

**City of Mendota Heights**



**Annual Report and Basic  
Financial Statements  
December 31, 2017**

**City of Mendota Heights  
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**City of Mendota Heights  
Elected Officials and Administration  
December 31, 2017**

| <u>Elected Officials</u> | <u>Position</u>    | <u>Term Expires</u> |
|--------------------------|--------------------|---------------------|
| Neil Garlock             | Mayor              | December 31, 2018   |
| Joel Paper               | Council Member     | December 31, 2020   |
| Jay Miller               | Council Member     | December 31, 2020   |
| 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, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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



**Other Matters (Continued)**

*Other Information (Continued)*

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

*Bergan KDV Ltd.*

Minneapolis, Minnesota

May 31, 2018

## **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, 2017.

### **FINANCIAL AND DEVELOPMENT HIGHLIGHTS**

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

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

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

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

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

#### **Government-Wide Financial Statements**

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

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

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

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

### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

#### **Government-Wide Financial Statements (Continued)**

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

#### **Fund Financial Statements**

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

#### **Governmental Funds**

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

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

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

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

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

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

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Governmental Funds (Continued)**

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

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

**Proprietary Funds**

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

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

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

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

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

**Notes to Financial Statements**

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

**Other Information**

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

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

**Net Position**

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

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

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

**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 \$1,814,664. Key elements of this increase are as follows:

**City's Changes in Net Position**

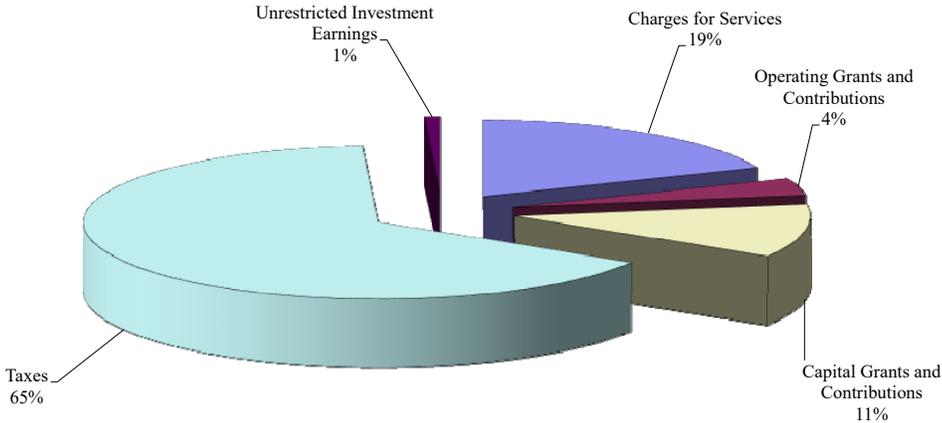
|  | Governmental Activities |                      | Business-Type Activities |                      | Totals               |                      |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|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

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

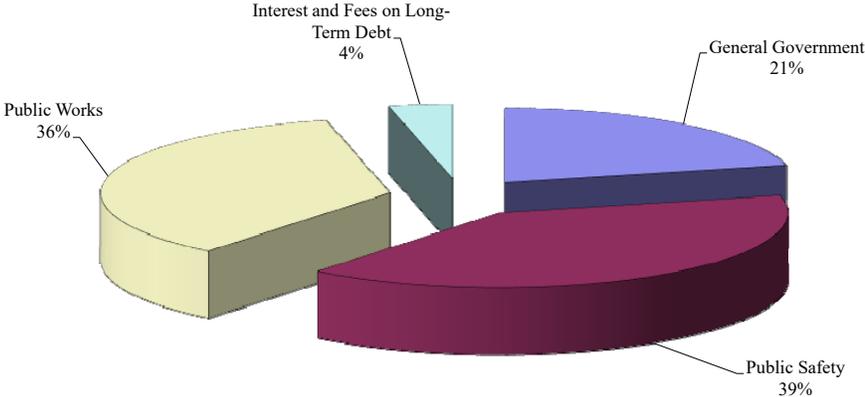
**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

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

**Governmental Activities - Revenues**



**Governmental Activities - Expenses**



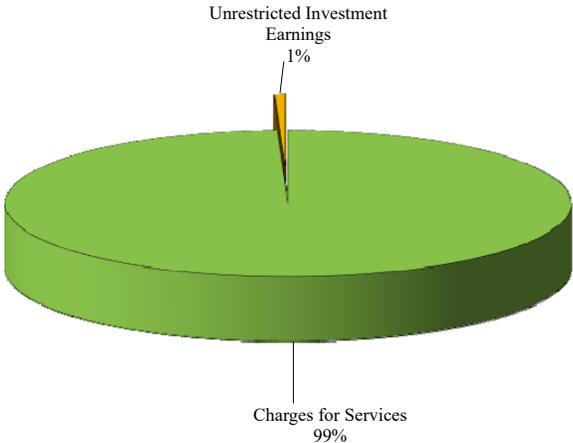
**City of Mendota Heights  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

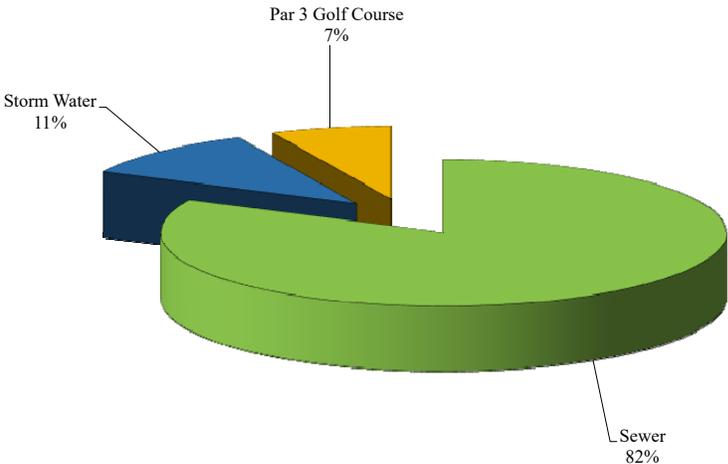
**Business-Type Activities**

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

**Business-Type Activities - Revenues**



**Business-Type Activities - Expenses**



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

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

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

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

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

**Proprietary Funds**

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

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

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

**BUDGETARY HIGHLIGHTS**

**General Fund**

The General Fund budget was not amended during 2017.

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

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

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business type activities as of December 31, 2017, amounts to \$45,276,513 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, sewer main lines and storm sewers and infrastructure.

**Capital Assets  
(Net of Depreciation)**

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

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 \$15,085,000, an increase of \$140,000 from 2016. \$15,085,000 is for general obligation (G.O.) improvement debt which is supported in part by special assessments.

**Outstanding Debt**

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

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

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

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

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

**Economic Factors and Next Year's Budgets and Rates**

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

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

**Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

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

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



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

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

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

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

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

See notes to financial statements.

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

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

See notes to financial statements.

| Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------|--------------------------------|
| \$ 455,308                     | \$ 7,994,237                   |
| -                              | 802,885                        |
| -                              | 633,846                        |
| -                              | 716,322                        |
| 156,618                        | 777,926                        |
| 4                              | 86,578                         |
| 24,866                         | 105,952                        |
| 1,000                          | 1,000                          |
| 570,873                        | 850,851                        |
| <u>1,208,669</u>               | <u>11,969,597</u>              |
| 264,040                        | 1,780,946                      |
| 3,441                          | 3,882,843                      |
| 4,935                          | 2,189,313                      |
| 235,000                        | 1,200,000                      |
| 38,310                         | 389,264                        |
| 118,794                        | 118,794                        |
| -                              | 5,295                          |
| 192,535                        | 2,198,747                      |
| <u>857,055</u>                 | <u>11,765,202</u>              |
| 351,614                        | 204,395                        |
| -                              | 1,340,000                      |
| -                              | 22,898                         |
| 687,039                        | 2,123,676                      |
| (908,959)                      | (2,255,011)                    |
| <u>(221,920)</u>               | <u>1,231,563</u>               |
| 129,694                        | 1,435,958                      |
| 2,702,608                      | 12,237,875                     |
| -                              | (313,379)                      |
| <u>2,702,608</u>               | <u>11,924,496</u>              |
| <u>\$ 2,832,302</u>            | <u>\$ 13,360,454</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, 2017**

Net change in fund balances - governmental funds \$ 1,435,958

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

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

|                                 |             |
|---------------------------------|-------------|
| Capital outlays                 | 2,175,501   |
| Depreciation expense            | (1,744,786) |
| Loss on sale of disposed assets | (17,439)    |

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective. (232,586)

OPEB are not reported as expenditures in the governmental funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities. (8,760)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities. 1,200,000

Premiums on the issuance of long-term debt provide current financial resources to governmental funds and have no effect on net position. These amounts are reported in the governmental funds as an other financing source and constitute long-term liabilities in the Statement of Net Position. (22,898)

Premiums are recognized when debt is issued in the governmental funds but amortized over the life of the debt in the Statement of Activities. 20,511

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (624)

Proceeds from long-term debt are recognized as an other financing source in the governmental funds but have no effect on net position in the Statement of Activities.  
Bonds payable (1,340,000)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 261,659

Activities of the internal service funds are presented separately from the governmental funds. However, the functions, from a government-wide perspective, are governmental. 88,128

Change in net position - governmental activities \$ 1,814,664

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

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

See notes to financial statements.

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

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

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

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

See notes to financial statements.

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

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

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.

**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)**

Additional Fund Types:

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

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

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

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

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

**1. Deposits and Investments**

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

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**1. Deposits and Investments (Continued)**

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

**2. Receivables and Payables**

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

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

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

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

**3. Inventories**

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

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

**4. Prepaid Items**

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**5. Capital Assets**

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

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

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

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

**6. Deferred Outflows/Inflows of Resources**

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**7. Compensated Absences\Severance**

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

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

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

**8. Long-Term Obligations**

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

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

**9. Pensions**

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**10. Fund Equity**

**a. Classification**

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

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

**b. Minimum Fund Balance**

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**11. Net Position**

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

**12. Use of Estimates**

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

**E. Budgetary Information**

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

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

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

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Deficit Fund Balances**

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

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

**NOTE 3 – DEPOSITS AND INVESTMENTS**

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

**A. Deposits**

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

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

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

|                         |                          |
|-------------------------|--------------------------|
| Checking                | \$ 184,237               |
| Savings                 | 641                      |
| Certificates of deposit | <u>14,020</u>            |
| Total deposits          | <u><u>\$ 198,898</u></u> |

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

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

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

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

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

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

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

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

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

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

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

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

|                            |                             |
|----------------------------|-----------------------------|
| Deposits (Note 3. A.)      | \$ 198,898                  |
| Investments (Note 3.B.)    | 14,105,908                  |
| Petty cash                 | <u>900</u>                  |
| Total cash and investments | <u><u>\$ 14,305,706</u></u> |

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

|                           |                             |
|---------------------------|-----------------------------|
| Statement of Net Position |                             |
| Cash and investments      | <u><u>\$ 14,305,706</u></u> |

**NOTE 4 – INTERFUND ACTIVITIES**

**A. Interfund Receivables and Payable**

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

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

The balances above will be repaid as financing becomes available.

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

**NOTE 4 – INTERFUND ACTIVITIES (CONTINUED)**

**B. Interfund Transfers**

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

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

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

**NOTE 5 – CAPITAL ASSETS**

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

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

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

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

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

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

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

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

**NOTE 6 – LONG-TERM DEBT**

**A. G.O. Bonds**

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

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

**B. Components of Long-Term Liabilities**

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

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

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

**C. Changes in Long-Term Liabilities**

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

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

**D. Long-Term Debt**

The annual requirements to amortize all bonded debt outstanding follows:

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

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

**NOTE 7 – OPERATING LEASE**

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

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

| <u>Year Ending<br/>December 31,</u> |                   |
|-------------------------------------|-------------------|
| 2018                                | \$ 60,215         |
| 2019                                | 46,055            |
| 2020                                | <u>28,240</u>     |
| Total                               | <u>\$ 134,510</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, 2017, was \$19,076,771.

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

**NOTE 9 – FUND BALANCE DETAIL**

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

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

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

**A. Plan Description**

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

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

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

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

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

**B. Benefits Provided**

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

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

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

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

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

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

Police and Fire Plan Benefits

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

**C. Contributions**

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

General Employees Fund Contributions

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

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

**NOTE 11 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions (Continued)**

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.2% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$251,584. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$1,851,341 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$23,303. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0290%, which was a decrease of 0.0025% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$197,495 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$673 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

**NOTE 11 –PENSION PLANS (CONTINUED)**

**Public Employees’ Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

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

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

\$68,903 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

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

**NOTE 11 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$2,011,679 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.1500%, which was a decrease of 0.005% from its proportion measured as of June 30, 2016. The City also recognized \$13,500 for the year ended December 31, 2017 as revenue and an offsetting reduction of the net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

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

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

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

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

**NOTE 11 –PENSION PLANS (CONTINUED)**

**Public Employees’ Retirement Association (Continued)**

**D. Pension Costs (Continued)**

Police and Fire Fund Pension Costs (Continued)

\$125,792 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending<br/>December 31,</u> | <u>Pension Expense<br/>Amount</u> |
|-------------------------------------|-----------------------------------|
| 2018                                | \$ (5,264)                        |
| 2019                                | (5,263)                           |
| 2020                                | (80,989)                          |
| 2021                                | (168,386)                         |
| 2022                                | <u>(599,170)</u>                  |
| Total                               | <u>\$ (859,072)</u>               |

**E. Actuarial Assumptions**

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees plan through 2044 and the Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

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

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

**NOTE 11 –PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability, and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% per year through 2044 and 2.5% per year thereafter.

**Police and Fire Fund**

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.

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

**NOTE 11 –PENSION PLANS (CONTINUED)**

**Public Employees’ Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

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

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

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



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

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

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

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

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

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

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

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

**B. Funding Policy**

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

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

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

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

**D. Funded Status and Funding Progress**

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

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

**E. Actuarial Methods and Assumptions**

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

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

**NOTE 13 – TOWN CENTER – THE VILLAGE AT MENDOTA HEIGHTS**

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

**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 \$207,264 for 2017. Members do not maintain an equity interest other than if the DCC were to terminate. Withdrawing members forfeit any interest in the DCC. Information regarding the DCC can be obtained at the website [www.mn-dcc.org](http://www.mn-dcc.org).

**B. Local Government Information Systems Association (LOGIS)**

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

**NOTE 15 – CONTINGENCIES**

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

**NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE**

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

**NOTE 17 TAX INCREMENT FINANCING**

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

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

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

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

**NOTE 18 – COMMITMENTS**

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

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

**NOTE 19 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

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

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

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

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

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

**NOTE 19 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**City of Mendota Heights**  
**Notes to Required Supplementary Information**

**GENERAL EMPLOYEES FUND**

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

**City of Mendota Heights**  
**Notes to Required Supplementary Information**

**POLICE AND FIRE FUND**

**2017 Changes**

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

**SUPPLEMENTARY INFORMATION**

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

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

| Debt Service        |                           | Capital Projects                    |                           |                   |                                |                           |
|---------------------|---------------------------|-------------------------------------|---------------------------|-------------------|--------------------------------|---------------------------|
| Par 3 G.O.<br>Bonds | Equipment<br>Certificates | Equipment<br>Replacement<br>Reserve | Infrastructure<br>Reserve | Facility Reserve  | Water Tower<br>Capital Project | Pilot Knob<br>Improvement |
| \$ 343,796<br>2,134 | \$ 132,443<br>449         | \$ 379,726<br>497                   | \$ 59,405<br>161          | \$ 355,281<br>8   | \$ 355,426<br>-                | \$ 959<br>-               |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| 220                 | 89                        | 426                                 | 79                        | 396               | 1,018                          | -                         |
| -                   | -                         | -                                   | 25,229                    | -                 | 295,023                        | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| <u>\$ 346,150</u>   | <u>\$ 132,981</u>         | <u>\$ 380,649</u>                   | <u>\$ 84,874</u>          | <u>\$ 355,685</u> | <u>\$ 651,467</u>              | <u>\$ 959</u>             |
| \$ -                | \$ -                      | \$ -                                | \$ -                      | \$ -              | \$ -                           | \$ -                      |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| 2,134               | 449                       | 497                                 | 161                       | 8                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| <u>2,134</u>        | <u>449</u>                | <u>497</u>                          | <u>161</u>                | <u>8</u>          | <u>-</u>                       | <u>-</u>                  |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| 344,016             | 132,532                   | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| -                   | -                         | 380,152                             | 84,713                    | 355,677           | 651,467                        | 959                       |
| -                   | -                         | -                                   | -                         | -                 | -                              | -                         |
| <u>344,016</u>      | <u>132,532</u>            | <u>380,152</u>                      | <u>84,713</u>             | <u>355,677</u>    | <u>651,467</u>                 | <u>959</u>                |
| <u>\$ 346,150</u>   | <u>\$ 132,981</u>         | <u>\$ 380,649</u>                   | <u>\$ 84,874</u>          | <u>\$ 355,685</u> | <u>\$ 651,467</u>              | <u>\$ 959</u>             |

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

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

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

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

| Debt Service      |                        | Capital Projects              |                        |                   |                             |                        |
|-------------------|------------------------|-------------------------------|------------------------|-------------------|-----------------------------|------------------------|
| Par 3 G.O. Bonds  | Equipment Certificates | Equipment Replacement Reserve | Infrastructure Reserve | Facility Reserve  | Water Tower Capital Project | Pilot Knob Improvement |
| \$ 246,914        | \$ 52,276              | \$ 92,614                     | \$ 19,698              | \$ -              | \$ -                        | \$ -                   |
| -                 | -                      | -                             | -                      | -                 | -                           | -                      |
| -                 | 1                      | 2                             | 1                      | -                 | -                           | -                      |
| 1,554             | 626                    | 3,006                         | 559                    | 2,793             | 7,186                       | -                      |
| -                 | -                      | -                             | -                      | -                 | -                           | -                      |
| -                 | -                      | -                             | 1,160                  | -                 | 19,486                      | -                      |
| <u>248,468</u>    | <u>52,903</u>          | <u>95,622</u>                 | <u>21,418</u>          | <u>2,793</u>      | <u>26,672</u>               | <u>-</u>               |
| -                 | -                      | 177,133                       | -                      | -                 | -                           | -                      |
| -                 | -                      | -                             | -                      | 3,441             | -                           | -                      |
| -                 | -                      | -                             | -                      | -                 | -                           | -                      |
| 190,000           | 45,000                 | -                             | -                      | -                 | -                           | -                      |
| 32,550            | 5,760                  | -                             | -                      | -                 | -                           | -                      |
| -                 | -                      | -                             | -                      | -                 | -                           | -                      |
| -                 | -                      | 43,875                        | -                      | 7,200             | -                           | -                      |
| <u>222,550</u>    | <u>50,760</u>          | <u>221,008</u>                | <u>-</u>               | <u>10,641</u>     | <u>-</u>                    | <u>-</u>               |
| 25,918            | 2,143                  | (125,386)                     | 21,418                 | (7,848)           | 26,672                      | -                      |
| -                 | -                      | 315,000                       | -                      | 330,000           | -                           | -                      |
| -                 | -                      | -                             | -                      | -                 | (904,459)                   | -                      |
| -                 | -                      | 315,000                       | -                      | 330,000           | (904,459)                   | -                      |
| 25,918            | 2,143                  | 189,614                       | 21,418                 | 322,152           | (877,787)                   | -                      |
| 318,098           | 130,389                | 190,538                       | 63,295                 | 33,525            | 1,529,254                   | 959                    |
| <u>\$ 344,016</u> | <u>\$ 132,532</u>      | <u>\$ 380,152</u>             | <u>\$ 84,713</u>       | <u>\$ 355,677</u> | <u>\$ 651,467</u>           | <u>\$ 959</u>          |

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## Report on Legal Compliance

### Independent Auditor's Report

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

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

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

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

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

*BerganKDV Ltd.*

Minneapolis, Minnesota  
May 31, 2018