

Annual Financial Report

City of Excelsior

Excelsior, Minnesota

For the Year Ended
December 31, 2015

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF EXCELSIOR, MINNESOTA
 ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF EXCELSIOR, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2015

ELECTED

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------|----------------|---------------------|
| Mark Gaylord | Mayor | 12/31/16 |
| Todd Carlson | Council Member | 12/31/16 |
| Greg Miller | Council Member | 12/31/16 |
| Jennifer Caron | Council Member | 12/31/18 |
| John Beattie | Council Member | 12/31/18 |

APPOINTED

| | |
|---------------|-----------------------------|
| Kristi Luger | City Manager |
| Heidi Tumberg | Finance Director |
| Ann Orlofsky | City Clerk |
| Dave Wisdorf | Public Works Superintendent |
| Patrick Smith | City Planner |

FINANCIAL SECTION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Excelsior, 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 Excelsior, Minnesota (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Standards

As described in Note 8 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended December 31, 2015. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis Page 13 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions and the Schedule of Funding Progress for Other Post-Employment Benefit Plan starting on page 78 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, 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

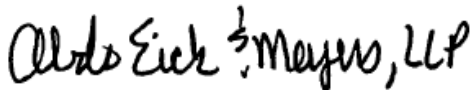
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and other financial information are presented for purposes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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 13, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

FUND FINANCIAL STATEMENTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Excelsior, Minnesota (the City), operates under its own Home Rule Charter. The City is governed by an elected Mayor and a four-member City Council. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, *general revenues* include all taxes.

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

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary financial statements. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities. 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal 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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

The *Capital Improvement fund* accounts for capital improvement expenditures.

The City reports the following major proprietary funds:

The *Water fund* accounts for the activities of the City's water distribution system.

The *Sewer fund* accounts for the activities of the City's sewage collection operations.

The *Commercial Docks fund* accounts for the operation and maintenance of City owned docks available for lease on Lake Minnetonka.

The *Surface Water Management fund* accounts for the activities of the City's surface water management system.

Additionally, the City reports the following fund types:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting.

The City reports the following agency funds:

The *Escrow fund* is used to account for assets that the City holds for residents and developers related to certain projects going on within the City.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer 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.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position/fund balance

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. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statement of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the City are reported at fair value.

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property taxes

The City Council annually adopts a tax levy in December and certifies it to the County for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Auditor and tax settlements are made to the City during January, June/July, and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2015. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

Special assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental fund special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

Interfund receivables and payables

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

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an estimated useful life in excess of one year and an initial individual cost of more than the following:

| Asset | Cost |
|----------------------------|-----------|
| Land and land improvements | \$ 10,000 |
| Other improvements | 25,000 |
| Buildings | 25,000 |
| Building improvements | 25,000 |
| Machinery and equipment | 5,000 |
| Vehicles | 5,000 |
| Infrastructure | 100,000 |
| Other assets | 5,000 |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment will be depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Useful Lives in Years</u> |
|-------------------------------|----------------------------------|
| Land improvements | 15 to 30 |
| Buildings and improvements | 15 to 75 |
| System and improvements | 20 to 60 |
| Office furniture and fixtures | 7 to 15 |
| Machinery and equipment | 5 to 15 |
| Automotive equipment | 3 to 12 |

Deferred outflows 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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

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

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is recorded for unpaid accumulated sick leave that is not vested. All vacation 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, for example, as a result of employee resignations and retirements. The General fund would be used to liquidate the governmental compensated absences payable.

Postemployment benefits other than pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 45, at January 1, 2014.

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 amortized over the life of the bonds using the straight line method. Bond issuance costs are an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

Deferred inflows of resources

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, deferred inflows of resources, 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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and accounts receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Manager.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

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

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 40 percent of budgeted operating expenditures for cash-flow timing needs.

Net position

Net position represents the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources. Net position is displayed in three components:

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

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In June of each year, all departments of the City submit requests for appropriations to the City Manager so that a budget may be prepared. Before September 30th, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Manager, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the City Council. There were no budget amendments during the year.

B. Deficit fund balances

The following fund had a fund balance deficit at December 31, 2015:

| <u>Fund</u> | <u>Amount</u> |
|-----------------|------------------|
| TIF 1-2 Project | <u>\$ 24,119</u> |

The City plans to fund this deficit with future revenue from tax increment or transfers from other funds.

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$1,312,001 and the bank balance was \$1,390,184. Of the bank balance, \$526,664 was covered by federal depository insurance. The remaining balance was covered by collateral held in the City's name.

A reconciliation of cash and temporary investments as reported on the statement of net position for the City follows:

Investments

As of December 31, 2015, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name:

| Types of Investments | Credit Quality/ Rating (1) | Segmented Time Distribution (2) | Fair Value and Carrying Amount |
|----------------------------------|----------------------------------|---------------------------------------|---|
| Non pooled investments | | | |
| U.S. Government Securities | AAA | more than 3 years | \$ 524,045 |
| Brokered Certificates of Deposit | N/A | less than 1 year | 439,395 |
| Brokered Certificates of Deposit | N/A | 1 to 3 years | 596,259 |
| Brokered Certificates of Deposit | N/A | more than 3 years | 2,125,132 |
| Pooled investments | | | |
| Broker Money Market | N/A | less than 6 months | <u>20,080</u> |
| Total investments | | | <u><u>\$ 3,704,911</u></u> |

- (1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
(2) Interest rate risk is disclosed using the segmented time distribution method.
N/A Indicate not applicable or available.

| | |
|-------------------------------------|----------------------------|
| Carrying amount of deposits | \$ 1,312,001 |
| Investments | 3,704,911 |
| Cash on hand | <u>200</u> |
| Total | <u><u>\$ 5,017,112</u></u> |
| Cash and temporary investments | |
| Statement of Net Position | \$ 4,961,228 |
| Statement of Fiduciary Net Position | <u>55,884</u> |
| Total | <u><u>\$ 5,017,112</u></u> |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

The investments of the City are subject to the following risks:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments to the list on page 53 of the notes.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the City's investment policy, the City diversifies its investment portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities.
- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than ten (10) years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. Extended maturities may be utilized to take advantage of higher yields; however, no more than fifty (50) percent of the total investments should extend beyond five (5) years and in no circumstance should any extend beyond fifteen (15) years.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Capital assets

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-----------------------|-------------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 1,111,042 | \$ - | \$ - | \$ 1,111,042 |
| Construction in progress | <u>246,457</u> | <u>384,829</u> | <u>(631,286)</u> | <u>-</u> |
| Total capital assets not being depreciated | <u>1,357,499</u> | <u>384,829</u> | <u>(631,286)</u> | <u>1,111,042</u> |
| Capital assets being depreciated | | | | |
| Buildings | 748,150 | - | - | 748,150 |
| Improvements other than buildings | 3,018,203 | 631,286 | - | 3,649,489 |
| Machinery and equipment | 824,800 | 115,215 | (74,000) | 866,015 |
| Infrastructure | <u>1,152,972</u> | <u>-</u> | <u>-</u> | <u>1,152,972</u> |
| Total capital assets being depreciated | <u>5,744,125</u> | <u>746,501</u> | <u>(74,000)</u> | <u>6,416,626</u> |
| Less accumulated depreciation for | | | | |
| Buildings | (569,224) | (14,822) | - | (584,046) |
| Improvements other than buildings | (288,044) | (102,144) | - | (390,188) |
| Machinery and equipment | (436,216) | (45,459) | 35,520 | (446,155) |
| Infrastructure | <u>(559,579)</u> | <u>(29,571)</u> | <u>-</u> | <u>(589,150)</u> |
| Total accumulated depreciation | <u>(1,853,063)</u> | <u>(191,996)</u> | <u>35,520</u> | <u>(2,009,539)</u> |
| Total capital assets being depreciated, net | <u>3,891,062</u> | <u>554,505</u> | <u>(38,480)</u> | <u>4,407,087</u> |
| Governmental activities capital assets, net | <u>\$ 5,248,561</u> | <u>\$ 939,334</u> | <u>\$ (669,766)</u> | <u>\$ 5,518,129</u> |

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

| | |
|--|-----------------------|
| Governmental activities | |
| General government | \$ 13,026 |
| Public works | 129,271 |
| Culture and recreation | <u>49,699</u> |
| Total depreciation expense - governmental activities | <u>\$ 191,996</u> |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|----------------|-------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 50,000 | \$ - | \$ - | \$ 50,000 |
| Construction in progress | 936,541 | 865,494 | (1,544,195) | 257,840 |
| Total capital assets not being depreciated | 986,541 | 865,494 | (1,544,195) | 307,840 |
| Capital assets being depreciated | | | | |
| Buildings | 8,202 | - | - | 8,202 |
| Machinery and equipment | 924,777 | 101,810 | - | 1,026,587 |
| Infrastructure | 5,679,843 | 1,477,815 | - | 7,157,658 |
| Total capital assets being depreciated | 6,612,822 | 1,579,625 | - | 8,192,447 |
| Less accumulated depreciation for | | | | |
| Buildings | (8,202) | - | - | (8,202) |
| Machinery and equipment | (394,289) | (45,851) | - | (440,140) |
| Infrastructure | (1,922,785) | (165,028) | - | (2,087,813) |
| Total accumulated depreciation | (2,325,276) | (210,879) | - | (2,536,155) |
| Total capital assets being depreciated, net | 4,287,546 | 1,368,746 | - | 5,656,292 |
| Business-type activities capital assets, net | \$ 5,274,087 | \$ 2,234,240 | \$ (1,544,195) | \$ 5,964,132 |

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

| | |
|---|------------|
| Business-type activities | |
| Water utility | \$ 100,698 |
| Sewer utility | 68,932 |
| Commercial docks | 24,668 |
| Surface water management | 16,232 |
| Other proprietary funds | 349 |
| Total depreciation expense - business-type activities | \$ 210,879 |

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Advances to and from other funds and transfers

The composition of advances to and from other funds as of December 31, 2015 is as follows:

| Receivable Fund | Payable Fund | Purpose | Amount | Final Maturity |
|---------------------|------------------|-------------------------------|-----------|----------------|
| Capital Improvement | Commercial Docks | Residential dock construction | \$ 15,514 | 2018 |
| Sewer | Commercial Docks | Residential dock construction | 18,058 | 2018 |
| General | TIF District 1-2 | Cash flow | 24,119 | NA |

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

| Fund | Transfer in | | | Total |
|--------------------------|-------------------|--------------------------|--------------------------|-------------------|
| | General Fund | Capital Improvement Fund | Other Governmental Funds | |
| Transfer out | | | | |
| General | \$ - | \$ 190,060 | \$ - | \$ 190,060 |
| Capital Improvement | - | | 25,000 | 25,000 |
| Water | 11,000 | - | - | 11,000 |
| Sewer | 11,000 | - | - | 11,000 |
| Commercial Docks | 80,000 | - | - | 80,000 |
| Surface Water Management | 1,200 | - | - | 1,200 |
| Other proprietary | 7,200 | - | - | 7,200 |
| Total | \$ 110,400 | \$ 190,060 | \$ 25,000 | \$ 325,460 |

The City annually budgets transfers for specific purposes. Annual transfers include transfers designated as a percentage of annual revenues, transfers made to cover funds annual operations, transfers made as part of capital improvement plans, transfers are made for debt service payments and other transfers made for various reasons. All transfers made during the year were budgeted, except for the \$125,000 transfer from the General fund to the Capital Improvement fund. This transfer was made to fund future projects.

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Long-term debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities.

General obligation bonds are direct obligations of the City and pledge the full faith and credit of the City.

General obligation special assessment bonds

The City issued special assessment debt to provide funds for the street improvements. This bond will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City is receiving a Federal Credit for a portion of the interest paid on the bond. Special assessment debt issues are as follows:

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---|--------------------------|------------------|---------------|------------------|------------------------|
| Taxable G.O. Improvement Bonds, Series 2010A | \$ 2,795,000 | 0.9 - 4.7 % | 10/21/10 | 02/01/26 | <u>\$ 2,145,000</u> |

Annual debt service requirements to maturity for general obligation special assessment bonds are as follows:

| Year Ending December 31, | General Obligation Bonds Governmental Activities | | |
|-----------------------------|--|-------------------|---------------------|
| | Principal | Interest | Total |
| 2016 | \$ 88,148 | \$ 41,069 | \$ 129,217 |
| 2017 | 90,740 | 38,808 | 129,548 |
| 2018 | 93,332 | 36,183 | 129,515 |
| 2019 | 95,925 | 33,153 | 129,078 |
| 2020 | 98,518 | 29,749 | 128,267 |
| 2021-2025 | 528,886 | 87,071 | 615,957 |
| 2026 | 116,666 | 2,742 | 119,408 |
| Total | <u>\$ 1,112,215</u> | <u>\$ 268,775</u> | <u>\$ 1,380,990</u> |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

| Year Ending December 31, | General Obligation Bonds Governmental Activities | | |
|-----------------------------|--|-------------------|---------------------|
| | Principal | Interest | Total |
| | 2016 | \$ 81,853 | \$ 38,136 |
| 2017 | 84,260 | 36,037 | 120,297 |
| 2018 | 86,667 | 33,599 | 120,266 |
| 2019 | 89,075 | 30,785 | 119,860 |
| 2020 | 91,482 | 27,624 | 119,106 |
| 2021-2025 | 491,114 | 80,853 | 571,967 |
| 2026 | 108,334 | 2,546 | 110,880 |
| Total | <u>\$ 1,032,785</u> | <u>\$ 249,580</u> | <u>\$ 1,282,365</u> |

General obligation revenue bonds

The following bonds were issued to finance improvements to the water and sewer system. They will be repaid with revenue generated from the system.

| Description | Authorized | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---|------------|------------------|---------------|------------------|------------------------|
| G.O. Water Revenue Bonds, Series 2007A | \$ 680,000 | 3.85 - 4.35 % | 08/15/07 | 02/01/23 | \$ 410,000 |
| MPFA - 2014A Water Revenue Bonds | 920,313 | 1.00 | 06/02/14 | 08/20/28 | <u>756,472</u> |
| Total G.O. Revenue Bonds | | | | | <u>\$ 1,166,472</u> |

Annual debt service requirements to maturity for general obligation revenue bonds are as follows:

| Year Ending December 31, | General Obligation Revenue Bonds Business-type Activities | | |
|-----------------------------|---|-------------------|---------------------|
| | Principal | Interest | Total |
| | 2016 | \$ 88,000 | \$ 23,913 |
| 2017 | 88,000 | 21,661 | 109,661 |
| 2018 | 94,000 | 19,282 | 113,282 |
| 2019 | 94,000 | 16,767 | 110,767 |
| 2020 | 95,000 | 14,227 | 109,227 |
| 2021-2025 | 400,000 | 33,596 | 433,596 |
| 2026-2028 | 307,472 | 11,433 | 318,905 |
| Total | <u>\$ 1,166,472</u> | <u>\$ 140,879</u> | <u>\$ 1,307,351</u> |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Changes in long-term liabilities

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|-------------------|---------------------|---------------------------|--------------------------------|
| Governmental activities | | | | | |
| Bonds payable | | | | | |
| General obligation | | | | | |
| improvement bonds | \$ 1,200,363 | \$ - | \$ (88,148) | \$ 1,112,215 | \$ 88,148 |
| Compensated absences payable | 20,396 | 33,320 | (34,362) | 19,354 | 6,451 |
| Other postemployment benefits payable | 80,104 | 14,091 | - | 94,195 | - |
| Pension liability | | | | | |
| GERF | - | 286,067 * | (6,775) | 279,292 | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Governmental activity long-term liabilities | <u>\$ 1,300,863</u> | <u>\$ 333,478</u> | <u>\$ (129,285)</u> | <u>\$ 1,505,056</u> | <u>\$ 94,599</u> |
| Business-type activities | | | | | |
| Bonds payable | | | | | |
| General obligation | | | | | |
| revenue bonds | \$ 1,042,944 | \$ 196,841 | \$ (73,313) | \$ 1,166,472 | \$ 88,000 |
| General obligation improvement bonds | 1,114,637 | - | (81,852) | 1,032,785 | 81,853 |
| Compensated absences payable | 23,577 | 38,517 | (35,457) | 26,637 | 8,878 |
| Pension liability | | | | | |
| GERF | - | 259,203 * | (4,696) | 254,507 | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Business-type activity long-term liabilities | <u>\$ 2,181,158</u> | <u>\$ 494,561</u> | <u>\$ (195,318)</u> | <u>\$ 2,480,401</u> | <u>\$ 178,731</u> |

* Includes 1/1/2015 pension liability balance related to GASB Statement No. 68 implementation. See note 4 for further detail.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan description

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

General Employees Retirement Fund (GERF)

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

B. Benefits provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by Minnesota 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

GERF benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

C. Contributions

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the years ending December 31, 2015, 2014 and 2013 were \$46,043, \$44,492, and \$45,189, respectively. The City's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

D. Pension costs

GERF pension costs

At December 31, 2015, the City reported a liability of \$533,799 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportionate share was 0.0103 percent which was a decrease of 0.0017 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$34,572 for its proportionate share of GERF's pension expense.

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 5,767 | \$ 26,913 |
| Changes in actuarial assumptions | 32,426 | - |
| Net difference between projected and actual earnings on plan investments | - | 47,518 |
| Changes in proportion | - | 68,983 |
| Contributions to GERF subsequent to the measurement date | <u>23,371</u> | <u>-</u> |
| Total | <u>\$ 61,564</u> | <u>\$ 143,414</u> |

Deferred outflows of resources totaling \$23,371 related to pensions resulting from the City's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

| | |
|------|-------------|
| 2016 | \$ (32,920) |
| 2017 | (32,920) |
| 2018 | (52,017) |
| 2019 | 12,633 |
| 2020 | - |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

E. Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | |
|------------------------------|----------------|
| Inflation | 2.75% per year |
| Active member payroll growth | 3.50% per year |
| Investment rate of return | 7.90% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent effective every January 1st until 2034, then 2.5 percent for GERF.

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

There were no changes in actuarial assumptions in 2015.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic stocks | 45.00 % | 5.50 % |
| International stocks | 15.00 | 6.0 |
| Bonds | 18.00 | 1.45 |
| Alternative assets | 20.00 | 6.40 |
| Cash | <u>2.00</u> | 0.50 |
| Total | <u><u>100.00 %</u></u> | |

F. Discount rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

G. Pension liability sensitivity

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

| | City Proportionate Share of NPL | | |
|--|---------------------------------|-----------------|-------------------------------|
| | 1 Percent Decrease (6.90%) | Current (7.90%) | 1 Percent Increase (8.90%) |
| | GERF | \$ 839,322 | \$ 533,799 |

H. Pension plan fiduciary net position

Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan description

The City’s defined benefit healthcare plan (“the Retiree Health Plan”) provides healthcare insurance for eligible retirees and their spouses. The Retiree Health Plan is affiliated with the healthcare plan administered through LOGIS, an agent multiple-employer postemployment healthcare plan. LOGIS is a consortium of Minnesota local government units controlled by its members. LOGIS’ Board of Directors is composed of one representative from each agency. LOGIS issues a publicly available financial report that includes financial statements and required supplementary information for the health plan. That report may be obtained by writing to LOGIS, 5750 Duluth Street, Golden Valley, MN 55422, or by calling (763) 543-2600.

B. Funding policy

The contribution requirements of plan members and the City are established and may be amended by LOGIS’ Board of Directors. The required contributions are based on projected pay-as-you-go financing requirements. The City did not contribute to the plan for the year ended December 31, 2015. As of December 31, 2015, there are three retirees receiving health benefits from the plan, who pay their full premium.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

C. Annual other postemployment benefit cost

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (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 to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

| | |
|---|---------------|
| Annual required contribution | \$ 13,515 |
| Interest on net OPEB obligation | 3,572 |
| Adjustment to annual required contribution | (2,996) |
| Annual OPEB cost (expense) | 14,091 |
| Contributions made | - |
| Increase in net OPEB obligation | 14,091 |
| Net OPEB obligation - January 1, 2015 | 80,104 |
| Net OPEB obligation - December 31, 2015 | \$ 94,195 |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2015 follows:

| Year Ending | Trend Information | | |
|----------------|---------------------|--|------------------------|
| | Annual OPEB Cost | Percentage Annual OPEB Contributed | Net OPEB Obligation |
| 12/31/15 | \$ 14,091 | - % | \$ 94,195 |
| 12/31/14 | 14,250 | - | 80,104 |
| 12/31/13 | 13,526 | - | 66,740 |

D. Funded status and funding progress

As of January 1, 2014, the actuarial accrued liability for benefits was \$83,586, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$770,963, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 5: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments. The initial healthcare trend rate was 9.0 percent, reduced by decrements to an ultimate rate of 5.0 percent after 12 years. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

Note 6: JOINT POWERS AGREEMENTS

A. South Lake Minnetonka Police Department

The City participates in a joint powers agreement with the cities of Greenwood, Shorewood, and Tonka Bay, which establishes the South Lake Minnetonka Police Department (the Department) for the purpose of providing police protection within the four communities. The agreement creates a coordinating committee, comprised of the Mayor of each participating community, as the governing body, which meets quarterly. Each year, the coordinating committee adopts an operating budget, which is approved by all participating cities. The cost of the budget is divided between the participating cities based upon a five-year average demand for service in each city.

Any budget shortfall is made up first from department reserves, with any excess shortfall assessed to each participating community according to the formula. The most recent year of audited information is December 31, 2014.

SOUTH LAKE MINNETONKA POLICE DEPARTMENT
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---------------------------------------|--------------|--------------|
| Assets | \$ 5,051,223 | \$ 5,214,361 |
| Liabilities | \$ 3,326,740 | \$ 3,639,122 |
| Net position | 1,724,483 | 1,575,239 |
| Total liabilities and net position | \$ 5,051,223 | \$ 5,214,361 |

CITY OF EXCELSIOR, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 6: JOINT POWERS AGREEMENTS - CONTINUED

SOUTH LAKE MINNETONKA POLICE DEPARTMENT
 SUMMARY STATEMENT OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---------------------------|--------------|--------------|
| Revenues | \$ 2,829,638 | \$ 2,792,683 |
| Expenses | 2,692,164 | 2,630,842 |
| Net revenues | 137,474 | 161,841 |
| General revenues | 11,770 | 12,596 |
| Change in net position | 149,244 | 174,437 |
| Net position, January 1 | 1,575,239 | 1,400,802 |
| Net position, December 31 | \$ 1,724,483 | \$ 1,575,239 |

According to a formula in the agreement, the City's share of the District's budget is 28.1 percent on operation and 14.92 percent on capital. Payments to the District in 2015 totaled \$711,278. The Department issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the South Lake Police Department, 24150 Smithtown Road, Shorewood, Minnesota 55331.

B. Excelsior Fire District

In August of 2000, the City, along with the cities of Deephaven, Greenwood, Shorewood, and Tonka Bay, entered a joint powers agreement to provide fire protection and medical response service to their residents and created an entity called the Excelsior Fire District (the District). Previously, the City had operated a fire department that provided service to these cities.

Selected financial information is shown below and on the following page for the most recent year of audited information, which is December 31, 2015:

EXCELSIOR FIRE DISTRICT
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|--------------------------------|--------------|--------------|
| Assets | \$ 8,918,967 | \$ 7,868,422 |
| Deferred outflows of resources | 202,136 | - |
| Liabilities | 4,156,120 | 4,454,504 |
| Deferred inflows of resources | 210,985 | - |
| Net position | \$ 4,753,998 | \$ 3,413,918 |

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6: JOINT POWERS AGREEMENTS - CONTINUED

EXCELSIOR FIRE DISTRICT
SUMMARY STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|-------------------------------------|--------------|--------------|
| Charges for services | \$ 1,586,179 | \$ 1,582,905 |
| Operating grants and contributions | 2,224 | 2,553 |
| Expenses | (1,345,611) | (1,289,669) |
| Net revenues | 242,792 | 295,789 |
| General revenues | 4,921 | 3,803 |
| Change in net position | 247,713 | 299,592 |
| Net position, January 1 as restated | 4,506,285 | 3,114,326 |
| Net position, December 31 | \$ 4,753,998 | \$ 3,413,918 |

According to a formula in the agreement, the City's share of the District's budget is 10.64 percent. Payments to the District in 2015 totaled \$175,802. The District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Excelsior Fire District, 24100 Smithtown Road, Shorewood, Minnesota 55331.

C. Southshore Community Center

In March 1996, the City, along with the cities of Deephaven, Greenwood, Shorewood, and Tonka Bay, entered a joint powers agreement for the Southshore Senior/Community Center. The parties have determined that each City is more economically and efficiently served by constructing and operating the Center together rather than each city construction and operating its own community Center.

D. St. Alban's Bay Lake Improvement District

In February 2015, the City, along with the city of Greenwood, entered a joint powers agreement for the Lake Improvement District to be established for the management and control of Aquatic Invasive Species in St. Alban's Bay, Lake Minnetonka. The parties have determined that each City is more economically and efficiently served by establishing the Lake Improvement District together to manage and monitor the water resource.

Note 7: OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$1,000,000. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

CITY OF EXCELSIOR, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 7: OTHER INFORMATION - CONTINUED

B. Legal debt margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and, therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. The City has no outstanding debt subject to the limit.

C. Tax increment districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

The City has entered into "pay as you go" Tax Increment Financing notes within its TIF districts. These notes are payable only to the extent of the increment received. As a result they are a commitment within the district but they have not met the criteria to be reported as a liability on the statement of net position.

Note 8: CHANGE IN ACCOUNTING STANDARDS

During 2015, the City implemented several new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended December 31, 2015. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2014 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 4.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2014 balances to the December 31, 2015 financial statements:

| Fund | December 31, 2015 | | |
|--------------------------------|--|---------------------------------|--|
| | Net Position January 1, 2015 as Previously Reported | Prior Period Restatement (1) | Net Position January 1, 2015 as Restated |
| Governmental activities | \$ 7,205,077 | \$ (328,500) | \$ 6,876,577 |
| Business-type activities | \$ 5,318,282 | \$ (298,620) | \$ 5,019,662 |
| Business-type activities | | | |
| Water | \$ 1,989,855 | \$ (93,869) | \$ 1,895,986 |
| Sewer | 2,417,653 | (96,026) | 2,321,627 |
| Commercial Docks | 403,734 | (40,042) | 363,692 |
| Surface Water Management | 324,088 | (53,319) | 270,769 |
| Other Proprietary Funds | 182,952 | (15,364) | 167,588 |
| Total business-type activities | \$ 5,318,282 | \$ (298,620) | \$ 5,019,662 |

(1) To record beginning net pension liability, deferred inflows of resources and deferred outflow of resources at December 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

CITY OF EXCELSIOR, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2015

Schedule of funding progress for the postemployment benefit plan

| Actuarial Valuation Date | Required Supplementary Information | | | | | UAAL as a Percentage of Covered Payroll |
|--------------------------------|------------------------------------|-----------------------------------|---|-----------------|--------------------|--|
| | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | |
| 01/01/15 | \$ - | \$ 83,586 | \$ 83,586 | - % | \$ 770,963 | 10.8 % |
| 01/01/14 | - | 70,719 | 70,719 | - | 743,097 | 9.5 |
| 01/01/13 | - | 74,393 | 74,393 | - | 646,923 | 11.5 |

Schedule of employer's share of PERA net pension liability

| Fiscal Year Ending | Required Supplementary Information | | | | | | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------------|---|--|--|----------------|-------------------------------------|--|--|
| | City's Proportion of the Net Pension Liability | City's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the City (b) | Total (a+b) | City's Covered Payroll (c) | City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | |
| 12/31/15 | 0.0103 % | \$ 533,799 | \$ - | \$ 533,799 | \$ 613,907 | 87.0 % | 86.6 % |

Schedule of employer's PERA contributions

| Year Ending | Required Supplementary Information | | | | | Contributions as a Percentage of Covered Payroll (b/c) |
|----------------|--|---|---|---|--------|---|
| | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | District's Covered Payroll (c) | | |
| 2015 | \$ 46,043 | \$ 46,043 | \$ - | \$ 613,907 | 7.50 % | |

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

OTHER FINANCIAL INFORMATION (UNAUDITED)

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015

OTHER REQUIRED REPORTS

CITY OF EXCELSIOR
EXCELSIOR, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2015



INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Excelsior, 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 Excelsior, Minnesota (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota statute §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 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.

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

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 13, 2016



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

Honorable Mayor and City Council
City of Excelsior, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Excelsior, Minnesota (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 13, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

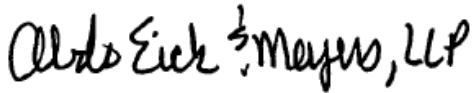
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 13, 2016

CITY OF EXCELSIOR, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Finding Description

2015- 001 Limited segregation of duties

Condition: During our audit, we reviewed procedures over the City's major transaction cycles. During our examination of these major cycles, we noted that the utility billing, cash disbursements, payroll and cash receipts cycles had limited segregation of duties.

Criteria: There are four general categories of duties: authorization, custody, recording and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Cause: As a result of the limited number of staff, the City is not able to completely segregate all accounting functions. Currently the Finance Director has duties in more than one category, as described above, for the utility billing, cash disbursements, payroll and cash receipts cycles.

Effect: The existence of this limited segregation of duties increases the risk of fraud and errors.

Recommendation: While we recognize the current staff is not large enough to eliminate this deficiency, we recommend the City ensure its current controls are being followed by staff. Invoice approval is an important control step which provides better evidence of approval for the purchasing process. The city should continue to evaluate its internal controls on a regular basis.

Management response:

The City agrees with the audit finding. Although no additional staff are proposed to be hired, the City will ensure compensating controls exist to reduce the risk of fraud or errors and will evaluate such controls on a regular basis.