

City of Mendota Heights



Annual Report and Basic Financial Statements December 31, 2015

**City of Mendota Heights
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**City of Mendota Heights
Elected Officials and Administration
December 31, 2015**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Sandra Krebsbach	Mayor	December 31, 2016
Steve Norton	Council Member	December 31, 2016
Michael Povolny	Council Member	December 31, 2016
Ultan Duggan	Council Member	December 31, 2018
Liz Petschel	Council Member	December 31, 2018
<u>Administration</u>		
Mark McNeill	City Administrator	Appointed
Lorri Smith	City Clerk	Appointed
Kristen Schabacker	Finance Director	Appointed



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mendota Heights, Minnesota, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mendota Heights, Minnesota, as of December 31, 2015, 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.

Implementation of GASB 68 and GASB 71

As discussed in Note 17 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



Other Matters (Continued)

Other Information (Continued)

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

BerganKDV Ltd.

Minneapolis, Minnesota
June 16, 2016

City of Mendota Heights Management's Discussion and Analysis

As management of the City of Mendota Heights, Minnesota (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2015.

FINANCIAL AND DEVELOPMENT HIGHLIGHTS

The assets of the City exceeded liabilities at the close of the most recent year by \$51,867,706 (net position). Of this amount, \$5,296,544 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by \$824,232. Governmental activities resulted in an increase of net position of \$975,399. Business activities had net position decrease of \$151,167.

As of the close of the current year, the City's governmental funds reported a combined ending fund balance of \$15,095,243, an increase of \$3,705,287 from the prior year.

At the end of the year the General Fund had an unassigned fund balance of \$6,220,170, or 87.96% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

**City of Mendota Heights
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

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

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

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

**City of Mendota Heights
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Proprietary Funds

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

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

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

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

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

Notes to Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Financial Statements can be found on 29 through 54 of this report.

Other Information

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary comparisons. Combining and individual fund statements and schedules can be found on pages 58 through 70 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$51,867,706 at the close of the most recent year.

**City of Mendota Heights
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The largest portion of the City's net position (\$41,072,553 or 79.18%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, sewer main lines and storm sewers and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and Other Assets	\$19,084,752	\$16,085,826	\$ 1,114,205	\$ 1,140,868	\$20,198,957	\$17,226,694
Capital Assets	40,309,944	39,760,944	16,182,801	16,111,445	56,492,745	55,872,389
Deferred Outflows of Resources Related to Pensions	637,524	-	16,883	-	654,407	-
Total Assets and deferred outflows of resources	<u>\$60,032,220</u>	<u>\$55,846,770</u>	<u>\$17,313,889</u>	<u>\$17,252,313</u>	<u>\$77,346,109</u>	<u>\$73,099,083</u>
LIABILITIES						
Long-Term Liabilities Outstanding	\$17,810,694	\$14,496,085	\$ 144,712	\$ 28,192	\$17,955,406	\$14,524,277
Other Liabilities	6,508,760	4,022,028	355,438	157,832	6,864,198	4,179,860
Deferred Inflows of Resources Related to Pensions	644,515	-	14,284	-	\$ 658,799	-
Total Liabilities and deferred inflows of resources	<u>\$24,963,969</u>	<u>\$18,518,113</u>	<u>\$ 514,434</u>	<u>\$ 186,024</u>	<u>\$25,478,403</u>	<u>\$18,704,137</u>
NET POSITION						
Net Investment in Capital Assets	\$26,926,652	\$26,866,413	\$16,182,801	\$16,111,445	\$41,072,553	\$40,690,808
Restricted	5,498,609	5,499,086	-	-	5,498,609	5,499,086
Unrestricted	2,642,990	4,963,158	616,654	954,844	5,296,544	8,205,052
Total Net Position	<u>\$35,068,251</u>	<u>\$37,328,657</u>	<u>\$16,799,455</u>	<u>\$17,066,289</u>	<u>\$51,867,706</u>	<u>\$54,394,946</u>

A portion of the of the City's net position (\$5,498,609) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$5,296,544) may be used to meet the City's ongoing obligations to citizens and creditors.

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

**City of Mendota Heights
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the City's net position by \$975,399. Key elements of this increase are as follows:

City's Changes in Net Position

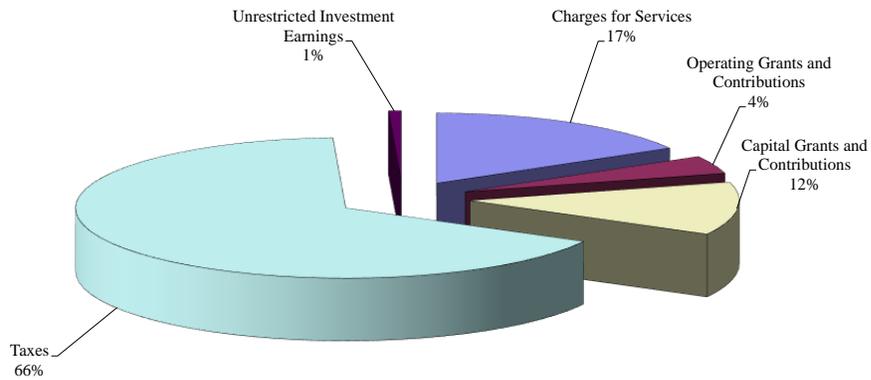
	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for Services	\$ 1,745,087	\$ 1,536,005	\$ 2,280,619	\$ 2,377,492	\$ 4,025,706	\$ 3,913,497
Operating Grants and Contributions	432,280	403,425	-	-	432,280	403,425
Capital Grants and Contributions	1,273,591	1,274,681	98,471	63,754	1,372,062	1,338,435
General Revenues:						
Taxes	6,956,453	6,480,297	-	-	6,956,453	6,480,297
Unrestricted Investment Earnings	80,137	294,404	13,562	17,772	93,699	312,176
Gain on Sale of Asset	1,000					
Total Revenues	10,488,548	9,988,812	2,392,652	2,459,018	12,880,200	12,447,830
Expenses						
General Government	2,234,913	1,728,571	-	-	2,234,913	1,728,571
Public Safety	3,689,254	3,547,261	-	-	3,689,254	3,547,261
Public Works	3,363,207	3,732,096	-	-	3,363,207	3,732,096
Interest on Long-Term Debt	571,206	522,517	-	-	571,206	522,517
Sewer	-	-	1,759,242	1,563,864	1,759,242	1,563,864
Storm Water	-	-	291,847	193,292	291,847	193,292
Par 3 Golf Course	-	-	147,299	157,963	147,299	157,963
Total Expenses	9,858,580	9,530,445	2,198,388	1,915,119	12,056,968	11,445,564
Increase (Decrease) in Net Position before Transfers	629,968	458,367	194,264	543,899	824,232	1,002,266
Transfers	345,431	(370,440)	(345,431)	370,440	-	-
Increase (Decrease) in Net Position	975,399	87,927	(151,167)	914,339	824,232	1,002,266
Net Position - Beginning	37,328,657	37,240,730	17,066,289	16,151,950	54,394,946	53,392,680
Change in Accounting Principle	(3,235,805)	-	(115,667)	-	(3,351,472)	-
Net Position - Beginning Restated	34,092,852	37,240,730	16,950,622	16,151,950	51,043,474	53,392,680
Net Position - Ending	\$ 35,068,251	\$ 37,328,657	\$ 16,799,455	\$ 17,066,289	\$ 51,867,706	\$ 54,394,946

City of Mendota Heights Management's Discussion and Analysis

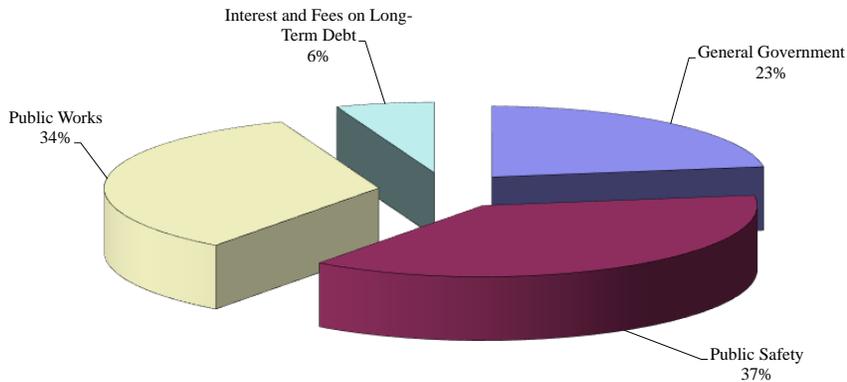
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

Governmental Activities - Revenues



Governmental Activities - Expenses



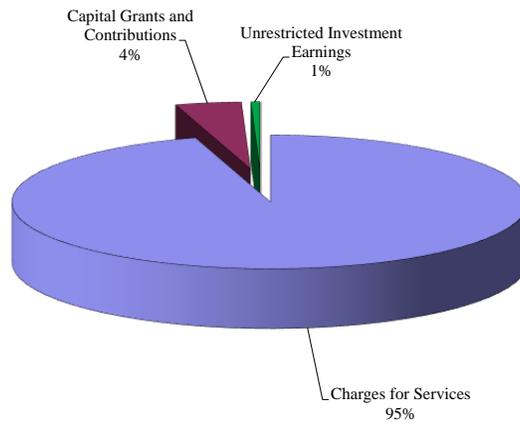
**City of Mendota Heights
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

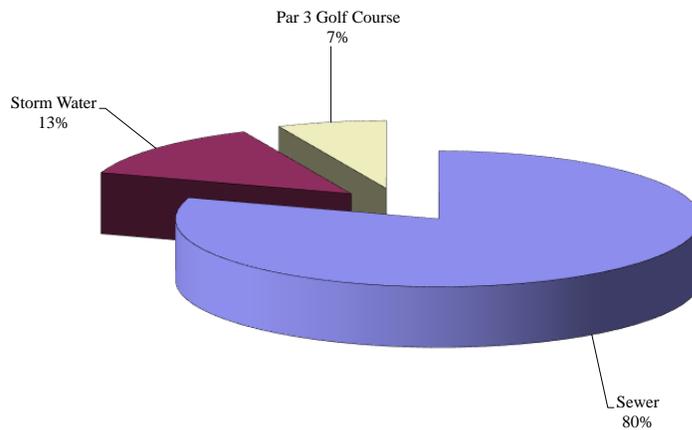
Business-Type Activities

Business-type activities decreased net position by \$151,167. Below are graphs showing the business-type activities revenue and expense comparisons:

Business-Type Activities - Revenues



Business-Type Activities - Expenses



**City of Mendota Heights
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$15,095,243. Nonspendable fund balances are already allocated for prepaid items (\$182,249) and inventory (\$17,283). Approximately 44.56% (\$6,726,274) constitutes restricted fund balance. Restricted fund balance would include debt service, special park, and street light district funds, all of which have specific uses for the funds they receive. The City also has a committed fund balance of \$414,397. This represents fund balance that is to be used for the water system and civil defense needs. The City has assigned fund balance of \$1,840,369 (12.19%). This number represents the fund balances for the capital projects that the City has ongoing and an amount allocated for insurance reserves. The remaining category of fund balance is the unassigned fund balance. The City has \$5,914,671 of unassigned fund balance which is approximately 39.18% of the combined governmental fund balance at December 31, 2015.

The General Fund increased by \$574,925 in 2015. Revenues were greater than anticipated and expenditures were lower than budgeted amounts.

The Special Assessments Debt Service Fund increased by \$2,698,464 in 2015. This fund accounted for debt service payments for prior street improvement projects that were financed through the issuance of bonds. This fund also held bond proceeds that were used to refund two bond issues in February of 2016.

The Street Capital Project Fund increased by \$271,036. This fund accounted for the costs and resources with the Victoria Road South street project.

The Special Assessment Capital Project Fund increased by \$118,490. This Fund accounted for the costs associated with the upcoming Mendota Road street project and the Sibley Memorial Trail project in 2015.

The nonmajor governmental funds increased by \$42,372. These funds received revenues from water surcharges and park dedication fees. Nonmajor funds account for the Special Park, Civil Defense, and Street Light District activity. The City also has nonmajor funds for future purchases of equipment, facility needs, and minor infrastructure projects.

Proprietary Funds

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

The unrestricted net position in the respective proprietary funds are sewer \$390,892, storm water \$182,071 and \$43,691 for the Par 3 golf course. The Sewer Utility Fund had a decrease in net position in 2015 of \$27,325, the Storm Water Utility Fund had a decrease in net position in 2015 of \$144,287 and the Par 3 Golf Course Fund had an increase in net position of \$20,445.

**City of Mendota Heights
Management's Discussion and Analysis**

BUDGETARY HIGHLIGHTS

General Fund

The General Fund budget was not amended during 2015.

During the year, revenues were more than budgetary estimates by \$376,085, and expenditures were less than budgetary estimates by \$215,525.

The General Fund had higher than budgeted revenues for most categories. The City received higher than anticipated revenues for licenses and fees due to increased building activity. The City received cell tower rent as Miscellaneous Revenue for 2015. This was not a budgeted revenue for the General Fund.

The general fund expenditures were greater than budgeted in the general government function and lower than budgeted in public safety and public works functions. The general government function was over budget due to the City's payment for our contribution to the repairs made to the West St. Paul Ice Arena. The police portion of the public safety function had expenditures that were under budgeted amounts. Most of this decrease was due to police labor and benefits. The fire portion of the public safety function also showed expenditures that were lower than budgeted amounts. The public works function was under budgeted amounts. The street department did not have a seal coating project in 2015 that was budgeted for. In total, the expenditures for the General Fund were \$215,525 under budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2015, amounts to \$56,492,746 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, sewer main lines and storm sewers and infrastructure.

**Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 6,150,895	\$ 6,150,895	\$ 2,531,475	\$ 2,531,475	\$ 8,682,370	\$ 8,682,370
Construction in Progress	3,031,353	1,003,292	280,087	-	3,311,440	1,003,292
Buildings and Structures	2,508,974	2,566,901	148,710	155,747	2,657,684	2,722,648
Machinery and Equipment	2,316,866	2,477,268	77,517	90,345	2,394,383	2,567,613
Other Improvements	610,906	578,771	-	-	610,906	578,771
Sewer Main Lines and Storm Sewers	-	-	13,145,012	13,333,878	13,145,012	13,333,878
Infrastructure	25,690,951	26,983,817	-	-	25,690,951	26,983,817
Total Capital Assets	\$ 40,309,945	\$ 39,760,944	\$ 16,182,801	\$ 16,111,445	\$ 56,492,746	\$ 55,872,389

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

**City of Mendota Heights
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

At the end of the current year, the City had total long-term debt outstanding of \$18,675,000, an increase of \$2,700,000 from 2014. \$18,675,000 is for general obligation (G.O.) improvement debt which is supported in part by special assessments.

Outstanding Debt

G.O. improvement bonds, G.O. bonds and revenue bonds:

	Governmental Activities	
	2015	2014
G.O. Improvement Bonds	\$ 15,095,000	\$ 13,620,000
G.O. Bonds	3,580,000	2,355,000
Total	\$ 18,675,000	\$ 15,975,000

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

Minnesota Statutes limit the amount of G.O. debt a Minnesota city may issue to 2% of total estimated market value. The current debt limitation for the City is \$36,815,546. Of the City's outstanding debt, \$3,580,000 is counted within the statutory limitation.

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

Economic Factors and Next Year's Budgets and Rates

In 2016, the taxable market value for the City was \$1,840,777,309. This represents an increase of 5.8% from 2015. The City is expecting an increase in taxable market value for 2017.

These factors were considered in preparing the City's budget for 2016.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

**City of Mendota Heights
Statement of Net Position
December 31, 2015**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 15,167,215	\$ 431,954	\$ 15,599,169
Property tax receivable	71,809	-	71,809
Accounts receivable	35,419	524,192	559,611
Interest receivable	11,470	583	12,053
Due from other governments	1,037,514	519	1,038,033
Special assessments receivable			
Delinquent	8,835	5,532	14,367
Unearned	2,437,184	41,319	2,478,503
Inventories	17,283	-	17,283
Prepaid items	201,923	110,106	312,029
Land held for resale	96,100	-	96,100
Capital assets (net of accumulated depreciation)			
Land and improvements	6,150,895	2,531,475	8,682,370
Construction in progress	3,031,353	280,087	3,311,440
Capital assets being depreciated			
Infrastructure	25,690,951	13,145,012	38,835,963
Buildings and structures	2,508,974	148,710	2,657,684
Other improvements	610,906	-	610,906
Machinery and equipment	2,316,865	77,517	2,394,382
Total assets	59,394,696	17,297,006	76,691,702
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	637,524	16,883	654,407
Total assets and deferred outflows of resources	\$ 60,032,220	\$ 17,313,889	\$ 77,346,109
Liabilities			
Accounts and contracts payable	\$ 860,331	\$ 315,146	\$ 1,175,477
Due to other governments	245,416	18,498	263,914
Salaries and benefits payable	137,519	2,901	140,420
Interest payable	181,383	-	181,383
Developers' escrow deposits	2,511	-	2,511
Bond principal payable			
Payable within one year	4,750,000	-	4,750,000
Payable after one year	14,140,192	-	14,140,192
Compensated absences payable			
Payable within one year	331,600	18,893	350,493
Payable after one year	113,044	10,285	123,329
Other post employment benefits (OPEB) payable	271,327	13,349	284,676
Net pension liability	3,286,131	121,078	3,407,209
Total liabilities	24,319,454	500,150	24,819,604
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	644,515	14,284	658,799
Net Position			
Net investment in capital assets	26,926,652	16,182,801	41,072,553
Restricted for			
Debt service	5,257,989	-	5,257,989
Street light maintenance	31,283	-	31,283
Park dedication	209,337	-	209,337
Unrestricted	2,642,990	616,654	5,296,544
Total net position	35,068,251	16,799,455	51,867,706
Total liabilities, deferred inflows of resources and net position	\$ 60,032,220	\$ 17,313,889	\$ 77,346,109

See notes to financial statements.

**City of Mendota Heights
Statement of Activities
Year Ended December 31, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 2,234,913	\$ 140,603	\$ 34,592	\$ 9,998	\$ (2,049,720)	\$ -	\$ (2,049,720)
Public safety	3,689,254	702,443	253,074	-	(2,733,737)	-	(2,733,737)
Public works	3,363,207	902,041	144,614	1,263,593	(1,052,959)	-	(1,052,959)
Interest on long-term debt	571,206	-	-	-	(571,206)	-	(571,206)
Total governmental activities	<u>9,858,580</u>	<u>1,745,087</u>	<u>432,280</u>	<u>1,273,591</u>	<u>(6,407,622)</u>	<u>-</u>	<u>(6,407,622)</u>
Business-type activities							
Sewer	1,759,242	1,706,666	-	-	-	(52,576)	(52,576)
Storm water	291,847	406,519	-	98,471	-	213,143	213,143
Par 3 Golf Course	147,299	167,434	-	-	-	20,135	20,135
Total business-type activities	<u>2,198,388</u>	<u>2,280,619</u>	<u>-</u>	<u>98,471</u>	<u>-</u>	<u>180,702</u>	<u>180,702</u>
Total governmental and business-type activities	<u>\$ 12,056,968</u>	<u>\$ 4,025,706</u>	<u>\$ 432,280</u>	<u>\$ 1,372,062</u>	<u>(6,407,622)</u>	<u>180,702</u>	<u>(6,226,920)</u>
General revenues							
Property taxes					6,956,453	-	6,956,453
Unrestricted investment earnings					80,137	13,562	93,699
Gain on sale of asset					1,000	-	1,000
Total general revenues					<u>7,037,590</u>	<u>13,562</u>	<u>7,051,152</u>
Transfers					345,431	(345,431)	-
Change in net position					<u>975,399</u>	<u>(151,167)</u>	<u>824,232</u>
Net position - beginning					37,328,657	17,066,289	54,394,946
Change in accounting principle (note 17)					<u>(3,235,805)</u>	<u>(115,667)</u>	<u>(3,351,472)</u>
Net position - beginning, restated					<u>34,092,852</u>	<u>16,950,622</u>	<u>51,043,474</u>
Net position - ending					<u>\$ 35,068,251</u>	<u>\$ 16,799,455</u>	<u>\$ 51,867,706</u>

See notes to financial statements.

City of Mendota Heights
Balance Sheet - Governmental Funds
December 31, 2015

	<u>General Fund</u>	<u>Special Assessments Debt Service</u>	<u>Street Capital Projects</u>
Assets			
Cash and investments (including cash equivalents)	\$ 6,456,438	\$ 6,023,791	\$ 280,189
Taxes receivable - delinquent	60,187	7,216	-
Special assessments receivable			
Delinquent	-	8,835	-
Deferred	-	2,403,983	22,579
Accounts receivable	9,170	-	-
Interest receivable	5,337	2,848	428
Due from other funds	-	-	-
Due from other governments	269,631	11,171	507,136
Inventories	17,283	-	-
Prepaid items	182,249	-	-
Land held for resale	-	-	-
	<u>\$ 7,000,295</u>	<u>\$ 8,457,844</u>	<u>\$ 810,332</u>
Liabilities			
Accounts and contracts payable	\$ 156,531	\$ -	\$ 683,708
Due to other funds	-	-	-
Due to other governments	37,930	-	27,852
Salaries and benefits payable	130,813	-	-
Developers' escrow deposits	2,511	-	-
Total liabilities	<u>327,785</u>	<u>-</u>	<u>711,560</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	60,187	7,216	-
Unavailable revenue - special assessments	-	2,412,818	22,579
Total deferred inflows of resources	<u>60,187</u>	<u>2,420,034</u>	<u>22,579</u>
Fund Balances			
Nonspendable	199,532	-	-
Restricted	-	6,037,810	-
Committed	-	-	-
Assigned	192,621	-	76,193
Unassigned	6,220,170	-	-
Total fund balances	<u>6,612,323</u>	<u>6,037,810</u>	<u>76,193</u>
	<u>\$ 7,000,295</u>	<u>\$ 8,457,844</u>	<u>\$ 810,332</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,000,295</u>	<u>\$ 8,457,844</u>	<u>\$ 810,332</u>

See notes to the financial statements.

Special Assessment Capital Project	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,186,902	\$ 14,947,320
-	4,406	71,809
-	-	8,835
10,622	-	2,437,184
26,249	-	35,419
108	2,612	11,333
-	396,448	396,448
244,067	5,509	1,037,514
-	-	17,283
-	-	182,249
-	96,100	96,100
<u>\$ 281,046</u>	<u>\$ 2,691,977</u>	<u>\$ 19,241,494</u>
\$ 9,475	\$ 4,807	\$ 854,521
396,448	-	396,448
170,000	8,348	244,130
-	-	130,813
-	-	2,511
<u>575,923</u>	<u>13,155</u>	<u>1,628,423</u>
-	4,406	71,809
10,622	-	2,446,019
<u>10,622</u>	<u>4,406</u>	<u>2,517,828</u>
-	-	199,532
-	688,464	6,726,274
-	414,397	414,397
-	1,571,555	1,840,369
(305,499)	-	5,914,671
<u>(305,499)</u>	<u>2,674,416</u>	<u>15,095,243</u>
<u>\$ 281,046</u>	<u>\$ 2,691,977</u>	<u>\$ 19,241,494</u>

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**City of Mendota Heights
Reconciliation of the Balance Sheet to
The Statement of Net Position - Governmental Funds
December 31, 2015**

Total fund balances - governmental funds \$ 15,095,243

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	64,918,177
Less accumulated depreciation	(25,089,799)

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

Long-term liabilities at year-end consist of:

General obligation (G. O.) bond principal payable	(18,675,000)
Unamortized bond premium	(215,192)
OPEB payable	(240,201)
Net pension liability	(2,895,711)

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	(598,456)
Deferred outflows of resources related to pensions	583,086

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

Property taxes	71,809
Special assessments	8,835

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred special assessments	2,437,184
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Governmental funds do not report a liability for accrued interest until due and payable.

(181,383)

Internal service funds are used by management to charge the cost of engineering, compensated absences and City Hall expenses to individual funds. The net position of the funds are considered governmental and included in the government-wide Statement of Net Position.

(150,341)

Total net position - governmental activities	<u><u>\$ 35,068,251</u></u>
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City of Mendota Heights
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2015

	General Fund	Special Assessments Debt Service	Street Capital Projects
Revenues			
Property taxes	\$ 5,819,237	\$ 734,599	\$ -
Special assessments	886	550,071	191,098
Licenses and permits	435,220	-	-
Intergovernmental	418,234	-	507,136
Charges for services	598,691	-	-
Fines and forfeitures	49,047	2,941	16
Miscellaneous			
Investment income	32,656	17,416	2,590
Contributions and donations	-	-	-
Other	196,477	-	-
Total revenues	<u>7,550,448</u>	<u>1,305,027</u>	<u>700,840</u>
Expenditures			
Current			
General government	1,565,831	-	-
Public safety	3,570,994	-	-
Public works	1,785,332	-	-
Debt service			
Principal	-	1,750,000	-
Interest and other charges	-	503,800	-
Capital outlay			
General government	27,726	-	-
Public safety	81,982	-	-
Public works	39,408	-	1,866,586
Total expenditures	<u>7,071,273</u>	<u>2,253,800</u>	<u>1,866,586</u>
Excess of revenues over (under) expenditures	479,175	(948,773)	(1,165,746)
Other Financing Sources (Uses)			
Issuance of debt	-	4,670,000	-
Bond premium	-	131,459	-
Transfers in	95,750	-	1,465,969
Transfers out	-	(1,154,222)	(29,187)
Total other financing sources (uses)	<u>95,750</u>	<u>3,647,237</u>	<u>1,436,782</u>
Net change in fund balances	574,925	2,698,464	271,036
Fund Balances			
Beginning of year	<u>6,037,398</u>	<u>3,339,346</u>	<u>(194,843)</u>
End of year	<u>\$ 6,612,323</u>	<u>\$ 6,037,810</u>	<u>\$ 76,193</u>

See notes to financial statements.

Special Assessment Capital Project	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 417,183	\$ 6,971,019
443	-	742,498
-	-	435,220
192,676	-	1,118,046
-	243,896	842,587
-	121	52,125
664	15,970	69,296
-	1,000	1,000
-	231,227	427,704
<u>193,783</u>	<u>909,397</u>	<u>10,659,495</u>
-	262,095	1,827,926
-	-	3,570,994
1	7,668	1,793,001
-	220,000	1,970,000
-	82,666	586,466
-	131,202	158,928
-	-	81,982
198,078	15,929	2,120,001
<u>198,079</u>	<u>719,560</u>	<u>12,109,298</u>
(4,296)	189,837	(1,449,803)
-	-	4,670,000
-	-	131,459
122,786	275,000	1,959,505
-	(422,465)	(1,605,874)
<u>122,786</u>	<u>(147,465)</u>	<u>5,155,090</u>
118,490	42,372	3,705,287
(423,989)	2,632,044	11,389,956
<u>\$ (305,499)</u>	<u>\$ 2,674,416</u>	<u>\$ 15,095,243</u>

**City of Mendota Heights
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
The Statement of Activities - Governmental Funds
Year Ended December 31, 2015**

Net change in fund balances - governmental funds \$ 3,705,287

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

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

Capital outlays	2,304,757
Depreciation expense	(1,784,679)
Loss on sale of disposed assets	(3,827)

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.

Pension expense	(62,017)
State aid related to pension expense	13,770

OPEB are not reported as expenditures in the governmental funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities.

(37,013)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.

1,970,000

Premiums on the issuance of long-term debt provide current financial resources to governmental funds and have no effect on net position. These amounts are reported in the governmental funds as an other financing source and constitute long-term liabilities in the Statement of Net Position.

(131,459)

Premiums are recognized when debt is issued in the governmental funds but amortized over the life of the debt in the Statement of Activities.

7,848

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.

7,412

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	(4,670,000)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

(196,558)

Activities of the internal service funds are presented separately from the governmental funds. However, the functions, from a government-wide perspective, are governmental.

(148,122)

Change in net position - governmental activities

\$ 975,399

**City of Mendota Heights
Statement of Revenues, Expenditures and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2015**

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	\$ 5,841,992	\$ 5,819,237	\$ (22,755)
Special assessments	-	886	886
Licenses and permits	269,850	435,220	165,370
Intergovernmental	369,070	418,234	49,164
Charges for services	580,811	598,691	17,880
Fines and forfeitures	72,500	49,047	(23,453)
Miscellaneous revenues			
Investment income	35,140	32,656	(2,484)
Other	5,000	196,477	191,477
Total revenues	7,174,363	7,550,448	376,085
Expenditures			
Current			
General government	1,355,123	1,565,831	210,708
Public safety	3,919,298	3,570,994	(348,304)
Public works	1,883,377	1,785,332	(98,045)
Capital outlay			
General government	14,000	27,726	13,726
Public safety	78,000	81,982	3,982
Public works	37,000	39,408	2,408
Total expenditures	7,286,798	7,071,273	(215,525)
Excess of revenues over (under) expenditures	(112,435)	479,175	591,610
Other Financing Sources			
Transfers in	99,500	95,750	(3,750)
Net change in fund balance	\$ (12,935)	574,925	\$ 587,860
Fund Balance			
Beginning of year		6,037,398	
End of year		\$ 6,612,323	

See notes to the financial statements.

City of Mendota Heights
Statement of Net Position - Proprietary Funds
December 31, 2015

	Sewer Utility	Storm Water Utility	Par 3 Golf Course	Total	Internal Service Funds
Assets					
Current assets					
Cash and investments	\$ 268,241	\$ 101,783	\$ 61,930	\$ 431,954	\$ 219,895
Special assessment receivable					
Delinquent	5,532	-	-	5,532	-
Deferred	41,319	-	-	41,319	-
Accounts receivable	524,136	-	56	524,192	-
Interest receivable	229	303	51	583	137
Due from other funds	-	101,124	-	101,124	196,587
Due from other governments	519	-	-	519	-
Prepaid expenses	106,026	-	4,080	110,106	19,674
Total current assets	<u>946,002</u>	<u>203,210</u>	<u>66,117</u>	<u>1,215,329</u>	<u>436,293</u>
Noncurrent assets					
Capital assets					
Land	-	-	2,531,475	2,531,475	25,000
Construction in progress	280,087	-	-	280,087	-
Buildings	-	-	208,490	208,490	1,782,525
Sewer main lines and storm sewers	14,281,487	3,792,744	-	18,074,231	-
Improvements other than buildings	-	-	-	-	27,581
Machinery and equipment	195,981	-	43,851	239,832	186,535
Total capital assets	<u>14,757,555</u>	<u>3,792,744</u>	<u>2,783,816</u>	<u>21,334,115</u>	<u>2,021,641</u>
Less accumulated depreciation	<u>(4,690,831)</u>	<u>(361,800)</u>	<u>(98,683)</u>	<u>(5,151,314)</u>	<u>(1,540,075)</u>
Net capital assets	<u>10,066,724</u>	<u>3,430,944</u>	<u>2,685,133</u>	<u>16,182,801</u>	<u>481,566</u>
Total noncurrent assets	<u>10,066,724</u>	<u>3,430,944</u>	<u>2,685,133</u>	<u>16,182,801</u>	<u>481,566</u>
Total assets	<u>\$ 11,012,726</u>	<u>\$ 3,634,154</u>	<u>\$ 2,751,250</u>	<u>\$ 17,398,130</u>	<u>\$ 917,859</u>
Deferred Outflows of Resources					
Deferred outflows of resources related to pensions	<u>12,196</u>	<u>2,313</u>	<u>2,374</u>	<u>16,883</u>	<u>54,438</u>
Total assets and deferred outflows of resources	<u>\$ 11,024,922</u>	<u>\$ 3,636,467</u>	<u>\$ 2,753,624</u>	<u>\$ 17,415,013</u>	<u>\$ 972,297</u>
Liabilities and Net Position					
Current liabilities					
Accounts and contracts payable	\$ 311,477	\$ 2,514	\$ 1,155	\$ 315,146	\$ 5,810
Salaries and benefits payable	2,100	348	453	2,901	6,706
Due to other funds	101,124	-	-	101,124	196,587
Due to other governments	16,123	750	1,625	18,498	1,286
Noncurrent liabilities due within one year	18,893	-	-	18,893	331,600
Total current liabilities	<u>449,717</u>	<u>3,612</u>	<u>3,233</u>	<u>456,562</u>	<u>541,989</u>
Noncurrent liabilities					
Compensated absences	29,178	-	-	29,178	444,644
OPEB payable	9,519	1,296	2,534	13,349	31,126
Net pension liability	87,466	16,587	17,025	121,078	390,420
Less amount due within one year	<u>(18,893)</u>	<u>-</u>	<u>-</u>	<u>(18,893)</u>	<u>(331,600)</u>
Total noncurrent liabilities	<u>107,270</u>	<u>17,883</u>	<u>19,559</u>	<u>144,712</u>	<u>534,590</u>
Total liabilities	<u>556,987</u>	<u>21,495</u>	<u>22,792</u>	<u>601,274</u>	<u>1,076,579</u>
Deferred Inflows of Resources					
Deferred inflows of resources related to pensions	<u>10,319</u>	<u>1,957</u>	<u>2,008</u>	<u>14,284</u>	<u>46,059</u>
Net Position					
Investment in capital assets	10,066,724	3,430,944	2,685,133	16,182,801	481,566
Unrestricted	390,892	182,071	43,691	616,654	(631,907)
Total net position	<u>10,457,616</u>	<u>3,613,015</u>	<u>2,728,824</u>	<u>16,799,455</u>	<u>(150,341)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 11,024,922</u>	<u>\$ 3,636,467</u>	<u>\$ 2,753,624</u>	<u>\$ 17,415,013</u>	<u>\$ 972,297</u>

City of Mendota Heights
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended December 31, 2015

	Sewer Utility	Storm Water Utility	Par 3 Golf Course	Total	Internal Service Funds
Operating revenues					
Charges for services	\$ 1,675,008	\$ 405,569	\$ 167,300	\$ 2,247,877	\$ 734,235
Operating expenses					
Wages and salaries	127,682	19,233	69,215	216,130	444,105
Employee benefits	52,168	6,364	16,838	75,370	156,477
Materials and supplies	23,952	9	3,718	27,679	41,318
Repairs and maintenance	141,476	163,394	8,211	313,081	-
Professional services	24,957	43,946	11,686	80,589	13,330
Insurance	5,473	-	3,135	8,608	13,428
Utilities	27,369	-	11,436	38,805	42,513
Depreciation	166,989	35,637	7,881	210,507	74,522
Travel	237	-	-	237	2,088
Miscellaneous	27,397	23,264	15,179	65,840	97,922
Sewer charges - MCES	1,161,542	-	-	1,161,542	-
Total operating expenses	<u>1,759,242</u>	<u>291,847</u>	<u>147,299</u>	<u>2,198,388</u>	<u>885,998</u>
Operating income (loss)	(84,234)	113,722	20,001	49,489	(151,763)
Nonoperating revenues					
Investment income	11,401	1,851	310	13,562	10,841
Fines and forfeitures	1,613	-	-	1,613	-
Special assessments	19,470	-	-	19,470	-
Gain on sale of asset	-	-	-	-	1,000
Intergovernmental revenue	-	98,471	-	98,471	-
Other income	10,575	950	134	11,659	-
Total nonoperating revenues	<u>43,059</u>	<u>101,272</u>	<u>444</u>	<u>144,775</u>	<u>11,841</u>
Change in net position before capital contributions and transfers	(41,175)	214,994	20,445	194,264	(139,922)
Transfers in	25,000	-	-	25,000	-
Transfers out	<u>(11,150)</u>	<u>(359,281)</u>	<u>-</u>	<u>(370,431)</u>	<u>(8,200)</u>
Change in net position	(27,325)	(144,287)	20,445	(151,167)	(148,122)
Net position					
Beginning of year	10,568,498	3,773,147	2,724,644	17,066,289	370,752
Change in accounting principle (Note 17)	<u>(83,557)</u>	<u>(15,845)</u>	<u>(16,265)</u>	<u>(115,667)</u>	<u>(372,971)</u>
Beginning of year, as restated	<u>10,484,941</u>	<u>3,757,302</u>	<u>2,708,379</u>	<u>16,950,622</u>	<u>(2,219)</u>
End of year	<u>\$ 10,457,616</u>	<u>\$ 3,613,015</u>	<u>\$ 2,728,824</u>	<u>\$ 16,799,455</u>	<u>\$ (150,341)</u>

City of Mendota Heights
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2015

	Sewer Utility	Storm Water Utility	Par 3 Golf Course	Total	Internal Service Funds
Cash Flows - Operating Activities					
Receipts from customers and users	\$ 1,642,407	\$ 636,601	\$ 168,345	\$ 2,447,353	\$ 734,235
Payments to suppliers	(1,222,576)	(228,099)	(55,370)	(1,506,045)	(270,714)
Payments to employees	(183,535)	(25,836)	(86,379)	(295,750)	(622,367)
Miscellaneous revenue	41,217	950	134	42,301	-
Net cash flows - operating activities	<u>277,513</u>	<u>383,616</u>	<u>26,730</u>	<u>687,859</u>	<u>(158,846)</u>
Cash Flows - Noncapital					
Financing Activities					
Transfer from other funds	25,000	-	-	25,000	-
Transfer to other funds	(11,150)	(359,281)	-	(370,431)	(8,200)
Due to other funds	22,668	-	-	22,668	166,453
Due from other funds	-	(22,668)	-	(22,668)	(166,453)
Net cash flows - noncapital financing activities	<u>36,518</u>	<u>(381,949)</u>	<u>-</u>	<u>(345,431)</u>	<u>(8,200)</u>
Cash Flows - Capital And Related					
Financing Activities					
Intergovernmental revenue	-	98,471	-	98,471	-
Proceeds from Sale of Capital Assets	-	-	-	-	1,000
Acquisition of capital assets	(281,863)	-	-	(281,863)	(107,271)
Net cash flows - capital and related financing activities	<u>(281,863)</u>	<u>98,471</u>	<u>-</u>	<u>(183,392)</u>	<u>(106,271)</u>
Cash Flows - Investing Activities					
Interest and dividends received	11,210	1,645	271	13,126	10,802
Net change in cash and cash equivalents	43,378	101,783	27,001	172,162	(262,515)
Cash and Cash Equivalents					
Beginning of year	224,863	-	34,929	259,792	482,410
End of year	<u>\$ 268,241</u>	<u>\$ 101,783</u>	<u>\$ 61,930</u>	<u>\$ 431,954</u>	<u>\$ 219,895</u>
Reconciliation Of Operating Income					
(Loss) to Net Cash Flows -					
Operating Activities					
Operating income (loss)	\$ (84,234)	\$ 113,722	\$ 20,001	\$ 49,489	\$ (151,763)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities					
Operating activities					
Miscellaneous revenue	41,217	950	134	42,301	-
Depreciation expense	166,989	35,637	7,881	210,507	74,522
Accounts receivable	(34,582)	-	1,045	(33,537)	-
Due from other governments	1,981	231,032	-	233,013	-
Prepaid items	(6,741)	-	(3,033)	(9,774)	(13,378)
Accounts and contracts payable	299,587	2,514	(192)	301,909	(47,519)
Due to other governmental units	(103,019)	-	1,220	(101,799)	1,077
Salaries payable	(4,710)	(732)	(930)	(6,372)	(17,569)
Open payable	429	107	210	746	309
Pension related items	2,032	386	394	2,812	9,070
Compensated absences payable	(1,436)	-	-	(1,436)	(13,595)
Total adjustments	<u>361,747</u>	<u>269,894</u>	<u>6,729</u>	<u>638,370</u>	<u>(7,083)</u>
Net cash flows - operating activities	<u>\$ 277,513</u>	<u>\$ 383,616</u>	<u>\$ 26,730</u>	<u>\$ 687,859</u>	<u>\$ (158,846)</u>

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Description of Funds:

Major Governmental Funds:

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

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

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

Special Assessment Capital Project Fund – This Fund is used to account for the proceeds and disbursements of funds for projects that are not included in the Street Capital Project Fund.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Description of Funds: (Continued)

Proprietary Funds:

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

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

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

Additional Fund Types:

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

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

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

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

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

1. Deposits and Investments

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

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

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City addresses custodial credit risk by having the authority from the City Council to maintain deposits with various financial institutions that are members of the Federal Reserve System. The City's policy states all deposits must be collateralized in compliance with *Minnesota Statutes* 118A.

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

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

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

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states that to ensure safety when considering an investment it is verified to make certain funds in excess of insurance are not made at the same institution.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables

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

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

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

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

3. Inventories

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

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

4. Prepaid Items

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Capital Assets

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

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

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

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

6. Deferred Outflows/Inflows of Resources

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

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(s) of Net Position for deferred inflows of resources related to pensions.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Compensated Absences\Severance

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

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

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

8. Long-Term Obligations

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

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

9. Pensions

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Fund Equity

a. Classification

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

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- **Assigned Fund Balance** – These are amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City’s Administrator or Finance Director based on the City Council’s direction.
- **Unassigned Fund Balance** – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

b. Minimum Fund Balance

The City will strive to maintain a General Fund unassigned fund balance of 65% of the following year’s budgeted operating expenditures.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$2,036,900 was made between this net position class and unrestricted net position in the total column on the Statement of Net Position to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

12. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

B. Deficit Fund Balances

The following Funds had deficit fund balances or net position at December 31, 2015:

Special Assessment Capital Project Fund	\$ 305,499
Internal Service Fund:	
Engineering	536,348

NOTE 3 – DEPOSITS AND INVESTMENTS

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

A. Deposits

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

Custodial Credit Risks – Deposits: As of December 31, 2015, the City’s bank balance was not exposed to custodial credit risk because it was insured through the FDIC.

As of December 31, 2015, the City had deposits as follows:

Checking	\$ 51,241
Savings	641
Nonbrokered certificates of deposit	<u>13,953</u>
 Total deposits	 <u><u>\$ 65,835</u></u>

B. Investments

As of December 31, 2015, the City had the following investments:

Investment Type	Credit Ratings	Fair Value 12/31/15	Investment Maturities		
			Less Than 1 Year	1 - 5 Years	6 - 10 Years
FHLMC	AA+	\$ 1,495,725	\$ -	\$ 1,495,725	\$ -
Mutual Funds	N/A	9,262,606	9,262,606	-	-
Brokered Cash and Money Markets	N/A	926,218	926,218	-	-
Brokered Certificates of Deposit	N/A	<u>3,847,385</u>	<u>494,300</u>	<u>2,867,059</u>	<u>486,026</u>
 Total		 <u><u>\$ 15,531,934</u></u>	 <u><u>\$ 10,683,124</u></u>	 <u><u>\$ 4,362,784</u></u>	 <u><u>\$ 486,026</u></u>

**City of Mendota Heights
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS

Credit Risk: As of December 31, 2015, the City’s investments in government securities were rated an average AA+ by Standard and Poor’s (S&P).

Concentration of Credit Risk: As of December 31, 2015, investments in government securities FHLMC (9.6%) was exposed to concentration of credit risk as they exceeded 5% of the City’s total investments.

Custodial Credit Risk – Investments: The City’s investments held by the broker-dealer were insured by Securities Investor Protection Corporation (SIPC) or other supplemental insurance as of December 31, 2015. However, each investment brokerage firm may have a limit to their supplemental insurance and because of the size of the City’s portfolio in relation to the brokerage firm’s excess SIPC coverage limits the portion of the supplemental policy applicable to the City’s portfolio is unknown. The City accepts the risk due to the controls in place at the broker-dealer.

C. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 3. A.)	\$ 65,835
Investments (Note 3.B.)	15,531,934
Petty cash	<u>1,400</u>
Total cash and investments	<u><u>\$ 15,599,169</u></u>

Deposits and investments are presented in the December 31, 2015, basic financial statements as follows:

Statement of Net Position:	
Cash and investments	<u><u>\$ 15,599,169</u></u>

**City of Mendota Heights
Notes to Financial Statements**

NOTE 4 – INTERFUND ACTIVITIES

A. Interfund Receivables and Payable

The following is a summary of the City’s due to/due from other funds at December 31, 2015:

Fund	Due to	Due from	Reason
Special Assessment Capital Project	\$ 396,448	\$ -	Cash Deficit
Engineering	196,587	-	Cash Deficit
Sewer Utility	101,124	-	Utility Receipt
Water Tower	-	396,448	Cash Deficit
Compensated Absences	-	196,587	Cash Deficit
Storm Water Utility	-	101,124	Utility Receipt
Total	\$ 694,159	\$ 694,159	

The balances above will be repaid as financing becomes available.

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2015, was as follows:

	Transfers In					Total
	General	Street Capital Projects	Special Assessment Capital Project	Other Governmental Funds	Sewer Utility	
Transfers Out:						
Special Assessments						
Debt Service	\$ 22,250	\$ 1,131,972	\$ -	\$ -	\$ -	\$ 1,154,222
Street Capital Projects	-	-	29,187	-	-	29,187
Other Governmental						
Funds	44,500	-	77,965	275,000	25,000	422,465
Sewer Utility	11,150	-	-	-	-	11,150
Storm Water Utility	9,650	333,997	15,634	-	-	359,281
Internal Service Funds	8,200	-	-	-	-	8,200
Total	\$ 95,750	\$ 1,465,969	\$ 122,786	\$ 275,000	\$ 25,000	\$ 1,984,505

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

City of Mendota Heights
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated				
Land and improvements	\$ 6,150,895	\$ -	\$ -	\$ 6,150,895
Construction in progress	<u>1,003,292</u>	<u>2,028,061</u>	<u>-</u>	<u>3,031,353</u>
Total capital assets Not being depreciated	<u>7,154,187</u>	<u>2,028,061</u>	<u>-</u>	<u>9,182,248</u>
Capital assets being depreciated				
Buildings and structures	6,458,806	104,445	-	6,563,251
Machinery and equipment	5,186,973	174,066	48,544	5,312,495
Other improvements	2,072,370	105,457	10,912	2,166,915
Infrastructure	<u>43,714,909</u>	<u>-</u>	<u>-</u>	<u>43,714,909</u>
Total capital assets being depreciated	<u>57,433,058</u>	<u>383,968</u>	<u>59,456</u>	<u>57,757,570</u>
Less accumulated depreciation for:				
Buildings and structures	3,891,905	162,372	-	4,054,277
Machinery and equipment	2,709,705	332,096	46,172	2,995,629
Other improvements	1,493,599	71,867	9,457	1,556,009
Infrastructure	<u>16,731,092</u>	<u>1,292,866</u>	<u>-</u>	<u>18,023,958</u>
Total accumulated depreciation	<u>24,826,301</u>	<u>1,859,201</u>	<u>55,629</u>	<u>26,629,873</u>
Total capital assets being depreciated, net	<u>32,606,757</u>	<u>(1,475,233)</u>	<u>3,827</u>	<u>31,127,697</u>
Governmental activities capital assets, net	<u>\$ 39,760,944</u>	<u>\$ 552,828</u>	<u>\$ 3,827</u>	<u>\$ 40,309,945</u>

City of Mendota Heights
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 2,531,475	\$ -	\$ -	\$ 2,531,475
Construction in progress	-	280,087	-	280,087
Total capital assets not being depreciated	<u>2,531,475</u>	<u>280,087</u>	<u>-</u>	<u>2,811,562</u>
Capital assets being depreciated				
Buildings and structures	208,490	-	-	208,490
Machinery and equipment	238,056	1,776	-	239,832
Sewer main lines and storm sewers	<u>18,074,231</u>	<u>-</u>	<u>-</u>	<u>18,074,231</u>
Total capital assets being depreciated	<u>18,520,777</u>	<u>1,776</u>	<u>-</u>	<u>18,522,553</u>
Less accumulated depreciation for				
Buildings and structures	52,743	7,037	-	59,780
Machinery and equipment	147,711	14,604	-	162,315
Sewer main lines and storm sewers	<u>4,740,353</u>	<u>188,866</u>	<u>-</u>	<u>4,929,219</u>
Total accumulated depreciation	<u>4,940,807</u>	<u>210,507</u>	<u>-</u>	<u>5,151,314</u>
Total capital assets being depreciated, net	<u>13,579,970</u>	<u>(208,731)</u>	<u>-</u>	<u>13,371,239</u>
Business-type activities capital assets, net	<u><u>\$ 16,111,445</u></u>	<u><u>\$ 71,356</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,182,801</u></u>

**City of Mendota Heights
Notes to Financial Statements**

NOTE 5 – CAPITAL ASSETS

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

Governmental activities	
General government	\$ 200,104
Public safety	134,697
Public works	1,449,878
Internal service funds	<u>74,522</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 1,859,201</u></u>
 Business-type activities	
Sewer utility	\$ 166,989
Storm water utility	35,637
Par 3 Golf Course	<u>7,881</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 210,507</u></u>

NOTE 6 – LONG-TERM DEBT

A. G.O. Bonds

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

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 6 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities:					
Government activities					
G. O. Improvement bonds, including refunding bonds					
G.O. Improvement Bonds of 2006	3.60%-3.90%	\$ 630,000	02/01/17	\$ 150,000	\$ 75,000
G.O. Improvement Bonds of 2008	3.25%-4.45%	3,200,000	02/01/28	2,325,000	2,325,000
G.O. Improvement Bonds of 2010	0.86%-3.75%	1,055,000	02/01/30	875,000	60,000
G.O. Improvement Bonds of 2011	0.40%-3.40%	2,970,000	02/01/31	2,415,000	215,000
G.O. Improvement Bonds of 2012	2.00%-2.70%	2,630,000	02/01/32	2,535,000	95,000
G.O. Improvement Bonds of 2013	2.00%-4.00%	1,685,000	02/01/34	1,685,000	115,000
G.O. Improvement Bonds, Series 2014A	0.85%-3.40%	1,030,000	02/01/35	1,030,000	-
G.O. Refunding Bond, Series 2014B	1.50%-3.00%	885,000	02/01/27	885,000	85,000
G.O. Improvement Bonds 2015A	.90%-3.00%	1,200,000	02/01/25	1,200,000	-
G.O. Refunding Bond, Series 2015C	2.00%-2.50%	1,995,000	02/01/28	1,995,000	-
Total improvement bonds				<u>15,095,000</u>	<u>2,970,000</u>
G. O. Bonds, including refunding bonds					
G.O. Bonds of 2007A	4.00%-4.20%	2,790,000	02/01/23	1,700,000	1,700,000
G.O. Bonds of 2009	1.50%-3.50%	745,000	02/01/20	405,000	80,000
G.O. Refunding Bonds 2015B	2.00%-3.00%	1,475,000	02/01/23	1,475,000	-
Total G.O. Bonds				<u>3,580,000</u>	<u>1,780,000</u>
Compensated absences payable					
Total governmental activities				<u>444,644</u>	<u>331,600</u>
Business-type activities					
Compensated absences payable				<u>29,178</u>	<u>18,893</u>
Total all long-term liabilities				<u>\$ 19,148,822</u>	<u>\$ 5,100,493</u>

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

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

On November 24, 2015, the City issued G.O. Refunding Bond, Series 2015B to perform a current refunding of the G.O. Improvement Bonds, Series 2007A on February 1, 2016. The refunding will reduce future interest payments by \$147,464 and resulted in present value savings of \$140,500.

On November 24, 2015, the City issued G.O. Refunding Bond, Series 2015C to perform a current refunding of the G.O. Improvement Bonds, Series 2008A on February 1, 2016. The refunding will reduce future interest payments by \$337,696 and resulted in present value savings of \$463,495.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 6 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
G.O. Improvements Bonds	\$ 13,620,000	\$ 3,195,000	\$ 1,720,000	\$ 15,095,000	\$ 2,970,000
G.O. Bonds	2,355,000	1,475,000	250,000	3,580,000	1,780,000
Compensated absences payable	458,239	336,549	350,144	444,644	331,600
Total governmental activities	<u>16,433,239</u>	<u>5,006,549</u>	<u>2,320,144</u>	<u>19,119,644</u>	<u>5,081,600</u>
Business-type activities					
Compensated absences payable	<u>30,614</u>	<u>15,642</u>	<u>17,078</u>	<u>29,178</u>	<u>18,893</u>
Total government	<u>\$ 16,463,853</u>	<u>\$ 5,022,191</u>	<u>\$ 2,337,222</u>	<u>\$ 19,148,822</u>	<u>\$ 5,100,493</u>

D. Long-Term Debt

The annual requirements to amortize all bonded debt outstanding follows:

Year Ending December 31,	Governmental Activities					
	Improvement Bonds			G.O. Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 2,970,000	\$ 319,276	\$ 3,289,276	\$ 1,780,000	\$ 70,388	\$ 1,850,388
2017	930,000	277,233	1,207,233	270,000	41,715	311,715
2018	910,000	260,949	1,170,949	285,000	35,205	320,205
2019	885,000	245,145	1,130,145	285,000	28,425	313,425
2020	900,000	228,343	1,128,343	295,000	21,388	316,388
2021-2025	4,545,000	837,588	5,382,588	665,000	29,300	694,300
2026-2030	2,840,000	357,846	3,197,846	-	-	-
2031-2035	1,055,000	67,673	1,122,673	-	-	-
2036	60,000	900	60,900	-	-	-
Total	<u>\$ 15,095,000</u>	<u>\$ 2,594,953</u>	<u>\$ 17,689,953</u>	<u>\$ 3,580,000</u>	<u>\$ 226,421</u>	<u>\$ 3,806,421</u>

**City of Mendota Heights
Notes to Financial Statements**

NOTE 7 – OPERATING LEASE

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

The following is a schedule by years of future minimum payments required under the leases as of December 31, 2015:

<u>Year Ending December 31,</u>	
2016	\$ 40,707
2017	22,009
2018	<u>6,879</u>
Total	<u>\$ 69,595</u>

NOTE 8 – CONDUIT DEBT

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

The aggregate amount of all conduit debt obligations outstanding as of December 31, 2015, was \$18,958,900.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 9 – FUND BALANCE DETAIL

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

	General Fund	Special Assessment Debt Service	Street Capital Projects	Special Assessment Capital Project	Other Governmental Funds	Total
Nonspendable						
Inventories	\$ 17,283	\$ -	\$ -	\$ -	\$ -	\$ 17,283
Prepaid items	182,249	-	-	-	-	182,249
Restricted						
Park dedication fees	-	-	-	-	209,337	209,337
Street light maintenance	-	-	-	-	30,797	30,797
Debt service	-	6,037,810	-	-	448,330	6,486,140
Committed						
Water system maintenance	-	-	-	-	320,394	320,394
Emergency preparedness and civil defense	-	-	-	-	94,003	94,003
Assigned						
Capital projects	-	-	76,193	-	1,475,455	1,551,648
Land held for resale	-	-	-	-	96,100	96,100
Insurance reserve	192,621	-	-	-	-	192,621
Unassigned	<u>6,220,170</u>	<u>-</u>	<u>-</u>	<u>(305,499)</u>	<u>-</u>	<u>5,914,671</u>
Total	<u>\$ 6,612,323</u>	<u>\$ 6,037,810</u>	<u>\$ 76,193</u>	<u>\$ (305,499)</u>	<u>\$ 2,674,416</u>	<u>\$ 15,095,243</u>

NOTE 10 – RISK MANAGEMENT

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

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

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 – PENSION PLANS

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 Fund (GERF)

All full-time and certain part-time employees of the City are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire Fund (PEPFF)

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

B. Benefits Provided

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

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

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

PEPFF Benefits

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

C. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$149,420. The City's contributions were equal to the required contributions as set by state statute.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$237,655. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$1,668,771 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0322%.

For the year ended December 31, 2015, the City recognized pension expense of \$184,863 for its proportionate share of GERF's pension expense.

At December 31, 2015, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ -	\$ 84,134
Difference between projected and actual investment earnings	157,975	-
Changes in proportion	-	112,740
Contributions paid to PERA subsequent to the measurement date	<u>74,710</u>	<u>-</u>
	<u>\$ 232,685</u>	<u>\$ 196,874</u>

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 –PENSION PLANS

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

\$74,710 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2016	\$ (26,131)
2017	(26,131)
2018	(26,130)
2019	39,493

PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$1,738,438 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.1530 %.

For the year ended December 31, 2015, the City recognized pension expense of \$263,573 for its proportionate share of the PEPFF's pension expense. The City also recognized \$13,770 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the sources on the following page.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 –PENSION PLANS

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 281,918
Difference between projected and actual investment earnings	302,894	-
Changes in proportion	-	180,007
Contributions paid to PERA subsequent to the measurement date	118,828	-
	\$ 421,722	\$ 461,925

\$118,828 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2016	\$ (16,662)
2017	(16,662)
2018	(16,662)
2019	(16,664)
2020	(92,381)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 % Per year
Active member payroll growth	3.50 % Per year
Investment rate of return	7.90 %

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	<u>100%</u>	

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERP net pension liability	\$ 2,623,901	\$ 1,668,771	\$ 879,980
City's proportionate share of the PEPFF net pension liability	\$ 3,388,234	\$ 1,738,438	\$ 375,419

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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

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

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 11 –PENSION PLANS (CONTINUED)

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

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

Under an Annual Contribution Agreement, the City’s contribution to the Association is determined by multiplying \$2,500 by the number of years of active service completed by members of the Association for the plan year, prorated by months for members who did not complete a full year of active service. The City also contributes a portion of the Association’s administrative fees each year. For 2015, that contribution was \$82,500. Required and actual employer contributions to the plan during 2015 were \$85,200. In addition, the City passes through state aid allocated to the plan in accordance with state statutes. For 2015, the state aid was \$95,298. Members of the Association are not allowed to make voluntary contributions to the plan.

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

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

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with BlueCross BlueShield and Delta Dental. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2015, the City contributed \$64,135 to the plan. As of December 31, 2015, there were four retirees receiving health and dental benefits from the City.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

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

ARC	\$ 106,323
Interest on net OPEB obligation	9,864
Adjustment to ARC	(13,984)
Annual OPEB Cost (expense)	102,203
Contributions made	(64,135)
Increase in net OPEB obligation	38,068
Net OPEB obligation - beginning of year	246,608
Net OPEB obligation - end of year	\$ 284,676

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/13	\$ 68,811	\$ 19,432	28%	\$ 201,715
12/31/14	67,905	23,012	34%	246,608
12/31/15	102,203	64,135	63%	284,676

D. Funded Status and Funding Progress

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

**City of Mendota Heights
Notes to Financial Statements**

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

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

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

In the January 1, 2015, the actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter term, based on City's general assets). The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual healthcare cost trend rate was calculated to be 7.25% initially, reduced incrementally to an ultimate rate of 5 percent after nine years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at January 1, 2015 was 28 years.

NOTE 13 – TOWN CENTER – THE VILLAGE AT MENDOTA HEIGHTS

The City temporarily has title to certain real properties in Town Center. The City currently has title to land valued by Dakota County at \$676,500. Once the project is complete all parcels, except the out lots which are included in the City's capital assets, will be developed and owned privately, and thus the land is not reported in the City's financial statements.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 14 – JOINT VENTURES

A. Dakota Communications Center

The City is a member of the Dakota Communication Center (DCC). The DCC was created by a joint powers agreement between Dakota County and several cities. Its purposes include the establishment, operation, and maintenance of joint law enforcement, fire, EMS and other emergency communications systems. Members are obligated to pay their proportional share of operating and capital expenditures on an annual basis. The City paid \$217,524 for 2015. Members do not maintain an equity interest other than if the DCC were to terminate. Withdrawing members forfeit any interest in the DCC. Information regarding the DCC can be obtained at the website www.mn-dcc.org.

B. Local Government Information Systems Association (LOGIS)

The consortium of approximately 30 government entities provides computerized data processing and support services to its members. LOGIS is a legally separate entity; the entities appoint a voting majority of its board, and the consortium is fiscally independent of the City. For 2015, the City paid \$40,253 for computer application support and computer hardware for the City’s network. Complete financial statements of the consortium may be obtained at the LOGIS offices located at 5750 Duluth Street, Golden Valley, Minnesota 55422.

NOTE 15 – COMMITMENTS

At December 31, 2015, the following contract commitments existed:

Project	Revised Contract Amount	Completed to Date	Amount Remaining
Victorin Road South Phase II	\$ 1,536,774	\$ 1,535,806	\$ 968
Crown Overlook Project	583,803	565,864	17,939

NOTE 16 – CONTINGENCIES

The City has various claims and litigation that arise in the normal course of business. The City has evaluated the impact of these items for the December 31, 2015, financial statements and determined they do not have a material effect on financial position or changes in financial position.

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$3,351,472 to add the beginning net pension liability, and an adjustment to the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds of \$110,467 to add the beginning net pension liability.

**City of Mendota Heights
Notes to Financial Statements**

NOTE 18 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Mendota Heights
Schedule of Funding Progress - Other Post Employment Benefits
December 31, 2015

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

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

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0322%	\$ 1,668,771	\$ 2,026,034	82.37%	78.19%

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

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.1530%	\$ 1,738,438	\$ 1,467,006	118.50%	86.61%

**City of Mendota Heights
Schedule of City Contributions
GERF Retirement Fund**

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 149,420	\$ 149,420	\$ -	\$ 1,992,267	7.50%

**Schedule of City Contributions
PEPPF Retirement Fund**

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Relation to the Statutorily Required</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Percentage of Covered- Employee Payroll</u>
2015	\$ 237,655	\$ 237,655	\$ -	\$ 1,467,006	16.20%

SUPPLEMENTARY INFORMATION

**City of Mendota Heights
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2015**

	Special Revenue		
	Water Revenue	Special Park	Civil Defense
Assets			
Cash and investments	\$ 317,867	\$ 211,515	\$ 99,063
Taxes receivable - delinquent	-	-	287
Interest receivable	218	293	88
Due from other funds	-	-	-
Due from other governments	5,509	-	-
Land held for resale	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 323,594</u>	<u>\$ 211,808</u>	<u>\$ 99,438</u>
Liabilities			
Accounts and contracts payable	\$ -	\$ 2,471	\$ -
Due to other governments	3,200	-	5,148
Total liabilities	<u>3,200</u>	<u>2,471</u>	<u>5,148</u>
Deferred Inflows Of Resources			
Unavailable revenue - property taxes	-	-	287
	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Restricted	-	209,337	-
Committed	320,394	-	94,003
Assigned	-	-	-
Total fund balances	<u>320,394</u>	<u>209,337</u>	<u>94,003</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 323,594</u>	<u>\$ 211,808</u>	<u>\$ 99,438</u>

Special Revenue		Debt Service		
Street Lighting	Total	Par 3 G.O. Bonds	Equipment Certificates	Total
\$ 33,049	\$ 661,494	\$ 319,846	\$ 128,203	\$ 448,049
486	773	2,618	580	3,198
33	632	180	101	281
-	-	-	-	-
-	5,509	-	-	-
-	-	-	-	-
<u>\$ 33,568</u>	<u>\$ 668,408</u>	<u>\$ 322,644</u>	<u>\$ 128,884</u>	<u>\$ 451,528</u>
\$ 2,285	\$ 4,756	\$ -	\$ -	\$ -
-	8,348	-	-	-
<u>2,285</u>	<u>13,104</u>	<u>-</u>	<u>-</u>	<u>-</u>
486	773	2,618	580	3,198
30,797	240,134	320,026	128,304	448,330
-	414,397	-	-	-
-	-	-	-	-
<u>30,797</u>	<u>654,531</u>	<u>320,026</u>	<u>128,304</u>	<u>448,330</u>
<u>\$ 33,568</u>	<u>\$ 668,408</u>	<u>\$ 322,644</u>	<u>\$ 128,884</u>	<u>\$ 451,528</u>

**City of Mendota Heights
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2015**

	Capital Projects		
	Equipment Replacement Reserve	Infrastructure Reserve	Facility Reserve
Assets			
Cash and investments	\$ 167,777	\$ 43,796	\$ 99,804
Taxes receivable - delinquent	199	218	18
Interest receivable	163	29	98
Due from other funds	-	-	-
Due from other governments	-	-	-
Land held for resale	-	-	-
	<u>\$ 168,139</u>	<u>\$ 44,043</u>	<u>\$ 99,920</u>
Liabilities			
Accounts and contracts payable	\$ -	\$ -	\$ -
Due to other governments	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	<u>199</u>	<u>218</u>	<u>18</u>
Fund Balances			
Restricted	-	-	-
Committed	-	-	-
Assigned	167,940	43,825	99,902
Total fund balances	<u>167,940</u>	<u>43,825</u>	<u>99,902</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 168,139</u>	<u>\$ 44,043</u>	<u>\$ 99,920</u>

Capital Projects

Water Tower Capital Project	Pilot Knob Improvement	Pre-1998 Non- Increment	Total	Total Nonmajor Governmental Funds
\$ 742,992	\$ 959	\$ 22,031	\$ 1,077,359	\$ 2,186,902
-	-	-	435	4,406
1,261	-	148	1,699	2,612
396,448	-	-	396,448	396,448
-	-	-	-	5,509
-	-	96,100	96,100	96,100
<u>\$ 1,140,701</u>	<u>\$ 959</u>	<u>\$ 118,279</u>	<u>\$ 1,572,041</u>	<u>\$ 2,691,977</u>
\$ -	\$ -	\$ 51	\$ 51	\$ 4,807
-	-	-	-	8,348
-	-	51	51	13,155
-	-	-	435	4,406
-	-	-	-	688,464
-	-	-	-	414,397
1,140,701	959	118,228	1,571,555	1,571,555
<u>1,140,701</u>	<u>959</u>	<u>118,228</u>	<u>1,571,555</u>	<u>2,674,416</u>
<u>\$ 1,140,701</u>	<u>\$ 959</u>	<u>\$ 118,279</u>	<u>\$ 1,572,041</u>	<u>\$ 2,691,977</u>

City of Mendota Heights
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2015

	Special Revenue				Total
	Water Revenue	Special Park	Civil Defense	Street Lighting	
Revenues					
Property taxes	\$ -	\$ -	\$ 24,728	\$ 29,740	\$ 54,468
Charges for services	243,896	-	-	-	243,896
Fines and forfeitures	-	-	25	-	25
Miscellaneous					
Investment income	1,335	1,792	538	199	3,864
Contributions and donations	-	1,000	-	-	1,000
Other	-	175,500	-	-	175,500
Total revenues	<u>245,231</u>	<u>178,292</u>	<u>25,291</u>	<u>29,939</u>	<u>478,753</u>
Expenditures					
Current					
General government	7,913	-	9,143	39,624	56,680
Public works	-	7,526	-	-	7,526
Debt service					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Capital outlay					
General government	-	122,382	-	-	122,382
Public works	-	-	-	-	-
Total expenditures	<u>7,913</u>	<u>129,908</u>	<u>9,143</u>	<u>39,624</u>	<u>186,588</u>
Excess of revenues over (under) expenditures	237,318	48,384	16,148	(9,685)	292,165
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	(303,000)	(1,500)	-	-	(304,500)
Total other financing sources (uses)	<u>(303,000)</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>	<u>(304,500)</u>
Net change in fund balances	(65,682)	46,884	16,148	(9,685)	(12,335)
Fund Balances					
Beginning of year	<u>386,076</u>	<u>162,453</u>	<u>77,855</u>	<u>40,482</u>	<u>666,866</u>
End of year	<u>\$ 320,394</u>	<u>\$ 209,337</u>	<u>\$ 94,003</u>	<u>\$ 30,797</u>	<u>\$ 654,531</u>

Debt Service			Capital Projects		
Par 3 G.O. Bonds	Equipment Certificates	Total	Equipment Replacement Reserve	Infrastructure Reserve	Facility Reserve
\$ 267,820	\$ 54,863	\$ 322,683	\$ 20,004	\$ 10,859	\$ 9,169
-	-	-	-	-	-
-	56	56	20	20	-
1,098	619	1,717	996	177	597
-	-	-	-	-	-
-	-	-	-	21,650	-
<u>268,918</u>	<u>55,538</u>	<u>324,456</u>	<u>21,020</u>	<u>32,706</u>	<u>9,766</u>
-	-	-	-	-	-
-	-	-	-	142	-
175,000	45,000	220,000	-	-	-
74,180	8,336	82,516	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>249,180</u>	<u>53,336</u>	<u>302,516</u>	<u>-</u>	<u>142</u>	<u>-</u>
19,738	2,202	21,940	21,020	32,564	9,766
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
19,738	2,202	21,940	21,020	32,564	9,766
300,288	126,102	426,390	146,920	11,261	90,136
<u>\$ 320,026</u>	<u>\$ 128,304</u>	<u>\$ 448,330</u>	<u>\$ 167,940</u>	<u>\$ 43,825</u>	<u>\$ 99,902</u>

City of Mendota Heights
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2015

	Capital Projects			Total	Total Other Governmental Funds
	Water Tower Capital Project	Pilot Knob Improvement	Pre-1998 Non- Increment		
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 40,032	\$ 417,183
Charges for services	-	-	-	-	243,896
Fines and forfeitures	-	-	-	40	121
Miscellaneous:					
Investment income	7,712	-	907	10,389	15,970
Contributions and donations	-	-	-	-	1,000
Other	295	-	33,782	55,727	231,227
Total revenues	<u>8,007</u>	<u>-</u>	<u>34,689</u>	<u>106,188</u>	<u>909,397</u>
Expenditures					
Current					
General government	-	-	205,415	205,415	262,095
Public works	-	-	-	142	7,668
Debt service					
Principal	-	-	-	-	220,000
Interest and other charges	150	-	-	150	82,666
Capital outlay					
General government	-	-	8,820	8,820	131,202
Public works	15,929	-	-	15,929	15,929
Total expenditures	<u>16,079</u>	<u>-</u>	<u>214,235</u>	<u>230,456</u>	<u>719,560</u>
Excess of revenues over (under) expenditures	(8,072)	-	(179,546)	(124,268)	189,837
Other Financing Sources (Uses)					
Transfers in	275,000	-	-	275,000	275,000
Transfers out	(77,965)	-	(40,000)	(117,965)	(422,465)
Total other financing sources (uses)	<u>197,035</u>	<u>-</u>	<u>(40,000)</u>	<u>157,035</u>	<u>(147,465)</u>
Net change in fund balances	188,963	-	(219,546)	32,767	42,372
Fund Balances					
Beginning of year	<u>951,738</u>	<u>959</u>	<u>337,774</u>	<u>1,538,788</u>	<u>2,632,044</u>
End of year	<u>\$ 1,140,701</u>	<u>\$ 959</u>	<u>\$ 118,228</u>	<u>\$ 1,571,555</u>	<u>\$ 2,674,416</u>

City of Mendota Heights
Combining Statement of Net Position - Internal Service Funds
December 31, 2015

	<u>Engineering</u>	<u>Compensated Absences</u>	<u>City Hall Sinking Fund</u>	<u>Total</u>
Assets				
Current assets				
Cash and investments (including cash equivalents)	\$ -	\$ 177,421	\$ 42,474	\$ 219,895
Interest receivable	-	-	137	137
Due from other funds	-	196,587	-	196,587
Prepaid expenses	13,062	-	6,612	19,674
Total current assets	<u>13,062</u>	<u>374,008</u>	<u>49,223</u>	<u>436,293</u>
Noncurrent assets				
Capital assets				
Land	-	-	25,000	25,000
Buildings	-	-	1,782,525	1,782,525
Improvements other than buildings	-	-	27,581	27,581
Machinery and equipment	119,566	-	66,969	186,535
Total capital assets	<u>119,566</u>	<u>-</u>	<u>1,902,075</u>	<u>2,021,641</u>
Less accumulated depreciation	(47,072)	-	(1,493,003)	(1,540,075)
Net capital assets	<u>72,494</u>	<u>-</u>	<u>409,072</u>	<u>481,566</u>
Total assets	<u>85,556</u>	<u>374,008</u>	<u>458,295</u>	<u>917,859</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pensions	47,359	-	7,079	54,438
Total assets and deferred outflows of resources	<u>\$ 132,915</u>	<u>\$ 374,008</u>	<u>\$ 465,374</u>	<u>\$ 972,297</u>
Liabilities				
Current liabilities				
Accounts and contracts payable	\$ 1,458	\$ -	\$ 4,352	\$ 5,810
Salaries and benefits payable	5,646	-	1,060	6,706
Due to other funds	196,587	-	-	196,587
Due to other governments	70	-	1,216	1,286
Noncurrent liabilities due within one year	25,634	300,477	5,489	331,600
Total current liabilities	<u>229,395</u>	<u>300,477</u>	<u>12,117</u>	<u>541,989</u>
Noncurrent liabilities				
Compensated absences	58,699	374,008	11,937	444,644
OPEB payable	27,089	-	4,037	31,126
Net pension liability	339,645	-	50,775	390,420
Less amount due within one year	(25,634)	(300,477)	(5,489)	(331,600)
Total noncurrent liabilities	<u>399,799</u>	<u>73,531</u>	<u>61,260</u>	<u>534,590</u>
Total liabilities	<u>629,194</u>	<u>374,008</u>	<u>73,377</u>	<u>1,076,579</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pensions	40,069	-	5,990	46,059
Net Position				
Investment in capital assets	72,494	-	409,072	481,566
Unrestricted	(608,842)	-	(23,065)	(631,907)
Total net position	<u>(536,348)</u>	<u>-</u>	<u>386,007</u>	<u>(150,341)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 132,915</u>	<u>\$ 374,008</u>	<u>\$ 465,374</u>	<u>\$ 972,297</u>

City of Mendota Heights
Combining Statement of Revenues, Expenses, and Changes
in Net Position - Internal Service Funds
Year Ended December 31, 2015

	<u>Engineering</u>	<u>Compensated Absences</u>	<u>City Hall Sinking Fund</u>	<u>Total</u>
Operating revenues				
Charges for services	\$ 528,735	\$ -	\$ 205,500	\$ 734,235
Operating expenses				
Wages and salaries	385,106	-	58,999	444,105
Employee benefits	132,114	-	24,363	156,477
Materials and supplies	41,318	-	-	41,318
Professional services	4,155	-	9,175	13,330
Insurance	8,737	-	4,691	13,428
Utilities	4,066	-	38,447	42,513
Depreciation	9,745	-	64,777	74,522
Travel	1,706	-	382	2,088
Equipment	295	-	-	295
Miscellaneous	55,909	-	42,013	97,922
Total operating expenses	<u>643,151</u>	<u>-</u>	<u>242,847</u>	<u>885,998</u>
Operating loss	(114,416)	-	(37,347)	(151,763)
Nonoperating revenues				
Investment income	10,000	-	841	10,841
Gain on sale of asset	1,000	-	-	1,000
Total nonoperating revenue	<u>11,000</u>	<u>-</u>	<u>841</u>	<u>11,841</u>
Loss before transfers	(103,416)	-	(36,506)	(139,922)
Transfers out	<u>(8,200)</u>	<u>-</u>	<u>-</u>	<u>(8,200)</u>
Change in net position	(111,616)	-	(36,506)	(148,122)
Net position				
Beginning of year	(100,266)	-	471,018	370,752
Change in accounting principle (Note 17)	<u>(324,466)</u>	<u>-</u>	<u>(48,505)</u>	<u>(372,971)</u>
Beginning of year, as restated	<u>(424,732)</u>	<u>-</u>	<u>422,513</u>	<u>(2,219)</u>
End of year	<u>\$ (536,348)</u>	<u>\$ -</u>	<u>\$ 386,007</u>	<u>\$ (150,341)</u>

City of Mendota Heights
Combining Statement of Cash Flows - Internal Service Funds
Year Ended December 31, 2015

	Engineering	Compensated Absences	City Hall Sinking Fund	Total
Cash Flows - Operating Activities				
Receipts from customers and users	\$ 528,735	\$ -	\$ 205,500	\$ 734,235
Payments to suppliers	(145,149)	-	(125,565)	(270,714)
Payments to employees	(520,905)	(17,515)	(83,947)	(622,367)
Net cash flows - operating activities	<u>(137,319)</u>	<u>(17,515)</u>	<u>(4,012)</u>	<u>(158,846)</u>
Cash Flows - Noncapital				
Financing Activities				
Transfer to other funds	(8,200)	-	-	(8,200)
Due to other funds	166,453	-	-	166,453
Due from other funds	-	(166,453)	-	(166,453)
Net cash flows - noncapital financing activities	<u>158,253</u>	<u>(166,453)</u>	<u>-</u>	<u>(8,200)</u>
Cash Flows - Capital And Related				
Financing Activities				
Proceeds from Sale of Capital Assets	1,000	-	-	1,000
Acquisition of capital assets	(31,934)	-	(75,337)	(107,271)
Net cash flows - capital and related financing activities	<u>(30,934)</u>	<u>-</u>	<u>(75,337)</u>	<u>(106,271)</u>
Cash Flows - Investing Activities				
Interest and dividends received	10,000	-	802	10,802
Net change in cash and cash equivalents	-	(183,968)	(78,547)	(262,515)
Cash and Cash Equivalents				
Beginning of year	-	361,389	121,021	482,410
End of year	<u>\$ -</u>	<u>\$ 177,421</u>	<u>\$ 42,474</u>	<u>\$ 219,895</u>
Reconciliation of Operating Loss to Net Cash Flows - Operating Activities				
Operating loss	\$ (114,416)	\$ -	\$ (37,347)	\$ (151,763)
Adjustments to reconcile operating Operating activities				
Depreciation expense	9,745	-	64,777	74,522
Prepaid items	(8,034)	-	(5,344)	(13,378)
Accounts payable	(20,859)	-	(26,660)	(47,519)
Due to other governmental units	(70)	-	1,147	1,077
Salaries payable	(15,286)	-	(2,283)	(17,569)
Opeb payable	(30)	-	339	309
Pension related items	7,889	-	1,181	9,070
Compensated absences payable	3,742	(17,515)	178	(13,595)
Total adjustments	<u>(22,903)</u>	<u>(17,515)</u>	<u>33,335</u>	<u>(7,083)</u>
Net cash flows - operating activities	<u>\$ (137,319)</u>	<u>\$ (17,515)</u>	<u>\$ (4,012)</u>	<u>\$ (158,846)</u>

City of Mendota Heights
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual -
General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Variance with Final budget - over (under)
	Original And final	Actual Amounts	
Revenues			
Property taxes	\$ 5,841,992	\$ 5,819,237	\$ (22,755)
Special assessments	-	886	886
Licenses and permits	269,850	435,220	165,370
Intergovernmental revenue			
Federal grants and aids	6,000	16,475	10,475
State grants and aids			
Market value credit	-	184	184
Pera aid	9,070	9,073	3
Fire aid	85,000	95,298	10,298
Police aid	115,000	120,963	5,963
Other grants and aids	154,000	176,241	22,241
Total intergovernmental revenue	<u>369,070</u>	<u>418,234</u>	<u>49,164</u>
Charges for Services	580,811	598,691	17,880
Fines and forfeitures	72,500	49,047	(23,453)
Miscellaneous revenues			
Investment income	35,140	32,656	(2,484)
Other	5,000	196,477	191,477
Total miscellaneous revenues	<u>40,140</u>	<u>229,133</u>	<u>188,993</u>
Total revenues	<u>7,174,363</u>	<u>7,550,448</u>	<u>376,085</u>
Expenditures			
General government			
Mayor and council			
Salaries and benefits	24,296	24,416	120
Contracted services	9,500	10,671	1,171
Administration and finance			
Salaries and benefits	599,404	595,891	(3,513)
Materials and supplies	12,700	16,521	3,821
Contracted services	386,522	588,974	202,452
Capital outlay	-	18,075	18,075

City of Mendota Heights
Detailed Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual -
General Fund
Year Ended December 31, 2015
(Continued)

	Budgeted Amounts <u>Original And final</u>	Actual Amounts <u> </u>	Variance with Final budget - Over (under) <u> </u>
Expenditures (Continued)			
General government (continued)			
Elections			
Salaries and benefits	\$ 30,888	\$ 28,509	\$ (2,379)
Materials and supplies	-	8,767	8,767
Contracted services	200	164	(36)
Capital outlay	10,000	-	(10,000)
Information technology			
Salaries and benefits	49,977	48,924	(1,053)
Materials and supplies	61,010	54,548	(6,462)
Contracted services	13,450	20,407	6,957
Capital outlay	14,000	9,651	(4,349)
Planning and zoning			
Salaries and benefits	68,281	60,921	(7,360)
Materials and supplies	3,200	2,030	(1,170)
Contracted services	51,250	53,100	1,850
Recycling			
Salaries and benefits	17,070	15,230	(1,840)
Materials and supplies	1,000	-	(1,000)
Contracted services	6,300	8,193	1,893
Miscellaneous			
Contracted services	10,075	28,565	18,490
Total general government	<u>1,369,123</u>	<u>1,593,557</u>	<u>224,434</u>
Public safety			
Police protection			
Salaries and benefits	2,489,479	2,238,526	(250,953)
Materials and supplies	192,894	161,230	(31,664)
Contracted services	613,310	599,445	(13,865)
Capital outlay	49,000	53,167	4,167
Fire protection			
Salaries and benefits	257,375	233,172	(24,203)
Materials and supplies	96,740	83,481	(13,259)
Contracted services	269,500	255,140	(14,360)
Capital outlay	29,000	28,815	(185)
Total public safety	<u>3,997,298</u>	<u>3,652,976</u>	<u>(344,322)</u>

City of Mendota Heights
Detailed Schedule Of Revenues, Expenditures, and
Changes In Fund Balance - Budget And Actual -
General Fund
Year Ended December 31, 2015
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final budget - Over (under)
	Original And final			
Expenditures (Continued)				
Public works				
Code enforcement				
Salaries and benefits	\$ -		\$ 189	\$ 189
Materials and supplies	1,825		3,713	1,888
Contracted services	131,225		146,398	15,173
Street maintenance				
Salaries and benefits	531,232		503,665	(27,567)
Materials and supplies	85,650		97,143	11,493
Contracted services	363,350		290,969	(72,381)
Capital outlay	-		1,777	1,777
Parks				
Salaries and benefits	435,745		444,463	8,718
Materials and supplies	192,650		150,703	(41,947)
Contracted services	141,700		148,089	6,389
Capital outlay	37,000		37,631	631
Total public works	1,920,377		1,824,740	(95,637)
Total expenditures	7,286,798		7,071,273	(215,525)
Excess of revenues over (under) expenditures	(112,435)		479,175	591,610
Other Financing Sources				
Transfer in	99,500		95,750	(3,750)
Net change in fund balance	\$ (12,935)		574,925	\$ 587,860
Fund Balance				
Beginning of year			6,037,398	
End of year			\$ 6,612,323	



Report on Legal Compliance

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mendota Heights, Minnesota as of and for the year ended December 31, 2015, and the related notes to financial statements, and have issued our report thereon dated June 16, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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, except we did not test for compliance in Tax Increment Financing because the City has no Tax Increment Financing because the City does not have any Tax Increments Financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Mendota Heights, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the accompanying Schedule of Findings and Responses on Legal Compliance. 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.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Minneapolis, Minnesota
June 16, 2016

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com

**City of Mendota Heights
Schedule of Findings And Responses On
Legal Compliance**

CURRENT YEAR LEGAL COMPLIANCE FINDINGS

Collateral Assignment Agreement

Minnesota Statutes 118A.03, subd. 4 requires the collateral assignment shall state that, upon default of the financial institution, the collateral shall be released to the city immediately. This Statute further requires written assignment be approved by the depository's board of directors or loan committee and to be maintained as an official record of the depository.

The collateral assignment agreement that the City had on file did not state that upon default, the depository would immediately release the collateral to the City. The City has subsequently obtained an agreement from their bank that meets this requirement.

Unclaimed Property

Minnesota Statutes 345.41 to 345.43 states a city must report and deliver unclaimed or uncashed checks or other intangible property over \$100 held for more than three years to the State Commissioner of Commerce. If any of them include payment for personal services or wages, these items are presumed to be abandoned after one year and not three years.

During our audit, we noted outstanding payroll checks listed over one year old and reconciled each month on the cash reconciliation.