017/18	2,023,961,400	1,985,476,693	23,623,069	21,943,881	+5.52%

1 Net Tax Capacity is before fiscal disparities adjustments.

2 Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments.

LARGER TAXPAYERS

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of City's Total Net Tax Capacity
MSP SLP Apartments LLC	Commercial	$ 760,362	3.22%
Xcel Energy	Utility	687,828	2.91%
Riley Family Lexington Hts., LP	Apartment	343,951	1.46%
Mendota Heights Town Center, LLC	Commercial	248,630	1.05%
AX TC Industrial III, LP	Commercial	211,730	0.90%
Patterson Dental, Co.	Commercial	182,304	0.77%
SNH Medical Office Properties Trust	Industrial	159,882	0.68%
Crosswind, LLC	Commercial	141,090	0.60%
AM Registry of Radiologic Technologist	Commercial	139,690	0.59%
C2 Land LP	Commercial	124,070	0.53%
Total		$ 2,999,537	12.70%

City's Total 2017/18 Net Tax Capacity $23,623,069

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

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedules following)

Total g.o. debt being paid from taxes	$ 1,080,000
Total g.o. debt being paid from special assessments and taxes (includes the Bonds)*	13,935,000
Total General Obligation Debt*	$ 15,015,000

*Preliminary, subject to change.

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

CITY OF MENDOTA HEIGHTS, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 11/1/2018)

	Refunding 1) Series 2015B								
Dated	11/24/15								
Amount	$1,475,000								
Maturity	2/01								
Fiscal Year Ending	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2019	205,000	24,050	205,000	24,050	229,050	875,000	18.98%	**2019**
2020	210,000	19,900	210,000	19,900	229,900	665,000	38.43%	**2020**
2021	215,000	15,650	215,000	15,650	230,650	450,000	58.33%	**2021**
2022	220,000	10,200	220,000	10,200	230,200	230,000	78.70%	**2022**
2023	230,000	3,450	230,000	3,450	233,450	0	100.00%	**2023**
	1,080,000	73,250	1,080,000	73,250	1,153,250			

1) This issue refunded the 2017 through 2023 maturities of the $2,790,000 General Obligation Improvement Bonds, Series 2007A, dated June 27, 2007.

CITY OF MENDOTA HEIGHTS, MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Special Assessments and Taxes
(As of 11/1/2018)

	G.O. Bonds 1) Series 2009A		Improvement Series 2010A		Refunding 2) Series 2011A		Improvement Series 2012A		Improvement Series 2013A		Improvement Series 2014A	
Dated Amount	11/17/09 $745,000		9/29/10 $1,055,000		11/09/11 $2,970,000		9/12/12 $2,630,000		11/05/13 $1,685,000		11/5/14 $1,030,000	
Maturity	2/01		2/01		2/01		2/01		2/01		2/01	
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2019	80,000	4,375	60,000	20,731	230,000	44,413	90,000	50,310	120,000	38,950	75,000	19,846
2020	85,000	1,488	60,000	19,306	235,000	39,469	90,000	48,510	130,000	36,450	75,000	18,909
2021			60,000	17,806	240,000	33,825	90,000	46,710	135,000	33,125	75,000	17,784
2022			55,000	16,297	200,000	28,225	185,000	43,960	135,000	29,075	75,000	16,471
2023			55,000	14,750	160,000	23,465	195,000	40,160	135,000	25,025	80,000	14,975
2024			55,000	13,100	125,000	19,555	165,000	36,560	140,000	20,900	85,000	13,243
2025			55,000	11,381	125,000	15,993	165,000	33,260	140,000	16,700	85,000	11,075
2026			55,000	9,594	70,000	13,113	170,000	29,740	40,000	13,950	85,000	8,525
2027			60,000	7,650	70,000	10,978	175,000	25,945	40,000	12,650	25,000	6,875
2028			60,000	5,550	70,000	8,790	180,000	21,770	40,000	11,350	25,000	6,125
2029			60,000	3,375	75,000	6,470	180,000	17,270	40,000	10,050	25,000	5,375
2030			60,000	1,125	75,000	3,995	185,000	12,708	45,000	8,500	25,000	4,625
2031					80,000	1,360	190,000	7,830	45,000	6,700	25,000	3,825
2032							195,000	2,633	45,000	4,900	25,000	2,975
2033									50,000	3,000	25,000	2,125
2034									50,000	1,000	25,000	1,275
2035											25,000	425
2036												
2037												
	165,000	5,863	695,000	140,666	1,755,000	249,649	2,255,000	417,365	1,330,000	272,325	860,000	154,453

1) The equipment portion of this issue is payable entirely from taxes and is subject to the legal debt limit ($95,000 principal currently outstanding).

2) This issue refunded the 2012 through 2022 maturities of the City's $535,000 General Obligation Improvement Bonds of 2003, dated April 1, 2003; the 2012 through 2025 maturities of the City's $1,290,000 General Obligation Improvement Bonds, Series 2004A, dated November 1, 2004, and the 2012 through 2021 maturities of the City's $790,000 General Obligation Improvement Bonds, Series 2005A, dated October 20, 2005.

Continued on next page

CITY OF MENDOTA HEIGHTS, MINNESOTA
Schedule of Bonded Indebtedness continued
General Obligation Debt Being Paid From Special Assessments and Taxes
(As of 11/1/2018)

	Refunding 3) Series 2014B		G.O. Bonds 4) Series 2015A		Refunding 5) Series 2015C		G.O. Bonds Series 2016A		Improvement Series 2017A		Improvement Series 2018A							
Dated Amount	11/5/14 $885,000		11/24/15 $1,200,000		11/24/15 $1,995,000		11/22/16 $1,020,000		11/1/17 $1,340,000		11/1/18 $1,125,000*							
Maturity	2/01		2/01		2/01		2/01		2/01		2/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2019	70,000	13,230	70,000	24,465	170,000	33,200	75,000	16,850	0	29,113	0	21,128	1,040,000	316,610	1,356,610	12,895,000	7.46%	**2019**
2020	65,000	12,218	75,000	23,681	170,000	29,800	75,000	16,100	55,000	28,563	0	28,170	1,115,000	302,663	1,417,663	11,780,000	15.46%	**2020**
2021	65,000	11,243	75,000	22,744	165,000	26,450	80,000	15,245	120,000	26,813	110,000	27,070	1,215,000	278,814	1,493,814	10,565,000	24.18%	**2021**
2022	70,000	10,020	75,000	21,694	160,000	23,200	80,000	14,285	125,000	24,363	110,000	24,815	1,270,000	252,404	1,522,404	9,295,000	33.30%	**2022**
2023	65,000	8,603	75,000	20,531	160,000	20,000	80,000	13,245	125,000	21,863	110,000	22,450	1,240,000	225,066	1,465,066	8,055,000	42.20%	**2023**
2024	70,000	7,185	75,000	19,200	165,000	16,750	80,000	12,125	130,000	19,313	115,000	19,918	1,205,000	197,848	1,402,848	6,850,000	50.84%	**2024**
2025	70,000	5,400	75,000	17,700	165,000	13,450	80,000	10,905	130,000	16,713	115,000	17,186	1,205,000	169,763	1,374,763	5,645,000	59.49%	**2025**
2026	70,000	3,300	50,000	16,325	165,000	10,150	80,000	9,585	130,000	14,113	115,000	14,311	1,030,000	142,705	1,172,705	4,615,000	66.88%	**2026**
2027	75,000	1,125	50,000	15,075	165,000	6,438	80,000	8,125	125,000	11,406	115,000	11,321	980,000	117,588	1,097,588	3,635,000	73.91%	**2027**
2028			50,000	13,825	175,000	2,188	85,000	6,475	130,000	8,375	120,000	8,118	935,000	92,565	1,027,565	2,700,000	80.62%	**2028**
2029			50,000	12,450			25,000	5,313	135,000	5,063	120,000	4,668	710,000	70,033	780,033	1,990,000	85.72%	**2029**
2030			55,000	10,875			25,000	4,688	135,000	1,688	95,000	1,449	700,000	49,651	749,651	1,290,000	90.74%	**2030**
2031			55,000	9,225			25,000	4,063					420,000	33,003	453,003	870,000	93.76%	**2031**
2032			55,000	7,575			25,000	3,438					345,000	21,520	366,520	525,000	96.23%	**2032**
2033			55,000	5,925			25,000	2,813					155,000	13,863	168,863	370,000	97.34%	**2033**
2034			55,000	4,275			25,000	2,188					155,000	8,738	163,738	215,000	98.46%	**2034**
2035			55,000	2,625			25,000	1,563					105,000	4,613	109,613	110,000	99.21%	**2035**
2036			60,000	900			25,000	938					85,000	1,838	86,838	25,000	99.82%	**2036**
2037							25,000	313					25,000	313	25,313	0	100.00%	**2037**
	620,000	72,323	1,110,000	249,090	1,660,000	181,625	1,020,000	148,253	1,340,000	207,381	1,125,000	200,603	13,935,000	2,299,593	16,234,593			

*Preliminary, subject to change

3) This issue refunded the 2016 through 2027 maturities of the $1,595,000 General Obligation Improvement Bonds, Series 2007B, dated October 10, 2007.

4) The equipment portion of this issue is subject to the debt limit ($170,000 principal outstanding).

5) This issue refunded the 2017 through 2028 maturities of the $3,200,000 General Obligation Improvement Bonds, Series 2008A, dated October 8, 2008.

DEBT LIMIT

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

2017/18 Assessor's Estimated Market Value	$2,023,961,400
Multiply by 3%	0.03
Statutory Debt Limit	$ 60,718,842
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes[1]	(265,000)
Unused Debt Limit	$ 60,453,842

[1] Also includes a portion of the City's $745,000 General Obligation Bonds, Series 2009A ($95,000 (the equipment) principal currently outstanding) and a portion of the City's $1,200,000 General Obligation Bonds, Series 2015A ($170,000 (the equipment) principal currently outstanding), which are payable entirely from taxes.

OVERLAPPING DEBT[1]

Taxing District	2017/18 Adjusted Taxable Net Tax Capacity	% In City	Total G.O. Debt[2]	City's Proportionate Share
I.S.D. No. 197 (West St. Paul-Mendota Heights-Eagan)	$ 63,213,217	33.3166%	$147,785,000	$ 49,236,937
Metropolitan Council	3,971,779,581	0.5303%	147,660,000 [3]	783,041
City's Share of Total Overlapping Debt				$ 50,019,978

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 The above debt includes all outstanding general obligation debt supported by taxes of the Metropolitan Council. The Council also has general obligation sewer revenue, wastewater revenue, and radio revenue bonds and lease obligations outstanding all of which are supported entirely by revenues and have not been included in the Overlapping Debt or Debt Ratios sections.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($2,120,111,137)	Debt/ Current Population Estimate (11,352)
Direct G.O. Debt Being Paid From:			
Taxes	$ 1,080,000		
Special Assessments & Taxes*	13,935,000		
Total General Obligation Debt (includes the Bonds)*	$15,015,000	0.71%	$1,322.67
City's Share of Total Overlapping Debt	50,019,978	2.36%	$4,406.27
Total*	$65,034,978	3.07%	$5,728.94

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

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

FUTURE FINANCING

The City plans to issue approximately $7,000,000 General Obligation Bonds to remodel and expand its fire station and approximately $1,100,000 General Obligation Bonds for road reconstruction projects in the next 12 months.

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	$ 6,343,202	$ 6,296,341	$ 6,340,286	99.95%
2014/15	6,456,919	6,409,276	6,453,341	99.94%
2015/16	7,135,231	7,092,190	7,124,605	99.85%
2016/17	7,700,631	7,665,542	7,668,137	99.58%
2017/18	8,259,862	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.

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

2 Collections are through February 28, 2018.

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

TAX CAPACITY RATES[1]

	2013/14	2014/15	2015/16	2016/17	2017/18
Dakota County	31.827%	29.633%	28.571%	28.004%	26.580%
City of Mendota Heights	35.786%	35.992%	35.247%	38.104%	39.647%
I.S.D. No. 197 (West St. Paul-Mendota Heights-Eagan)	23.863%	24.063%	22.170%	22.295%	21.224%
Metropolitan Council	1.015%	0.827%	0.958%	0.878%	0.821%
Mosquito Control	0.548%	0.518%	0.491%	0.475%	0.443%
CDA	1.650%	1.559%	1.547%	1.548%	1.479%
Transit District	1.377%	1.292%	1.261%	1.215%	1.104%
Light Rail	0.403%	0.371%	0.357%	0.342%	0.031%
Minnesota Watershed	0.748%	0.679%	0.691%	0.745%	0.712%
Referendum Market Value Rates:					
City of Mendota Heights	0.01562%	0.01511%	0.01284%	0.01297%	0.01207%
I.S.D. No. 197 (West St. Paul-Mendota Heights-Eagan)	0.19384%	0.18942%	0.17700%	0.17000%	0.17000%

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

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.

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

THE ISSUER

CITY GOVERNMENT

The City of Mendota Heights was organized as a municipality in 1956. The City operates under a statuary form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator, City Clerk and Finance Director are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 42 full-time, 6 part-time, and 17 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
Law Enforcement Labor Services	December 31, 2019
Minnesota Teamsters Public & Law Enforcement Employees Union Local 320	December 31, 2019
Minnesota Public Employees Association	December 31, 2019
Locan 70 of the International Union of Operating Engineers AFL-CIO	December 31, 2019

POST EMPLOYMENT BENEFITS

The City has obligations for some post-employment benefits (some mandated by State Statute and others that cover a portion of the cost of health insurance during retirement) for the majority of its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 45 (GASB 45). The City has completed an actuarial study of its obligations. The study shows an actuarial accrued liability of $1,071,748 with a discount rate of 4% as of January 1, 2015. The City is currently funding these obligations on a pay-as-you-go basis.

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 July 31, 2018)

Fund	**Total Cash and Investments**
General	$ 8,825,000
Special Revenue	1,375,000
Debt Service	2,550,000
Capital Projects	976,000
Enterprise Funds	661,500
Internal Service	519,500
Total Funds on Hand	$14,907,000

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
Sewer			
Total Operating Revenues	$1,675,008	$1,692,646	$1,749,743
Less: Operating Expenses	(1,759,242)	(1,683,068)	(1,930,921)
Operating Income	$ (84,234)	$ 9,578	$ (181,178)
Plus: Depreciation	166,989	172,981	174,474
Revenues Available for Debt Service	$ 82,755	$ 182,559	$ (6,704)
Storm Water			
Total Operating Revenues	$ 405,569	$ 406,144	$ 456,503
Less: Operating Expenses	(291,847)	(266,476)	(255,338)
Operating Income	$ 113,722	$ 139,668	$ 201,165
Plus: Depreciation	35,637	40,573	42,864
Revenues Available for Debt Service	$ 149,359	$ 180,241	$ 244,029
Golf Course			
Total Operating Revenues	$ 167,300	$ 145,245	$ 147,187
Less: Operating Expenses	(147,299)	(154,901)	(161,672)
Operating Income	$ 20,001	$ (9,656)	$ (14,485)
Plus: Depreciation	7,881	7,881	7,243
Revenues Available for Debt Service	$ 27,882	$ (1,775)	$ (7,242)

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.

	FISCAL YEAR ENDING DECEMBER 31				
COMBINED STATEMENT	**2014 Audited**	**2015 Audited**	**2016 Audited**	**2017 Audited**	**2018 Adopted Budget[1]**
Revenues					
Property taxes	$ 5,456,447	$ 5,819,237	$ 6,143,871	$ 6,652,540	$ 7,045,437
Special assessment	109	886	0	893	0
Fees, licenses and permits	443,498	435,220	414,516	633,846	364,750
Intergovernmental	397,819	418,234	457,010	424,268	446,902
Charges for services	556,617	598,691	608,150	621,308	602,879
Fines and forfeitures	48,960	49,047	73,130	82,901	64,000
Investment income	122,713	32,656	33,379	49,891	30,000
Other miscellaneous revenues	87,932	196,477	77,416	279,978	80,000
Total Revenues	$ 7,114,095	$ 7,550,448	$ 7,807,472	$ 8,745,625	$ 8,633,968
Expenditures					
Current:					
General government	$ 1,270,891	$1,565,831	$ 1,398,786	$ 1,516,906	$ 1,720,468
Public safety	3,473,661	3,570,994	3,870,487	3,879,402	4,471,412
Public works	2,002,737	1,785,332	1,895,327	2,184,378	2,497,838
Capital outlay	756,181	149,116	89,688	32,869	0
Debt Service	0	0	0	0	0
Total Expenditures	$ 7,503,470	$ 7,071,273	$ 7,254,288	$ 7,613,555	$ 8,689,718
Excess of revenues over (under) expenditures	$ (389,375)	$ 479,175	$ 553,184	$ 1,132,070	$ (55,750)
Other Financing Sources (Uses)					
Operating transfers in	$ 154,788	$ 95,750	$ 55,750	$ 47,550	$ 55,750
Operating transfers out	(9,200)	0	0	0	0
Total Other Financing Sources (Uses)	$ 145,588	$ 95,750	$ 55,750	$ 47,550	$ 55,750
Net Changes in Fund Balances	$ (243,787)	$ 574,925	$ 608,934	$ 1,179,620	$ 0
General Fund Balance January 1	6,281,185	6,037,398	6,612,323	7,221,257	
Prior Period Adjustment	0	0	0	(313,379) [2]	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	$ 6,037,398	$ 6,612,323	$ 7,221,257	$ 8,087,498	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	$ 160,311	$ 199,532	$ 262,273	$ 129,617	
Assigned	212,762	192,621	192,621	161,121	
Unassigned	5,664,325	6,220,170	6,766,363	7,796,760	
Total	$ 6,037,398	$ 6,612,323	$ 7,221,257	$ 8,087,498	

1 The 2018 budget was adopted on December 5, 2017.

2 During 2017, the City merged its Engineering internal service fund with the General Fund. This merger resulted in a decrease in the General Fund's beginning fund balance of $313,379 and an increase in the Engineering internal service fund of $573,398.

GENERAL INFORMATION

LOCATION

The City of Mendota Heights, with a 2010 U.S. Census population of 11,071 and a current population estimate of 11,352, and comprising an area of 10 square miles, is located approximately two miles south of the City of St. Paul.

LARGER EMPLOYERS[1]

Larger employers in the City of Mendota Heights include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 197 (West St. Paul-Mendota Heights-Eagan)	Elementary and secondary education	912
Patterson Companies	Medical and dental supplies	529
Black Knight Financial Services	Mortgage default processing	500
Howry Residential Services	Residential services	370
Lloyes Barbeque Co.	Pre-cooked barbeque meals	300
Lancer Hospitality and Lancer Catering	Catering services	200
Paychex, Inc.	Payroll preparation services	125
Tempo Manufacturing Co.	Metal stamping/manufacturing	101
Northwestern Mutual Financial	Financial advisory services	100
General Pump	Pump manufacturers	100

Source: *ReferenceUSA*, *written and telephone survey (September 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]
New Single Family Homes					
No. of building permits	18	11	9	8	7
Valuation	$8,145,000	$5,374,424	$4,351,562	$4,376,940	$3,738,348
New Multiple Family Buildings					
No. of building permits	0	12	18	17	17
Valuation	$0	$2,845,000	$4,145,000	$26,562,000	$13,309,346
New Commercial/Industrial					
No. of building permits	2	0	1	1	1
Valuation	$5,629,234	$0	$4,100,000	$1,953,965	$5,200,000
All Building Permits *(including additions and remodelings)*					
No. of building permits	703	705	693	698	427
Valuation	$27,759,845	$23,897,194	$25,305,888	$50,462,921	$29,137,291

Source: The City.

[1] As of August 31, 2018.

U.S. CENSUS DATA

Population Trend: City of Mendota Heights, Minnesota

2000 U.S. Census population	11,434
2010 U.S. Census population	11,071
2017 State Demographer's Estimate	11,352
Percent of Change 2000 - 2010	-3.17%

Income and Age Statistics

	City of Mendota Heights	Dakota County	State of Minnesota	United States
2016 per capita income	$60,967	$38,378	$33,225	$29,826
2016 median household income	$100,903	$78,662	$63,217	$55,322
2016 median family income	$139,196	$97,498	$79,595	$67,871
2016 median gross rent	$1,097	$1,065	$873	$928
2016 median value owner occupied units	$351,100	$248,700	$191,500	$184,700
2016 median age	50.1 yrs.	37.6 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
City % of 2016 per capita income	183.50%	204.41%
City % of 2016 median family income	174.88%	205.09%

Housing Statistics

	City of Mendota Heights		
	2000	2017	Percent of Change
All Housing Units	4,252	4,568	7.43%

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.

	Average Employment	Average Unemployment	
Year	Dakota County	Dakota County	State of Minnesota
2014	221,882	3.8%	4.2%
2015	222,855	3.3%	3.7%
2016	225,165	3.4%	3.8%
2017	230,598	3.1%	3.5%
2018, August	237,590	2.4%	2.5%

Source: *Minnesota Department of Employment and Economic Development.*

APPENDIX A

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 Mendota Heights

Annual Report and Basic Financial Statements
December 31, 2017

bergankdv

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Mendota Heights
Mendota Heights, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mendota Heights, Minnesota, as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

BerganKDV, Ltd.
bergankdv.com

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mendota Heights, Minnesota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mendota Heights' basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

bergankdv

Other Matters (Continued)

Other Information (Continued)

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

Bergan KDV Ltd.

Minneapolis, Minnesota
May 31, 2018

As management of the City of Mendota Heights, Minnesota (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2017.

FINANCIAL AND DEVELOPMENT HIGHLIGHTS

The assets of the City exceeded liabilities at the close of the most recent year by $41,736,543 (net position). Of this amount, $5,765,260 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by $1,871,607. Governmental activities resulted in an increase of net position of $1,814,664. Business activities had net position increase of $56,943.

As of the close of the current year, the City's governmental funds reported a combined ending fund balance of $13,360,454, an increase of $1,435,958 from the prior year.

At the end of the year the General Fund had an unassigned fund balance of $7,796,760, or 102.4% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements on page 16 and 17 are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, and public works. The business-type activities of the City include sewer, storm water, and the Par 3 Golf Course.

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 financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resource, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statement. By doing so, readers may better understand the long-term impact of the City's near-term financial decisions. Both the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual major governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the following major funds:

- General Fund
- Special Assessments Debt Service Fund
- Street Capital Projects Fund

Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)
The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 through 25 of this report.

Proprietary Funds
The City maintains three enterprise funds and three internal service funds as a part of its proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, storm water operations and Par 3 Golf Course.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the following funds:

Enterprise funds
- Sewer Utility Fund
- Storm Water Utility Fund
- Par 3 Golf Course

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for compensated absences and city hall functions. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 26 through 28 of this report.

Notes to Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on 29 through 60 of this report.

Other Information
The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary comparisons. Combining and individual fund statements and schedules can be found on pages 68 through 80 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $41,736,543 at the close of the ,most recent year.

The largest portion of the City's net position ($29,992,209 or 71.86%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, sewer main lines and storm sewers and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	$17,170,289	$15,294,175	$ 1,041,687	$ 1,138,057	$18,211,976	$16,432,232
Capital assets	28,592,649	28,109,672	16,683,864	16,460,879	45,276,513	44,570,551
Deferred outflows of resources related to pensions	3,440,167	5,486,424	39,850	83,876	3,480,017	5,570,300
Total assets and deferred outflows of resources	$49,203,105	$48,890,271	$17,765,401	$17,682,812	$66,968,506	$66,573,083
Liabilities						
Long-term liabilities outstanding	$18,214,430	$22,962,635	$ 169,942	$ 227,159	$18,384,372	$23,189,794
Other liabilities	2,490,163	2,292,427	126,175	59,909	2,616,338	2,352,336
Deferred inflows of resources related to pensions	4,189,989	1,141,350	41,264	24,667	$ 4,231,253	1,166,017
Total liabilities and deferred inflows of resources	$24,894,582	$26,396,412	$ 337,381	$ 311,735	$25,231,963	$26,708,147
Net Position						
Net investment in capital assets	$14,791,345	$14,686,755	$16,683,864	$16,460,879	$29,992,209	$29,428,634
Restricted	5,979,074	5,161,294	-	-	5,979,074	5,161,294
Unrestricted	3,538,104	2,645,810	744,156	910,198	5,765,260	5,275,008
Total net position	$24,308,523	$22,493,859	$17,428,020	$17,371,077	$41,736,543	$39,864,936

A portion of the of the City's net position ($5,979,074) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position ($5,765,260) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the City's net position by $1,814,664. Key elements of this increase are as follows:

City's Changes in Net Position

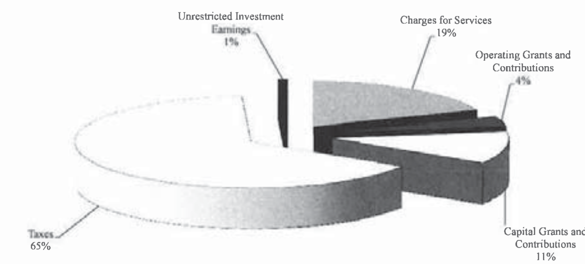
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	$ 2,306,672	$ 1,600,057	$ 2,389,817	$ 2,284,034	$ 4,696,489	$ 3,884,091
Operating grants and contributions	446,791	461,674	-	788	446,791	462,462
Capital grants and contributions	1,384,990	1,047,961	-	40,803	1,384,990	1,088,764
General revenues						
Taxes	7,986,851	7,359,738	-	-	7,986,851	7,359,738
Unrestricted investment earnings	107,304	79,935	14,460	12,245	121,764	92,180
Total revenues	12,232,608	10,549,365	2,404,277	2,337,870	14,636,885	12,887,235
Expenses						
General government	2,215,942	1,912,034	-	-	2,215,942	1,912,034
Public safety	4,113,449	4,750,109	-	-	4,113,449	4,750,109
Public works	3,718,579	15,739,876	-	-	3,718,579	15,739,876
Interest on long-term debt	369,377	383,541	-	-	369,377	383,541
Sewer	-	-	1,930,921	1,683,068	1,930,921	1,683,068
Storm water	-	-	255,338	266,476	255,338	266,476
Par 3 Golf Course	-	-	161,672	154,901	161,672	154,901
Total Expenses	10,417,347	22,785,560	2,347,931	2,104,445	12,765,278	24,890,005
Increase (decrease) in net position before transfers	1,815,261	(12,236,195)	56,346	233,425	1,871,607	(12,002,770)
Transfers	(597)	(338,197)	597	338,197	-	-
Increase (decrease) in net position	1,814,664	(12,574,392)	56,943	571,622	1,871,607	(12,002,770)
Net position - beginning	22,493,859	35,068,251	17,371,077	16,799,455	39,864,936	51,867,706
Net position - ending	$ 24,308,523	$ 22,493,859	$ 17,428,020	$ 17,371,077	$ 41,736,543	$ 39,864,936

City of Mendota Heights
Management's Discussion and Analysis

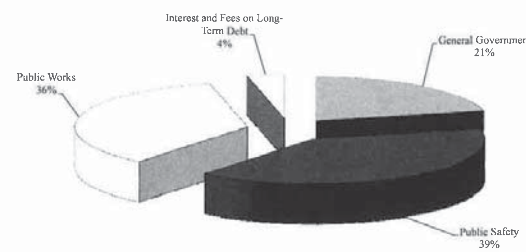
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Below are specific graphs which provide comparisons of the governmental activities revenues and expenditures:

Governmental Activities - Revenues



Governmental Activities - Expenses

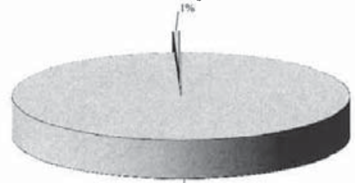


GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

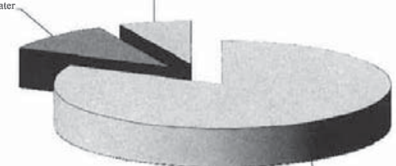
Business-Type Activities

Business-type activities increased net position by $56,943. Below are graphs showing the business-type activities revenue and expense comparisons:

Business-Type Activities - Revenues



Business-Type Activities - Expenses



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current year, the City's governmental funds reported combined ending fund balances of $13,360,454. Nonspendable fund balances are already allocated for prepaid items ($118,504) and inventory ($11,113). Approximately 27.96% ($3,735,299) constitutes restricted fund balance. Restricted fund balance would include debt service, special park, and street light district funds, all of which have specific uses for the funds they receive. The City also has a committed fund balance of $477,473. This represents fund balance that is to be used for the water system and civil defense needs. The City has assigned fund balance of $1,788,462 (13.39%). This number represents the fund balances for the capital projects that the City has ongoing and an amount allocated for insurance reserves. The remaining category of fund balance is the unassigned fund balance. The City has $7,229,292 of unassigned fund balance which is approximately 54.11% of the combined governmental fund balance at December 31, 2017.

The General Fund increased by $1,179,620 in 2017. Revenues were greater than anticipated and expenditures were lower than budgeted amounts.

The Special Assessments Debt Service Fund increased by $113,045 in 2017. This fund accounted for debt service payments for prior street improvement projects that were financed through the issuance of bonds.

The Street Capital Project Fund increased by $13,599. This fund accounted for the costs and resources associated with the Mendota Heights Road/Kensington street project.

The nonmajor governmental funds increased by $129,694. These funds received revenues from water surcharges and park dedication fees. Nonmajor funds account for the Special Park, Civil Defense, and Street Light District activity. The City also has nonmajor funds for future purchases of equipment, facility needs, and minor infrastructure projects.

Proprietary Funds

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

The unrestricted net position in the respective proprietary funds are sewer $502,016, storm water $205,401 and $36,739 for the Par 3 golf course. The Sewer Utility Fund had a decrease in net position in 2017 of $16,297, the Storm Water Utility Fund had an increase in net position in 2017 of $86,678 and the Par 3 Golf Course Fund had a decrease in net position of $13,438.

BUDGETARY HIGHLIGHTS

General Fund

The General Fund budget was not amended during 2017.

During the year, revenues were more than budgetary estimates by $497,684, and expenditures were less than budgetary estimates by $690,136.

The General Fund had higher than budgeted revenues for most categories. The City received higher than anticipated revenues for licenses and fees due to increased building activity. The City also received greater revenues than budgeted in the other revenue category. This was due to unbudgeted revenues received for donations, insurance proceeds and cable franchise fees.

The General Fund expenditures were greater than anticipated in the general government function. This was due in most part to increased staffing costs. The General Fund expenditures were lower than budgeted in public safety and public works. The police and fire portions of the public safety function had expenditures that were under budgeted amounts. One of the factors in this decrease was the staffing costs were lower than budgeted. The police department was understaffed during 2017. The public works function was also under budgeted amounts. In total, the expenditures for the General Fund were $690,136 under budgeted amounts.

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, amounts to $45,276,513 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, sewer main lines and storm sewers and infrastructure.

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	$ 6,150,895	$ 6,150,895	$ 2,531,475	$ 2,531,475	$ 8,682,370	$ 8,682,370
Construction in progress	2,960,110	846,992	445,129	-	3,405,239	846,992
Buildings and structures	581,519	640,159	134,634	141,673	716,153	781,832
Machinery and equipment	2,044,546	2,284,481	56,373	68,388	2,100,919	2,352,869
Other improvements	617,444	608,285	-	-	617,444	608,285
Sewer main lines and Storm sewers	-	-	13,516,253	13,719,343	13,516,253	13,719,343
Infrastructure	16,238,135	17,578,860	-	-	16,238,135	17,578,860
Total capital assets	$ 28,592,649	$ 28,109,672	$ 16,683,864	$ 16,460,879	$ 45,276,513	$ 44,570,551

Additional information on the City's capital assets can be found in Note 5.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

At the end of the current year, the City had total long-term debt outstanding of $15,085,000, an increase of $140,000 from 2016. $15,085,000 is for general obligation (G.O.) improvement debt which is supported in part by special assessments.

Outstanding Debt

G.O. Improvement Bonds, G.O. Bonds and Revenue Bonds:

	Governmental Activities	
	2017	2016
G.O. Improvement Bonds	$ 13,555,000	$ 13,145,000
G.O. Bonds	1,530,000	1,800,000
Total	$ 15,085,000	$ 14,945,000

The City maintains an AAA rating from Standard & Poor's.

Minnesota Statutes limit the amount of G.O. debt a Minnesota city may issue to 2% of total estimated market value. The current debt limitation for the City is $39,709,534. Of the City's outstanding debt, $1,530,000 is counted within the statutory limitation.

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

Economic Factors and Next Year's Budgets and Rates

In 2018, the taxable market value for the City was $1,985,476,693. This represents an increase of 5.9% from 2017. The City is expecting an increase in taxable market value for 2019.

These factors were considered in preparing the City's budget for 2018.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 1101 Victoria Curve, Mendota Heights, Minnesota 55118.

City of Mendota Heights
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments			
(including cash equivalents)	$ 13,977,375	$ 328,331	$ 14,305,706
Property tax receivable	62,523	-	62,523
Accounts receivable	53,809	567,221	621,030
Interest receivable	15,206	632	15,838
Due from other governments	406,922	2,654	409,576
Special assessments receivable			
Delinquent	6,695	5,154	11,849
Unearned	2,399,779	20,428	2,420,207
Inventories	11,113	-	11,113
Prepaid items	140,767	117,267	258,034
Land held for resale	96,100	-	96,100
Capital assets (net of accumulated depreciation)			
Land and improvements	6,150,895	2,531,475	8,682,370
Construction in progress	2,960,110	445,129	3,405,239
Capital assets being depreciated			
Infrastructure	16,238,135	13,516,253	29,754,388
Buildings and structures	581,519	134,634	716,153
Other improvements	617,444	-	617,444
Machinery and equipment	2,044,546	56,373	2,100,919
Total assets	45,762,938	17,725,551	63,488,489
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	3,440,167	39,850	3,480,017
Total assets and deferred outflows of resources	$ 49,203,105	$ 17,765,401	$ 66,968,506
Liabilities			
Accounts and contracts payable	$ 477,245	$ 58,847	$ 536,092
Due to other governments	200,840	44,279	245,119
Salaries and benefits payable	154,962	3,339	158,301
Interest payable	139,952	-	139,952
Developers' escrow deposits	8,011	-	8,011
Bond principal payable			
Payable within one year	1,195,000	-	1,195,000
Payable after one year	14,089,304	-	14,089,304
Compensated absences payable			
Payable within one year	314,153	19,710	333,863
Payable after one year	100,580	9,160	109,740
Other post employment benefits (OPEB) payable	307,448	14,860	322,308
Net pension liability	3,717,098	145,922	3,863,020
Total liabilities	20,704,593	296,117	21,000,710
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	4,189,989	41,264	4,231,253
Net Position			
Net investment in capital assets	14,791,345	16,683,864	29,992,209
Restricted for			
Debt service	5,430,480	-	5,430,480
Park dedication	548,594	-	548,594
Unrestricted	3,538,104	744,156	5,765,260
Total net position	24,308,523	17,428,020	41,736,543
Total liabilities, deferred inflows of resources, and net position	$ 49,203,105	$ 17,765,401	$ 66,968,506

See notes to financial statements.

City of Mendota Heights
Statement of Activities
Year Ended December 31, 2017

		Program Revenues			Net (Expense) Revenues and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	$ 2,215,942	$ 203,107	$ 47,633	$ -	$ (1,965,202)	$ -	$ (1,965,202)
Public safety	4,113,449	742,527	262,546	-	(3,108,376)	-	(3,108,376)
Public works	3,718,579	1,361,038	136,612	1,384,990	(835,939)	-	(835,939)
Interest on long-term debt	369,377	-	-	-	(369,377)	-	(369,377)
Total governmental activities	10,417,347	2,306,672	446,791	1,384,990	(6,278,894)	-	(6,278,894)
Business-type activities							
Sewer	1,930,921	1,785,175	-	-	-	(145,746)	(145,746)
Storm water	255,338	456,855	-	-	-	201,517	201,517
Par 3 Golf Course	161,672	147,787	-	-	-	(13,885)	(13,885)
Total business-type activities	2,347,931	2,389,817	-	-	-	41,886	41,886
Total governmental and business-type activities	$ 12,765,278	$ 4,696,489	$ 446,791	$ 1,384,990	(6,278,894)	41,886	(6,237,008)
General revenues							
Property taxes					7,986,851	-	7,986,851
Unrestricted investment earnings					107,304	14,460	121,764
Total general revenues					8,094,155	14,460	8,108,615
Transfers					(597)	597	-
Change in net position					1,814,664	56,943	1,871,607
Net position - beginning					22,493,859	17,371,077	39,864,936
Net position - ending					$ 24,308,523	$ 17,428,020	$ 41,736,543

See notes to financial statements.

City of Mendota Heights
Balance Sheet - Governmental Funds
December 31, 2017

	General Fund	Special Assessments Debt Service	Street Capital Projects
Assets			
Cash and investments (including cash equivalents)	$ 7,954,907	$ 2,706,908	$ -
Taxes receivable - delinquent	51,948	6,672	-
Special assessments receivable			
Delinquent	564	6,131	-
Deferred	4,328	2,368,341	17,291
Accounts receivable	20,146	-	-
Interest receivable	7,070	3,249	1,172
Due from other funds	-	-	-
Due from other governments	395,548	-	7,136
Inventories	11,113	-	-
Prepaid items	118,504	-	-
Land held for resale	-	-	-
Total assets	$ 8,564,128	$ 5,091,301	$ 25,599
Liabilities			
Accounts and contracts payable	$ 232,732	$ -	$ 105,841
Due to other funds	-	-	166,806
Due to other governments	25,582	-	5,164
Salaries and benefits payable	153,465	-	-
Developers' escrow deposits	8,011	-	-
Total liabilities	419,790	-	277,811
Deferred Inflows of Resources			
Unavailable revenue - property taxes	51,948	6,672	-
Unavailable revenue - special assessments	4,892	2,374,472	17,291
Total deferred inflows of resources	56,840	2,381,144	17,291
Fund Balances			
Nonspendable	129,617	-	-
Restricted	-	2,710,157	-
Committed	-	-	-
Assigned	161,121	-	-
Unassigned	7,796,760	-	(269,503)
Total fund balances	8,087,498	2,710,157	(269,503)
Total liabilities, deferred inflows of resources, and fund balances	$ 8,564,128	$ 5,091,301	$ 25,599

See notes to financial statements.

Other Governmental Funds	Total Governmental Funds
$ 2,738,361	$ 13,400,176
3,903	62,523
-	6,695
9,819	2,399,779
33,663	53,809
3,523	15,014
327,610	327,610
4,238	406,922
-	11,113
311	118,815
96,100	96,100
$ 3,217,528	$ 16,898,556
$ 40,700	$ 379,273
160,804	327,610
170,000	200,746
-	153,465
-	8,011
371,504	1,069,105
3,903	62,523
9,819	2,406,474
13,722	2,468,997
311	129,928
1,025,142	3,735,299
477,473	477,473
1,627,341	1,788,462
(297,965)	7,229,292
2,832,302	13,360,454
$ 3,217,528	$ 16,898,556

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

As a result of applying the component unit definition criteria above, the City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

The Internal Service Funds are presented in the internal service fund financial statements. Because the principal user of internal services is the City's governmental activities, the financial statements of the Internal Service Fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

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 provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment matures.

Property taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Description of Funds:

Major Governmental Funds:

General Fund – This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Assessments Debt Service Fund – This fund receives all special assessment payments and is dedicated for the repayment of debt incurred on a specific project.

Street Capital Projects Fund – This fund is used to account for the proceeds and disbursements of funds for street improvement expenditures.

Proprietary Funds:

Sewer Utility Fund – This fund is used to account for the City's sewer utility.

Storm Water Utility Fund – This fund is used to account for the City's storm water utility.

Par 3 Golf Course Fund – This fund is used to account for the City's operation of the Par 3 Golf Course.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Description of Funds: (Continued)

Additional Fund Types:

Internal Service Funds – These funds account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The City's Internal Service Funds account for compensated absences and City Hall expenses.

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

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

When both restricted and unrestricted resources are available for use, the City uses restricted resources first, then unrestricted resources as they are needed. Further, the City applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

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

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City are reported at fair value.

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

Minnesota Statutes requires all deposits made by cities with financial institutions to be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

City of Mendota Heights
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

2. Receivables and Payables

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

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

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

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

3. Inventories

Inventories are valued at cost, which approximates market, using the first in, first out (FIFO) method. Inventory consists of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventory – land held for resale represents land owned by the City with the intent to sell to developers. This land is recorded at the lesser of historical cost or expected net realizable value.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15-100
Other improvements	10-40
Machinery and equipment	3-25
Infrastructure	30-100

6. Deferred Outflows/Inflows of Resources
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

City of Mendota Heights
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Compensated Absences\Severance
The City allows employees to accrue vacation based on years of service to carry over to the next year. Accrued vacation shall be used in the year following the year which said time is earned and any time accrued will be paid out at termination. At the end of the year the vacation balance cannot exceed 200 hours.

All permanent full-time employees accrue personal leave at the rate of 4 hours per month, to a maximum of 320 hours. Any balances in excess of 320 hours will be converted to cash compensation or additional vacation time at a ratio of 50%.

All compensated absences pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee termination or similar circumstances. These liabilities are paid by the governmental fund the employee provided most of its service to. The unused vacation and sick leave of the proprietary funds is included in accrued liabilities of the respective fund.

8. Long-Term Obligations
In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Fund Equity

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

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.

- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.

- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City's Administrator or Finance Director based on the City Council's direction.

- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

b. Minimum Fund Balance
The City will strive to maintain a General Fund unassigned fund balance of 75% of the following year's budgeted operating expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of $1,483,000 was made between this net position class and unrestricted net position in the total column on the Statement of Net Position to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

E. Budgetary Information

The City Council adopts an annual budget for the General Fund and certain special revenue and capital project funds. The amounts shown in the financial statements as "budget" represent the original budgeted amount and all revisions made during the year. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator prepares and presents to the City Council a proposed operating budget for the year commencing the following January 1. The operating budget included proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The City Council deliberates on and adopts the budget on a basis consistent with accounting principles generally accepted in the United States of America and legally enacts the budget by passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year.
5. The City Council must approve any budget appropriation transfers between departments and any increases in budget appropriations to the extent actual revenues exceed estimated revenues.
6. Reported budget amounts are as originally adopted or as amended by City Council approved supplemental appropriations and budget transfers.

Annual appropriations lapse at year-end. No revisions were made to the budgets during the year.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balances

The following funds had deficit fund balances or net position at December 31, 2017:

Street Capital Project	$ 269,503
Other Nonmajor Special Revenue Fund	
Street Lighting	11,483
Other Nonmajor Capital Projects Fund	
Special Assessment Capital Project	279,124
TIF District No. 2	7,358

NOTE 3 – DEPOSITS AND INVESTMENTS

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

A. Deposits

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

Custodial Credit Risks – Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City addresses custodial credit risk by having the authority from the City Council to maintain deposits with various financial institutions that are members of the Federal Reserve System. The City's policy states all deposits must be collateralized in compliance with *Minnesota Statutes* 118A. As of December 31, 2017, the City's bank balance was not exposed to custodial credit risk because it was insured through the Federal Deposit Insurance Corporation (FDIC).

As of December 31, 2017, the City had deposits as follows:

Checking	$ 184,237
Savings	641
Certificates of deposit	14,020
Total deposits	$ 198,898

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

			Investment Maturities		
Investment Type	Credit Ratings	Fair Value 12/31/17	Less Than 1 Year	1 - 5 Years	1 - 6 Years
Negotiable Certificates of Deposits	NR	$ 4,649,465	$ 1,180,721	$ 3,226,020	$ 242,724
Mutual Funds	NR	7,580,875	7,580,875	-	-
Brokered Cash and Money Markets	NR	883,918	883,918	-	-
US Agency Securities	Aaa	991,650	-	991,650	-
Total		$ 14,105,908	$ 9,645,514	$ 4,217,670	$ 242,724

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy addresses credit quality by allowing the City to invest only in instruments permitted by *Minnesota Statutes* 118A.04-05.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The City's policy states the City will attempt to diversify its investments according to type and maturity. The policy states the portfolio will contain both short-term and long-term investments and will attempt to match its investments with anticipated cash flow requirements.

Custodial Credit 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 investments or collateral securities that are in the possession of an outside party. The City's investment policy states that to ensure safety when considering an investment it is verified to make certain funds in excess of insurance are not made at the same institution. The City's brokers carry SIPC and private insurance to cover the City's investment holdings; however, given the size of the City's portfolio in relation to the insurance, it is unlikely the City would receive the full value of their investments upon default of the counterparty.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy states the City will hold investments with laddered maturities so that funds become available on a regular schedule.

The City has the following recurring fair value measurements as of December 31, 2017:

- $14,105,908 of investments are valued using a matrix pricing model (Level 2 inputs)

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 3. A.)	$ 198,898
Investments (Note 3.B.)	14,105,908
Petty cash	900
Total cash and investments	$ 14,305,706

Deposits and investments are presented in the December 31, 2017, basic financial statements as follows:

Statement of Net Position Cash and investments	$ 14,305,706

NOTE 4 – INTERFUND ACTIVITIES

A. Interfund Receivables and Payable

The following is a summary of the City's due to/due from other funds at December 31, 2017:

Fund	Due to	Due from	Reason
Special assessment capital project	$ 128,217	$ -	Cash deficit
Street capital projects	166,806	-	Cash deficit
Street lighting	25,229	-	Cash deficit
TIF District No. 2	7,358	-	Cash deficit
Infrastructure reserve	-	25,229	Cash deficit
Pre-1998 Non-Increment	-	7,358	Cash deficit
Water tower capital project	-	295,023	Cash deficit
Total	$ 327,610	$ 327,610	

The balances above will be repaid as financing becomes available.

NOTE 4 – INTERFUND ACTIVITIES (CONTINUED)

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2017, was as follows:

	Transfers In					
	General	Street Capital Projects	Other Governmental Funds	Sewer Utility	Internal Service Fund	Total
Transfers out						
Special assessments debt service	$ 22,250	$ 1,281,763	$ -	$ -	$ -	$ 1,304,013
Street capital projects	-	-	42,039	-	-	42,039
Other governmental funds	4,500	-	645,000	128,721	130,738	908,959
Sewer utility	11,150	-	-	-	-	11,150
Storm Water Utility	9,650	107,324	-	-	-	116,974
Total	$ 47,550	$ 1,389,087	$ 687,039	$ 128,721	$ 130,738	$ 2,383,135

The purpose of the above transfers is to distribute bond proceeds and to provide funding for capital improvement projects, capital outlay, and operating purposes.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land and improvements	$ 6,150,895	$ -	$ -	$ 6,150,895
Construction in progress	846,992	2,113,118	-	2,960,110
Total capital assets not being depreciated	6,997,887	2,113,118	-	9,111,005
Capital assets being depreciated				
Buildings and structures	4,030,217	42,993	-	4,073,210
Machinery and equipment	5,476,479	85,145	54,644	5,506,980
Other improvements	2,214,449	68,724	-	2,283,173
Infrastructure	32,729,971	-	-	32,729,971
Total capital assets being depreciated	44,451,116	196,862	54,644	44,593,334
Less accumulated depreciation for				
Buildings and structures	3,390,058	101,633	-	3,491,691
Machinery and equipment	3,191,998	307,641	37,205	3,462,434
Other improvements	1,606,164	59,565	-	1,665,729
Infrastructure	15,151,111	1,340,725	-	16,491,836
Total accumulated depreciation	23,339,331	1,809,564	37,205	25,111,690
Total capital assets being depreciated, net	21,111,785	(1,612,702)	17,439	19,481,644
Governmental activities capital assets, net	$ 28,109,672	$ 500,416	$ 17,439	$ 28,592,649

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	$ 2,531,475	$ -	$ -	$ 2,531,475
Construction in progress	-	445,129	-	445,129
Total capital assets not being depreciated	2,531,475	445,129	-	2,976,604
Capital assets being depreciated				
Buildings and structures	208,490	-	-	208,490
Machinery and equipment	245,697	2,437	-	248,134
Sewer main lines and storm sewers	18,847,966	-	-	18,847,966
Total capital assets being depreciated	19,302,153	2,437	-	19,304,590
Less accumulated depreciation for				
Buildings and structures	66,817	7,037	-	73,854
Machinery and equipment	177,309	14,453	-	191,762
Sewer main lines and storm sewers	5,128,623	203,091	-	5,331,714
Total accumulated depreciation	5,372,749	224,581	-	5,597,330
Total capital assets being depreciated, net	13,929,404	(222,144)	-	13,707,260
Business-type activities capital assets, net	$ 16,460,879	$ 222,985	$ -	$ 16,683,864

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

Governmental activities	
General government	$ 123,991
Public safety	107,617
Public works	1,513,178
Internal service funds	64,778
Total depreciation expense - governmental activities	$ 1,809,564
Business-type activities	
Sewer utility	$ 174,474
Storm water utility	42,864
Par 3 golf course	7,243
Total depreciation expense - business-type activities	$ 224,581

City of Mendota Heights
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT

A. G.O. Bonds

The City issues G.O. bonds to provide for financing street improvements, major capital equipment purchases and utility improvements. Debt service is funded through property taxes, special assessments, and utility charges.

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

B. Components of Long-Term Liabilities

	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities					
Government activities					
G.O. Improvement Bonds, including Refunding Bonds					
G.O. Improvement Bonds of 2010	0.86%-3.75%	$ 1,055,000	02/01/30	$ 755,000	$ 60,000
G.O. Improvement Bonds of 2011	0.40%-3.40%	2,970,000	02/01/31	1,980,000	225,000
G.O. Improvement Bonds of 2012	2.00%-2.70%	2,630,000	02/01/32	2,345,000	90,000
G.O. Improvement Bonds of 2013	2.00%-4.00%	1,685,000	02/01/34	1,450,000	120,000
G.O. Improvement Bonds, Series 2014A	0.85%-3.40%	1,030,000	02/01/35	945,000	85,000
G.O. Refunding Bond, Series 2014B	1.50%-3.00%	885,000	02/01/27	710,000	90,000
G.O Improvement Bonds 2015A	.90%-3.00%	1,200,000	02/01/25	1,180,000	70,000
G.O. Refunding Bond, Series 2015C	2.00%-2.50%	1,995,000	02/01/28	1,830,000	170,000
G.O. Reconstruction Bonds, Series 2016A	1.00%-2.50%	1,020,000	02/01/37	1,020,000	-
G.O. Improvement Bonds of 2017A	2.00%-2.50%	1,340,000	02/01/30	1,340,000	-
Total improvement bonds				13,555,000	910,000
G.O. Bonds, including refunding bonds					
G.O. Bonds of 2009	1.50%-3.50%	745,000	02/01/20	245,000	80,000
G.O. Refunding Bonds 2015B	2.00%-3.00%	1,475,000	02/01/23	1,285,000	205,000
Total G.O. Bonds				1,530,000	285,000
Net Premium on Bonds				199,304	-
Compensated absences payable				414,733	314,153
Total governmental activities				15,699,037	1,509,153
Business-type activities					
Compensated absences payable				28,870	19,710
Total all long-term liabilities				$ 15,727,907	$ 1,528,863

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

Debt Service Funds will be used to pay general government principal and interest liabilities. The General Fund and Sewer Utility Fund will pay for the corresponding compensated absence liability.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
G.O. Improvements Bonds	$ 13,145,000	$ 1,340,000	$ 930,000	$ 13,555,000	$ 910,000
G.O. Bonds	1,800,000	-	270,000	1,530,000	285,000
Compensated absences payable	459,758	336,678	381,703	414,733	314,153
Total governmental activities	15,404,758	1,676,678	1,581,703	15,499,733	1,509,153
Business-type activities					
Compensated absences payable	30,221	16,357	17,708	28,870	19,710
Total government	$ 15,434,979	$ 1,693,035	$ 1,599,411	$ 15,528,603	$ 1,528,863

D. Long-Term Debt

The annual requirements to amortize all bonded debt outstanding follows:

	Governmental Activities					
	Improvement Bonds			G.O. Bonds		
Year Ending December 31,	Principal	Interest	Total	Principal	Interest	Total
2018	$ 910,000	$ 300,008	$ 1,210,008	$ 285,000	$ 35,205	$ 320,205
2019	960,000	291,108	1,251,108	285,000	28,425	313,425
2020	1,030,000	273,005	1,303,005	295,000	21,388	316,388
2021	1,105,000	251,744	1,356,744	215,000	15,650	230,650
2022	1,160,000	227,589	1,387,589	220,000	10,200	230,200
2023-2027	5,090,000	767,783	5,857,783	230,000	3,450	233,450
2028-2032	2,775,000	252,538	3,027,538	-	-	-
2033-2037	525,000	29,361	554,361	-	-	-
Total	$ 13,555,000	$ 2,393,136	$ 15,948,136	$ 1,530,000	$ 114,318	$ 1,644,318

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

Total fund balances - governmental funds	$ 13,360,454
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	51,667,785
Less accumulated depreciation	(23,489,133)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
General obligation (G.O.) bond principal payable	(15,085,000)
Unamortized bond premium	(199,304)
OPEB payable	(302,681)
Net pension liability	(3,654,252)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(4,172,217)
Deferred outflows of resources related to pensions	3,423,004
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Property taxes	62,523
Special assessments	6,695
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred special assessments	2,399,779
Governmental funds do not report a liability for accrued interest until due and payable.	(139,952)
Internal service funds are used by management to charge the cost of engineering, compensated absences and City Hall expenses to individual funds. The net position of the funds are considered governmental and included in the government-wide Statement of Net Position.	430,822
Total net position - governmental activities	$ 24,308,523

See notes to financial statements.

City of Mendota Heights
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2017

	General Fund	Special Assessments Debt Service	Street Capital Projects
Revenues			
Property taxes	$ 6,652,540	$ 886,389	$ -
Special assessments	893	457,139	344,853
Licenses and permits	633,846	-	-
Intergovernmental	424,268	-	292,054
Charges for services	621,308	-	-
Fines and forfeitures	82,901	3,663	10
Miscellaneous			
Investment income	49,891	22,923	8,272
Contributions and donations	-	-	-
Other	279,978	-	-
Total revenues	8,745,625	1,370,114	645,189
Expenditures			
Current			
General government	1,516,906	-	-
Public safety	3,879,402	-	-
Public works	2,184,378	-	-
Debt service			
Principal	-	965,000	-
Interest and other charges	-	350,954	-
Capital outlay			
General government	-	-	-
Public safety	5,295	-	-
Public works	27,574	-	1,978,638
Total expenditures	7,613,555	1,315,954	1,978,638
Excess of revenues over (under) expenditures	1,132,070	54,160	(1,333,449)
Other Financing Sources (Uses)			
Issuance of debt	-	1,340,000	-
Bond premium	-	22,898	-
Transfers in	47,550	-	1,389,087
Transfers out	-	(1,304,013)	(42,039)
Total other financing sources (uses)	47,550	58,885	1,347,048
Net change in fund balances	1,179,620	113,045	13,599
Fund Balances			
Beginning of year	7,221,257	2,597,112	(283,102)
Change in accounting principle (Note 16)	(313,379)	-	-
Beginning of the year, as restated	6,907,878	2,597,112	(283,102)
End of year	$ 8,087,498	$ 2,710,157	$ (269,503)

See notes to financial statements.

Other Governmental Funds	Total Governmental Funds
$ 455,308	$ 7,994,237
-	802,885
-	633,846
-	716,322
156,618	777,926
4	86,578
24,866	105,952
1,000	1,000
570,873	850,851
1,208,669	11,969,597
264,040	1,780,946
3,441	3,882,843
4,935	2,189,313
235,000	1,200,000
38,310	389,264
118,794	118,794
-	5,295
192,535	2,198,747
857,055	11,765,202
351,614	204,395
-	1,340,000
-	22,898
687,039	2,123,676
(908,959)	(2,255,011)
(221,920)	1,231,563
129,694	1,435,958
2,702,608	12,237,875
-	(313,379)
2,702,608	11,924,496
$ 2,832,302	$ 13,360,454

City of Mendota Heights
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds
Year Ended December 31, 2017

Net change in fund balances - governmental funds	$ 1,435,958
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,175,501
Depreciation expense	(1,744,786)
Loss on sale of disposed assets	(17,439)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(232,586)
OPEB are not reported as expenditures in the governmental funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities.	(8,760)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	1,200,000
Premiums on the issuance of long-term debt provide current financial resources to governmental funds and have no effect on net position. These amounts are reported in the governmental funds as an other financing source and constitute long-term liabilities in the Statement of Net Position.	(22,898)
Premiums are recognized when debt is issued in the governmental funds but amortized over the life of the debt in the Statement of Activities.	20,511
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(624)
Proceeds from long-term debt are recognized as an other financing source in the governmental funds but have no effect on net position in the Statement of Activities.	
Bonds payable	(1,340,000)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	261,659
Activities of the internal service funds are presented separately from the governmental funds. However, the functions, from a government-wide perspective, are governmental.	88,128
Change in net position - governmental activities	$ 1,814,664

See notes to financial statements.

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

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	$ 6,607,624	$ 6,652,540	$ 44,916
Special assessments	-	893	893
Licenses and permits	354,050	633,846	279,796
Intergovernmental	399,170	424,268	25,098
Charges for services	619,936	621,308	1,372
Fines and forfeitures	64,000	82,901	18,901
Miscellaneous revenues			
Investment income	32,000	49,891	17,891
Other	171,161	279,978	108,817
Total revenues	8,247,941	8,745,625	497,684
Expenditures			
Current			
General government	1,481,036	1,516,906	35,870
Public safety	4,425,925	3,879,402	(546,523)
Public works	2,324,130	2,184,378	(139,752)
Capital outlay			
General government	20,000	-	(20,000)
Public safety	52,600	5,295	(47,305)
Public works	-	27,574	27,574
Total expenditures	8,303,691	7,613,555	(690,136)
Excess of revenues over (under) expenditures	(55,750)	1,132,070	1,187,820
Other Financing Sources			
Transfers in	55,750	47,550	(8,200)
Net change in fund balance	$ -	1,179,620	$ 1,179,620
Fund Balance			
Beginning of year		7,221,257	
Change in accounting principle (Note 16)		(313,379)	
Beginning of year, as restated		6,907,878	
End of year		$ 8,087,498	

See notes to financial statements.

City of Mendota Heights
Statement of Net Position - Proprietary Funds
December 31, 2017

	Sewer Utility	Storm Water Utility	Par 3 Golf Course	Total	Internal Service Funds
Assets					
Current assets					
Cash and investments	$ 86,729	$ 178,684	$ 62,918	$ 328,331	$ 577,199
Special assessment receivable					
Delinquent	5,154	-	-	5,154	-
Deferred	20,428	-	-	20,428	-
Accounts receivable	452,434	114,732	55	567,221	-
Interest receivable	266	303	63	632	192
Due from other governments	2,654	-	-	2,654	-
Prepaid expenses	116,097	-	1,170	117,267	21,952
Total current assets	683,762	293,719	64,206	1,041,687	599,343
Noncurrent assets					
Capital assets					
Land	-	-	2,531,475	2,531,475	25,000
Construction in progress	285,238	159,891	-	445,129	134,479
Buildings	-	-	208,490	208,490	1,782,525
Sewer main lines and storm sewers	14,561,574	4,286,392	-	18,847,966	-
Improvements other than buildings	-	-	-	-	27,581
Machinery and equipment	204,283	-	43,851	248,134	66,969
Total capital assets	15,051,095	4,446,283	2,783,816	22,281,194	2,036,554
Less accumulated depreciation	(5,038,286)	(445,237)	(113,807)	(5,597,330)	(1,622,557)
Net capital assets	10,012,809	4,001,046	2,670,009	16,683,864	413,997
Total assets	10,696,571	4,294,765	2,734,215	17,725,551	1,013,340
Deferred Outflows of Resources					
Deferred outflows of resources related to pensions	27,752	5,611	6,487	39,850	17,163
Total assets and deferred outflows of resources	$ 10,724,323	$ 4,300,376	$ 2,740,702	$ 17,765,401	$ 1,030,503
Liabilities and Net Position					
Current liabilities					
Accounts and contracts payable	$ 23,129	$ 34,802	$ 916	$ 58,847	$ 97,972
Salaries and benefits payable	2,759	457	123	3,339	1,497
Due to other governments	13,068	30,837	374	44,279	94
Noncurrent liabilities due within one year	19,710	-	-	19,710	314,153
Total current liabilities	58,666	66,096	1,413	126,175	413,716
Noncurrent liabilities					
Compensated absences	28,870	-	-	28,870	414,733
OPEB payable	11,313	1,477	2,070	14,860	4,767
Net pension liability	101,622	20,546	23,754	145,922	62,846
Less amount due within one year	(19,710)	-	-	(19,710)	(314,153)
Total noncurrent liabilities	122,095	22,023	25,824	169,942	168,193
Total liabilities	180,761	88,119	27,237	296,117	581,909
Deferred Inflows of Resources					
Deferred inflows of resources related to pensions	28,737	5,810	6,717	41,264	17,772
Net Position					
Investment in capital assets	10,012,809	4,001,046	2,670,009	16,683,864	413,997
Unrestricted	502,016	205,401	36,739	744,156	16,825
Total net position	10,514,825	4,206,447	2,706,748	17,428,020	430,822
Total liabilities, deferred inflows of resources, and net position	$ 10,724,323	$ 4,300,376	$ 2,740,702	$ 17,765,401	$ 1,030,503

See notes to financial statements.

City of Mendota Heights
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
Year Ended December 31, 2017

	Sewer Utility	Storm Water Utility	Par 3 Golf Course	Total	Internal Service Funds
Operating revenues					
Charges for services	$ 1,749,743	$ 456,503	$ 147,187	$ 2,353,433	$ 215,775
Operating expenses					
Wages and salaries	130,477	20,471	68,293	219,241	64,629
Employee benefits	56,737	7,245	15,701	79,683	29,370
Materials and supplies	22,928	9	2,843	25,780	-
Repairs and maintenance	127,101	115,943	11,366	254,410	-
Professional services	144,890	43,251	9,719	197,860	9,514
Insurance	6,855	-	3,703	10,558	5,876
Utilities	28,388	-	11,327	39,715	41,052
Depreciation	174,474	42,864	7,243	224,581	64,778
Travel	16	-	-	16	-
Miscellaneous	16,678	25,555	31,477	73,710	44,518
Sewer charges - MCES	1,222,377	-	-	1,222,377	-
Total operating expenses	1,930,921	255,338	161,672	2,347,931	259,737
Operating income (loss)	(181,178)	201,165	(14,485)	5,502	(43,962)
Nonoperating revenues (expenses)					
Investment income	11,878	2,135	447	14,460	1,352
Fines and forfeitures	443	-	-	443	-
Special assessments	21,714	-	-	21,714	-
Other income	13,275	352	600	14,227	-
Total nonoperating revenues	47,310	2,487	1,047	50,844	1,352
Change in net position before capital contributions and transfers	(133,868)	203,652	(13,438)	56,346	(42,610)
Transfers in	128,721	-	-	128,721	130,738
Transfers out	(11,150)	(116,974)	-	(128,124)	-
Change in net position	(16,297)	86,678	(13,438)	56,943	88,128
Net position					
Beginning of year	10,531,122	4,119,769	2,720,186	17,371,077	(230,704)
Change in accounting principle (Note 16)	-	-	-	-	573,398
Beginning of year, as restated	10,531,122	4,119,769	2,720,186	17,371,077	342,694
End of year	$ 10,514,825	$ 4,206,447	$ 2,706,748	$ 17,428,020	$ 430,822

See notes to financial statements.

City of Mendota Heights
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2017

	Sewer Utility	Storm Water Utility	Par 3 Golf Course	Total	Internal Service Funds
Cash Flows - Operating Activities					
Receipts from customers and users	$ 1,823,201	$ 341,771	$ 147,188	$ 2,312,160	$ 215,775
Payments to suppliers	(1,566,502)	(126,013)	(67,906)	(1,760,421)	(23,005)
Payments to employees	(185,932)	(26,583)	(83,451)	(295,966)	(98,755)
Miscellaneous revenue	60,181	352	600	61,133	-
Net cash flows - operating activities	130,948	189,527	(3,569)	316,906	94,015
Cash Flows - Noncapital Financing Activities					
Transfer from other funds	128,721	-	-	128,721	130,738
Transfer to other funds	(11,150)	(116,974)	-	(128,124)	-
Due to other funds	(101,602)	-	-	(101,602)	-
Due from other funds	-	101,602	-	101,602	273,556
Net cash flows - noncapital financing activities	15,969	(15,372)	-	597	404,294
Cash Flows - Capital and Related Financing Activities					
Acquisition of capital assets	(287,675)	(159,891)	-	(447,566)	(134,479)
Cash Flows - Investing Activities					
Interest and dividends received	11,709	2,169	461	14,339	1,353
Net change in cash and cash equivalents	(129,049)	16,433	(3,108)	(115,724)	365,183
Cash and Cash Equivalents					
Beginning of year	215,778	162,251	66,026	444,055	212,016
End of year	$ 86,729	$ 178,684	$ 62,918	$ 328,331	$ 577,199
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities					
Operating income (loss)	$ (181,178)	$ 201,165	$ (14,485)	$ 5,502	$ (43,962)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities					
Operating activities					
Miscellaneous revenue	60,181	352	600	61,133	-
Depreciation expense	174,474	42,864	7,243	224,581	64,778
Accounts receivable	72,775	(114,732)	1	(41,956)	-
Due from other governments	683	-	-	683	-
Prepaid items	(4,916)	-	2,207	(2,709)	(15,120)
Accounts and contracts payable	3,513	28,658	312	32,483	93,074
Contracts payable	-	-	-	-	-
Due to other governmental units	4,134	30,087	10	34,231	1
Salaries payable	(124)	12	(217)	(329)	130
OPEB payable	1,277	(310)	(247)	720	253
Pension related items	1,480	1,431	1,007	3,918	3,972
Compensated absences payable	(1,351)	-	-	(1,351)	(9,111)
Total adjustments	312,126	(11,638)	10,916	311,404	137,977
Net cash flows - operating activities	$ 130,948	$ 189,527	$ (3,569)	$ 316,906	$ 94,015

See notes to financial statements.

NOTE 7 – OPERATING LEASE

The City leases eight squad cars under a noncancelable operating lease.

The following is a schedule by years of future minimum payments required under the leases as of December 31, 2017:

Year Ending December 31,	
2018	$ 60,215
2019	46,055
2020	28,240
Total	$ 134,510

NOTE 8 – CONDUIT DEBT

From time-to-time, the City has issued Industrial Development and Housing Mortgage Revenue Bonds in accordance with the Minnesota Municipal Industrial Development Act. These obligations are issued to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The obligations are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the obligations, ownership of the acquired facilities transfers to the private-sector entity served by the debt issuance. Neither the City, the State of Minnesota, nor any political subdivision thereof, is obligated in any manner for the repayment of the obligations. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

The aggregate amount of all conduit debt obligations outstanding as of December 31, 2017, was $19,076,771.

City of Mendota Heights
Notes to Financial Statements

NOTE 9 – FUND BALANCE DETAIL

Fund equity balances are classified below to reflect the limitations and restrictions of the respective Funds.

	General Fund	Special Assessment Debt Service	Street Capital Projects	Other Governmental Funds	Total
Nonspendable					
Inventories	$ 11,113	$ -	$ -	$ -	$ 11,113
Prepaid items	118,504	-	-	311	118,815
Restricted					
Park dedication fees	-	-	-	548,594	548,594
Debt service	-	2,710,157	-	476,548	3,186,705
Committed					
Water system maintenance	-	-	-	375,444	375,444
Emergency preparedness and civil defense	-	-	-	102,029	102,029
Assigned					
Capital projects	-	-	-	1,627,341	1,627,341
Insurance reserve	161,121	-	-	-	161,121
Unassigned	7,796,760	-	(269,503)	(297,965)	7,229,292
Total	$ 8,087,498	$ 2,710,157	$ (269,503)	$ 2,832,302	$ 13,360,454

NOTE 10 – RISK MANAGEMENT

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

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

Workers compensation coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to LMCIT. For workers compensation, the City is not subject to a deductible. The City's workers compensation coverage is not retrospectively rated. However, the actual premium is adjusted based on audited payroll amounts.

NOTE 11 – PENSION PLANS

Public Employees' Retirement Association

The City participates in various pension plans. Total pension expense for the year ended December 31, 2017, was $644,038. The components of pension expense are noted in the following plan summaries.

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

Public Employees Police and Fire Plan (Police and Fire Plan (accounted for in the Police and Fire Fund))

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

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

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.

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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 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 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 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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 Plan 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 Plan who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in calendar year 2017. The City was required to contribute 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were $137,806. The City's contributions were equal to the required contributions as set by state statute.

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions (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 16.2% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were $251,584. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of $1,851,341 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 a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled $23,303. 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 share was 0.0290%, which was a decrease of 0.0025% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of $197,495 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized $673 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.

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 61,014	$ 129,979
Changes in actuarial assumptions	333,860	185,598
Difference between projected and actual investment earnings	41,803	-
Changes in proportion	-	207,959
Contributions paid to PERA subsequent to the measurement date	68,903	-
Total	$ 505,580	$ 523,536

$68,903 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2018	$ 2,289
2019	67,914
2020	(78,476)
2021	(78,586)
Total	$ (86,859)

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of $2,011,679 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 0.1500%, which was a decrease of 0.005% from its proportion measured as of June 30, 2016. The City also recognized $13,500 for the year ended December 31, 2017 as revenue and an offsetting reduction of the 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.

For the year ended December 31, 2017, the City recognized pension expense of $446,543 for its proportionate share of the Police and Fire Fund pension expense.

At December 31, 2017, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the sources below and on the following page.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 46,617	$ 557,246
Changes in actuarial assumptions	2,738,696	2,875,253
Difference between projected and actual investment earnings	48,184	-
Changes in proportion	15,148	275,218
Contributions paid to PERA subsequent to the measurement date	125,792	-
Total	$ 2,974,437	$ 3,707,717

City of Mendota Heights
Notes to Financial Statements

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

$125,792 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:

Year Ending December 31,	Pension Expense Amount
2018	$ (5,264)
2019	(5,263)
2020	(80,989)
2021	(168,386)
2022	(599,170)
Total	$ (859,072)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants 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 1% per year for the General Employees plan through 2044 and the 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 Plan was completed in 2016.

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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% for vested deferred member liability, and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% 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% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% 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% 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% to 60%.
- 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% for all years to 1% per year through 2064 and 2.5% thereafter.

City of Mendota Heights
Notes to Financial Statements

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00
Total	100 %	

F. 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 those 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.

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the General Employees Fund net pension liability	$ 2,871,567	$ 1,851,341	$ 1,016,100

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the Police and Fire Fund net pension liability	$ 3,800,502	$ 2,011,679	$ 534,906

H. Pension Plan Fiduciary Net Position

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

Defined Contribution Pension Plan – Volunteer Fire Fighter's Relief Association

The Mendota Heights Firefighter's Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Mendota Heights Fire Department per *Minnesota State Statutes*.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Mendota Heights Firefighter's Association, 2121 Dodd Road Mendota Heights, Minnesota 55120 or by calling 651-249-7640.

City of Mendota Heights
Notes to Financial Statements

NOTE 11 –PENSION PLANS (CONTINUED)

Defined Contribution Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)

The City contributes to the Mendota Heights Volunteer Fire Department Relief Association (the "Association") that provides pension benefits to its members under a single employer defined contribution plan. Since fire department members are volunteers, contributions to the Association are not based on payroll but rather on years of active service. All active firefighters may apply for membership in the Association and shall become a member immediately upon approval by the Board of Trustees.

Under an Annual Contribution Agreement, the City's contribution to the Association is determined by multiplying $3,500 by the number of years of active service completed by members of the Association for the plan year, prorated by months for members who did not complete a full year of active service. The City also contributes a portion of the Association's administrative fees each year. For 2017, the total contribution was $112,595. Required and actual employer contributions to the plan during 2017 were $112,595. In addition, the City passes through state aid allocated to the plan in accordance with state statutes. For 2017, the state aid was $97,810. Members of the Association are not allowed to make voluntary contributions to the plan.

Members are not vested in their accounts until they attain 10 years of active service, at which time they become 60% vested. Thereafter, the vested portion of their accounts increases by 4% annually until they achieve 100% vesting after having served for 20 years.

Plan provisions were established and may only be amended by amendments to the Association bylaws which require a majority vote by the Board of Trustees.

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The City provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage and dental coverage. Medical coverage is administered by BlueCross BlueShield and dental coverage is provided by Delta Dental. It is the City's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with BlueCross BlueShield and Delta Dental. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2017, the City contributed $94,257 to the plan. As of December 31, 2017, there were five retirees receiving health and dental benefits from the City.

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post-Employment Benefits Cost and Net Other Post Employment Benefits Obligation

The City's annual other post-employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan.

ARC	$ 109,212
Interest on net OPEB obligation	12,503
Adjustment to ARC	(17,725)
Annual OPEB Cost (expense)	103,990
Contributions made	(94,257)
Increase in net OPEB obligation	9,733
Net OPEB obligation - beginning of year	312,575
Net OPEB obligation - end of year	$ 322,308

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/15	$ 102,203	$ 64,135	63%	$ 284,676
12/31/16	104,456	76,557	73%	312,575
12/31/17	103,990	94,257	91%	322,308

D. Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $1,071,748 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,071,748. The covered payroll (annual payroll of active employees covered by the plan) was $2,958,302, and the ratio of the UAAL to the covered payroll was 36.2%

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2015, the actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter term, based on City's general assets). The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual healthcare cost trend rate was calculated to be 7.25% initially, reduced incrementally to an ultimate rate of 5.0% after nine years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at January 1, 2017, was 26 years.

NOTE 13 – TOWN CENTER – THE VILLAGE AT MENDOTA HEIGHTS

The City temporarily has title to certain real properties in Town Center. The City currently has title to land valued by Dakota County at $544,800. Once the project is complete all parcels, except the out lots which are included in the City's capital assets, will be developed and owned privately, and thus the land is not reported in the City's financial statements.

NOTE 14 – JOINT VENTURES

A. Dakota Communications Center
The City is a member of the Dakota Communication Center (DCC). The DCC was created by a joint powers agreement between Dakota County and several cities. Its purposes include the establishment, operation, and maintenance of joint law enforcement, fire, EMS and other emergency communications systems. Members are obligated to pay their proportional share of operating and capital expenditures on an annual basis. The City paid $207,264 for 2017. Members do not maintain an equity interest other than if the DCC were to terminate. Withdrawing members forfeit any interest in the DCC. Information regarding the DCC can be obtained at the website www.mn-dcc.org.

B. Local Government Information Systems Association (LOGIS)
The consortium of approximately 30 government entities provides computerized data processing and support services to its members. LOGIS is a legally separate entity; the entities appoint a voting majority of its board, and the consortium is fiscally independent of the City. For 2017, the City paid $102,936 for computer application support and computer hardware for the City's network. Complete financial statements of the consortium may be obtained at the LOGIS offices located at 5750 Duluth Street, Golden Valley, Minnesota 55422.

NOTE 15 – CONTINGENCIES

The City has various claims and litigation that arise in the normal course of business. The City has evaluated the impact of these items for the December 31, 2017, financial statements and determined they do not have a material effect on financial position or changes in financial position.

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

During 2017, the City merged its Engineering internal service fund with the General Fund. This merger resulted in a decrease in the General Fund's beginning fund balance of $313,379 and an increase in the Engineering internal service fund of $573,398.

NOTE 17 TAX INCREMENT FINANCING

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

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

During the year ended December 31, 2017, the City generated $0 in tax increment revenue and made $0 in payments to developers.

City of Mendota Heights
Notes to Financial Statements

NOTE 18 – COMMITMENTS

At December 31, 2017, the City had the following commitments relating to contracts:

Contractor	Contract Amount	Expended to Date	Commitment Remaining
Dering Pierson	$ 238,298	$ 74,823	$ 163,475
Valley Paving	1,823,172	1,784,113	39,059
Northdale Construction	108,986	105,445	3,541

NOTE 19 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 83, Certain Asset Retirement Obligations establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 85, Omnibus 2017 addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 86, Certain Debt Extinguishment Issues improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. This statement will be effective for the year ending December 31, 2018.

NOTE 19 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2020.

City of Mendota Heights
Schedule of Funding Progress - Other Post Employment Benefits
December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/09	$ -	$ 357,126	$ 357,126	0.0%	$ 2,905,073	12.3%
01/01/12	-	506,367	506,367	0.0%	3,176,568	15.9%
01/01/15	-	1,071,748	1,071,748	0.0%	2,958,302	36.2%

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

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0322%	$ 1,668,771	$ -	$ 1,668,771	$ 1,859,307	89.8%	78.2%
2016	0.0315%	2,557,644	33,392	2,591,036	1,954,600	130.9%	68.9%
2017	0.0290%	1,851,341	23,303	1,874,644	1,870,160	99.0%	75.9%

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

Schedule of City's Proportionate Share of Net Pension Liability
Public Employees Police and Fire Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1530%	$ 1,738,438	$ 1,359,920	127.8%	86.6%
2016	0.1550%	6,220,420	1,496,272	415.7%	63.9%
2017	0.1500%	2,011,679	1,543,389	130.3%	85.4%

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

City of Mendota Heights
Schedule of City Contributions -
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	$ 149,420	$ 149,420	$ -	$ 1,992,267	7.5%
2016	139,806	139,806	-	1,864,080	7.5%
2017	137,806	137,806	-	1,837,413	7.5%

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

Schedule of City Contributions -
Public Employees Police and Fire Retirement Fund
Last Ten Years

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	$ 237,655	$ 237,655	$ -	$ 1,467,006	16.2%
2016	245,917	245,917	-	1,518,006	16.2%
2017	251,584	251,584	-	1,552,988	16.2%

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

City of Mendota Heights
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2017 Changes
Changes in Actuarial Assumptions

- The 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% for vested deferred member liability and 3% 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.

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

City of Mendota Heights
Notes to Required Supplementary Information

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% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% 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% 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% to 60%.
- 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% for all years to 1% per year through 2064 and 2.5% thereafter.

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

City of Mendota Heights
Combining Balance Sheet - Nonmajor Governmental Funds
December 31, 2017

	Special Revenue			
	Water Revenue	Special Park	Civil Defense	Street Lighting
Assets				
Cash and investments	$ 372,232	$ 586,019	$ 102,192	$ -
Taxes receivable - delinquent	-	-	209	445
Special assessments receivable				
Deferred	-	-	-	-
Accounts receivable	-	-	-	15,339
Interest receivable	348	695	100	-
Due from other funds	-	-	-	-
Due from other governments	2,864	-	-	-
Prepaid items	-	-	311	-
Land held for resale	-	-	-	-
Total assets	$ 375,444	$ 586,714	$ 102,812	$ 15,784
Liabilities				
Accounts and contracts payable	$ -	$ 38,120	$ 263	$ 1,593
Due to other funds	-	-	-	25,229
Due to other governments	-	-	-	-
Total liabilities	-	38,120	263	26,822
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	-	209	445
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	-	-	209	445
Fund Balances				
Nonspendable	-	-	311	-
Restricted	-	548,594	-	-
Committed	375,444	-	102,029	-
Assigned	-	-	-	-
Unassigned	-	-	-	(11,483)
Total fund balances	375,444	548,594	102,340	(11,483)
Total liabilities, deferred inflows of resources, and fund balances	$ 375,444	$ 586,714	$ 102,812	$ 15,784

City of Mendota Heights
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2017

	Debt Service: Par 3 G.O. Bonds	Debt Service: Equipment Certficates	Capital Projects: Equipment Replacement Reserve	Capital Projects: Infrastructure Reserve	Capital Projects: Facility Reserve	Capital Projects: Water Tower Capital Project	Capital Projects: Pilot Knob Improvement
Assets							
Cash and investments	$ 343,796	$ 132,443	$ 379,726	$ 59,405	$ 355,281	$ 355,426	$ 959
Taxes receivable - delinquent	2,134	449	497	161	8	-	-
Special assessments receivable							
Deferred	-	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-	-
Interest receivable	220	89	426	79	396	1,018	-
Due from other funds	-	-	-	25,229	-	295,023	-
Due from other governments	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-
Land held for resale	-	-	-	-	-	-	-
Total assets	$ 346,150	$ 132,981	$ 380,649	$ 84,874	$ 355,685	$ 651,467	$ 959
Liabilities							
Accounts and contracts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Due to other funds	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-
Deferred Inflows of Resources							
Unavailable revenue - property taxes	2,134	449	497	161	8	-	-
Unavailable revenue - special assessments	-	-	-	-	-	-	-
Total deferred inflows of resources	2,134	449	497	161	8	-	-
Fund Balances							
Nonspendable	-	-	-	-	-	-	-
Restricted	344,016	132,532	-	-	-	-	-
Committed	-	-	-	-	-	-	-
Assigned	-	-	380,152	84,713	355,677	651,467	959
Unassigned	-	-	-	-	-	-	-
Total fund balances	344,016	132,532	380,152	84,713	355,677	651,467	959
Total liabilities, deferred inflows of resources, and fund balances	$ 346,150	$ 132,981	$ 380,649	$ 84,874	$ 355,685	$ 651,467	$ 959

	Capital Projects: Pre-1998 Non-Increment	Capital Projects: Special Assessment Capital Project	Capital Projects: TIF District No. 2	Total Nonmajor Governmental Funds
Assets				
Cash and investments	$ 50,882	$ -	$ -	$ 2,738,361
Taxes receivable - delinquent	-	-	-	3,903
Special assessments receivable				
Deferred	-	9,819	-	9,819
Accounts receivable	-	18,324	-	33,663
Interest receivable	33	119	-	3,523
Due from other funds	7,358	-	-	327,610
Due from other governments	-	1,374	-	4,238
Prepaid items	-	-	-	311
Land held for resale	96,100	-	-	96,100
Total assets	$ 154,373	$ 29,636	$ -	$ 3,217,528
Liabilities				
Accounts and contracts payable	$ -	$ 724	$ -	$ 40,700
Due to other funds	-	128,217	7,358	160,804
Due to other governments	-	170,000	-	170,000
Total liabilities	-	298,941	7,358	371,504
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	-	-	3,903
Unavailable revenue - special assessments	-	9,819	-	9,819
Total deferred inflows of resources	-	9,819	-	13,722
Fund Balances				
Nonspendable	-	-	-	311
Restricted	-	-	-	1,025,142
Committed	-	-	-	477,473
Assigned	154,373	-	-	1,627,341
Unassigned	-	(279,124)	(7,358)	(297,965)
Total fund balances	154,373	(279,124)	(7,358)	2,832,302
Total liabilities, deferred inflows of resources, and fund balances	$ 154,373	$ 29,636	$ -	$ 3,217,528

City of Mendota Heights
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2017

	Special Revenue			
	Water Revenue	Special Park	Civil Defense	Street Lighting
Revenues				
Property taxes	$ -	$ -	$ 25,100	$ 18,706
Charges for services	126,618	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous				
Investment income	2,459	4,906	704	-
Contributions and donations	-	1,000	-	-
Other	-	515,400	-	-
Total revenues	129,077	521,306	25,804	18,706
Expenditures				
Current				
General government	3,369	-	20,592	29,872
Public safety	-	-	-	-
Public works	-	4,935	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
General government	-	106,844	-	-
Public works	-	-	-	-
Total expenditures	3,369	111,779	20,592	29,872
Excess of revenues over (under) expenditures	125,708	409,527	5,212	(11,166)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(3,000)	(1,500)	-	-
Total other financing sources (uses)	(3,000)	(1,500)	-	-
Net change in fund balances	122,708	408,027	5,212	(11,166)
Fund Balances				
Beginning of year	252,736	140,567	97,128	(317)
End of year	$ 375,444	$ 548,594	$ 102,340	$ (11,483)

	Debt Service		Capital Projects				
	Par 3 G.O. Bonds	Equipment Certficates	Equipment Replacement Reserve	Infrastructure Reserve	Facility Reserve	Water Tower Capital Project	Pilot Knob Improvement
Revenues							
Property taxes	$ 246,914	$ 52,276	$ 92,614	$ 19,698	$ -	$ -	$ -
Charges for services	-	-	-	-	-	-	-
Fines and forfeitures	-	1	2	1	-	-	-
Miscellaneous							
Investment income	1,554	626	3,006	559	2,793	7,186	-
Contributions and donations	-	-	-	-	-	-	-
Other	-	-	-	1,160	-	19,486	-
Total revenues	248,468	52,903	95,622	21,418	2,793	26,672	-
Expenditures							
Current							
General government	-	-	177,133	-	-	-	-
Public safety	-	-	-	-	3,441	-	-
Public works	-	-	-	-	-	-	-
Debt service							
Principal	190,000	45,000	-	-	-	-	-
Interest and other charges	32,550	5,760	-	-	-	-	-
Capital outlay							
General government	-	-	-	-	-	-	-
Public works	-	-	43,875	-	7,200	-	-
Total expenditures	222,550	50,760	221,008	-	10,641	-	-
Excess of revenues over (under) expenditures	25,918	2,143	(125,386)	21,418	(7,848)	26,672	-
Other Financing Sources (Uses)							
Transfers in	-	-	315,000	-	330,000	-	-
Transfers out	-	-	-	-	-	(904,459)	-
Total other financing sources (uses)	-	-	315,000	-	330,000	(904,459)	-
Net change in fund balances	25,918	2,143	189,614	21,418	322,152	(877,787)	-
Fund Balances							
Beginning of year	318,098	130,389	190,538	63,295	33,525	1,529,254	959
End of year	$ 344,016	$ 132,532	$ 380,152	$ 84,713	$ 355,677	$ 651,467	$ 959

City of Mendota Heights
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2017

	Pre-1998 Non-Increment	Capital Projects Special Assessment Capital Project	TIF District No. 2	Total Other Governmental Funds
Revenues				
Property taxes	$ -	$ -	$ -	$ 455,308
Charges for services	30,000	-	-	156,618
Fines and forfeitures	-	-	-	4
Miscellaneous				
Investment income	235	838	-	24,866
Contributions and donations	-	-	-	1,000
Other	34,827	-	-	570,873
Total revenues	65,062	838	-	1,208,669
Expenditures				
Current				
General government	33,074	-	-	264,040
Public safety	-	-	-	3,441
Public works	-	-	-	4,935
Debt service				
Principal	-	-	-	235,000
Interest and other charges	-	-	-	38,310
Capital outlay				
General government	11,950	-	-	118,794
Public works	-	134,102	7,358	192,535
Total expenditures	45,024	134,102	7,358	857,055
Excess of revenues over (under) expenditures	20,038	(133,264)	(7,358)	351,614
Other Financing Sources (Uses)				
Transfers in	-	42,039	-	687,039
Transfers out	-	-	-	(908,959)
Total other financing sources (uses)	-	42,039	-	(221,920)
Net change in fund balances	20,038	(91,225)	(7,358)	129,694
Fund Balances				
Beginning of year	134,335	(187,899)	-	2,702,608
End of year	$ 154,373	$ (279,124)	$ (7,358)	$ 2,832,302

City of Mendota Heights
Combining Statement of Net Position - Internal Service Funds
December 31, 2017

	Compensated Absences	City Hall Sinking Fund	Total
Assets			
Current assets			
Cash and investments (including cash equivalents)	$ 402,679	$ 174,520	$ 577,199
Interest receivable	-	192	192
Prepaid expenses	-	21,952	21,952
Total current assets	402,679	196,664	599,343
Noncurrent assets			
Capital assets			
Land	-	25,000	25,000
Buildings	-	1,782,525	1,782,525
Improvements other than buildings	-	27,581	27,581
Machinery and equipment	-	66,969	66,969
Construction In Progress	-	134,479	134,479
Total capital assets	-	2,036,554	2,036,554
Less accumulated depreciation	-	(1,622,557)	(1,622,557)
Net capital assets	-	413,997	413,997
Total assets	402,679	610,661	1,013,340
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	-	17,163	17,163
Total assets and deferred outflows of resources	$ 402,679	$ 627,824	$ 1,030,503
Liabilities			
Current liabilities			
Accounts and contracts payable	$ -	$ 97,972	$ 97,972
Salaries and benefits payable	-	1,497	1,497
Due to other governments	-	94	94
Noncurrent liabilities due within one year	310,254	3,899	314,153
Total current liabilities	310,254	103,462	413,716
Noncurrent liabilities			
Compensated absences	402,679	12,054	414,733
OPEB payable	-	4,767	4,767
Net pension liability	-	62,846	62,846
Less amount due within one year	(310,254)	(3,899)	(314,153)
Total noncurrent liabilities	92,425	75,768	168,193
Total liabilities	402,679	179,230	581,909
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	-	17,772	17,772
Net Position			
Investment in capital assets	-	413,997	413,997
Unrestricted	-	16,825	16,825
Total net position	-	430,822	430,822
Total liabilities, deferred inflows of resources, and net position	$ 402,679	$ 627,824	$ 1,030,503

City of Mendota Heights
Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal Service Funds
Year Ended December 31, 2017

	Engineering	City Hall Sinking Fund	Total
Operating revenues			
Charges for services	$ -	$ 215,775	$ 215,775
Operating expenses			
Wages and salaries	-	64,629	64,629
Employee benefits	-	29,370	29,370
Professional services	-	9,514	9,514
Insurance	-	5,876	5,876
Utilities	-	41,052	41,052
Depreciation	-	64,778	64,778
Miscellaneous	-	44,518	44,518
Total operating expenses	-	259,737	259,737
Operating loss	-	(43,962)	(43,962)
Nonoperating revenues			
Investment income	-	1,352	1,352
Loss before transfers	-	(42,610)	(42,610)
Transfers in	-	130,738	130,738
Change in net position	-	88,128	88,128
Net position			
Beginning of year	(573,398)	342,694	(230,704)
Change in accounting principle (Note 16)	573,398	-	573,398
Beginning of year, as restated	-	342,694	342,694
End of year	$ -	$ 430,822	$ 430,822

City of Mendota Heights
Combining Statement of Cash Flows - Internal Service Funds
Year Ended December 31, 2017

	Compensated Absences	City Hall Sinking Fund	Total
Cash Flows - Operating Activities			
Receipts from customers and users	$ -	$ 215,775	$ 215,775
Payments to suppliers	-	(23,005)	(23,005)
Payments to employees	(11,256)	(87,499)	(98,755)
Net cash flows - operating activities	(11,256)	105,271	94,015
Cash Flows - Noncapital Financing Activities			
Transfer from Other Funds	-	130,738	130,738
Due from other funds	273,556	-	273,556
Net cash flows - noncapital financing activities	273,556	130,738	404,294
Cash Flows - Capital And Related Financing Activities			
Acquisition of capital assets	-	(134,479)	(134,479)
Cash Flows - Investing Activities			
Interest and dividends received	-	1,353	1,353
Net change in cash and cash equivalents	262,300	102,883	365,183
Cash and Cash Equivalents			
Beginning of year	140,379	71,637	212,016
End of year	$ 402,679	$ 174,520	$ 577,199
Reconciliation of Operating Loss to Net Cash Flows - Operating Activities			
Operating loss	$ -	$ (43,962)	$ (43,962)
Adjustments to reconcile operating Loss to net cash flows - Operating activities			
Depreciation expense	-	64,778	64,778
Prepaid items	-	(15,120)	(15,120)
Accounts payable	-	93,074	93,074
Contracts payable	-	-	-
Due to other governmental units	-	1	1
Salaries payable	-	130	130
OPEB payable	-	253	253
Pension related items	-	3,972	3,972
Compensated absences payable	(11,256)	2,145	(9,111)
Total adjustments	(11,256)	149,233	137,977
Net cash flows - operating activities	$ (11,256)	$ 105,271	$ 94,015

City of Mendota Heights
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2017

	Budgeted Amounts Original And final	Actual Amounts	Variance with Final budget - over (under)
Revenues			
Property taxes	$ 6,607,624	$ 6,652,540	$ 44,916
Special assessments	-	893	893
Licenses and permits	354,050	633,846	279,796
Intergovernmental revenue			
State grants and aids			
PERA aid	9,070	9,073	3
Fire aid	94,000	97,811	3,811
Police aid	120,000	132,257	12,257
Other grants and aids	176,100	185,127	9,027
Total intergovernmental revenue	399,170	424,268	25,098
Charges for services	619,936	621,308	1,372
Fines and forfeitures	64,000	82,901	18,901
Miscellaneous revenues			
Investment income	32,000	49,891	17,891
Other	171,161	279,978	108,817
Total miscellaneous revenues	203,161	329,869	126,708
Total revenues	8,247,941	8,745,625	497,684
Expenditures			
General government			
Mayor and council			
Salaries and benefits	24,325	24,346	21
Contracted services	14,400	18,599	4,199
Administration and finance			
Salaries and benefits	623,788	666,120	42,332
Materials and supplies	17,630	16,053	(1,577)
Contracted services	409,012	435,093	26,081

City of Mendota Heights
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2017
(Continued)

	Budgeted Amounts Original And final	Actual Amounts	Variance with Final budget - Over (under)
Expenditures (Continued)			
General government (continued)			
Elections			
Salaries and benefits	$ 34,375	$ 31,711	$ (2,664)
Materials and supplies	11,105	11,961	856
Contracted services	2,150	2,046	(104)
Information technology			
Salaries and benefits	67,228	-	(67,228)
Materials and supplies	69,500	19,316	(50,184)
Contracted services	15,400	62,306	46,906
Capital outlay	20,000	-	(20,000)
Planning and zoning			
Salaries and benefits	76,418	105,797	29,379
Materials and supplies	3,200	1,746	(1,454)
Contracted services	73,100	97,294	24,194
Recycling			
Salaries and benefits	19,105	3,976	(15,129)
Contracted services	20,300	8,020	(12,280)
Miscellaneous			
Contracted services	-	12,522	12,522
Total general government	1,501,036	1,516,906	15,870
Public safety			
Police protection			
Salaries and benefits	2,837,388	2,458,022	(379,366)
Materials and supplies	217,550	168,520	(49,030)
Contracted services	670,798	602,338	(68,460)
Capital outlay	52,600	5,295	(47,305)
Fire protection			
Salaries and benefits	277,734	255,540	(22,194)
Materials and supplies	105,040	93,148	(11,892)
Contracted services	317,415	301,834	(15,581)
Total public safety	4,478,525	3,884,697	(593,828)

City of Mendota Heights
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2017
(Continued)

	Budgeted Amounts Original And final	Actual Amounts	Variance with Final budget - Over (under)
Expenditures (Continued)			
Public works			
Code enforcement			
Materials and supplies	$ 2,475	$ 5,184	$ 2,709
Contracted services	110,380	103,882	(6,498)
Street maintenance			
Salaries and benefits	858,479	842,669	(15,810)
Materials and supplies	96,150	126,661	30,511
Contracted services	457,929	371,666	(86,263)
Capital outlay	-	2,437	2,437
Parks			
Salaries and benefits	474,117	456,676	(17,441)
Materials and supplies	197,250	156,128	(41,122)
Contracted services	127,350	121,512	(5,838)
Capital outlay	-	25,137	25,137
Total public works	2,324,130	2,211,952	(112,178)
Total expenditures	8,303,691	7,613,555	(690,136)
Excess of revenues over (under) expenditures	(55,750)	1,132,070	1,187,820
Other Financing Sources			
Transfer in	55,750	47,550	(8,200)
Net change in fund balance	$ -	1,179,620	$ 1,179,620
Fund Balance			
Beginning of year		7,221,257	
Change in accounting principle (Note 16)		(313,379)	
Beginning of year, as restated		6,907,878	
End of year		$ 8,087,498	

bergankdv

Report on Legal Compliance

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Mendota Heights
Mendota Heights, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mendota Heights, Minnesota as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 31, 2018.

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

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

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

Bergan KDV Ltd.

Minneapolis, Minnesota
May 31, 2018

BerganKDV, Ltd.
bergankdv.com

APPENDIX B

FORM OF LEGAL OPINION

(See following page)

BRIGGS

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

PROPOSED FORM OF LEGAL OPINION

$___________
GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2018A
CITY OF MENDOTA HEIGHTS
DAKOTA COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Mendota Heights, Dakota County, Minnesota (the "Issuer"), of its $___________ General Obligation Improvement Bonds, Series 2018A, bearing a date of original issue of November 1, 2018 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

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

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

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

(2) The Bonds are valid and binding general obligations of the Issuer and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest

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

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

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

BRIGGS AND MORGAN
Professional Association

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 UNDERTAKING

(See following page)

[Appendix ___ to Official Statement]

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Mendota Heights, Minnesota (the "Issuer"), in connection with the issuance of its $________________ General Obligation Improvement Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on October 16, 2018 (the "Resolution"). Pursuant to the Resolution and this Undertaking, the Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 5 of this Disclosure Undertaking.

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

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

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

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

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

SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2018, the Issuer shall, or shall cause the Dissemination Agent to provide to the MSRB by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking by not later than December 31, 2019, and by December 31 of each year thereafter.

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

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

The following financial information and operating data shall be supplied:

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

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

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

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

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

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

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

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

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

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

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

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

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

Dated: _____________, 2018.

CITY OF MENDOTA HEIGHTS, MINNESOTA

By ________________________________
Its Mayor

By ________________________________
Its Clerk

APPENDIX E

TERMS OF PROPOSAL

$1,125,000* GENERAL OBLIGATION IMPROVEMENT BONDS SERIES 2018A
CITY OF MENDOTA HEIGHTS, MINNESOTA

Proposals for the purchase of $1,125,000* General Obligation Improvement Bonds Series 2018A (the "Bonds") of the City of Mendota Heights, 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 , Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until Central Time, on October 16, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 429 and 475, by the City for the purpose of financing the 2018 Road Rehabilitation projects within 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 November 1, 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:

Year	Amount*	Year	Amount*	Year	Amount*
2021	$110,000	2025	$115,000	2029	$120,000
2022	110,000	2026	115,000	2030	95,000
2023	110,000	2027	115,000		
2024	115,000	2028	120,000		

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 2021 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, 2027 shall be subject to optional redemption prior to maturity on February 1, 2026 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 November 1, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

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

SUBMISSION OF PROPOSALS

Proposals must not be for less than $1,110,937.50 plus accrued interest on the principal sum of $1,125,000 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 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 $22,500 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

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

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

AWARD

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

BOND INSURANCE

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

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

CUSIP NUMBERS

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

CONTINUING DISCLOSURE

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

NEW ISSUE PRICING

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

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

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

(1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

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

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

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

(1) the close of the fifth (5^{th}) 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 (5^{th}) 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 (5^{th}) 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) <u>If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test</u>, 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 Mendota Heights, Minnesota

PROPOSAL FORM

The City Council **October 16, 2018**
City of Mendota Heights, Minnesota

RE: $1,125,000* General Obligation Improvement Bonds Series 2018A
DATED: November 1, 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 $1,110,937.50) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2021	________	% due	2025	________	% due	2029
________	% due	2022	________	% due	2026	________	% due	2030
________	% due	2023	________	% due	2027			
________	% due	2024	________	% due	2028			

* 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 2021 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 $22,500, to be held by the City 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 November 1, 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 <u>not</u> 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 November 1, 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 Mendota Heights, Minnesota, on October 16, 2018.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________