

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 11, 2019

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

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

New Issue

Rating Application Made: S&P Global Ratings

CITY OF WAVERLY, MINNESOTA (Wright County)

(Minnesota City Credit Enhancement Program)

\$2,805,000* GENERAL OBLIGATION WATER REVENUE BONDS, SERIES 2019A

PROPOSAL OPENING: June 19, 2019, 11:00 A.M., C.T.

CONSIDERATION: Not later than 11:59 P.M., C.T. on June 19, 2019 (PARAMETERS RESOLUTION)

PURPOSE/AUTHORITY/SECURITY: The \$2,805,000* General Obligation Water Revenue Bonds, Series 2019A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, by the City of Waverly, Minnesota (the "City") for the purpose of financing the water portion of the City's 2019 Improvement Projects. 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: July 10, 2019

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2023	\$110,000	2030	\$125,000	2037	\$155,000
2024	110,000	2031	130,000	2038	160,000
2025	115,000	2032	135,000	2039	165,000
2026	115,000	2033	140,000	2040	175,000
2027	120,000	2034	145,000	2041	180,000
2028	120,000	2035	145,000	2042	185,000
2029	125,000	2036	150,000		

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2020 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2030 and thereafter are subject to call for prior optional redemption on February 1, 2029 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$2,771,340.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$56,100 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Briggs and Morgan, Professional Association

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

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

REPRESENTATIONS

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

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and 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 and Associates, Inc., payable entirely by the City, is contingent upon the sale of the Bonds.

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 and 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 City is 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 WAVERLY
CITY COUNCIL**

		<u>Term Expires</u>
Connie Holmes	Mayor	January 2021
Ben Duske	Council Member	January 2023
Keith Harris	Council Member	January 2021
Scott Jacobson	Council Member	January 2023
Gary Olson	Council Member	January 2021

ADMINISTRATION

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

PROFESSIONAL SERVICES

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

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Waverly, Minnesota (the "City") and the issuance of its \$2,805,000* General Obligation Water Revenue Bonds, Series 2019A (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 issuance and sale of the Bonds ("Award Resolution").

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

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of July 10, 2019. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2020, 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 2023 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, 2030 shall be subject to optional redemption prior to maturity on February 1, 2029 or any date thereafter, at a price of par plus accrued interest.

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

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

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, by the City for the purpose of financing the water portion of the City’s 2019 Improvement Projects.

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	<u>\$2,805,000</u>	
Total Sources		\$2,805,000
Uses		
Total Underwriter's Discount (1.200%)	\$33,660	
Costs of Issuance	50,000	
Deposit to Project Construction Fund	2,719,840	
Rounding Amount	<u>1,500</u>	
Total Uses		\$2,805,000

*Preliminary, subject to change.

SECURITY

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

RATING

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

The City currently has a "AA-" underlying rating from S&P and will be requesting an underlying rating on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency 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 judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM

By resolution adopted for this issue on May 14, 2019 (the "Resolution"), the City has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 446A.086 (the "Act"), which provides for payment by the State of Minnesota in the event of a potential default of certain obligations. The City has entered into a Credit Enhancement Program Agreement (the "Agreement") with the Minnesota Public Facilities Authority (the "Authority"), which is acting on behalf of the State of Minnesota. The provisions of the Agreement shall be binding on the City as long as any obligations of the issue remain outstanding.

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

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

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board ("MSRB ") through its Electronic Municipal Market Access ("EMMA ") system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

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

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as 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 holder's 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 advisers 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 advisers 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, 2018, have been audited by BerganKDV Ltd., Minneapolis, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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	2016/17	2017/18	2018/19
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 \$2,050,000 - 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	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ²
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 \$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%	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 \$139,000 - .75% Over \$139,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

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

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

³ Exempt from referendum market value tax.

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

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

CURRENT PROPERTY VALUATIONS

2017/18 Economic Market Value ¹		<u>\$131,030,517²</u>
	2018/19 Assessor's Estimated Market Value	2018/19 Net Tax Capacity
Real Estate	\$144,130,300	\$ 1,399,003
Personal Property	<u>818,000</u>	<u>16,185</u>
Total Valuation	<u>\$144,948,300</u>	\$ 1,415,188
Less: Captured Tax Increment Tax Capacity ³		<u>(9,389)</u>
Taxable Net Tax Capacity		<u>\$ 1,405,799</u>

¹ The most recent value available from the Minnesota Department of Revenue.

² According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Waverly is about 93.30% 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 \$131,030,517.

³ The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City of Waverly.

2018/19 NET TAX CAPACITY BY CLASSIFICATION

	2018/19 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 916,435	64.76%
Agricultural	24,152	1.71%
Commercial/industrial	125,593	8.87%
Public utility	5,847	0.41%
Railroad operating property	3,768	0.27%
Non-homestead residential	198,722	14.04%
Commercial & residential seasonal/rec.	124,486	8.80%
Personal property	16,185	1.14%
Total	<u><u>\$ 1,415,188</u></u>	<u><u>100.00%</u></u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity ¹	Taxable Net Tax Capacity ²	Percent +/- in Estimated Market Value
2014/15	\$102,799,800	\$ 91,449,900	\$ 980,185	\$ 980,185	+ 8.18%
2015/16	107,626,900	96,297,900	1,033,741	1,025,012	+ 4.70%
2016/17	112,081,000	100,789,000	1,080,413	1,071,438	+ 4.14%
2017/18	122,363,200	110,651,700	1,180,330	1,171,355	+ 9.17%
2018/19	144,948,300	133,364,500	1,415,188	1,405,799	+18.46%

¹ Net Tax Capacity includes tax increment values.

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

LARGER TAXPAYERS

Taxpayer	Type of Property	2018/19 Net Tax Capacity	Percent of City's Total Net Tax Capacity
New Beginning N Shore Dr., LLC	Commercial	\$ 40,776	2.88%
Xcel Energy	Utility	21,299	1.51%
JP Brooks, Inc.	Residential	17,448	1.23%
Wolf Properties, LLC	Industrial	10,910	0.77%
Mid-Country Coop	Commercial	10,714	0.76%
Hickman and Smith, LLC	Commercial	10,360	0.73%
Individual	Agricultural	9,918	0.70%
Individual	Residential	8,176	0.58%
JSM Rental Properties, LLC	Residential	8,015	0.57%
Citizens State Bank of Waverly	Commercial	6,714	0.47%
Total		<u><u>\$144,330</u></u>	<u><u>10.20%</u></u>

City's Total 2018/19 Net Tax Capacity \$1,415,188

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total g.o. debt being paid from special assessments and taxes	\$ 632,000
Total g.o. debt being paid from utility revenues (includes the Bonds)*	<u>7,283,000</u>
Total General Obligation Debt*	<u><u>\$7,915,000</u></u>

Lease Obligations

Date of Issue	Original Amount	Purpose	Final Maturity	Principal Outstanding
12/8/2016	\$79,827	Equipment - Plow Truck	12/8/2021	\$49,473
7/15/2017	\$79,495	Equipment - Payloader	7/15/2021	\$60,277

*Preliminary, subject to change.

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

**City of Waverly, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Special Assessments and Taxes
(As of 06/27/2019)**

Calendar Year Ending	Improvement Bonds Series 2010B		Improvement Bonds Series 2018B		Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
	Dated Amount	Maturity	Dated Amount	Maturity				
2019	0	02/01	0	02/01	10,583	632,000	.00%	2019
2020	47,000	02/01	4,000	02/01	71,278	581,000	8.07%	2020
2021	48,000	02/01	4,000	02/01	70,423	529,000	16.30%	2021
2022			14,000	02/01	31,226	515,000	18.51%	2022
2023			16,731	02/01	32,731	499,000	21.04%	2023
2024			16,203	02/01	32,203	483,000	23.58%	2024
2025			17,000	02/01	32,659	466,000	26.27%	2025
2026			17,000	02/01	32,098	449,000	28.96%	2026
2027			28,000	02/01	42,355	421,000	33.39%	2027
2028			29,000	02/01	42,415	392,000	37.97%	2028
2029			31,000	02/01	43,425	361,000	42.88%	2029
2030			31,000	02/01	42,402	330,000	47.78%	2030
2031			32,000	02/01	42,362	298,000	52.85%	2031
2032			33,000	02/01	42,290	265,000	58.07%	2032
2033			34,000	02/01	42,184	231,000	63.45%	2033
2034			35,000	02/01	42,046	196,000	68.99%	2034
2035			37,000	02/01	42,858	159,000	74.84%	2035
2036			38,000	02/01	42,620	121,000	80.85%	2036
2037			39,000	02/01	42,350	82,000	87.03%	2037
2038			40,000	02/01	42,046	42,000	93.35%	2038
2039			42,000	02/01	42,693	0	100.00%	2039
			95,000		233,242	632,000		
					865,242			

**City of Waverly, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Utility Revenues
(As of 06/27/2019)**

Dated Amount	Sewer and Water Revenue Series 2011B		Drinking Water Revenue Note Series 2012C (MPFA)		Water Revenue Bonds Series 2012B		Utility Improvements and Refunding Bonds Series 2015A		Sewer Revenue Bonds Series 2015	
	10/04/2011 \$1,625,000	02/01	05/31/2012 \$371,059	08/20	07/11/2012 \$400,000	09/01	06/04/2015 \$2,095,000	02/01	07/30/2015 \$122,842	08/20
Calendar Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	0	10,371	19,000	2,065	40,000	1,863	0	21,113	6,000	535
2020	130,000	19,118	19,000	3,840	40,000	2,925	215,000	39,000	6,000	1,010
2021	135,000	15,636	20,000	3,551	40,000	2,125	215,000	32,550	6,000	950
2022	140,000	11,680	20,000	3,246	45,000	1,125	145,000	27,150	6,000	890
2023	140,000	7,340	20,000	2,941			150,000	22,725	6,000	830
2024	150,000	2,550	21,000	2,637			155,000	18,150	6,000	770
2025			21,000	2,316			160,000	13,825	6,000	710
2026			21,000	1,996			165,000	9,763	6,000	650
2027			21,000	1,676			20,000	7,350	6,000	590
2028			22,000	1,356			25,000	6,563	6,000	530
2029			22,000	1,021			25,000	5,688	6,000	470
2030			22,000	686			25,000	4,813	6,000	410
2031			23,000	351			25,000	3,938	7,000	350
2032							25,000	3,063	7,000	280
2033							25,000	2,188	7,000	210
2034							25,000	1,313	7,000	140
2035							25,000	438	7,000	70
2036										
2037										
2038										
2039										
2040										
2041										
2042										
	695,000	66,695	271,000	27,683	165,000	8,038	1,425,000	219,625	107,000	9,395

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**City of Waverly, Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Utility Revenues
(As of 06/27/2019)**

		Water Revenue Bonds Series 2018A			Water Revenue Bonds Series 2019A					
Dated Amount	05/03/2018 \$1,815,000	06/27/2019 \$2,805,000*								
Maturity	02/01	02/01								
Calendar Year Ending	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2019	0	29,691	0	0	65,000	65,637	130,637	7,218,000	.89%	2019
2020	0	59,381	0	91,572	410,000	216,846	626,846	6,808,000	6.52%	2020
2021	0	59,381	0	83,670	415,000	197,863	613,863	6,392,000	12.23%	2021
2022	0	59,381	0	83,670	356,000	187,142	543,142	6,036,000	17.12%	2022
2023	0	59,381	0	82,488	426,000	175,705	601,705	5,610,000	22.97%	2023
2024	0	59,381	0	80,068	442,000	163,555	605,555	5,168,000	29.04%	2024
2025	110,000	57,731	115,000	77,508	412,000	152,090	564,090	4,756,000	34.70%	2025
2026	70,000	55,031	115,000	74,805	377,000	142,245	519,245	4,379,000	39.87%	2026
2027	170,000	50,581	120,000	71,955	337,000	132,153	469,153	4,042,000	44.50%	2027
2028	130,000	44,581	120,000	68,955	303,000	121,985	424,985	3,739,000	48.66%	2028
2029	75,000	40,856	125,000	65,769	253,000	113,804	366,804	3,486,000	52.14%	2029
2030	80,000	38,531	125,000	62,394	258,000	106,833	364,833	3,228,000	55.68%	2030
2031	85,000	36,056	130,000	58,823	270,000	99,517	369,517	2,958,000	59.38%	2031
2032	85,000	33,506	135,000	55,013	252,000	91,861	343,861	2,706,000	62.84%	2032
2033	115,000	30,506	140,000	50,955	287,000	83,859	370,859	2,419,000	66.79%	2033
2034	120,000	26,906	145,000	46,644	297,000	75,003	372,003	2,122,000	70.86%	2034
2035	125,000	23,078	145,000	42,149	302,000	65,734	367,734	1,820,000	75.01%	2035
2036	155,000	18,606	150,000	37,428	305,000	56,034	361,034	1,515,000	79.20%	2036
2037	160,000	13,488	155,000	32,433	315,000	45,920	360,920	1,200,000	83.52%	2037
2038	165,000	8,206	160,000	27,195	325,000	35,401	360,401	875,000	87.99%	2038
2039	170,000	2,763	165,000	21,710	335,000	24,473	359,473	540,000	92.59%	2039
2040			175,000	15,886	175,000	15,886	190,886	365,000	94.99%	2040
2041			180,000	9,718	180,000	9,718	189,718	185,000	97.46%	2041
2042			185,000	3,284	185,000	3,284	188,284	0	100.00%	2042
	1,815,000	807,025	2,805,000	1,244,087	7,283,000	2,382,548	9,665,548			

* Preliminary, subject to change.

DEBT LIMIT

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

2018/19 Assessor's Estimated Market Value	\$144,948,300
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 4,348,449
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	<u>0</u>
Unused Debt Limit	<u><u>\$ 4,348,449</u></u>

OVERLAPPING DEBT¹

Taxing District	2018/19 Taxable Net Tax Capacity	% In City	Total G.O. Debt²	City's Proportionate Share
Wright County	\$165,818,717	0.8478%	\$ 95,200,000	\$ 807,106
I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	9,892,327	14.2110%	40,015,000 ³	<u>5,686,532</u>
City's Share of Total Overlapping Debt				<u><u>\$ 6,493,637</u></u>

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

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

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

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$131,030,517)	Debt/ Current Population Estimate (1,444)
Direct G.O. Debt Being Paid From:			
Special Assessments & Taxes	\$ 632,000		
Utility Revenues*	<u>7,283,000</u>		
Total General Obligation Debt (includes the Bonds)*	\$ 7,915,000		
Less: G.O. Debt Paid Entirely from Revenues ¹	<u>(7,283,000)</u>		
Tax Supported General Obligation Debt*	\$ 632,000	0.48%	\$437.67
 City's Share of Total Overlapping Debt	 <u>\$ 6,493,637</u>	 <u>4.96%</u>	 <u>\$4,496.98</u>
 Total*	 <u><u>\$ 7,125,637</u></u>	 <u><u>5.44%</u></u>	 <u><u>\$4,934.65</u></u>

*Preliminary, subject to change.

DEBT PAYMENT HISTORY

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

FUTURE FINANCING

The City plans to issue a loan through Minnesota Public Facilities Authority in the next 12 months.

¹ Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date ²	% Collected
2014/15	\$ 852,725	\$841,942	\$852,502	99.97%
2015/16	853,960	839,223	853,118	99.90%
2016/17	878,658	873,087	877,738	99.90%
2017/18	922,601	915,377	915,377	99.22%
2018/19	969,902	In process of collection		

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

TAX CAPACITY RATES⁴

	2014/15	2015/16	2016/17	2017/18	2018/19
Wright County	40.593%	39.970%	39.599%	39.946%	44.273%
City of Waverly	87.161%	83.349%	82.131%	78.880%	69.011%
I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	44.902%	44.047%	41.029%	39.516%	36.747%

Referendum Market Value Rates:

I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	0.11559%	0.14521%	0.13175%	0.11598%	0.12760%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Wright County.

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

² Collections are through December 31, 2018.

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

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

LEVY LIMITS

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

THE ISSUER

CITY GOVERNMENT

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

EMPLOYEES; PENSIONS; UNIONS

The City currently has 7 full-time, 14 part-time¹, and 3 seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

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

POST EMPLOYMENT BENEFITS

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

LITIGATION

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

¹ Includes Liquor Store employees.

MUNICIPAL BANKRUPTCY

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

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

FUNDS ON HAND (As of December 31, 2019)

Fund	Total Cash and Investments
General	\$ 1,435,875
Special Revenue	2,239
Debt Service	282,546
Capital Projects	1,643,674
Enterprise Funds	(284,230) ¹
Total Funds on Hand	<u><u>\$ 3,080,104</u></u>

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

ENTERPRISE FUNDS

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

	2016	2017	2018
Water			
Total Operating Revenues	\$ 368,053	\$ 455,383	\$470,395
Less: Operating Expenses	<u>(209,082)</u>	<u>(193,879)</u>	<u>(196,687)</u>
Operating Income	\$ 158,971	\$ 261,504	\$273,708
Plus: Depreciation	<u>98,881</u>	<u>103,908</u>	<u>103,339</u>
Revenues Available for Debt Service	<u><u>\$ 257,852</u></u>	<u><u>\$ 365,412</u></u>	<u><u>\$377,047</u></u>
Sewer			
Total Operating Revenues	\$ 606,432	\$ 725,640	\$738,602
Less: Operating Expenses	<u>(513,346)</u>	<u>(528,275)</u>	<u>(590,758)</u>
Operating Income	\$ 93,086	\$ 197,365	\$147,844
Plus: Depreciation	<u>97,209</u>	<u>109,213</u>	<u>105,926</u>
Revenues Available for Debt Service	<u><u>\$ 190,295</u></u>	<u><u>\$ 306,578</u></u>	<u><u>\$253,770</u></u>
Liquor Store			
Total Operating Revenues	\$ 289,217	\$ 279,927	\$302,208
Less: Operating Expenses	<u>(299,284)</u>	<u>(306,850)</u>	<u>(308,667)</u>
Operating Income	\$ (10,067)	\$ (26,923)	\$ (6,459)
Plus: Depreciation	<u>23,199</u>	<u>24,016</u>	<u>22,251</u>
Revenues Available for Debt Service	<u><u>\$ 13,132</u></u>	<u><u>\$ (2,907)</u></u>	<u><u>\$ 15,792</u></u>

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2018 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				2019 Adopted Budget ¹
	2015 Audited	2016 Audited	2017 Audited	2018 Audited	
Revenues					
Property taxes	\$ 734,452	\$ 714,088	\$ 729,164	\$ 768,554	\$ 979,170
Special assessments	154,603	151,595	158,545	150,940	171,632
Fees, licenses and permits	36,489	59,275	89,836	97,371	450,030
Intergovernmental	201,394	187,901	198,361	222,615	185,050
Charges for services	1,772	2,847	3,442	5,973	27,400
Fines and forfeitures	4,120	3,606	10,718	5,054	4,000
Investment earnings (loss)	0	0	0	0	2,000
Other miscellaneous revenues	213,462	43,628	16,499	15,697	65,636
Total Revenues	\$1,346,292	\$1,162,940	\$1,206,565	\$1,266,204	\$1,884,918
Expenditures					
Current:					
General government	\$ 279,252	\$ 259,596	\$ 274,640	\$ 302,764	\$ 388,053
Public safety	292,545	292,837	345,526	395,675	609,190
Public works	317,802	252,444	286,319	245,636	193,750
Parks and recreation	25,658	34,047	27,588	26,296	31,261
Miscellaneous	40,404	39,985	46,774	55,380	38,475
Debt Service	12,923	12,308	38,584	38,613	115,614
Capital outlay	43,702	335,190	41,477	66,544	638,592
Total Expenditures	\$1,012,286	\$1,226,407	\$1,060,908	\$1,130,908	\$2,014,935
Excess of revenues over (under) expenditures	\$ 334,006	\$ (63,467)	\$ 145,657	\$ 135,296	\$ (130,017)
Other Financing Sources (Uses)					
Proceeds from capital lease	\$ 0	\$ 177,837	\$ 0	\$ 0	
Operating transfers in	0	0	156	3,428	
Operating transfers out	0	(2,601)	0	0	
Total Other Financing Sources (Uses)	\$ 0	\$ 175,236	\$ 156	\$ 3,428	
Net Changes in Fund Balances	\$ 334,006	\$ 111,769	\$ 145,813	\$ 138,724	
General Fund Balance January 1	799,021	1,133,027	1,244,796	1,390,609	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	\$1,133,027	\$1,244,796	\$1,390,609	\$1,529,333	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$ 68,663	\$ 54,620	\$ 44,241	\$ 31,137	
Unassigned	1,064,364	1,190,176	1,346,368	1,498,196	
Total	\$1,133,027	\$1,244,796	\$1,390,609	\$1,529,333	

¹ The 2019 budget was adopted on December 11, 2018. The budget anticipates a planned draw down of reserves.

GENERAL INFORMATION

LOCATION

The City of Waverly, with a 2010 U.S. Census population of 1,357 and a current population estimate of 1,444 and comprising an area of 1.9 square miles, is located approximately 30 miles west of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the City of Waverly include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 2687 (Howard Lake-Waverly-Winsted)	Elementary and secondary education	234
Untiedt's Vegetable Farm	Fruit & vegetables grower	75
New Beginnings at Waverly, LLC	Chemical dependency treatment facility	70
City of Waverly	Municipal government and services	24
Waverly Café	Restaurant and caterers	23
Woodland Dairy	Dairy farm	15
Citizens State Bank of Waverly	Bank	13
Metro West Irrigation-Landscaping	Sprinklers-lawn & garden	9
St. Mary's Catholic Church	Churches	9
Uptown Bar & Grill	Bar & restaurant	5

Source: *ReferenceUSA, written and telephone survey (May 2019), 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

	2015	2016	2017	2018	2019 ¹
<u>New Single Family Homes</u>					
No. of building permits	2	21	41	39	20
Valuation	\$383,000	\$4,627,900	\$8,986,211	\$9,415,249	\$4,598,051
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	14	67	87	110	42
Valuation	\$589,026	\$6,634,278	\$10,046,965	\$10,323,408	\$4,777,629

Source: The City.

¹ As of April 2019.

U.S. CENSUS DATA

Population Trend: City of Waverly, Minnesota

2000 U.S. Census population	732
2010 U.S. Census population	1,357
2017 State Demographer's Estimate	1,444
Percent of Change 2000 - 2010	+ 85.38%

Income and Age Statistics

	City of Waverly	Wright County	State of Minnesota	United States
2017 per capita income	\$30,839	\$32,506	\$34,712	\$31,177
2017 median household income	\$76,563	\$77,953	\$65,699	\$57,652
2017 median family income	\$87,737	\$89,291	\$82,785	\$70,850
2017 median gross rent	\$1,114	\$924	\$906	\$982
2017 median value owner occupied units	\$168,700	\$211,500	\$199,700	\$193,500
2017 median age	32.0 yrs.	36.2 yrs.	37.9 yrs.	37.8 yrs.

	State of Minnesota	United States
City % of 2017 per capita income	88.84%	98.92%
City % of 2017 median family income	105.98%	123.83%

Housing Statistics

	<u>City of Waverly</u>		Percent of Change
	2000	2017	
All Housing Units	332	602	81.33%

Source: 2000 and 2010 Census of Population and Housing, and 2017 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Wright County	Wright County	State of Minnesota	
2015	69,334	3.7%	3.7%	
2016	70,485	3.9%	3.9%	
2017	71,599	3.5%	3.4%	
2018	72,455	3.0%	2.9%	
2019, April	72,461	3.4%	3.2%	

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

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

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

**City of Waverly
Wright County, Minnesota**

Financial Statements

December 31, 2018

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waverly, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waverly, Minnesota, as of December 31, 2018, and the respective changes in financial position and where applicable, cash flows, thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Bergan KDV Ltd .

Minneapolis, Minnesota
June 4, 2019

The Waverly City Council is pleased to present this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2018. Details of all our financial activities can be found in the financial statements that follow this discussion. This letter refers to the City's experience in 2018. Wherever possible, that experience is compared with 2017.

The City of Waverly's financial statements are prepared on the accrual basis as opposed to a cash basis as is the case for smaller cities. Waverly converted our system in 2012 so that our residents and tax payers would have a more transparent accounting of the City's financial transactions and a truer estimate of the City's assets. The assets are shown in the "Statement of Net Position" (page 18) which includes the current value of all physical assets such as land, streets, sewer and water lines, buildings, vehicles and other depreciable assets in both government and enterprise (or business type) accounts. The separate financial activities of all the City's enterprise funds: water, sewer, storm water, refuse, and the municipal liquor store are included in this statement. Prior to 2012 the municipal liquor store was reported separately from the City accounts.

FINANCIAL HIGHLIGHTS IN 2018

- The City's General Fund balance stood at \$1,529,333 at the end of 2018 - an increase of \$138,724 over the \$1,390,609 balance at the end of 2017. This increase was primarily due to higher property tax revenue, higher than anticipated new home permits and an increase in state government aid. The General Fund is in a very sound fiscal position and places the City in a much better position to meet unexpected expenses or to fund capital improvements without an increase in the levy.
- City (both governmental and business type activities) exceeded total liabilities at the close of 2018 by \$16,592,621. Of this amount \$1,888,027 was available to meet the City's ongoing, obligations to citizens and creditors and \$14,704,594 represented the City's net investment in capital assets.
- The City's net investment in capital assets at the end of 2018 was \$1,402,349 higher than at the end of 2017. Assets were increased by the continued addition of park buildings and playground equipment, new equipment and part of our investment in a major water/sewer/trail project on the East Side of Big Waverly Lake.
- As of the close of the 2018, the City's governmental funds combined reported ending fund balances of \$2,351,398, an increase of \$474,955 over 2017. Of this total amount \$1,406,356 is available for spending at the City's discretion (unassigned fund balance). The increase was due to receipt of funds from a bond issued to fund improvements postponed from 2018 to 2019.
- In 2018, the City had one Capital Improvement project underway – the water/sewer/street/trail project on Co Rd 9 and another in the planning stages (the North Shore water/sewer project). The street improvements associated with the Co. Road 9 project were funded by Wright County. The sewer improvements were partially funded in part by a state grant. They will be completed in 2019. The North Shore project will begin in 2019 and be completed in 2020.
- Due to financing the Co Rd 9 project, long-term debt increased by \$2,132,895 in 2018.
- The net position in the Water, Sewer, and Refuse Funds increased in 2018 however the net position of the Municipal Liquor Store and the Storm Sewer Fund continued to decline.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are made up of three components: 1) the government-wide financial statements, 2) the major fund financial statements (both governmental and enterprise business type) and 3) notes to financial statements. This report also contains other supplementary information useful for the understanding of this financial statement and the city's financial position.

Government-Wide Financial Statements

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

The "Statement of Net Position" (page 18) presents information on all of the City's assets and liabilities (including capital assets and long-term liabilities), with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

It should be noted that beginning in 2015, the State of Minnesota began to require participants in the Minnesota Public Employee Retirement Plan (PERA) to report a prorate share of the pension fund's unfunded liability as a city liability. In 2018, this liability for Waverly was \$332,855. This is, essentially, a liability on paper only. It would only become a liability should PERA be dissolved. (See Note 9.) However, for purposes of our annual statements, this reduces the city's net position.

The "Statement of Activities" (page 19) presents information on the City's net position as of the end of 2018. It includes a summary of program revenues and expenses for the year. These two tables are summarized in this Discussion and Analysis comparing the statement for 2018 with 2017.

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

We should note that all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation or sick leave).

Major Fund Financial Statements

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

1) Governmental Funds

Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Unlike the government-wide funds, these statements do NOT include the value of City depreciable assets or land or long-term liabilities. These statements are useful in evaluating a City's near-term financing requirements.

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

In 2018, the City maintained seven individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet (page 20) and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances (page 22). The governmental fund includes: (1) the General Fund (both the General Fund and the Major Equipment/Vehicle Fund), (2) "Other Governmental Funds" (which, in 2018, included the Park Project Improvements, Tax Increment District 1-1, the Capital Improvement Project "Trail and Street," and other Non - Enterprise fund Capital Improvements), and (3) "East Lake Waverly Project" (dollars that will be capitalized upon completion of the project).

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Major Fund Financial Statements (Continued)

1) Enterprise or Proprietary Funds

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

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

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

Notes to Financial Statements

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

FINANCIAL ANALYSIS GOVERNMENT-WIDE

As noted earlier, the City's net position may serve over time as a useful indicator of the City's financial position. This position includes both governmental and business type activities. At the end of 2018, the City of Waverly's assets exceeded liabilities by \$16,592,621. This is higher than at the end of 2017 due to addition of cash and capital assets including construction in progress.

A very significant portion of the City's net position, 88.6%, reflects the value of our investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any related outstanding debt used to acquire those assets. (This percentage is lower than in 2017 when it was 89.7% due to the increase in unrestricted net position.) The City uses these capital assets to provide services to our residents and thus are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt (outside the municipal liquor store) must be provided from other sources such as property taxes or utility fees, since the capital assets themselves cannot be used to liquidate these liabilities.

A small portion of the City's net position, \$411,676 or 2.5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,476,351 (8.9%), may be used to meet the City's ongoing obligations to residents and creditors.

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

FINANCIAL ANALYSIS GOVERNMENT-WIDE (CONTINUED)

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total
	2017	2018	2017	2018	
Revenues					
Program Revenues					
Charges for Services	\$ 331,466	\$ 322,426	\$ 2,160,530	\$ 2,220,147	\$ 2,542,573
Operating Grants and Contributions	34,063	32,910	-	-	32,910
Capital Grants and Contributions	6,713	1,435,964	-	1,327,835	2,063,799
General Revenues	753,044	769,408	105,709	131,866	858,753
Property Taxes	14,537	14,143	-	-	14,143
Tax Increments	173,800	188,968	-	-	173,800
State Aid	3,395	4,108	3,243	-	6,638
Other General Revenue	1,542	763	-	(5)	758
Investment Earnings	1,318,560	2,768,690	2,269,482	3,879,843	3,588,042
Total Revenues	354,052	360,203	-	-	354,052
Expenses					
General Government	349,807	399,956	-	-	349,807
Public Safety	680,303	2,041,829	-	-	680,303
Public Works	10,842	76,074	-	-	61,522
Park and Recreation	-	38,171	-	-	10,842
Interest on Long-Term Debt	-	-	236,685	347,567	236,685
Water	-	-	560,100	617,799	560,100
Sewer	-	-	840,855	835,685	840,855
Liquor Store	-	-	105,516	112,616	105,516
Refuse and Recycling	-	-	61,230	62,847	61,230
Storm Sewer	-	-	1,804,386	1,976,514	3,260,912
Total Expenses	(137,966)	(147,543)	465,096	1,903,329	327,130
Change in Net Position	10,063,916	10,525,950	3,845,789	4,310,885	14,509,705
Net Position					
January 1	\$ 10,225,950	\$ 10,378,407	\$ 4,310,885	\$ 6,214,214	\$ 14,836,835
December 31	\$ 10,225,950	\$ 10,378,407	\$ 4,310,885	\$ 6,214,214	\$ 16,592,021

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

FINANCIAL ANALYSIS GOVERNMENT-WIDE (CONTINUED)

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total
	2017	2018	2017	2018	
Assets					
Current and other assets	\$ 2,133,367	\$ 2,687,711	\$ 14,581	\$ 921,155	\$ 3,608,866
Noncurrent assets	8,952,199	8,864,715	8,113,537	10,911,405	19,776,120
Total assets	\$ 11,085,566	\$ 11,552,426	\$ 8,128,118	\$ 11,832,560	\$ 23,384,986
Deferred outflows of resources	\$ 44,327	\$ 28,777	\$ 48,800	\$ 28,005	\$ 93,127
Liabilities					
Outstanding	\$ 445,688	\$ 892,954	\$ 3,266,157	\$ 4,874,377	\$ 5,767,331
Other liabilities	121,941	268,139	559,900	731,387	999,526
Total liabilities	\$ 567,629	\$ 1,161,093	\$ 3,826,057	\$ 5,605,764	\$ 6,766,857
Deferred inflows of resources	\$ 36,314	\$ 41,703	\$ 39,976	\$ 40,588	\$ 76,290
Net Position					
Net investment in assets	\$ 8,623,827	\$ 8,394,514	\$ 4,678,418	\$ 6,310,080	\$ 13,902,245
Restricted	464,811	411,576	(367,533)	(95,866)	464,811
Unrestricted	1,437,312	1,572,217	(367,533)	(95,866)	1,069,779
Total net position	\$ 10,525,950	\$ 10,378,407	\$ 4,310,885	\$ 6,214,214	\$ 14,836,835
					\$ 16,592,021

As shown in the table below, Governmental activities net position at the end of 2018 was \$10,378,407 a slight decrease (\$147,543) from the net position at the end of 2017 due primarily to an increase in long term liabilities.

Business-type activities net position at the end of 2018 was \$6,214,214 which represents an increase of \$1,903,329 over the net position at the end of 2017. This was due to an increase in the net position of the water, sewer, (both addition of capital assets), the storm sewer, and refuse funds. The net position of the municipal liquor store continued to decline.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

Governmental Funds (Continued)

A comparison of actual 2018 experience with the 2018 budget shows that General Fund expenditures of \$1,130,908 were \$70,629 under the General Fund budget of \$1,201,537. This was due primarily to street projects budgeted but not done. Expenditures for general government and for debt service were higher than budgeted. Additionally, planned capital expenses for equipment were postponed until 2019. Public Safety expenditures were above budget due to receipt (and then direct pass thru to the Waverly Fire Department) of more State Fire Aid than anticipated.

General Fund revenues in 2018 were \$1,266,204, or \$47,355 more than budgeted. This is due primarily to the receipt of unbudgeted Fire Aid (passed thru to the Fire Department) and an increase in building permit fees due to a greater than budgeted number of new home permits. (Waverly always uses a conservative estimate of new home builds for the budget.)

Enterprise or Proprietary Funds

The statements on each of the City's enterprise or proprietary funds (found on pages 26-31) provide the same type of information found in the government wide financial statements, but in somewhat more detail. These include the "Statement of Net Position," the "Statement of Revenues, Expenses, and Changes in Net Position," and the "Statement of Cash Flows." Please note that these funds DO include depreciation expenses, unlike government only funds.

The Water Fund (Fund 601) is relatively healthy at this point. It's Net Position increased by \$152,283 during 2018. Operating revenues exceeded operating expenses by \$273,708. Revenues were up due primarily to an increase in charges for services used by new homes. Expenses were up slightly in 2018, due primarily to an increase in wage compensation assigned to this fund and an increase in repair expenses. The Water Fund's net position at the end of 2018 was \$1,783,026 of which the unrestricted portion was \$525,864. The net investment in capital assets was lower than in 2017 due to the new GO bond issued to pay for the water portion of the Co Rd 9 project. The Water Fund has Non-Current Liabilities of \$3,189,422 representing long term debt taken out to fund improvements in the water system including Water Tower, the water related improvements on Maple Avenue and Third Street North, the 2015 improvements on Lakeview Drive and in 2018 the new debt to fund the water portion of the Co Rd 9 water/sewer/street/trail project.

The net position of the Sewer Fund (Fund 602) increased for the fourth year in a row, but as discussed below, the Sewer Fund is not in a healthy position. At the end of 2018 the net position was \$3,374,369, or \$1,767,809 higher than at the end of 2017. The increase is due to the net addition of capital assets associated with the Co Rd 9 water/sewer project. Operating revenues were \$147,844 higher than operating costs in 2018. Revenues were up slightly (charges for services for new home builds) but expenses were also higher primarily for wages (2017 wages were artificially low due to a part year employee absence). Fortunately, costs associated with I&I, reflected in unreimbursed payments to the Montrose Wastewater Plant, were actually lower in 2018. This was due to the improvements made on Co Rd 9. Non-operating revenues in 2018 were up due to a \$1.5 million PFA capital grant for the Co Rd 9 project. The Sewer Fund has non-current liabilities of \$1,362,198 representing long-term debt taken out to fund improvements in the sewer system including the non-grant portion of the Co Rd 9 project.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

Governmental funds are the funds that are principally supported by taxes and intergovernmental revenues (governmental activities) and are used for the basic (non business type) functions of the City. These funds are used for spending on general government, staff and related expenses, public safety, public works (including streets), parks and recreation. The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows and balances of spendable resources. The information that is summarized below can be found on pages 20 and 22 of the report that follows. This information is useful in assessing the City's financing requirements especially those that have to be met through property taxes. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the year.

As of the end of 2018, the City's governmental funds reported combined ending fund balances of \$2,351,398, an increase of \$474,955 over year end 2017. Approximately 60%, or \$1,406,356, of this total amount constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance, \$945,042 is restricted, assigned or nonspendable to indicate that it is not available for new spending because it has already been committed to specific purposes. The greater portion of the restricted funds are reserved for construction work – the trail and a street overlay project – that was scheduled for, and funded in, 2018 but will not be completed until mid-2019.

The General Fund is the chief operating fund of the City. At the end of 2018, the City's General Fund balance stood at \$1,529,333 an increase of \$138,724 over the balance at the end of 2017. This balance marks a sharp recovery from 2005's deficit of \$730,776 and is possible only through careful budgeting and delaying many expenditures for plant and equipment and other capital needs. The General Fund increased in 2018 due primarily to higher than anticipated new home permits and an increase in state government aid. In 2018, \$1,498,196 of the General Fund's fund balance was unassigned. As a measure of the General Fund's liquidity, it is useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 132% of total 2018 General Fund expenditures, an amount that exceeds the State of Minnesota's recommendation. Because we have a higher than required fund balance, the city is able to meet unexpected expenses and has been able to "advance" the sewer fund the amounts necessary to pay for advanced engineering work on the Co Rd 9 project (in 2017) and the North Shore Water Sewer Project (in 2018).

Other governmental funds had a balance of \$822,065 at the end of 2018, an increase of \$336,231 over year end 2017. This increase is due to receipt of bond proceeds meant to fund trail and street overlays originally scheduled in 2018. Due to construction delays, these project will be not completed and paid until mid-2019. All other governmental fund balances are restricted or assigned.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

Enterprise or Proprietary Funds

It is important to note that the Sewer Fund's unrestricted net position at the end of 2018 was a negative \$543,250. This negative balance reflects, in part, payments for advanced engineering work done for the Phase Three of the lake water sewer project which will eventually become part of long-term debt once the project is completed in 2020. While both the water and sewer fund had revenues in 2018 sufficient to pay all operating expenses plus depreciation, neither fund had sufficient net operating income to pay current bond debt plus interest. This is a situation that must be addressed in the coming years.

The Municipal Liquor Store (Fund 609) showed a net loss in 2017. The Store's operating loss in 2018 was \$6,459 meaning that the MLS has shown a loss in five out of the last six years. Sales were up by just over \$7,000 year on year but remain far below the peak year 2011. Cost of goods sold declined in 2018 but operating expenses increased slightly. As required, a public hearing will be held in December 2019 to address losses in 2016, 2017, and 2018.

The change in net position in the Refuse and Recycling Fund (Fund 603) was \$4,077 and the change in net position in the Storm Sewer Fund (Fund 651) was a negative \$14,200. The decline in the Storm Sewer Fund was due primarily to depreciation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets (net of depreciation) for its governmental and business-type activities as of December 31, 2018, amounted to \$19,776,120. This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and office equipment, infrastructure and construction in progress. Subtracting debt used to fund these assets results in a net investment in capital investment of \$14,704,594. This is higher than 2017 due to the addition of capital assets associated with the Co Rd 9 Water/Sewer/Trail project.

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

Long-Term Debt

At the end of the current year, the City had total long-term debt outstanding of \$5,962,077. New debt was taken on in 2018 to fund the Co Rd 9 Water/Sewer/Trail project. Summary details of this debt are included in the table on the following page.

OUTSTANDING DEBT

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

	Governmental Activities	Business-Type Activities	Total
Bonds Payable	\$ 678,000	\$ 4,532,901	\$ 5,210,901
Notes Payable	-	566,403	566,403
Capital Lease Payable	109,125	-	109,125
Compensated Absences	36,880	38,768	75,648
Total	\$ 824,005	\$ 5,138,072	\$ 5,962,077

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

Short Term Debt

At the end of 2018 the City had no short-term debt.

ECONOMIC FACTORS AND 2019 BUDGETS AND RATES

- The dollar property tax levy increased by 5% to \$970,170 in 2019. As in 2018, the entire amount of the increase was dedicated toward the sewer fund debt so that rates would not have to increase. Because total taxable market value of all properties increased by almost 19% in 2019 due both to an increase in assessed valuation of current property and to the construction of several new homes in the City, the tax levy rate went declined to 67.0%. Because the General Fund is healthy all existing programs were maintained, public works is purchasing a side by side, and office staff will increase in mid-year increased by one position. Contracted police coverage remains at six hours per day.
- New home building remains strong and at least 40 new housing permits are expected in 2019 following the 40 new permits in 2018. This will add to the city tax capacity for the 2020 taxable year. Values of new homes continue to increase.
- State Aid (Local Government Assistance or LGA) of \$173,083 was included in the 2019 budget.
- Park improvements are continuing in 2019. Shore line improvements will be completed at the Legion Park Beach; Lots are being acquired for parking next to the Summerfield Park; the summer rec program, now held in both mornings and evenings, continues to accommodate a growing younger population.
- The City anticipates selling the City owned lot on Elm Street in 2019 and city property at 902 Pacific remains on the market.
- Construction on Phase Two of the Lake Sewer Project, which includes installation of city water and replacement of the existing sewer system from Lake Drive to North Shore Drive along Co Rd 9, the widening Co Rd 9, and a walking/biking trail on the east side, was started in 2018 and will be completed in mid-2019. The County funded the construction of the road, the city funded the water/sewer and trail portion. The cost for this project exceeds \$6 million. The City portion was funded partially with a new General Obligation Bond, partially with funding and a grant from PFA.

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

ECONOMIC FACTORS AND 2019 BUDGETS AND RATES (CONTINUED)

- Phase Three of the Lake Sewer Project, which includes installation of new lift stations in Railroad Park and at the intersection of Co Rd 8 and North Shore Dr., installation of city water and replacement of the existing sewer system on Co Rd 8 and on North Shore Dr. from Co Rd 8 to Eldridge, will begin in mid-summer 2019 and be completed in 2020. This \$6 million dollar project will be funded thru General Obligation Bonds and with State Provided PFA funding and grants.
- The City's Standard and Poor's rating was updated in early 2018 in conjunction with the new debt issue remaining an "AA"- rating. The rating is being reviewed as this audit is being completed.
- Water and sewer rates charged by Waverly will be under review in mid to late 2010. This review is necessary in light of the new debt taken on to fund the Lake Water Sewer Project. Although revenues exceeded expenses in both funds in 2018 net operating income is insufficient to cover principle and interest payments on debt meaning that rates will most likely have to be adjusted upward in the coming year. Storm Sewer rates are expected to remain unchanged in 2019.
- The Council continues to monitor Liquor Store financial performance carefully as the store has operated at a deficit for five of the last six years.
- The city also continues to monitor expenditures closely and is making every effort to hold down spending and thus tax revenues and rates.

REQUESTS FOR INFORMATION

This discussion is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report, for copies of the report, or requests for additional financial information should be addressed to the City of Waverly, Attention City Clerk/Treasurer, P.O. Box 189, Waverly, Minnesota 55309. All audit documents are available on the city's website: www.waverlymn.org

City of Waverly
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-Type Activities	Total	<u>Component Unit</u> Economic Development Authority
Assets				
Cash and investments (including cash equivalents)	\$ 2,416,988	\$ 729,666	\$ 3,146,654	\$ 140,321
Receivables				
Taxes receivable - delinquent	9,905	1,456	11,361	288
Accounts receivable	13,196	137,377	150,573	-
Due from other governments	4,347	2,985	7,332	14,431
Due from other funds (internal balances)	49,744	(49,744)	-	-
Special assessments receivable				
Delinquent	3,804	1,620	5,424	-
Deferred	169,447	14,044	183,491	-
Inventories	-	74,508	74,508	-
Prepaid items	20,280	9,243	29,523	-
Capital assets not being depreciated				
Land	36,908	36,333	73,241	-
Construction in progress	188,943	3,890,026	4,078,969	-
Capital assets (net of accumulated depreciation)				
Buildings	368,394	480,872	849,266	-
Infrastructure	7,915,745	6,502,930	14,418,675	-
Machinery and equipment	354,725	1,244	355,969	-
Total assets	<u>11,552,426</u>	<u>11,832,560</u>	<u>23,384,986</u>	<u>155,040</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pensions	28,777	28,006	56,783	-
Total assets and deferred outflows of resources	<u>\$ 11,581,203</u>	<u>\$ 11,860,566</u>	<u>\$ 23,441,769</u>	<u>\$ 155,040</u>
Liabilities				
Accounts payable	\$ 30,835	\$ 73,877	\$ 104,712	\$ -
Contracts payable	63,220	128,798	192,018	-
Deposits payable	41,500	-	41,500	-
Due to other governments	15,119	24,467	39,586	-
Salaries and benefits payable	2,483	4,500	6,983	323
Interest payable	15,252	71,874	87,126	-
Bonds payable				
Payable within one year	46,000	380,000	426,000	-
Payable after one year	632,000	4,152,901	4,784,901	-
Notes payable				
Payable within one year	-	28,487	28,487	-
Payable after one year	-	537,916	537,916	-
Capital lease payable				
Payable within one year	35,290	-	35,290	-
Payable after one year	73,835	-	73,835	-
Compensated absences payable				
Payable within one year	18,440	19,384	37,824	-
Payable after one year	18,440	19,384	37,824	-
Net pension liability	168,679	164,176	332,855	-
Total liabilities	<u>1,161,093</u>	<u>5,605,764</u>	<u>6,766,857</u>	<u>323</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pensions	41,703	40,588	82,291	-
Net Position				
Net investment in capital assets	8,394,514	6,310,080	14,704,594	-
Restricted for				
Debt service	271,402	-	271,402	-
Park dedication	140,274	-	140,274	-
Unrestricted	1,572,217	(95,866)	1,476,351	154,717
Total net position	<u>10,378,407</u>	<u>6,214,214</u>	<u>16,592,621</u>	<u>154,717</u>
Total liabilities, deferred inflows, and net position	<u>\$ 11,581,203</u>	<u>\$ 11,860,566</u>	<u>\$ 23,441,769</u>	<u>\$ 155,040</u>

See notes to financial statements.

**City of Waverly
Statement of Activities
Year Ended December 31, 2018**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Economic Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General government	\$ 360,203	\$ 107,061	\$ -	\$ -	\$ (253,142)	\$ -	\$ (253,142)	
Public safety	399,956	157,330	27,117	-	(215,509)	-	(215,509)	
Public works	2,041,829	4,835	-	1,430,964	(606,030)	-	(606,030)	
Parks and recreation	76,074	53,200	5,793	5,000	(12,081)	-	(12,081)	
Interest on long-term debt	38,171	-	-	-	(38,171)	-	(38,171)	
Total governmental activities	<u>2,916,233</u>	<u>322,426</u>	<u>32,910</u>	<u>1,435,964</u>	<u>(1,124,933)</u>	<u>-</u>	<u>(1,124,933)</u>	
Business-type activities								
Water	347,567	499,889	-	-	-	152,322	152,322	
Sewer	617,799	739,065	-	1,527,835	-	1,649,101	1,649,101	
Liquor store	835,685	829,050	-	-	-	(6,635)	(6,635)	
Refuse and recycling	112,616	116,693	-	-	-	4,077	4,077	
Storm sewer	62,847	35,450	-	-	-	(27,397)	(27,397)	
Total business-type activities	<u>1,976,514</u>	<u>2,220,147</u>	<u>-</u>	<u>1,527,835</u>	<u>-</u>	<u>1,771,468</u>	<u>1,771,468</u>	
Total governmental and business-type activities	<u>\$ 4,892,747</u>	<u>\$ 2,542,573</u>	<u>\$ 32,910</u>	<u>\$ 2,963,799</u>	<u>(1,124,933)</u>	<u>1,771,468</u>	<u>646,535</u>	
Component unit								
Economic Development Authority	<u>\$ 14,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (14,689)</u>
General revenues								
Property taxes, levied for general purposes					769,408	131,866	901,274	22,112
Tax increment					14,143	-	14,143	-
Unrestricted state aids					188,968	-	188,968	-
Unrestricted investment earnings					4,108	-	4,108	-
Miscellaneous					763	(5)	758	573
Total general revenues					<u>977,390</u>	<u>131,861</u>	<u>1,109,251</u>	<u>22,685</u>
Change in net position					<u>(147,543)</u>	<u>1,903,329</u>	<u>1,755,786</u>	<u>7,996</u>
Net position - beginning of year					<u>10,525,950</u>	<u>4,310,885</u>	<u>14,836,835</u>	<u>146,721</u>
Net position - end of year					<u>\$ 10,378,407</u>	<u>\$ 6,214,214</u>	<u>\$ 16,592,621</u>	<u>\$ 154,717</u>

See notes to financial statements.

City of Waverly
Balance Sheet - Governmental Funds
December 31, 2018

	General Fund (101, 120)	Capital Project	Other Governmental Funds	Total Governmental Funds
		East Lake Waverly Project (411)		
Assets				
Cash and investments	\$ 1,429,256	\$ 81,635	\$ 906,097	\$ 2,416,988
Taxes receivable - delinquent	9,826	-	79	9,905
Accounts receivable	12,132	-	1,064	13,196
Due from other governments	4,347	-	-	4,347
Special assessments receivable				
Delinquent	3,642	-	162	3,804
Deferred	151,650	-	17,797	169,447
Due from other funds	100,207	-	16,191	116,398
Advances to other funds	10,857	-	-	10,857
Prepaid items	20,280	-	-	20,280
	<u>1,742,197</u>	<u>81,635</u>	<u>941,390</u>	<u>2,765,222</u>
Total assets	\$ 1,742,197	\$ 81,635	\$ 941,390	\$ 2,765,222
Liabilities				
Accounts payable	\$ 2,973	\$ 27,862	\$ -	\$ 30,835
Contracts payable	-	53,773	9,447	63,220
Deposits payable	41,500	-	-	41,500
Due to other funds	-	-	77,511	77,511
Due to other governments	790	-	14,329	15,119
Salaries and benefits payable	2,483	-	-	2,483
Total liabilities	<u>47,746</u>	<u>81,635</u>	<u>101,287</u>	<u>230,668</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	9,826	-	79	9,905
Unavailable revenue - special assessments	155,292	-	17,959	173,251
Total deferred inflows of resources	<u>165,118</u>	<u>-</u>	<u>18,038</u>	<u>183,156</u>
Fund Balances (Deficits)				
Nonspendable	31,137	-	-	31,137
Restricted	-	-	739,695	739,695
Assigned	-	-	174,210	174,210
Unassigned	1,498,196	-	(91,840)	1,406,356
Total fund balances (deficits)	<u>1,529,333</u>	<u>-</u>	<u>822,065</u>	<u>2,351,398</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 1,742,197	\$ 81,635	\$ 941,390	\$ 2,765,222

See notes to financial statements.

City of Waverly
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2018

Total fund balances - governmental funds \$ 2,351,398

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

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

Cost of capital assets	13,996,678
Less accumulated depreciation	(5,131,963)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable	(678,000)
Capital lease payable	(109,125)
Compensated absences payable	(36,880)
Net pension liability	(168,679)

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	(41,703)
Deferred outflows of resources related to pensions	28,777

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

Delinquent taxes receivable	9,905
Delinquent special assessments receivable	3,804

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

Deferred special assessments receivable	169,447
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Governmental funds do not report a liability for accrued interest due and payable.	(15,252)
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Total net position - governmental activities	\$ 10,378,407
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See notes to financial statements.

City of Waverly
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2018

	General Fund (101, 120)	<u>Capital Project</u> East Lake Waverly Project (411)	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 768,554	\$ -	\$ -	\$ 768,554
Tax increments	-	-	14,143	14,143
Special assessments	150,940	-	53,378	204,318
Licenses and permits	97,371	-	-	97,371
Intergovernmental	222,615	1,420,692	-	1,643,307
Charges for services	5,973	-	50,614	56,587
Fines and forfeitures	5,054	-	-	5,054
Miscellaneous				
Investment income	4,108	-	-	4,108
Contributions and donations	-	-	5,793	5,793
Refunds and reimbursements	9,326	-	-	9,326
Other	2,263	-	5,000	7,263
Total revenues	<u>1,266,204</u>	<u>1,420,692</u>	<u>128,928</u>	<u>2,815,824</u>
Expenditures				
Current				
General government	302,764	-	739	303,503
Public safety	395,675	-	-	395,675
Public works	245,636	-	-	245,636
Parks and recreation	26,296	-	-	26,296
Miscellaneous	55,380	-	-	55,380
Debt service				
Principal	34,247	-	44,000	78,247
Interest and other charges	4,366	-	22,370	26,736
Capital outlay				
General government	64,229	-	12,728	76,957
Public works	-	1,420,692	189,457	1,610,149
Parks and recreation	2,315	-	56,975	59,290
Total expenditures	<u>1,130,908</u>	<u>1,420,692</u>	<u>326,269</u>	<u>2,877,869</u>
Excess of revenues over expenditures	135,296	-	(197,341)	(62,045)
Other Financing Sources (Uses)				
Bond Proceeds	-	-	537,000	537,000
Transfers In	3,428	-	-	3,428
Transfers out	-	-	(3,428)	(3,428)
Total other financing sources (uses)	<u>3,428</u>	<u>-</u>	<u>533,572</u>	<u>537,000</u>
Net change in fund balances	138,724	-	336,231	474,955
Fund Balances				
Beginning of year	<u>1,390,609</u>	<u>-</u>	<u>485,834</u>	<u>1,876,443</u>
End of year	<u>\$ 1,529,333</u>	<u>\$ -</u>	<u>\$ 822,065</u>	<u>\$ 2,351,398</u>

See notes to financial statements.

City of Waverly
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended December 31, 2018

Net change in fund balances - governmental funds \$ 474,955

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

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

Capital outlays	312,028
Depreciation expense	(396,664)
Loss on disposal	(2,848)

Compensated absences are recognized as paid in the governmental funds, but
recognized as the expense is incurred in the Statement of Activities. (10,394)

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. (7,298)

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. 78,247

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. (11,435)

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 (537,000)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds until measurable and available.
Deferred special assessments (46,706)
Delinquent special assessments (1,282)

Delinquent property taxes receivable will be collected in subsequent years,
but are not available soon enough to pay for the current period's expenditures
and, therefore, are deferred in the funds. 854

Change in net position - governmental activities \$ (147,543)

See notes to financial statements.

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 787,555	\$ 769,957	\$ 768,554	\$ (1,403)
Special assessments	155,100	155,100	150,940	(4,160)
Licenses and permits	73,750	73,750	97,371	23,621
Intergovernmental	182,872	182,872	222,615	39,743
Charges for services	3,320	3,320	5,973	2,653
Fines and forfeitures	1,000	1,000	5,054	4,054
Investment income	1,200	1,200	4,108	2,908
Refunds and reimbursements	28,750	28,750	9,326	(19,424)
Other	2,900	2,900	2,263	(637)
Total revenues	<u>1,236,447</u>	<u>1,218,849</u>	<u>1,266,204</u>	<u>47,355</u>
Expenditures				
Current				
General government	287,145	287,145	302,764	15,619
Public safety	352,280	352,280	395,675	43,395
Public works	375,033	375,033	245,636	(129,397)
Parks and recreation	51,265	51,265	26,296	(24,969)
Miscellaneous	43,000	43,000	55,380	12,380
Debt service				
Principal	-	-	34,247	34,247
Interest and other charges	-	-	4,366	4,366
Capital outlay				
General government	91,614	91,614	64,229	(27,385)
Parks and recreation	1,200	1,200	2,315	1,115
Total expenditures	<u>1,201,537</u>	<u>1,201,537</u>	<u>1,130,908</u>	<u>(70,629)</u>
Excess of revenues over expenditures	34,910	17,312	135,296	117,984
Other financing sources				
Transfers in	-	-	3,428	3,428
Net change in fund balance	<u>\$ 34,910</u>	<u>\$ 17,312</u>	138,724	<u>\$ 121,412</u>
Fund Balance				
Beginning of year			<u>1,390,609</u>	
End of year			<u>\$ 1,529,333</u>	

City of Waverly
Statement of Net Position - Proprietary Funds
Year Ended December 31, 2018

	Water (601)	Sewer (602)	Liquor Store (609)
Assets			
Current assets			
Cash and cash equivalents	\$ 688,384	\$ -	\$ -
Taxes receivable - delinquent	-	1,324	-
Accounts receivable	56,897	63,675	(1,459)
Special assessments receivable	7,832	7,832	-
Due from other funds	265,309	-	-
Due from other governments	-	548	-
Inventory	-	-	74,508
Prepaid items	-	-	9,243
Total current assets	1,018,422	73,379	82,292
Noncurrent assets			
Capital assets			
Land	-	-	36,333
Infrastructure	3,319,584	4,296,747	-
Buildings	741,364	-	496,483
Machinery and equipment	5,890	7,701	105,049
Construction in progress	1,476,672	2,399,828	-
Total capital assets	5,543,510	6,704,276	637,865
Less accumulated depreciation	(1,268,895)	(1,455,003)	(548,718)
Net capital assets	4,274,615	5,249,273	89,147
Total assets	5,293,037	5,322,652	171,439
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	4,817	8,562	14,329
Total assets and deferred outflows of resources	\$ 5,297,854	\$ 5,331,214	\$ 185,768
Liabilities			
Current liabilities			
Accounts payable	\$ 141	\$ 41,832	\$ 31,904
Contracts payable	59,546	68,576	-
Salaries and benefits payable	1,039	1,439	2,022
Interest payable	54,897	13,807	-
Due to other funds	-	265,309	22,696
Due to other governments	-	-	24,467
Amount due within one year	202,802	191,275	9,294
Total current liabilities	318,425	582,238	90,383
Noncurrent liabilities			
Compensated absences	8,204	11,976	18,588
Advances from other funds	-	-	10,857
G. O. Revenue notes - PFA	240,000	326,403	-
Bonds payable	3,115,781	1,164,902	-
Net pension liability	28,239	50,192	83,996
Less amount due within one year	(202,802)	(191,275)	(9,294)
Total noncurrent liabilities	3,189,422	1,362,198	104,147
Total liabilities	3,507,847	1,944,436	194,530
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	6,981	12,409	20,766
Net Position			
Net investment in capital assets	1,257,162	3,917,619	89,147
Unrestricted	525,864	(543,250)	(118,675)
Total net position	1,783,026	3,374,369	(29,528)
Total liabilities, deferred inflows, and net position	\$ 5,297,854	\$ 5,331,214	\$ 185,768

See notes to financial statements.

<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>	<u>Total</u>
\$ 41,282	\$ -	\$ 729,666
-	132	1,456
14,264	4,000	137,377
-	-	15,664
-	-	265,309
2,376	61	2,985
-	-	74,508
-	-	9,243
<u>57,922</u>	<u>4,193</u>	<u>1,236,208</u>
-	-	36,333
-	1,852,572	9,468,903
22,787	-	1,260,634
-	-	118,640
-	13,526	3,890,026
22,787	1,866,098	14,774,536
(18,236)	(572,279)	(3,863,131)
<u>4,551</u>	<u>1,293,819</u>	<u>10,911,405</u>
<u>62,473</u>	<u>1,298,012</u>	<u>12,147,613</u>
298	-	28,006
<u>\$ 62,771</u>	<u>\$ 1,298,012</u>	<u>\$ 12,175,619</u>
\$ -	\$ -	\$ 73,877
-	676	128,798
-	-	4,500
-	3,170	71,874
-	16,191	304,196
-	-	24,467
-	24,500	427,871
<u>-</u>	<u>44,537</u>	<u>1,035,583</u>
-	-	38,768
-	-	10,857
-	-	566,403
-	252,218	4,532,901
1,749	-	164,176
-	(24,500)	(427,871)
<u>1,749</u>	<u>227,718</u>	<u>4,885,234</u>
<u>1,749</u>	<u>272,255</u>	<u>5,920,817</u>
432	-	40,588
4,551	1,041,601	6,310,080
56,039	(15,844)	(95,866)
<u>60,590</u>	<u>1,025,757</u>	<u>6,214,214</u>
<u>\$ 62,771</u>	<u>\$ 1,298,012</u>	<u>\$ 12,175,619</u>

City of Waverly
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2018

	Water (601)	Sewer (602)	Liquor Store (609)
Sales and cost of sales			
Sales	\$ -	\$ -	\$ 809,162
Cost of sales	-	-	526,842
Gross profit	-	-	282,320
Operating revenues			
Charges for services	354,977	543,602	-
Connection fees	115,418	195,000	-
Intergovernmental	-	-	-
Miscellaneous operating revenues	-	-	19,888
Total operating revenues	470,395	738,602	19,888
Operating expenses			
Wages, salaries, and compensation	52,728	90,649	159,656
Insurance	-	-	26,066
Supplies and postage	5,958	4,596	19,547
Professional services	5,117	9,162	22,515
Utilities	6,473	11,202	22,331
Maintenance and repairs	15,448	49,276	2,393
Fees and permits	4,372	456	835
Contracted services	-	318,929	-
Depreciation	103,339	105,926	22,251
Miscellaneous expenses	3,252	562	33,073
Total operating expenses	196,687	590,758	308,667
Operating income (loss)	273,708	147,844	(6,459)
Nonoperating revenues (expenses)			
Miscellaneous revenue	29,494	463	-
Refunds and reimbursements	-	-	(5)
Capital grant	-	1,527,835	-
Interest expense	(150,880)	(27,041)	(176)
Property taxes	(39)	118,708	-
Total nonoperating revenue (expense)	(121,425)	1,619,965	(181)
Change in net position	152,283	1,767,809	(6,640)
Net position			
Beginning of year	1,630,743	1,606,560	(22,888)
End of year	\$ 1,783,026	\$ 3,374,369	\$ (29,528)

See notes to financial statements.

<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>	<u>Total</u>
\$ -	\$ -	\$ 809,162
-	-	526,842
-	-	282,320
112,866	35,450	1,046,895
-	-	310,418
3,827	-	3,827
-	-	19,888
<u>116,693</u>	<u>35,450</u>	<u>1,381,028</u>
4,324	-	307,357
-	-	26,066
-	-	30,101
-	7,420	44,214
-	-	40,006
-	-	67,117
-	-	5,663
104,951	-	423,880
759	47,642	279,917
2,582	-	39,469
<u>112,616</u>	<u>55,062</u>	<u>1,263,790</u>
4,077	(19,612)	399,558
-	-	29,957
-	-	(5)
-	-	1,527,835
-	(7,785)	(185,882)
-	13,197	131,866
-	5,412	1,503,771
4,077	(14,200)	1,903,329
<u>56,513</u>	<u>1,039,957</u>	<u>4,310,885</u>
<u>\$ 60,590</u>	<u>\$ 1,025,757</u>	<u>\$ 6,214,214</u>

City of Waverly
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2018

	Water (601)	Sewer (602)	Liquor Store (609)
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 462,957	\$ 856,405	\$ 830,509
Payments to suppliers	(40,691)	(435,118)	(620,395)
Payments to employees	(48,819)	(87,201)	(171,250)
Miscellaneous revenue	29,494	463	(5)
Operating grants and contributions	-	-	-
Net cash flows - operating activities	402,941	334,549	38,859
Cash Flows - Noncapital			
Financing Activities			
Advances to other funds	173,383	-	-
Proceeds from (payments on) advances from other funds	-	(359,731)	(25,946)
Net cash flows - noncapital financing activities	173,383	(359,731)	(25,946)
Cash Flows - Capital and Related			
Financing Activities			
Principal paid on debt	(192,100)	(167,150)	(12,561)
Interest paid on debt	(93,714)	(35,895)	(352)
Proceeds from debt issued	1,815,000	219,403	-
Capital grants	-	1,527,835	-
Acquisition of capital assets	(1,417,126)	(1,519,011)	-
Net cash flows - capital and related financing activities	112,060	25,182	(12,913)
Net change in cash and cash equivalents	688,384	-	-
Cash and Cash Equivalents			
January 1	-	-	-
December 31	\$ 688,384	\$ -	\$ -
Reconciliation of Operating Loss to			
Net Cash Flows - Operating Activities			
Operating income (loss)	\$ 273,708	\$ 147,844	\$ (6,459)
Adjustments to reconcile operating loss to net cash flows - operating activities			
Miscellaneous revenue	29,494	463	(5)
Property taxes	6	118,316	-
Depreciation expense	103,339	105,926	22,251
Accounts receivable	(5,462)	884	1,459
Special assessments receivable	(1,982)	(1,517)	-
Due from other governments	-	120	-
Prepaid items	-	-	1,559
Inventory	-	-	378
Accounts payable	(71)	(40,935)	27,551
Due to other governments	-	-	3,719
Salaries payable	7	(498)	(956)
Pension adjustment	(900)	(1,998)	(12,016)
Compensated absences payable	4,802	5,944	1,378
Total adjustments	129,233	186,705	45,318
Net cash flows - operating activities	\$ 402,941	\$ 334,549	\$ 38,859

See notes to financial statements.

Refuse and Recycling (603)	Storm Sewer (651)	Total
\$ 111,782	\$ 48,223	\$ 2,309,876
(107,533)	(7,420)	(1,211,157)
(4,544)	-	(311,814)
-	-	29,952
3,827	-	3,827
<u>3,532</u>	<u>40,803</u>	<u>820,684</u>
37,750	-	211,133
-	4,052	(381,625)
<u>37,750</u>	<u>4,052</u>	<u>(170,492)</u>
-	(23,750)	(395,561)
-	(8,255)	(138,216)
-	-	2,034,403
-	-	1,527,835
-	(12,850)	(2,948,987)
-	(44,855)	79,474
41,282	-	729,666
-	-	-
<u>\$ 41,282</u>	<u>\$ -</u>	<u>\$ 729,666</u>
\$ 4,077	\$ (19,612)	\$ 399,558
-	-	29,952
-	13,144	131,466
759	47,642	279,917
(746)	(378)	(4,243)
-	-	(3,499)
(338)	7	(211)
-	-	1,559
-	-	378
-	-	(13,455)
-	-	3,719
-	-	(1,447)
(220)	-	(15,134)
-	-	12,124
<u>(545)</u>	<u>60,415</u>	<u>421,126</u>
<u>\$ 3,532</u>	<u>\$ 40,803</u>	<u>\$ 820,684</u>

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

1. Discretely Presented Component Unit

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

B. Government-Wide and Fund Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Description of Funds

Major Governmental Funds

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

East Lake Waverly Project Fund – This fund accounts for the activity related to the East Lake Waverly project.

Major Proprietary Funds

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments

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

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

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

2. Receivables and Payables

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

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

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

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

3. Prepaid Items and Inventory

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Capital Assets

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

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

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

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

5. Deferred Outflows/Inflows of Resources

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences

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

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

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

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

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

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

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

7. Long-Term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Long-Term Obligations (Continued)

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

8. Pensions

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

9. Fund Equity

a. Classification

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund Equity

a. Classification (Continued)

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

b. Minimum Fund Balance

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

10. Net Position

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

11. Use of Estimates

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

E. Budgetary Information

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

City of Waverly
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information (Continued)

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances

The following funds had a deficit fund balance or net position at December 31, 2018:

Liquor Store	\$ 29,528
Tax Increment District 1-1	91,840

NOTE 3 – DEPOSITS AND INVESTMENTS

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

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's financial management plan states all deposits in any bank, trust company, or thrift institution over \$100,000 must be collateralized. The total amount of collateral at market value must be in an amount of 110% of all deposits over \$100,000. In addition, the plan states the collateral shall be deposited with the treasurer and shall not be deposited in the bank, trust company, or thrift institution. As of December 31, 2018, the City's bank balance was not exposed to custodial credit risk because the bank balance was fully insured through FDIC insurance and secured with pledged collateral.

City of Waverly
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

As of December 31, 2018, the City had deposits as follows:

Checking (City)	\$ 2,896,585
Checking (discretely presented component unit)	140,321
Savings	248,634
	<hr/>
Total deposits	\$ 3,285,540

Summary of cash deposits and investments as of December 31, 2018, were as follows:

Perty cash	\$ 135
Cash on hand (Liquor Store)	1,300
Deposits (Note 3, A.)	3,285,540
	<hr/>
Total deposits and investments	\$ 3,286,975

Deposits and investments are presented in the December 31, 2018, basic financial statements as follows:

Statement of Net Position	
Cash and investments (including cash equivalents)	\$ 2,416,988
Governmental activities	729,666
Business type activities	140,321
Component unit	<hr/>
Total	\$ 3,286,975

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

A. Advances

Advances exist between the City Municipal Liquor Store and the General Fund. These funds were used for additional construction costs, increasing the inventory level, paying out severance and updating computer technology. A payment schedule exists for these loans. As of December 31, 2018, \$25,257 is outstanding. During 2018, \$14,400 was repaid on these loans. These advances are scheduled to be repaid by 2020. The current position is presented as a due to/due from other funds of \$14,400. The long term portion of \$10,857 is presented as advances to/from other funds.

City of Waverly
Notes to Financial Statements

NOTE 4 – INTERFUND BALANCES AND TRANSFERS (CONTINUED)

B. Due to/from Other Funds

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

Due from Other Funds	Due to Other Funds				Total
	Other Governmental Funds	Sewer	Storm Sewer	Liquor	
General Fund	\$ 77,511	-	-	\$ 8,296	\$ 85,807
Other governmental funds	-	-	16,191	-	16,191
Water	-	265,309	-	-	265,309
Total	\$ 77,511	\$ 265,309	\$ 16,191	\$ 8,296	\$ 367,307

C. Interfund Transfers

Transfers during the year ended December 31, 2018, were as follows:

Transfer in to	Transfer out of	Amount
General Fund	Other governmental funds	\$ 3,428

The above transfer was made for an interest payment on interfund debt.

City of Waverly
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated	\$ 15,727	\$ 21,181	\$ -	\$ 36,908
Land and improvements	-	188,943	-	188,943
Construction in progress	-	-	-	-
Total capital assets not being depreciated	15,727	210,124	-	225,851
Capital assets being depreciated				
Building and structures	1,056,127	67,064	-	1,123,191
Machinery and equipment	629,595	34,840	8,500	655,935
Infrastructure	11,991,701	-	-	11,991,701
Total capital assets being depreciated	13,677,423	101,904	8,500	13,770,827
Less accumulated depreciation for				
Building and structures	709,430	45,367	-	754,797
Machinery and equipment	265,070	41,792	5,652	301,210
Infrastructure	3,766,451	309,505	-	4,075,956
Total accumulated depreciation	4,740,951	396,664	5,652	5,131,963
Total capital assets being depreciated, net	8,936,472	(294,760)	2,848	8,638,864
Governmental activities capital assets, net	\$ 8,952,199	\$ (84,636)	\$ 2,848	\$ 8,864,715

City of Waverly
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 36,333	-	\$ -	\$ 36,333
Construction in progress	812,241	3,077,785	-	3,890,026
Total capital assets not being depreciated	848,574	3,077,785	-	3,926,359
Capital assets being depreciated				
Building and structures	1,260,634	-	-	1,260,634
Machinery and equipment	118,640	-	-	118,640
Infrastructure	9,468,903	-	-	9,468,903
Total capital assets being depreciated	10,848,177	-	-	10,848,177
Less accumulated depreciation for				
Building and structures	740,262	39,500	-	779,762
Machinery and equipment	114,863	2,533	-	117,396
Infrastructure	2,728,089	237,884	-	2,965,973
Total accumulated depreciation	3,583,214	279,917	-	3,863,131
Total capital assets being depreciated, net	7,264,963	(279,917)	-	6,985,046
Business-type activities capital assets, net	\$ 8,113,537	\$ 2,797,868	\$ -	\$ 10,911,405

City of Waverly
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	\$ 11,962
General government	4,281
Public safety	351,019
Public works	29,402
Park and recreation	-
Total depreciation expense - governmental activities	\$ 396,664

Business-type activities

Water	\$ 103,339
Sewer	105,926
Liquor	22,251
Storm sewer	47,642
Refuse and recycling	759
Total depreciation expense - business-type activities	\$ 279,917

NOTE 6 – LONG-TERM DEBT

A. General Obligation Bonds

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

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

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

B. Components of Long-Term Liabilities

Long-term liabilities	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Governmental activities						
Bonds payable						
G.O. improvement bonds, series 2010B	12/02/10	1.90-3.75%	\$ 389,000	02/01/21	\$ 141,000	\$ 46,000
G.O. improvement bonds, series 2018B	04/19/18	3.30%	537,000	02/01/39	537,000	-
Capital lease obligations						
Compensated absences						
					109,125	35,290
					36,880	18,440
Total governmental activities					\$24,005	99,730
Business-type activities						
Bonds payable						
G.O. refunding bonds, series 2011B	10/04/11	2.25-3.40%	1,625,000	02/01/24	825,000	130,000
G.O. water revenue bonds, series 2012B	07/11/12	0.50-3.50%	400,000	09/01/22	165,000	40,000
G.O. refunding bonds, series 2015A	06/04/15	2.50-3.50%	2,095,000	02/01/25	1,635,000	210,000
G.O. water revenue bonds, series 2018A	05/03/18	3.00-3.250%	1,815,000	02/01/39	1,815,000	-
G.O. water revenue note	05/31/12	1.52%	306,308	08/20/31	240,000	17,000
G.O. sewer revenue note	07/29/15	1.00%	122,842	08/20/25	107,000	6,000
Total business-type bonds					4,787,000	403,000
Premium on bonds payable					92,615	-
Compensated absences					38,769	19,384
					4,918,384	422,384
Total all long-term liabilities					\$ 5,742,389	\$ 824,114

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

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

Governmental activities	Beginning Balance	Additions	Reductions	Ending Balance
G.O. improvement bonds	\$ 185,000	\$ 537,000	\$ 44,000	\$ 678,000
Capital leases	143,372	-	34,247	109,125
Compensated absences	26,486	19,817	9,423	36,880
Total governmental activities long-term liabilities	\$ 354,858	\$ 556,817	\$ 87,670	\$ 824,005

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities (Continued)

Business-type activities	Beginning Balance	Additions	Reductions	Ending Balance
G.O. revenue bonds	\$ 2,985,000	\$ 1,815,000	\$ 360,000	\$ 4,440,000
G.O. water revenue note	257,000	-	17,000	240,000
G.O. sewer revenue note	113,000	219,403	6,000	326,403
Capital Leases	12,561	-	12,561	-
Premium on bonds payable	80,119	23,736	10,954	92,901
Compensated absences	26,644	21,097	8,972	38,769
Total business-type activities long-term liabilities	\$ 3,474,324	\$ 2,079,236	\$ 415,487	\$ 5,138,073

D. Minimum Debt Payments

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

Year Ending December 31,	Government-Type Activities	
	G.O. Improvement Bonds	Interest
2019	\$ 46,000	\$ 4,192
2020	47,000	2,623
2021	48,000	900
Total	\$ 141,000	\$ 7,715

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments

Year Ending December 31,	G.O. Revenue Bonds		Business-Type Activities		Notes Payable*	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 380,000	\$ 167,944	\$ 23,000	\$ 4,728		
2020	389,000	138,078	23,000	4,409		
2021	394,000	127,215	23,000	4,089		
2022	344,000	116,562	24,000	3,770		
2023	306,000	106,177	24,000	3,436		
2024-2028	1,262,000	400,235	124,000	12,074		
2029-2033	726,000	250,805	92,000	3,534		
2034-2038	964,000	118,409	14,000	210		
2039-2043	212,000	3,456				
Total	\$ 4,977,000	\$ 1,428,881	\$ 347,000	\$ 36,250		

* The 2018 note payable addition of \$219,403 is related to an uncompleted project. The amortization for this note will be included once the project is completed and the payment schedule is finalized.

Year Ending December 31,	Business-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 403,000	\$ 172,672		
2020	412,000	142,487		
2021	417,000	131,304		
2022	368,000	120,332		
2023	330,000	109,613		
2024-2028	1,386,000	412,309		
2029-2033	818,000	254,339		
2034-2038	978,000	118,619		
2039-2043	212,000			
Total	\$ 5,324,000	\$ 1,461,675		

E. Capital Lease Obligations

The City has entered into a lease purchase agreement with PNC Equipment Finance, LLC for the acquisition of an electronic sign. The capital lease obligation totaled \$38,739. The capital lease agreement includes annual principal and interest payments of \$12,983 for each of the three years of the agreement.

City of Waverly
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

E. Capital Lease Obligations (Continued)

The assets purchased with the lease are classified as buildings and structures and totaled \$37,695. The associated accumulated depreciation for these assets is \$6,720 for a net value of \$30,975.

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

The assets purchased with the lease are classified as machinery and equipment and totaled \$134,515. The associated accumulated depreciation for these assets is \$18,722 for a net value of \$115,793.

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

The assets purchased with the lease are classified as machinery and equipment and totaled \$197,827. The associated accumulated depreciation for these assets is \$53,820 for a net value of \$144,007.

Minimum future lease payments under the capital leases as of December 31, 2018, in the aggregate were as follows:

Year Ending December 31,	Total
2019	\$ 38,613
2020	38,613
2021	38,613
Net minimum lease payments	115,839
Less amount representing interest	(6,714)
Present value of net minimum lease payments	\$ 109,125

NOTE 7 – FUND BALANCE DETAIL

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

	General	Other Governmental Funds	Total
Nonspendable			
Prepaid items	20,280	-	20,280
Advances to other funds	10,857	-	10,857
Total nonspendable	<u>31,137</u>	<u>-</u>	<u>31,137</u>
Restricted			
Debt service	-	282,546	282,546
Capital projects	-	316,924	316,924
Park dedication fees	-	140,225	140,225
Total restricted	<u>-</u>	<u>739,695</u>	<u>739,695</u>
Assigned			
Capital projects	-	174,210	174,210
Unassigned	1,498,196	(91,840)	1,406,356
Total	<u>\$ 1,529,333</u>	<u>\$ 822,065</u>	<u>\$ 2,351,398</u>

NOTE 8 – RISK MANAGEMENT

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2018 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2018, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 – PENSION PLANS

The city participates in various pension plans, total pension expense for the year ended December 31, 2018 was \$27,067. The components of pension expense are noted in the following plan summaries.

The General Fund, Water, Sewer, Liquor Store, and Refuse and Recycling Funds typically liquidate the Liability related to the pensions.

Public Employees' Retirement Association

A. Plan Description

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

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

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

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. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated member is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years 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.

NOTE 9 – PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month of June 30, will receive a pro rata increase.

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 2018. The City was required to contribute 7.50% for Coordinated Plan members in calendar year 2018. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$32,356. 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, 2018, the City reported a liability of \$332,855 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 \$16 million to the fund in 2018. 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 \$10,924. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion share was 0.0060%, which was no change from its proportion measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$ 332,855
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>10,924</u>
Total	\$ <u>343,779</u>

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

For the year ended December 31, 2018, the City recognized pension expense of \$27,067 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$2,547 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, 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	\$ 8,809	\$ 9,708
Changes in actuarial assumptions	31,796	37,399
Difference between projected and actual investments earnings	-	33,888
Changes in proportion and differences between contributions made and city's proportion share of contributions	-	1,296
City's contributions to PERA subsequent to the measurement date	<u>16,178</u>	<u>-</u>
Total	\$ <u>56,783</u>	\$ <u>82,291</u>

\$16,178 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2019	\$ 10,272
2020	(18,003)
2021	(27,008)
2022	<u>(6,947)</u>
Total	\$ <u>(41,686)</u>

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, 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 disability for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

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	36 %	5.10 %
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
Total	100 %	

NOTE 9 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 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 was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the General Employees Fund net pension liability	\$ 540,933	\$ 332,855	\$ 161,094

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.

NOTE 10 TAX INCREMENT FINANCING

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

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

During the year ended December 31, 2018, the City generated \$14,143 in tax increment revenue and made \$12,728 in payments to developers.

City of Waverly
Notes to Financial Statements

NOTE 11 – COMMITMENTS

This City had the following construction commitment at December 31, 2018.

Project	Contract Amount	Work Completed (Expended)		Commitment
		12/31/2018		
Waverly Lake East Side Street and Utility Improvement	\$ 4,700,270	\$ 3,840,333	\$	859,936

NOTE 12 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending December 31, 2019.

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.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements improves the information that is disclosed in the notes to the financial statements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective for the year ending December 31, 2019.

City of Waverly
Notes to Financial Statements

NOTE 12 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 90, Majority Equity Interests improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement will be effective for the year ending December 31, 2019.

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

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 27,471	\$ 27,471	\$ -	\$ 366,280	7.5%
2016	28,314	28,314	-	377,520	7.5%
2017	28,381	28,381	-	378,413	7.5%
2018	32,356	32,356	-	431,413	7.5%

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

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

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage of the Net Pension Liability (Asset))	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	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	0.0061%	\$ 316,134	-	\$ 316,134	\$ 354,947	89.1%	78.2%
2016	0.0060%	487,170	6,385	493,555	372,987	130.6%	68.9%
2017	0.0060%	383,036	4,798	387,834	385,027	99.5%	75.9%
2018	0.0060%	332,855	10,924	343,779	405,013	82.2%	79.5%

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

City of Waverly
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

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 Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 787,555	\$ 769,957	\$ 768,554	\$ (1,403)
Special assessments	155,100	155,100	150,940	(4,160)
Licenses and permits	73,750	73,750	97,371	23,621
Intergovernmental				
State grants and aids	172,105	172,105	187,727	15,622
Local government aid	-	-	274	274
Market value credit	4,000	4,000	6,530	2,530
County grants and aids for highways	5,800	5,800	8,983	3,183
Police aid	967	967	967	-
PERA aid	-	-	18,134	18,134
Fire relief aid	-	-	222,615	222,615
Total intergovernmental	182,872	182,872	700	(1,163)
Changes for services	700	700	4,610	3,110
General government	1,500	1,500	1,826	706
Public works	1,120	1,120	5,973	2,653
Parks and recreation	3,320	3,320	1,000	4,054
Total charges for services	1,000	1,000	1,200	2,908
Fines and forfeitures	1,200	1,200	28,750	(19,424)
Investment income	28,750	28,750	2,263	(637)
Refunds and reimbursements	2,900	2,900	31,650	(20,061)
Other	31,650	31,650	1,236,447	47,355
Total miscellaneous revenues	1,236,447	1,218,849	1,266,204	47,355
Total revenues				
Expenditures				
General government				
Mayor and council	12,103	12,103	12,152	49
Current	169,362	169,362	160,993	(8,369)
Clerk/treasurer	4,100	4,100	5,538	1,438
Capital outlay	3,050	3,050	2,928	(122)
Elections and voters registration	6,900	6,900	-	(6,900)
Current				
Capital outlay				

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
General government				
Planning and zoning				
Current	\$ 2,815	\$ 2,815	\$ 1,734	\$ (1,081)
Capital outlay	2,000	2,000	455	(1,545)
Accounting and auditing				
Current	25,000	25,000	22,031	(2,969)
Legal				
Current	5,000	5,000	7,188	2,188
Assessor				
Current	13,000	13,000	14,624	1,624
General operating				
Current	56,815	56,815	81,114	24,299
Capital outlay	78,614	78,614	58,236	(20,378)
Total general government	378,759	378,759	366,993	(11,766)
Public safety				
Police protection				
Current	157,680	157,680	157,680	-
Fire protection				
Current	156,200	156,200	175,784	19,584
Building inspection				
Current	38,000	38,000	62,211	24,211
Animal control				
Current	400	400	-	(400)
Total public safety	352,280	352,280	395,675	43,395
Public works				
Streets and highways				
Current	342,533	342,533	209,479	(133,054)
Street lighting				
Current	32,500	32,500	36,157	3,657
Total public works	375,033	375,033	245,636	(129,397)
Culture and recreation				
Parks				
Current	51,265	51,265	26,296	(24,969)
Capital outlay	1,200	1,200	2,315	1,115
Total culture and recreation	52,465	52,465	28,611	(23,854)

City of Waverly
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual - General Fund
Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures (Continued)				
Miscellaneous				
City insurance	\$ 40,000	\$ 40,000	\$ 52,785	\$ 12,785
Mifflin treatments	3,000	3,000	2,595	(405)
Total miscellaneous	43,000	43,000	55,380	12,380
Debt service				
Loan principal	-	-	34,247	34,247
Loan interest	-	-	4,366	4,366
Total debt service	-	-	38,613	38,613
Total expenditures	1,201,537	1,201,537	1,130,908	(70,629)
Excess of revenues over expenditures	34,910	17,312	135,296	117,984
Other financing sources				
Transfers In	-	-	3,428	3,428
Net change in fund balance	34,910	17,312	138,724	121,412
Fund Balance				
Beginning of year			1,390,609	
End of year			\$ 1,529,333	

City of Waverly
 Combining Balance Sheet -
 Nonmajor Governmental Funds
 December 31, 2018

	Special Revenue		Debt Service		Capital Projects				Total Governmental Funds
	Park Projects Improvements (404)	Tax Increment District 1-1 (499)	2018B G.O. Improvement Bond (310)		City Hall Project (403)	Water and Sewer Improvements (406)	Trail and Park Meadows Project (410)		
Assets									
Cash and investments	\$ 139,161	\$ -	\$ 13,881		\$ 17,560	\$ 140,459	\$ 326,371		\$ 906,097
Taxes receivable - delinquent	49	-	-		-	-	-		79
Accounts receivable	1,064	-	-		-	-	-		1,064
Special assessments receivable	-	-	-		-	-	-		-
Delinquent	-	-	-		-	-	-		162
Deferred	-	-	-		-	-	-		17,797
Due from other funds	-	-	-		-	16,191	-		16,191
Total assets	\$ 140,274	\$ -	\$ 13,881		\$ 17,560	\$ 156,650	\$ 326,371		\$ 941,390
Liabilities									
Contracts payable	\$ -	\$ -	\$ -		\$ -	\$ -	\$ 9,447		\$ 9,447
Due to other funds	-	77,511	-		-	-	-		77,511
Due to other governments	-	14,329	-		-	-	-		14,329
Total liabilities	-	91,840	-		-	-	9,447		101,287
Deferred Inflows of Resources									
Unavailable revenue - property taxes	49	-	-		-	-	-		79
Unavailable revenue - special assessments	-	-	-		-	-	-		17,959
Total deferred inflows of resources	49	-	-		-	-	-		18,038
Fund Balances									
Restricted	140,225	-	13,881		-	-	316,924		739,695
Assigned	-	-	-		17,560	156,650	-		174,210
Unassigned	-	(91,840)	-		-	-	-		(91,840)
Total fund balances	140,225	(91,840)	13,881		17,560	156,650	316,924		822,065
Total liabilities, deferred inflows of resources, and fund balances	\$ 140,274	\$ -	\$ 13,881		\$ 17,560	\$ 156,650	\$ 326,371		\$ 941,390

City of Waverly
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2018

	Special Revenue		Debt Service		Capital Projects				Total Other Governmental Funds
	Park Projects Improvements (404)	Tax Increment District 1-1 (499)	2018B G.O. Improvement Bond (310)	Debt Service	City Hall Project (403)	Water and Sewer Improvements (406)	Trail and Park Meadows Project (410)		
Revenues									
Tax increments	-	\$ 14,143	\$ -	-	-	-	-	-	\$ 14,143
Special assessments	-	-	-	-	-	-	-	-	53,378
Charges for services	50,614	-	-	-	-	-	-	-	50,614
Miscellaneous	-	-	-	-	-	-	-	-	-
Contributions and donations	5,793	-	-	-	-	-	-	-	5,793
Other	5,000	-	-	-	-	-	-	-	5,000
Total revenues	61,407	14,143	-	-	-	-	-	-	128,928
Expenditures									
Current									
General government	-	-	-	-	-	-	-	-	739
Debt service	-	739	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	44,000
Interest and other charges	-	-	-	-	-	-	-	-	22,370
Capital outlay	-	-	-	-	-	-	16,738	-	-
General government	-	12,728	-	-	-	-	-	-	12,728
Public works	-	-	-	-	-	-	-	-	189,457
Parks and recreation	56,975	-	-	-	-	-	189,457	-	56,975
Total expenditures	56,975	13,467	-	-	-	-	206,195	-	326,269
Excess of revenues over (under) expenditures	4,432	676	-	-	-	-	(206,195)	-	(197,341)
Other financing sources (uses)									
Bond Proceeds	-	-	13,881	-	-	-	523,119	-	537,000
Transfers Out	-	(3,428)	-	-	-	-	-	-	(3,428)
Total other financing Sources (uses)	-	(3,428)	13,881	-	-	-	523,119	-	533,572
Net change in fund balances	4,432	(2,752)	13,881	-	-	-	316,924	-	336,231
Fund Balances									
Beginning of year	135,793	(89,088)	-	-	17,560	156,650	-	-	485,834
End of year	\$ 140,225	\$ (91,840)	\$ 13,881	-	\$ 17,560	\$ 156,650	\$ 316,924	\$ -	\$ 822,065

City of Waverly
Balance Sheet - Component Unit
Economic Development Authority
December 31, 2018

	Economic Development Authority (275)
Assets	
Cash and investments	\$ 140,321
Taxes receivable - delinquent	288
Due From Other Governments	14,431
Total assets	\$ 155,040
Liabilities	
Salaries and benefits payable	\$ 323
Deferred Inflows of Resources	
Unavailable revenue - property taxes	288
Fund Balance	
Unassigned	154,429
Total liabilities, deferred inflows of resources, and fund balance	\$ 155,040
Reconciliation of the Balance Sheet to the Statement of Net Position - Component Unit	
Amounts reported for the component unit in the statement of net position are different because:	
Total fund balances - component unit	\$ 154,429
Delinquent taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	288
Total net position - component unit	\$ 154,717

City of Waverly
Statement of Revenues, Expenditures, and Changes in Fund Balance - Component Unit - Economic Development Authority
Year Ended December 31, 2018

	Economic Development Authority (275)
Revenues	
Property taxes	\$ 22,075
Other revenues	573
Total revenues	22,648
Expenditures	
Current	14,689
Economic development	7,959
Net change in fund balances	146,470
Fund Balance	
Beginning of year	146,470
End of year	\$ 154,429
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Component Unit	
Net change in fund balances - component unit	\$ 7,959
Amounts reported for the component unit in the Statement of Activities are different because	
Delinquent property taxes receivable will be collected in subsequent years, and, therefore, are deferred in the funds.	37
Change in net position - component unit	\$ 7,996

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waverly, Minnesota as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 4, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Response on Internal Control, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Findings 2018-001 and 2018-002 to be a significant deficiencies.

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Sales	\$ 809,162	\$ 802,813	\$ 823,404	\$ 821,983	\$ 830,589
Cost of products sold	(526,842)	(533,333)	(542,316)	(562,398)	(573,010)
Gross profit	282,320	269,480	281,088	259,585	257,579
Gross profit percentage	34.9%	33.6%	34.1%	31.6%	31.0%
Average inventory	74,697	79,281	85,943	88,091	88,099
Inventory turnover (times)	7.1	6.7	6.3	6.4	6.5
Number of days in inventory	52	54	58	57	56
Net income (loss) before operating transfers	(6,459)	(26,923)	(5,597)	(7,583)	3,891
Working capital (current assets less current liabilities)	(8,091)	14,586	36,147	34,779	23,705
Working capital ratio	0.9 to 1	1.2 to 1	1.7 to 1	1.5 to 1	1.4 to 1
Salaries and benefits	159,656	181,534	168,900	156,568	151,380
Capital asset additions	*	*	37,695	*	*

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Waverly, Minnesota as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 4, 2019.

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

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

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



Minneapolis, Minnesota
June 4, 2019

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



Minneapolis, Minnesota
June 4, 2019

City of Waverly
Schedule of Finding and Response on
Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS

Significant Deficiency

Audit Finding 2018-001 – Lack of Segregation of Accounting Duties

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

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

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

City's Response

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

City of Waverly
Schedule of Finding and Response on
Internal Control

CURRENT YEAR INTERNAL CONTROL FINDING

Significant Deficiency

Audit Finding 2018-002 – Timeliness of Bank Reconciliations

During our audit we noted cash balances were not reconciled to the general ledger on monthly basis. It is critical to ensure cash is reconciled on a monthly basis.

Failure to properly reconcile these accounts on a monthly basis can generate mispostings and inaccurate accounting records and does not provide current reliable cash balance information for the City Council to gauge expenditure needs.

City's Response

The City is aware and will work to ensure bank reconciliations are done on a monthly basis.

FORM OF LEGAL OPINION

(See following pages)



2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
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URL Briggs.com

PROPOSED FORM OF LEGAL OPINION

\$2,805,000*
GENERAL OBLIGATION WATER REVENUE BONDS, SERIES 2019A
CITY OF WAVERLY
WRIGHT COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Waverly, Wright County, Minnesota (the "Issuer"), of its \$2,805,000* General Obligation Water Revenue Bonds, Series 2019A, bearing a date of original issue of July 10, 2019 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

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

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

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

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

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

PROPOSED FORM OF LEGAL OPINION

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

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

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

BRIGGS AND MORGAN
Professional Association

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.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Waverly, Minnesota (the "Issuer"), in connection with the issuance of its \$2,805,000* General Obligation Water Revenue Bonds, Series 2019A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on June 11, 2019 (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.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

"Official Statement" shall be the Official Statement dated June 11, 2019, prepared in connection with the Bonds.

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

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

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

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

SECTION 3. Provision of Annual Reports. Beginning in connection with the Fiscal Year ending on December 31, 2019, the Issuer shall, or shall cause the Dissemination Agent to provide, at least annually to the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the Issuer and publicly available, by not later than December 31, 2020, and by December 31 of each year thereafter.

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

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

- (15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and,
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

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

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

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

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

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

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

event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

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

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

Dated: July 10, 2019.

CITY OF WAVERLY, MINNESOTA

By _____
Its Mayor

By _____
Its Clerk/Treasurer

APPENDIX E

TERMS OF PROPOSAL

**\$2,805,000* GENERAL OBLIGATION WATER REVENUE BONDS, SERIES 2019A
CITY OF WAVERLY, MINNESOTA**

Proposals for the purchase of \$2,805,000 General Obligation Water Revenue Bonds, Series 2019A (the "Bonds") of the City of Waverly, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 11:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 11:00 A.M. Central Time, on June 19, 2019, at which time they will be opened, read and tabulated. On June 11, 2019, the City Council adopted a resolution which authorized designated officials of the City to accept and award proposals on the Bonds on June 19, 2019. The proposals will be presented to the City Council for consideration for award at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, by the City for the purpose of financing the water portion of the City’s 2019 Improvement Projects. 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 June 27, 2019, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2023	\$110,000	2030	\$125,000	2037	\$155,000
2024	110,000	2031	130,000	2038	160,000
2025	115,000	2032	135,000	2039	165,000
2026	115,000	2033	140,000	2040	175,000
2027	120,000	2034	145,000	2041	180,000
2028	120,000	2035	145,000	2042	185,000
2029	125,000	2036	150,000		

ADJUSTMENT OPTION

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

TERM BOND OPTION

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

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2020, 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 2023 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, 2030 shall be subject to optional redemption prior to maturity on February 1, 2029 or any date thereafter, at a price of par plus accrued interest.

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

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

DELIVERY

On or about June 27, 2019, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

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

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$2,771,340 plus accrued interest on the principal sum of \$2,805,000 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) Electronically via **PARITY** in accordance with this Terms of Proposal until 11:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

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

A good faith deposit ("Deposit") in the amount of \$56,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. 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 winning bidder. 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 winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder 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 winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

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

The winning bidder will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder 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 Waverly, Minnesota

PROPOSAL FORM

The City Council
City of Waverly, Minnesota

June 19, 2019

RE: \$2,805,000* General Obligation Water Revenue Bonds, Series 2019A (the "Bonds")
DATED: July 10, 2019

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$2,771,340) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____	% due	2023	_____	% due	2030	_____	% due	2037
_____	% due	2024	_____	% due	2031	_____	% due	2038
_____	% due	2025	_____	% due	2032	_____	% due	2039
_____	% due	2026	_____	% due	2033	_____	% due	2040
_____	% due	2027	_____	% due	2034	_____	% due	2041
_____	% due	2028	_____	% due	2035	_____	% due	2042
_____	% due	2029	_____	% due	2036	_____	% due	

* 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 2023 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%.

A good faith deposit ("Deposit") in the amount of \$56,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. 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. We agree to the conditions and duties of Ehlers and 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 July 10, 2019.

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 the Bonds.

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

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

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

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

Account Manager: _____ By: _____

Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from July 10, 2019 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Waverly, Minnesota, on June 19, 2019.

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