

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE
CITY OF DEEPHAVEN, MINNESOTA**



For The Fiscal Year Ended December 31, 2017

**Comprehensive Annual Financial Report of the City
Council of Deephaven, Minnesota**

***For the Year Ended
December 31, 2017***

Dana Young, City Administrator

**Prepared By:
The Department of Finance**

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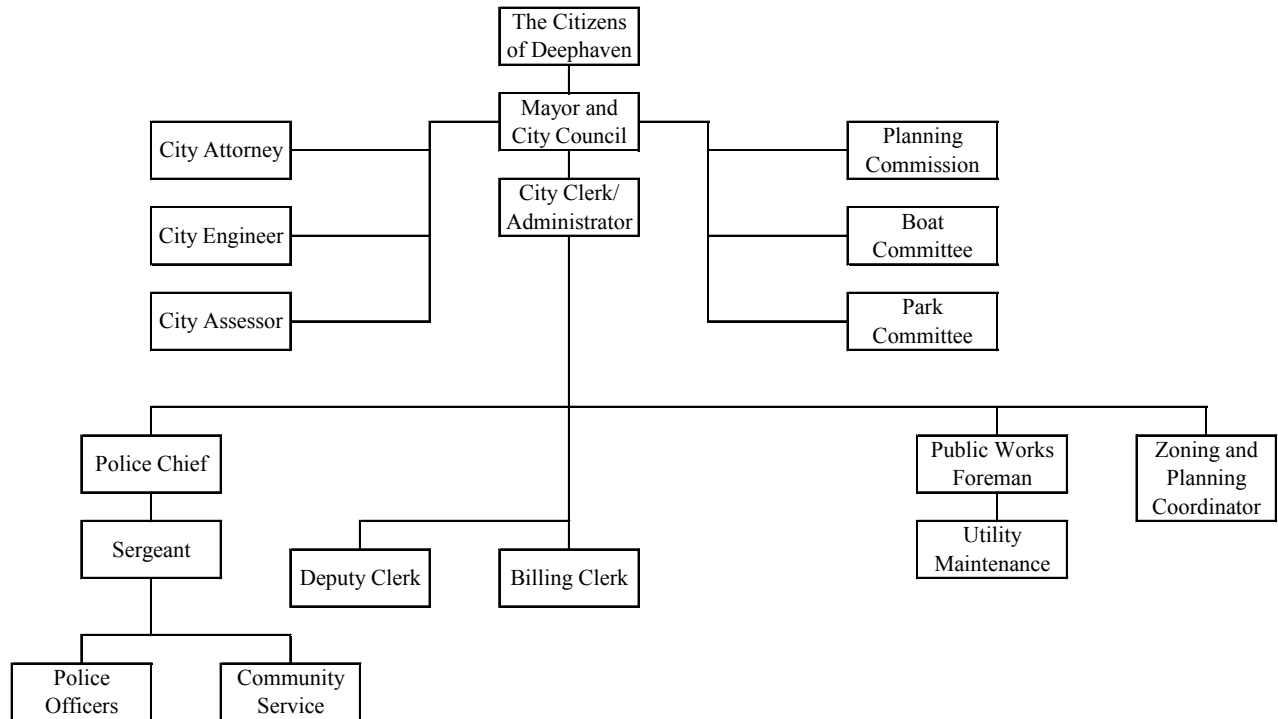
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INTRODUCTORY SECTION

**City of Deephaven
Elected Officials and Administration
December 31, 2017**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Paul Skrede	Mayor	December 31, 2018
Kent Carlson	Council Member	December 31, 2020
Steve Erickson	Council Member	December 31, 2020
Darel Gustafson	Council Member	December 31, 2018
Tony Jewett	Council Member	December 31, 2018
<u>Administration</u>		
Dana Young	City Administrator/Clerk/Treasurer	Appointed
Cory Johnson	Police Chief	Appointed
John Menzel	Public Works Foreman	Appointed

City of Deephaven Organization Chart





March 1, 2018

To the Honorable Mayor and
Members of the City Council
City of Deephaven
Deephaven, Minnesota

The comprehensive annual financial report of the City of Deephaven, Minnesota, for the year ended December 31, 2017, is hereby submitted for your review. The report was prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board and meets the requirements of the Minnesota State Auditor's Office.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City has established internal controls designed to protect the City's assets from loss, theft, or misuse and to provide sufficient reliable information for the preparation of these financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal controls have been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. Furthermore, all disclosures necessary to enable the reader to have the maximum understanding of the City's financial activity have been included.

BerganKDV, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented on pages 9-11 of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found starting on page 12.

Government Profile

The City of Deephaven was incorporated in 1900. It is a western suburb of the Minneapolis/St. Paul area, located in Western Hennepin County. Deephaven covers an area of 2.3 square miles (or 1,440 acres) with an estimated population of 3,921. It is essentially a residential city, with a small commercial area that primarily serves the local community.

One of Deephaven's chief attractions is Lake Minnetonka with its three deep-cut bays bordering the city. The points and peninsulas overlooking the lake provide some of the City's most beautiful home sites, and the lake furnishes endless opportunities for year-round recreational activities. Summer fun is provided at six public beaches and two city marinas, which accommodates approximately 312 boats ranging in size from slender canoes to luxurious powerboats and sailboats. Deephaven's recreational areas include public parks, which contain tennis courts, baseball fields, platform courts, playground equipment, basketball courts and walking trails. Hiking trails and bike paths connect many recreational areas. During the winter, the trails are utilized for cross-country skiing. Deephaven is truly a haven when it comes to peaceful living and active recreation.

Management of the City is responsible for establishing and maintaining budgetary controls designed to ensure that the assets of the government are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund are included in the annual appropriated budget. Project length financial plans are adopted for the Capital Projects Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriate amount) is established by function and activity within an individual fund.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Deephaven operates.

Local Economic Condition and Outlook

The City of Deephaven has completely recovered from the recession and housing crisis that impacted the national economy back in 2008, which spurred a significant slowdown in construction activity, building permits and residential housing construction. However, as shown below, the total building permit value for the City of Deephaven has remained surprisingly consistent in recent years with the notable exception of 2011:

	Total Permits Number		Value
2017	623	\$	22,453,999
2016	548		21,471,415
2015	606		15,562,559
2014	551		25,926,380
2013	572		18,515,926
2012	506		14,447,728
2011	494		7,579,378
2010	541		13,268,023

More reflective of improving economic conditions, the overall market value of the City of Deephaven has declined every year since 2008. However, after the final significant decline of 6.8% in 2011, the overall market value in Deephaven has shown signs of a strong recovery. The market value declined 1.9% in 2012, 4.1% in 2013 and .03% in 2014 before increasing 11.5% in 2015, 9.9% in 2016, 4.5% IN 2017, and another 5.0% in 2018. The market value of the City of Deephaven is projected to reach an all-time high of 1.556 billion dollars in 2018. Certainly, this gives every indication that the residential housing market has fully recovered.

The City has adopted land use plans, zoning ordinances and developed shoreland management plans to ensure orderly growth and quality redevelopment. In 2008, the City completed an update to the Comprehensive Plan, which extends to the year 2018. The City is currently in the process of updating the 2018 Comprehensive Plan.

All of Deephaven is part of Independent School District No. 276, one of the most highly regarded Districts throughout the entire state, if not the entire country. Deephaven has one public elementary school and two private schools located within the city.

Commercial areas in Deephaven provide a limited range of commercial goods and services. The largest commercial area in the community is Chowen's Corner, which consists mainly of retail shops and offices. Two smaller commercial areas are located along Trunk Highway 7 / Vine Hill Road and Hwy 101.

Long-Term Financial Planning

Each year, as part of its review of the long-term financial plan of the City, the City Council establishes five primary long-term financial objectives. They include:

1. **Maintain property tax levy increases at the annual rate of inflation or less.** This goal has been established partly to adhere to levy limit requirements that have been periodically imposed by the State of Minnesota, but primarily to control the growth of government expenditures to a reasonable rate thereby providing its residents with some assurance that the property tax levy will not increase at a greater rate than wage increases. For the most part, this objective has been met with a 2% increase in 2011, a 0% increase in both 2012 and 2013, a 2.9% increase in 2014, a 2.4% increase in 2015, a 4.5% increase in 2016, 0.53% increase in 2017, and a 2.7% increase in 2018. The majority of the increase in 2016 was to support a more aggressive street resurfacing program.
2. **Limit payments for bonded debt and/or facility lease payments to the Excelsior Fire District to approximately \$170,000 per year until the final payment of the fire facility lease is made in 2023.** This objective has been met with facility lease payments averaging approximately \$153,000 per year through 2023, with no immediate plans to issue future debt.
3. **Establish an unreserved General Fund Balance that equals or exceeds 90% of current year expenditures.** This objective has been met with an unreserved General Fund Balance of 102.6% in 2011, 107.5% in 2012, 115.0% in 2013, 121.8% in 2014, 112.9% in 2015, 107.6% in 2016 and 113.4% in 2017. In order to address excessive General Fund reserves in 2014, the Council transferred \$250,000 in 2015 and another \$300,000 in 2016 from the General Fund into the Capital Improvement Fund to assist in the financing of both street and bridge reconstruction projects. Even with these two transfers, projections through 2021 show that the unreserved General Fund Balance will still exceed 90% of current year expenditures.

4. **Establish a Capital Improvement Fund reserve of \$350,000 to provide available funding for street, police, park and administrative equipment and to adequately fund future street improvement projects.** This objective has been achieved in the short term with a Capital Improvement Fund reserve of \$360,395 in 2011, \$384,876 in 2012, and \$369,733 in 2013. However, beginning in 2014 and projecting out the next six years, projections show the Capital Improvement Fund reserve will decrease to a low of \$31,705 in 2020 before rebounding to \$254,339 in 2021 due to an aggressive schedule of street reconstruction projects that began in 2015.
5. **Establish utility rates that ensure the ability to finance annual operating costs, the schedule of current and future capital utility projects, and establish utility fund reserves in the amount of \$250,000 in the Water Utility Fund, \$600,000 in the Sewer Utility Fund and \$150,000 in the Storm Water Utility Fund.** The Water Utility Fund will continue to meet this objective as its current rate structure is adequate to fund all current and future operating costs and projected capital costs.

In the short term, the Storm Water Utility Fund will have a greater difficulty in meeting this objective due to an aggressive slate of capital projects within the next five years. However, a 2014 rate increase greatly assisted with the funding of all current and future operating costs and projected capital costs.

The Sewer Utility Fund will present more of a challenge as projected increases in waste disposal fees and future capital improvement costs could potentially cause an overall reduction in the Sewer Utility Fund reserve. The City Council has already begun to take the necessary steps to ensure that adequate Sewer Utility Fund reserves are maintained well into the future by approving a sewer rate increase in 2015 that went into effect in 2016.

Major Initiatives

The City of Deephaven prepares a comprehensive Budget annually and also updates its long range plans and forecasts of key financial indicators. The City reviews the following long-range plans prior to preparing its annual budget:

Capital Improvement Plan
Five Year Budget Forecast
Five Year Park Plan
Five Year Utility Forecast
Five Year Marina Forecast
City Fiscal Policy

Deephaven, along with four other area municipalities, have established the Excelsior Fire District through a joint powers agreement that provides fire services and emergency medical response to all five communities. The joint powers agreement provides Deephaven with partial ownership of the Excelsior Fire District. After adjusting to the annual lease payments for the construction of the two new fire stations in 2003-2006, the City anticipates relative stability in its annual support to the District in future years.

The City has developed a web site, which can be assessed at www.cityofdeephaven.org.

Awards

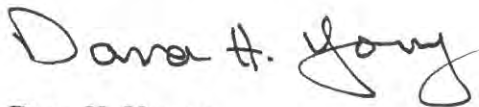
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Deephaven for its comprehensive annual financial report for the fiscal year ended December 31, 2016. This is the 22nd consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

Acknowledgments

We commend the finance department staff for their hard work and dedication. We want to recognize the firm of BerganKDV for their professional assistance. As always, we thank Mayor Skrede and the members of the City Council for their continued interest and support in planning and conducting the financial operations of the City in a very progressive and informed manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dana H. Young". The signature is fluid and cursive, with the first name "Dana" being the most prominent part.

Dana H. Young
City Clerk / Administrator



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Deephaven
Minnesota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Deephaven, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

**Auditor's Responsibility (Continued)**

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 and each major fund of the City of Deephaven, 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 the 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 Deephaven's basic financial statements. The accompanying supplementary information as listed in the Table of Contents, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.



Other Matters (Continued)

Other Information (Continued)

The accompanying supplementary information as listed in the Table of Contents 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 supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2018, on our consideration of the City of Deephaven's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 City's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
March 1, 2018

City of Deephaven Management's Discussion and Analysis

As management of the City of Deephaven (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 HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded liabilities and deferred inflows of resources at the close of the most recent year by \$12,748,841 (total net position). Of this amount, \$3,032,942 (unrestricted total net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position in 2017 increased by \$236,211 in comparison with the prior year.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$3,734,968, an increase of \$34,350 in comparison with the prior year.
- At the end of the current year, the General Fund balance was \$3,211,010, which included \$22,215 that was nonspendable, \$215,577 committed for severance and other post employment benefits (OPEB) liability and \$2,973,218 for working capital. The total General Fund balance was 113% of total 2017 General Fund expenditures.
- The City's governmental activities compensated absences and OPEB liability long-term debt is \$215,577. This amount has been committed in the General Fund. In other words, \$101,062 has been designated to pay for one-third accrued sick leave that is paid to City employees upon their retirement with the City and \$114,515 has been designated towards the City's outstanding OPEB liability.
- The propriety funds have an ending cash balance of \$815,785. This represents an increase of \$97,787 over the prior year due to a less aggressive schedule of capital improvement projects undertaken in the Sewer Fund, Storm Water Fund and Marina Fund in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements 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 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 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.

City of Deephaven Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 the related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) 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, Public Works and Parks and Recreation Funds. The business-type activities of the City include Sewer, Water, Storm Water, Marina, and Recycling Funds.

The government-wide financial statements can be found on pages 23 through 25 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts 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 resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city'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 General, Capital Improvement, and the Park Dedication Funds.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided on page 30 for this Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 26 through 30 of this report.

City of Deephaven Management's Discussion and Analysis

FUND FINANCIAL STATEMENTS

Proprietary Funds

The City maintains five major enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses enterprise funds to account for water, sewer, storm water, marina, and recycling operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 31 through 33 of this report.

Notes to Financial Statements

The Notes to the Financial Statements 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 pages 35 through 63 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City, assets exceeded liabilities by \$12,748,841 at the close of 2017.

The largest portion of the City's net position of \$9,480,604 or 74% reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

City of Deephaven
Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET POSITION
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 4,163	\$ 4,061	\$ 1,062	\$ 988	\$ 5,225	\$ 5,049
Capital assets	6,824	6,475	2,656	2,759	9,480	9,234
Total assets	<u>\$ 10,987</u>	<u>\$ 10,536</u>	<u>\$ 3,718</u>	<u>\$ 3,747</u>	<u>\$ 14,705</u>	<u>\$ 14,283</u>
Deferred Outflows of Resources	<u>\$ 1,312</u>	<u>\$ 2,030</u>	<u>\$ 29</u>	<u>\$ 59</u>	<u>\$ 1,341</u>	<u>\$ 2,089</u>
Liabilities						
Other liabilities	\$ 65	\$ 67	\$ 166	\$ 146	\$ 231	\$ 213
Noncurrent liabilities	1,353	3,076	136	160	1,489	3,236
Total liabilities	<u>\$ 1,418</u>	<u>\$ 3,143</u>	<u>\$ 302</u>	<u>\$ 306</u>	<u>\$ 1,720</u>	<u>\$ 3,449</u>
Deferred Inflows of Resources	<u>\$ 1,550</u>	<u>\$ 389</u>	<u>\$ 27</u>	<u>\$ 21</u>	<u>\$ 1,577</u>	<u>\$ 410</u>
Net Position						
Invested in capital assets	\$ 6,824	\$ 6,475	\$ 2,656	\$ 2,759	\$ 9,480	\$ 9,234
Restricted	235	179	-	-	235	179
Unrestricted	2,272	2,380	762	720	3,034	3,100
Total net position	<u>\$ 9,331</u>	<u>\$ 9,034</u>	<u>\$ 3,418</u>	<u>\$ 3,479</u>	<u>\$ 12,749</u>	<u>\$ 12,513</u>

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,032,942) may be used to meet the City's ongoing obligations to citizens and creditors. Restricted net position of \$235,295 can only be used for Park Dedication purposes.

The City's net position increased by \$236,211 during the current year: \$297,066 of the increase is in governmental activities with a decrease of \$60,855 in business-type activities. This overall increase is primarily attributable to a decrease in the net pension liability over the prior year.

City of Deephaven
Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

There was an increase in governmental activities net position by \$297,066 and a decrease in business-type activities net position by \$60,855 in 2017, as noted previously. Key elements of this increase are as follows:

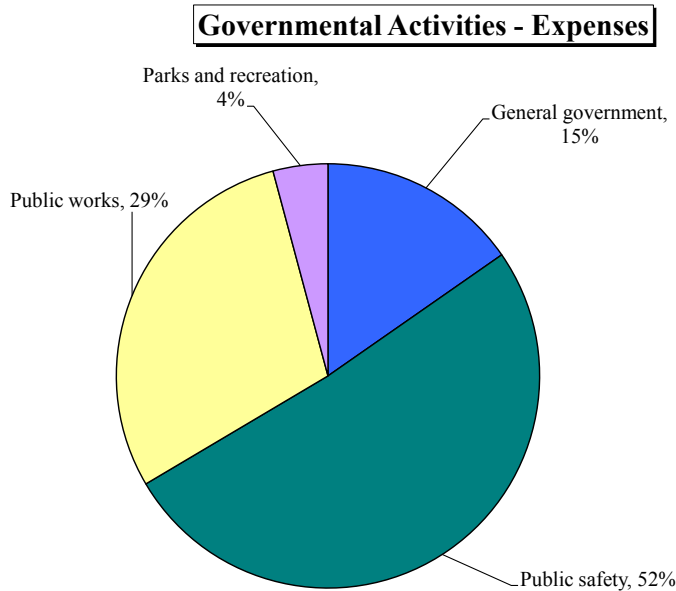
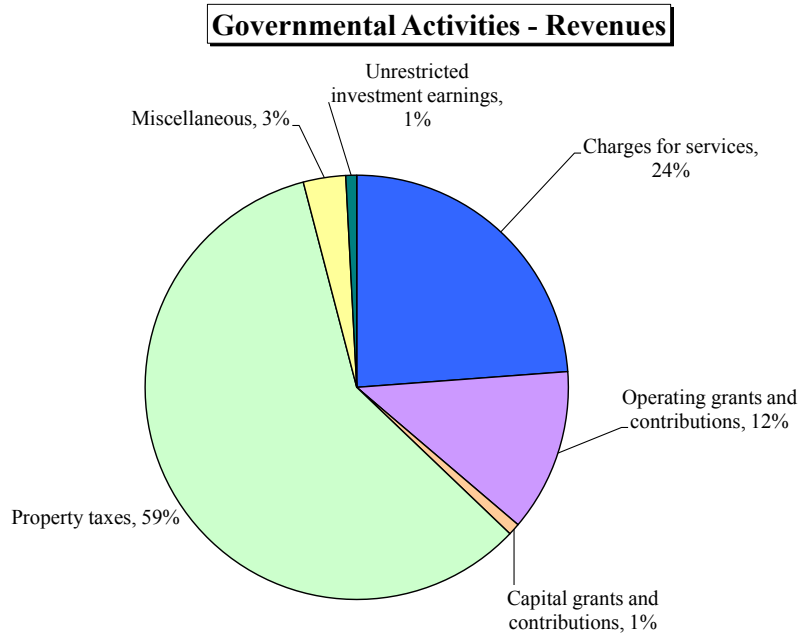
CHANGES IN NET POSITION
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Charges for services	\$ 861	\$ 917	\$ 1,039	\$ 1,013	\$ 1,900	\$ 1,930
Operating grants and contributions	448	217	12	14	460	231
Capital grants and contributions	33	16	-	40	33	56
Property taxes	2,126	2,115	-	-	2,126	2,115
Miscellaneous	117	113	-	-	117	113
Unrestricted investment earnings	30	77	11	19	41	96
Total revenues	<u>3,615</u>	<u>3,455</u>	<u>1,062</u>	<u>1,086</u>	<u>4,677</u>	<u>4,541</u>
Expenses:						
General government	513	542	-	-	513	542
Public safety	1,712	1,905	-	-	1,712	1,905
Public works	981	1,026	-	-	981	1,026
Parks and recreation	140	146	-	-	140	146
Water	-	-	98	87	98	87
Sewer	-	-	802	754	802	754
Recycling	-	-	24	22	24	22
Storm water	-	-	45	62	45	62
Marina	-	-	126	125	126	125
Total expenses	<u>3,346</u>	<u>3,619</u>	<u>1,095</u>	<u>1,050</u>	<u>4,441</u>	<u>4,669</u>
Change in net position before transfers	269	(164)	(33)	36	236	(128)
Transfers	<u>28</u>	<u>28</u>	<u>(28)</u>	<u>(28)</u>	<u>-</u>	<u>-</u>
Change in net position	297	(136)	(61)	8	236	(128)
Net position						
Beginning of year	<u>9,034</u>	<u>9,170</u>	<u>3,479</u>	<u>3,471</u>	<u>12,513</u>	<u>12,641</u>
End of year	<u>\$ 9,331</u>	<u>\$ 9,034</u>	<u>\$ 3,418</u>	<u>\$ 3,479</u>	<u>\$ 12,749</u>	<u>\$ 12,513</u>

City of Deephaven Management's Discussion and Analysis

GOVERNMENTAL ACTIVITIES

Governmental activities increased its overall net position by \$297,066. Below are specific graphs that provide comparisons of the governmental activities revenues and expenses:

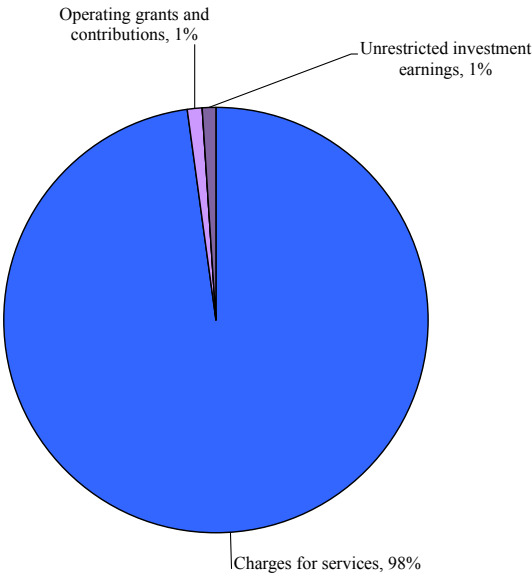


**City of Deephaven
Management's Discussion and Analysis**

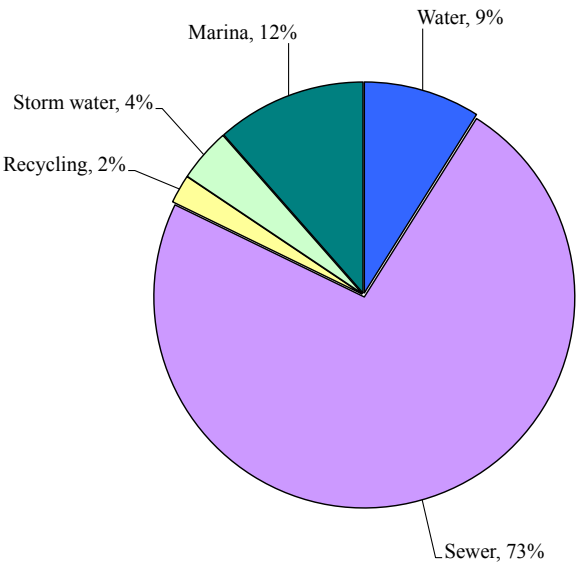
BUSINESS-TYPE ACTIVITIES

Business-type activities decreased its overall net position by \$60,855. Below are graphs showing the business-type activities revenue and expense comparisons:

Business-Type Activities - Revenues



Business-Type Activities - Expenses



City of Deephaven Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY'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, unreserved fund balances may serve as a useful measure of a city's net resources available for spending at the end of the fiscal year.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$3,734,968. Of this amount, \$22,215 represents amounts already expended for prepaid items and is classified as nonspendable. Other portions of the fund balances are dedicated as follows:

- 1) Restricted to fund park projects (\$235,295)
- 2) Committed to pay severance and OPEB liability (\$215,577)
- 3) Committed to fund special capital projects (\$288,663)

The remaining unassigned balance of \$2,973,218 provides for ongoing operating costs.

The General Fund increased \$137,329 in 2017. The reason for the higher than expected increase in the General Fund Balance is due to higher than anticipated revenues in the following areas:

- 1) Licenses and Permits, principally due to construction activity, were \$53,009 higher than anticipated.
- 2) And, adjustments in the State Fire and Police Aid formulas by the State of Minnesota increased the State Fire Aid payment by \$8,038 and the State Police Aid by \$9,382.

2017 General Fund budgeted expenditures were \$67,391 under budget for the year primarily owing to the following three factors:

- 1) Property, liability, and worker's compensation insurance were \$12,036 less than anticipated.
- 2) Administration salaries and benefits came in \$13,312 under budget due to an unexpected reduction in an employee's hours and a reduction in group health insurance premiums.
- 3) A reduction in seasonal part-time employees in the Public Works Department resulted in savings of \$13,551.

The Capital Improvement Fund balance decreased \$159,175 over the prior year primarily due to significant expenditures in street resurfacing, park facility upgrades, and the purchase of three new police vehicles.

The Park Improvement Fund balance increased \$56,196 over the prior year due to the receipt of the Southshore Center settlement proceeds (\$139,639) and bond administration fee proceeds (\$72,000) offsetting the costs of new hockey rink improvements (\$167,874) at Thorpe Park.

**City of Deephaven
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Propriety Funds

Business-type activities decreased the City's net position by \$60,855, principally due to a general decrease in capital assets in 2017.

From a cash position, business-type activities increased \$97,787 in 2017. A brief summary of each business-type activity is described below:

- **Water Fund** – The cash position of the Water Fund decreased \$2,493 in 2017, largely owing to a significant water system improvement in the Central Business District.
- **Sewer Fund** – The cash position of the Sewer Fund increased \$20,483 in 2017. The increase is attributable to additional revenues generated by a sewer rate increase in 2016 offsetting a manhole rehabilitation project (\$50,200), significant lift station improvements (\$26,477), and jet cleaning & televising a portion of the City's sewer mains (\$35,016).
- **Recycling Fund** – The cash position of the Recycling Fund increased \$10,897 in 2017. The Recycling Fund is designed to operate on a breakeven basis whereby the revenue from the Hennepin County Recycling Grant covers the costs of reimbursing Waste Management for conducting the 2017 Spring and Fall Cleanup Day. However, adjustments to the 2017-2021 Waste & Recycling Contract with Waste Management have lowered the overall costs of the Spring and Fall Cleanup Day thereby increasing the cash position of this fund.
- **Storm Water Fund** – The cash position of the Storm Water Fund increased \$23,759 in 2017, owing to the fact that annual storm water fees collected in 2017 offset the four year repayment of a five-year loan to the Sewer Fund and the installation of new catch basins and storm water mains at Lake Louise and on Vine Street.
- **Marina Fund** – The cash position of the Marina Fund increased \$45,141 in 2017 as a 2015 rate increase continues to provide a positive cashflow into the Fund.

City of Deephaven Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

General Fund Revenues – With budgeted General Fund revenues and other financing sources of \$2,904,432 versus actual General Fund revenues and other financing sources of \$2,969,573, General Fund revenues and other financing sources came in \$65,141 higher than anticipated in 2017. A review of General Fund revenues illustrates there were two primary reasons for the surplus of General Fund revenues: 1) License and Permit Fees, and 2) increases in State Fire and Police Aid.

General Fund Expenditures – With budgeted General Fund expenditures of \$2,899,635 versus actual General Fund expenditures of \$2,832,244, General Fund expenditures were \$67,391 less than expected in 2017 due to lower than expected 1) insurance costs, 2) employee salary & benefit costs, and 3) part-time summer help costs.

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, amounted to \$9,480,604 (net of accumulated depreciation). This investment in capital assets included land, land improvements, buildings, vehicles, and equipment is shown below.

	2017 (In Thousands)			
	Governmental Activities	Business-Type Activities	2017 Total	2016 Total
Land	\$ 692	\$ -	\$ 692	\$ 692
Construction in progress	18	-	18	-
Building	305	-	305	320
Mains, lifts, hydrants, and distribution systems	-	2,355	2,355	2,440
Improvements other than buildings	-	7	7	10
Infrastructure	4,650	-	4,650	4,470
Vehicles and equipment	1,159	294	1,453	1,302
Total	<u>\$ 6,824</u>	<u>\$ 2,656</u>	<u>\$ 9,480</u>	<u>\$ 9,234</u>

Additional information on the City's capital assets can be found in Note 4 of the section entitled Notes to the Financial Statements.

City of Deephaven Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (Continued)

Major capital asset events during the current fiscal year included the following:

- 2017 Street Resurfacing Project (\$263,121)
- 2017 Seal Coating Project (\$14,154)
- Hwy 7 & Vine Hill Road MNDOT Signal Lighting Project (\$116,711)
- (3) Police Vehicle (\$113,497)
- (7) Police Handguns (\$3,340)
- Water System Improvements at Chowen's Corner (\$10,163)
- 2017 Manhole Repairs (\$50,200)
- Sewer Main Cleaning & Televising (\$35,016)
- Lift Station & Pump Improvements (\$26,477)
- Lake Louise Storm Water Outlet Repair (\$13,862)
- Vine Street Storm Water Improvements (\$3,000)
- Deephaven Swimming Dock Project (\$58,400)
- Tennis Court Repairs (\$30,670)
- Thorpe Park Hockey Rink Project (\$126,786)

LONG-TERM DEBT

At the end of the current fiscal year, the City had total long-term debt totaling \$236,257 for accrued compensated absences and OPEB liability and net pension liability in the amount of \$1,264,581. Refer to Notes 5, 8, and 10 in the financial statements for further information.

ECONOMIC FACTORS AND FUTURE BUDGET PLANS

The City is a fully developed community that must adjust to relatively slow growth in the future market value of the City. With little "new" tax dollars entering the community, the City must grow increasingly careful with the development of future budgets to control future increases in the property tax levy.

This places an increasing burden on the City to increase other revenue opportunities aside from the property tax levy to offset inflationary increases in supplies, employee salaries, health care and professional services.

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 City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City Hall, 20225 Cottagewood Road, Deephaven, Minnesota 55331.

BASIC FINANCIAL STATEMENTS

City of Deephaven
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 3,663,268	\$ 815,785	\$ 4,479,053
Accounts receivable	23,624	202,196	225,820
Interest receivable	25,732	-	25,732
Property taxes receivable			
Unremitted	42,015	-	42,015
Special assessments receivable			
Delinquent	-	5,377	5,377
Deferred	-	27,115	27,115
Due from other governments	12,866	6,760	19,626
Prepaid items	22,215	4,508	26,723
Pension asset	373,500	-	373,500
Capital assets not being depreciated			
Land	692,177	-	692,177
Construction in progress	17,586	-	17,586
Capital assets net of accumulated depreciation			
Buildings	305,214	-	305,214
Mains, lifts, hydrants, and distribution systems	-	2,355,623	2,355,623
Improvements other than buildings	360	6,805	7,165
Infrastructure	4,650,175	-	4,650,175
Vehicles and equipment	1,158,780	293,884	1,452,664
	<u>10,987,512</u>	<u>3,718,053</u>	<u>14,705,565</u>
Total assets			
	<u>10,987,512</u>	<u>3,718,053</u>	<u>14,705,565</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	1,311,833	29,451	1,341,284
	<u>1,311,833</u>	<u>29,451</u>	<u>1,341,284</u>
Total assets and deferred outflows of resources			
	<u>\$ 12,299,345</u>	<u>\$ 3,747,504</u>	<u>\$ 16,046,849</u>
Liabilities			
Accounts and contracts payable	\$ 2,440	\$ 9,668	\$ 12,108
Salaries and benefits payable	23,605	2,577	26,182
Due to other governments	28,707	17,169	45,876
Unearned revenue	-	135,680	135,680
Compensated absences payable			
Payable within one year	10,106	636	10,742
Payable after one year	90,956	5,730	96,686
OPEB obligation	114,515	14,314	128,829
Net pension liability	1,147,988	116,593	1,264,581
Total liabilities	<u>1,418,317</u>	<u>302,367</u>	<u>1,720,684</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	1,549,927	27,397	1,577,324
	<u>1,549,927</u>	<u>27,397</u>	<u>1,577,324</u>
Net Position			
Investment in capital assets	6,824,292	2,656,312	9,480,604
Restricted for			
Park dedication fees	235,295	-	235,295
Unrestricted	2,271,514	761,428	3,032,942
Total net position	<u>9,331,101</u>	<u>3,417,740</u>	<u>12,748,841</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 12,299,345</u>	<u>\$ 3,747,504</u>	<u>\$ 16,046,849</u>

City of Deephaven
Statement of Activities
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 512,636	\$ 159,099	\$ -	\$ -
Public safety	1,712,408	219,067	211,817	33,231
Public works	980,996	482,617	9,684	-
Park and recreation	140,358	-	226,443	-
Total governmental activities	<u>3,346,398</u>	<u>860,783</u>	<u>447,944</u>	<u>33,231</u>
Business-type activities				
Water	98,835	87,736	-	-
Sewer	801,881	662,420	-	-
Recycling	23,650	21,910	12,201	-
Storm water	44,671	119,295	-	-
Marina	126,071	148,037	-	-
Total business-type activities	<u>1,095,108</u>	<u>1,039,398</u>	<u>12,201</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 4,441,506</u>	<u>\$ 1,900,181</u>	<u>\$ 460,145</u>	<u>\$ 33,231</u>
		General revenues		
		Property taxes		
		Unrestricted state aids		
		Unrestricted investment earnings		
		Other general revenue		
		Transfers		
		Total general revenues and transfers		
		Change in net position		
		Net position - beginning		
		Net position - ending		

Net (Expense) Revenues
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (353,537)	\$ -	\$ (353,537)
(1,248,293)	-	(1,248,293)
(488,695)	-	(488,695)
86,085	-	86,085
<u>(2,004,440)</u>	<u>-</u>	<u>(2,004,440)</u>
-	(11,099)	(11,099)
-	(139,461)	(139,461)
-	10,461	10,461
-	74,624	74,624
-	21,966	21,966
<u>-</u>	<u>(43,509)</u>	<u>(43,509)</u>
(2,004,440)	(43,509)	(2,047,949)
2,125,823	-	2,125,823
2,501	-	2,501
30,371	11,106	41,477
114,359	-	114,359
28,452	(28,452)	-
<u>2,301,506</u>	<u>(17,346)</u>	<u>2,284,160</u>
297,066	(60,855)	236,211
<u>9,034,035</u>	<u>3,478,595</u>	<u>12,512,630</u>
<u>\$ 9,331,101</u>	<u>\$ 3,417,740</u>	<u>\$ 12,748,841</u>

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MAJOR GOVERNMENTAL FUNDS

City of Deephaven
Balance Sheet - Governmental Funds
December 31, 2017

		Capital Projects		
	General Fund	Capital Improvement Fund	Park Dedication Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 3,168,640	\$ 259,333	\$ 235,295	\$ 3,663,268
Accounts receivable	-	23,624	-	23,624
Interest receivable	25,732	-	-	25,732
Property taxes receivable				
Unremitted	36,309	5,706	-	42,015
Due from other governments	12,866	-	-	12,866
Prepaid items	22,215	-	-	22,215
Total assets	<u>\$ 3,265,762</u>	<u>\$ 288,663</u>	<u>\$ 235,295</u>	<u>\$ 3,789,720</u>
Liabilities				
Accounts payable	\$ 2,440	\$ -	\$ -	\$ 2,440
Salaries and benefits payable	23,605	-	-	23,605
Due to other governments	28,707	-	-	28,707
Total liabilities	<u>54,752</u>	<u>-</u>	<u>-</u>	<u>54,752</u>
Fund Balances				
Nonspendable	22,215	-	-	22,215
Restricted	-	-	235,295	235,295
Committed	215,577	288,663	-	504,240
Unassigned	2,973,218	-	-	2,973,218
Total fund balances	<u>3,211,010</u>	<u>288,663</u>	<u>235,295</u>	<u>3,734,968</u>
Total liabilities, and fund balances	<u>\$ 3,265,762</u>	<u>\$ 288,663</u>	<u>\$ 235,295</u>	<u>\$ 3,789,720</u>

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

Total fund balances - governmental funds	\$ 3,734,968
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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	11,334,227
Less accumulated depreciation	(4,509,935)

Long-term liabilities 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:

Compensated absences payable	(101,062)
Unfunded OPEB liability	(114,515)
Net pension liability	(1,147,988)

Net pension assets created through non-employer contributions to defined benefit pension plans are not recognized in the governmental funds.

373,500

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 outflows of resources related to pensions	1,311,833
Deferred inflows of resources related to pensions	(1,549,927)

Total net position - governmental activities	<u><u>\$ 9,331,101</u></u>
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City of Deephaven
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2017

		Capital Projects		
	General Fund	Capital Improvement Fund	Park Dedication Fund	Total Governmental Funds
Revenues				
General property taxes and fiscal disparities	\$ 1,838,591	\$ 298,764	\$ -	\$ 2,137,355
Licenses and permits	310,346	-	-	310,346
Intergovernmental	218,975	33,231	-	252,206
Charges for services	388,450	-	-	388,450
Fines	57,642	2,126	-	59,768
Miscellaneous				
Investment income	24,976	2,961	2,434	30,371
Contributions and donations	200	-	-	200
Franchise fees	-	94,473	-	94,473
Other	101,721	-	226,443	328,164
Total revenues	<u>2,940,901</u>	<u>431,555</u>	<u>228,877</u>	<u>3,601,333</u>
Expenditures				
Current				
General government	509,579	-	-	509,579
Public safety	1,566,565	-	-	1,566,565
Public works	672,681	-	-	672,681
Parks and recreation	83,419	-	8,421	91,840
Capital outlay				
General government	-	5,213	-	5,213
Public safety	-	118,432	-	118,432
Public works	-	398,080	-	398,080
Parks and recreation	-	89,070	164,260	253,330
Total expenditures	<u>2,832,244</u>	<u>610,795</u>	<u>172,681</u>	<u>3,615,720</u>
Excess of revenues over (under) expenditures	108,657	(179,240)	56,196	(14,387)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	220	20,065	-	20,285
Transfers in	28,452	-	-	28,452
Total other financing sources	<u>28,672</u>	<u>20,065</u>	<u>-</u>	<u>48,737</u>
Net change in fund balances	137,329	(159,175)	56,196	34,350
Fund Balances				
Beginning of year	<u>3,073,681</u>	<u>447,838</u>	<u>179,099</u>	<u>3,700,618</u>
End of year	<u>\$ 3,211,010</u>	<u>\$ 288,663</u>	<u>\$ 235,295</u>	<u>\$ 3,734,968</u>

City of Deephaven
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	\$ 34,350
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	780,212
Depreciation expense	(427,381)
Loss on disposal of capital assets	(3,549)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

15,081

OPEB costs are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

(3,905)

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

Pension expense	(91,136)
State contribution to plan	4,926

Certain 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 - delinquent	(11,532)
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Change in net position- governmental activities	\$ 297,066
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City of Deephaven
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
General property taxes			
And fiscal disparities	\$ 1,828,916	\$ 1,838,591	\$ 9,675
Special assessments	500	-	(500)
Licenses and permits	245,300	310,346	65,046
Intergovernmental	201,451	218,975	17,524
Charges for services	415,919	388,450	(27,469)
Fines and forfeitures	60,000	57,642	(2,358)
Miscellaneous revenues			
Investment income	45,000	24,976	(20,024)
Contributions and donations	100	200	100
Other	78,694	101,721	23,027
Total revenues	<u>2,875,880</u>	<u>2,940,901</u>	<u>65,021</u>
Expenditures			
Current			
General government	542,623	509,579	(33,044)
Public safety	1,578,056	1,566,565	(11,491)
Public works	685,156	672,681	(12,475)
Park and recreation	93,800	83,419	(10,381)
Total expenditures	<u>2,899,635</u>	<u>2,832,244</u>	<u>(67,391)</u>
Excess of revenues over (under) expenditures	(23,755)	108,657	132,412
Other Financing Sources			
Proceeds from sale of capital asset	100	220	120
Transfers in	28,452	28,452	-
Total other financing sources	<u>28,552</u>	<u>28,672</u>	<u>120</u>
Net change in fund balances	<u>\$ 4,797</u>	137,329	<u>\$ 132,532</u>
Fund Balances			
Beginning of year		<u>3,073,681</u>	
End of year		<u>\$ 3,211,010</u>	

See notes to financial statements.

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PROPRIETARY FUNDS

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

	Water	Sewer	Recycling	Storm Water	Marina	Total
Assets						
Current assets						
Cash and investments	\$ 202,853	\$ 318,177	\$ 56,928	\$ 23,759	\$ 214,068	\$ 815,785
Accounts receivable	14,357	156,878	-	30,961	-	202,196
Special assessments receivable						
Delinquent	-	3,393	1,984	-	-	5,377
Deferred	1,465	25,650	-	-	-	27,115
Advances to other funds	-	41,900	-	-	-	41,900
Due from other governments	-	6,760	-	-	-	6,760
Prepaid items	94	3,589	-	113	712	4,508
Total current assets	<u>218,769</u>	<u>556,347</u>	<u>58,912</u>	<u>54,833</u>	<u>214,780</u>	<u>1,103,641</u>
Noncurrent assets						
Capital assets						
Mains, lifts, hydrants, and distribution systems	746,413	6,319,294	-	837,127	-	7,902,834
Improvements	-	-	-	-	102,190	102,190
Vehicles and equipment	23,481	116,464	-	-	334,075	474,020
Total capital assets	<u>769,894</u>	<u>6,435,758</u>	<u>-</u>	<u>837,127</u>	<u>436,265</u>	<u>8,479,044</u>
Less accumulated depreciation	<u>(472,257)</u>	<u>(5,025,939)</u>	<u>-</u>	<u>(105,510)</u>	<u>(219,026)</u>	<u>(5,822,732)</u>
Net capital assets	<u>297,637</u>	<u>1,409,819</u>	<u>-</u>	<u>731,617</u>	<u>217,239</u>	<u>2,656,312</u>
Total assets	<u>516,406</u>	<u>1,966,166</u>	<u>58,912</u>	<u>786,450</u>	<u>432,019</u>	<u>3,759,953</u>
Deferred Outflows of Resources						
Deferred outflows of resources related to pensions	840	21,541	-	840	6,230	29,451
Total assets and deferred outflows of resources	<u>\$ 517,246</u>	<u>\$ 1,987,707</u>	<u>\$ 58,912</u>	<u>\$ 787,290</u>	<u>\$ 438,249</u>	<u>\$ 3,789,404</u>
Liabilities						
Current liabilities						
Accounts and contracts payable	\$ -	\$ 8,168	\$ -	\$ 1,500	\$ -	\$ 9,668
Salaries and benefits payable	66	1,844	-	168	499	2,577
Advances from other funds	-	-	-	41,900	-	41,900
Due to other governments	14,709	2,460	-	-	-	17,169
Unearned revenue	-	-	-	-	135,680	135,680
Compensated absences	1	378	-	126	131	636
Total current liabilities	<u>14,776</u>	<u>12,850</u>	<u>-</u>	<u>43,694</u>	<u>136,310</u>	<u>207,630</u>
Noncurrent liabilities						
Compensated absences	10	3,406	-	1,132	1,182	5,730
Unfunded OPEB liability	447	10,020	-	805	3,042	14,314
Net pension liability	3,327	85,276	-	3,327	24,663	116,593
Total noncurrent liabilities	<u>3,784</u>	<u>98,702</u>	<u>-</u>	<u>5,264</u>	<u>28,887</u>	<u>136,637</u>
Total liabilities	<u>18,560</u>	<u>111,552</u>	<u>-</u>	<u>48,958</u>	<u>165,197</u>	<u>344,267</u>
Deferred Inflows of Resources						
Deferred inflows of resources related to pensions	782	20,038	-	782	5,795	27,397
Net Position						
Investment in capital assets	297,637	1,409,819	-	731,617	217,239	2,656,312
Unrestricted	200,267	446,298	58,912	5,933	50,018	761,428
Total net position	<u>497,904</u>	<u>1,856,117</u>	<u>58,912</u>	<u>737,550</u>	<u>267,257</u>	<u>3,417,740</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 517,246</u>	<u>\$ 1,987,707</u>	<u>\$ 58,912</u>	<u>\$ 787,290</u>	<u>\$ 438,249</u>	<u>\$ 3,789,404</u>

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

	Water	Sewer	Recycling	Storm Water	Marina	Total
Operating revenues						
Charges for services	\$ 87,616	\$ 643,375	\$ 21,850	\$ 119,295	\$ 146,977	\$ 1,019,113
Permits, hook-up fees, and penalties	120	4,390	60	-	-	4,570
Other income	-	14,655	-	-	1,060	15,715
Total operating revenues	<u>87,736</u>	<u>662,420</u>	<u>21,910</u>	<u>119,295</u>	<u>148,037</u>	<u>1,039,398</u>
Operating expenses						
Disposal charges	-	401,643	-	-	-	401,643
Water charges	70,415	-	-	-	-	70,415
Wages and benefits	4,849	140,594	-	10,944	41,494	197,881
Repairs and maintenance	4,628	31,240	-	-	1,670	37,538
Supplies	60	21,124	91	361	369	22,005
Utilities	-	5,118	-	-	907	6,025
Other	3,313	49,558	23,559	15,487	69,402	161,319
Depreciation	15,570	152,604	-	16,372	12,229	196,775
Total operating expenses	<u>98,835</u>	<u>801,881</u>	<u>23,650</u>	<u>43,164</u>	<u>126,071</u>	<u>1,093,601</u>
Operating income (loss)	(11,099)	(139,461)	(1,740)	76,131	21,966	(54,203)
Nonoperating revenues/expenses						
Interest income	2,343	5,962	611	283	1,907	11,106
Nonoperating grant	-	-	12,201	-	-	12,201
Interest expense	-	-	-	(1,507)	-	(1,507)
Total nonoperating revenues/expenses	<u>2,343</u>	<u>5,962</u>	<u>12,812</u>	<u>(1,224)</u>	<u>1,907</u>	<u>21,800</u>
Income (loss) before transfers	(8,756)	(133,499)	11,072	74,907	23,873	(32,403)
Transfers out	<u>-</u>	<u>(28,452)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,452)</u>
Change in net position	(8,756)	(161,951)	11,072	74,907	23,873	(60,855)
Net position						
Beginning of year	<u>506,660</u>	<u>2,018,068</u>	<u>47,840</u>	<u>662,643</u>	<u>243,384</u>	<u>3,478,595</u>
End of year	<u>\$ 497,904</u>	<u>\$ 1,856,117</u>	<u>\$ 58,912</u>	<u>\$ 737,550</u>	<u>\$ 267,257</u>	<u>\$ 3,417,740</u>

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

	Water	Sewer	Recycling	Storm Water	Marina	Total
Cash Flows - Operating Activities						
Receipts from customers and users	\$ 86,663	\$ 640,122	\$ 21,735	\$ 119,166	\$ 154,988	\$ 1,022,674
Payments to suppliers	(76,613)	(465,126)	(23,650)	(14,932)	(72,502)	(652,823)
Payments to employees	(4,723)	(130,959)	-	(10,822)	(40,312)	(186,816)
Received from other sources	-	14,655	-	-	1,060	15,715
Net cash flows - operating activities	5,327	58,692	(1,915)	93,412	43,234	198,750
Cash Flows - Noncapital						
Financing Activities						
Grants received	-	-	12,201	-	-	12,201
Transfer out	-	(28,452)	-	-	-	(28,452)
Net cash flows - noncapital financing activities	-	(28,452)	12,201	-	-	(16,251)
Cash Flows - Capital and Related						
Financing Activities						
Interfund loan receipts	-	51,567	-	-	-	51,567
Interfund loan payments	-	-	-	(51,567)	-	(51,567)
Interest received on interfund loan	-	1,507	-	-	-	1,507
Interest paid on interfund loan	-	-	-	(1,507)	-	(1,507)
Acquisition of capital assets	(10,163)	(67,286)	-	(16,862)	-	(94,311)
Net cash flows - capital and related financing activities	(10,163)	(14,212)	-	(69,936)	-	(94,311)
Cash Flows - Investing Activities						
Interest and dividends received	2,343	4,455	611	283	1,907	9,599
Net change in cash and cash equivalents	(2,493)	20,483	10,897	23,759	45,141	97,787
Cash and Cash Equivalents						
Beginning of year	205,346	297,694	46,031	-	168,927	717,998
End of year	<u>\$ 202,853</u>	<u>\$ 318,177</u>	<u>\$ 56,928</u>	<u>\$ 23,759</u>	<u>\$ 214,068</u>	<u>\$ 815,785</u>
Reconciliation of Operating Income (Loss) to Net Cash - Flows - Operating Activities						
Operating income (loss)	\$ (11,099)	\$ (139,461)	\$ (1,740)	\$ 76,131	\$ 21,966	\$ (54,203)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities						
Depreciation expense	15,570	152,604	-	16,372	12,229	196,775
Accounts receivable	(322)	(625)	-	(129)	-	(1,076)
Special assessments receivable	(751)	(258)	(175)	-	-	(1,184)
Due from other governments	-	(6,760)	-	-	-	(6,760)
Prepaid items	(21)	33,146	-	(24)	(154)	32,947
Accounts and contracts payable	-	7,951	-	940	-	8,891
Salaries and benefits payable	1	(60)	-	1	9	(49)
Due to other governments	1,824	2,460	-	-	-	4,284
OPEB obligation	15	342	-	27	104	488
Unearned revenue	-	-	-	-	8,011	8,011
Compensated absences payable	(21)	(132)	-	(37)	(140)	(330)
Net pension expense	131	9,485	-	131	1,209	10,956
Total adjustments	16,426	198,153	(175)	17,281	21,268	252,953
Net cash flows - operating activities	<u>\$ 5,327</u>	<u>\$ 58,692</u>	<u>\$ (1,915)</u>	<u>\$ 93,412</u>	<u>\$ 43,234</u>	<u>\$ 198,750</u>

See notes to financial statements.

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**NOTES TO BASIC
FINANCIAL STATEMENTS**

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Deephaven 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, certain organizations have been defined and are presented in this report as follows:

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the Excelsior Fire District is disclosed as a joint venture because the City does not appoint a voting majority of the governing body.

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

1. Joint Venture

The City belongs to the Excelsior Fire District (the "District") which is made up of five member cities. The primary purpose of this organization is to provide fire protection services to the member cities. The City retains an equity interest in the District as of December 31, 2017, for actuarial reporting purposes.

In connection with the construction of the two fire safety facilities, the Shorewood Economic Development Authority (EDA) has issued two bonds totaling \$4,900,000 in 2016 on behalf of the District and its member cities. All five member cities contribute annually towards the bonded debt payments. Annual debt service payments are determined each year based on several factors, including tax capacity.

During 2017, the City paid \$332,017 to the District for fire services provided and \$156,962 of debt service payments. To obtain a copy of the Excelsior Fire District financial statements contact the City of Excelsior. To obtain a copy of the Shorewood Economic Development Authority financial statements contact the City of Shorewood.

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 governmental and enterprise activities of the City. As a general rule, the effect of interfund activity has been removed from these statements. 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. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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

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

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

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

City of Deephaven
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:

Major Governmental Funds:

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

Capital Improvement Capital Project Fund – This Fund accounts for revenues and expenditures related to City capital improvements other than specific projects accounted for in other funds.

Park Dedication Capital Project Fund – This Fund accounts for the revenue and expenditures related to City park improvements.

Proprietary Funds:

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

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

Recycling Fund – This Fund accounts for the operations of the City's recycling services.

Storm Water Fund – This Fund accounts for the operations of the City's storm water services.

Marina Fund – This Fund accounts for the operations of the City's marina on Lake Minnetonka.

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 public utility funds 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 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. Further, the City applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, 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 are stated at market value.

Minnesota Statutes require 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.

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, share 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.

Certain investments for the City are reported at fair value as disclosed in Note 2. 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. Hennepin 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.

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables (Continued)

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. 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:

<u>Assets</u>	<u>Years</u>
Bridges	40
Mains and lines	30 - 50
Buildings and improvements	15 - 50
Streets	15 - 25
Vehicles and equipment	3 - 25
Lift station pumps and valves	10

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5. Deferred Outflows/Inflows of Resources

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

6. Compensated Absences

Under terms of union contracts and personnel policies, the City's employees are granted vacation in varying amounts depending on length of service and union contract or employee classification. All full-time employees accumulate eight hours of sick leave per month of service. Upon termination, employees are paid for all unused vacation. Any employee who leaves the City under honorable condition is eligible for severance pay. Severance pay is one-third of unused accumulated sick leave.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, the business-type activities, or proprietary fund type Statement of Net Position. Long-term liabilities consist of compensated absences and OPEB obligations.

In the fund financial statements, governmental fund types recognize noncurrent liabilities to the extent they have matured or will be liquidated with expendable, available financial resources.

**City of Deephaven
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Pensions

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

9. Fund Equity

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is 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.
- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balance** – These are amounts that 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 Administrator/Clerk/Treasurer based on the City Council's direction.
- **Unassigned Fund Balance** – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund Equity (Continued)

a. Classification (Continued)

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The City considers restricted to be spent first when an expenditure is incurred where both restricted and unrestricted fund balance is available. In addition, expenditures are applied to fund balances based on this hierarchy: committed, assigned, and unassigned. The amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

b. Minimum Fund Balance

The City's General Fund minimum fund balance is an amount equivalent to 90% of the following year's operating budget.

10. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities, and deferred inflows of resources, in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation. 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.

E. 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 revenues and expenditures/expense during the reporting period. Actual results could differ from those estimates.

F. Budgetary Information

The City Council adopts an annual budget for all funds. The amounts shown in the financial statements for the General Fund as "budget" represent the original budgeted amount. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator/Clerk/Treasurer compiles the budget requests into an overall preliminary City budget.

City of Deephaven
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Information (Continued)

2. The City Administrator/Clerk/Treasurer presents the proposed budget to the City Council. The budget resolution adopted by the City Council sets forth the budgets at the function level for all of the funds.
3. Formal budgetary integration is employed as a management control device during the year.

The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at year-end. The detailed budget schedule provided in the supplementary information is presented on the same basis. No revisions to the budgets were made during the year.

NOTE 2 – 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 is displayed in the financial statements as "cash and investments." For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below and on the following page.

A. Deposits

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy states all deposits must be fully insured and collateralized in the name of the City, subject to release by the City Administrator/Clerk/Treasurer. As of December 31, 2017, the City's bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged and a Federal Home Loan Bank standby letter of credit and was independently verified through audit procedures. The City's deposits had a book balance as follows:

Checking and money market savings	\$ 1,039,303
Certificates of deposit	<u>628,000</u>
Total deposits	<u><u>\$ 1,667,303</u></u>

City of Deephaven
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Investment Type	Fair Value	Investment Maturities	
		Less than One Year	1-5 Years
Brokered certificates of deposit	\$ 2,799,987	\$ 364,599	\$ 2,435,388
Brokered money market account	11,213	11,213	-
Total investments	<u>\$ 2,811,200</u>	<u>\$ 375,812</u>	<u>\$ 2,435,388</u>

Maturity	
Less than one year	13%
1-5 years	87%

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

- \$2,811,200 of investments are valued using a matrix pricing model (Level 2 inputs)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City should manage its interest rates based on liquidity, safety, and the overall return on the investment.

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 when a broker/dealer holds investments purchased by the City in safekeeping, the broker/dealer must provide asset protection of \$500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$2 million supplemental insurance protection.

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 lists the allowable investments as government securities, certificates of deposit, repurchase agreements, any general obligation security of the State of Minnesota or any of its municipalities, state-wide investment pool, and money market mutual funds. City's investments were federally insured by FDIC.

City of Deephaven
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The City's investment policy states the City will attempt to diversify its investments according to type and maturity. No more than 30% of the total investment should extend beyond five years and the City shall not invest in investments with a maturity exceeding 20 years. As of December 31, 2017, the following investments, brokered CDs, of the City composed more than 5% of the City's portfolio:

Morgan Stanley Bank	8.39 %
Barclays Bank, DE	5.37
BMW Bank, UT	8.21
Discover Bank, DE	7.87
American Exp, UT	8.75
AMEX Centurion, UT	7.83
CIT Salt Lake City, UT	7.26
Synchrony Bank, UT	5.25
Capital One Bank, VA	8.56
Goldman Sachs, NY	8.71
Capital One, VA	8.39
Industrial and Commercial, NY	7.14

C. Balances

Summary of cash deposits and investments as of December 31, 2017, were as follows:

Deposits (Note 3. A.)	\$ 1,667,303
Investments	2,811,200
Petty cash	<u>550</u>
Total deposits and investments	<u><u>\$ 4,479,053</u></u>

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

Statement of net position	
Cash and investments (including cash and cash equivalents)	<u><u>\$ 4,479,053</u></u>

NOTE 3 – INTERFUND ACTIVITY

During the year ended December 31, 2017, the City transferred \$28,452 from the Sewer Fund to the General Fund for various administration cost subsidies.

City of Deephaven
Notes to Financial Statements

NOTE 3 – INTERFUND ACTIVITY (CONTINUED)

During 2013, the City advanced \$200,000 from the Sewer Fund to the Storm Water Fund to help finance the 2013 storm water project. The advance will be paid back over the course of five years, ending on September 15, 2018. Interest on the advance is set at 2.35%. At December 31, 2017, the outstanding balance was \$41,900. The entire portion outstanding is current and due in 2018.

NOTE 4 – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 692,177	\$ -	\$ -	\$ 692,177
Construction in progress	-	17,586	-	17,586
Total capital assets not Being depreciated	692,177	17,586	-	709,763
Capital assets being depreciated				
Buildings	1,234,322	5,213	-	1,239,535
Improvements other than buildings	5,484	-	-	5,484
Infrastructure	6,039,235	389,832	-	6,429,067
Vehicles and equipment	2,702,003	367,581	119,206	2,950,378
Total capital assets being depreciated	9,981,044	762,626	119,206	10,624,464
Less accumulated depreciation for				
Buildings	913,995	20,326	-	934,321
Improvements other than buildings	4,758	366	-	5,124
Infrastructure	1,569,507	209,385	-	1,778,892
Vehicles and equipment	1,709,951	197,304	115,657	1,791,598
Total accumulated depreciation	4,198,211	427,381	115,657	4,509,935
Total capital assets being depreciated, net	5,782,833	335,245	3,549	6,114,529
Governmental activities capital assets, net	<u>\$ 6,475,010</u>	<u>\$ 352,831</u>	<u>\$ 3,549</u>	<u>\$ 6,824,292</u>
Business-type activities				
Capital assets being depreciated				
Mains, lifts, hydrants, and distribution systems	\$ 7,808,523	\$ 94,311	\$ -	\$ 7,902,834
improvements other than buildings	102,190	-	-	102,190
Vehicles and equipment	474,020	-	-	474,020
Total capital assets being depreciated	8,384,733	94,311	-	8,479,044
Less accumulated depreciation for				
Mains, lifts, hydrants, and distribution systems	5,368,727	178,484	-	5,547,211
improvements other than buildings	93,352	2,033	-	95,385
Vehicles and equipment	163,878	16,258	-	180,136
Total accumulated depreciation	5,625,957	196,775	-	5,822,732
Business-type activities capital assets, net	<u>\$ 2,758,776</u>	<u>\$ (102,464)</u>	<u>\$ -</u>	<u>\$ 2,656,312</u>

City of Deephaven
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 7,305
Public safety	76,461
Public works	289,072
Parks and recreation	<u>54,543</u>
Total depreciation expense - governmental activities	<u><u>\$ 427,381</u></u>
Business-type activities	
Water	\$ 15,570
Sewer	152,604
Storm water	16,372
Marina	<u>12,229</u>
Total depreciation expense - business-type activities	<u><u>\$ 196,775</u></u>

NOTE 5 – LONG-TERM DEBT

A. Conduit Debt Obligations

Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued revenue bonds to provide funding to private sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2017, the City's outstanding conduit debt balances totaled \$44,014,763.

B. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 116,143	\$ 121,321	\$ 136,402	\$ 101,062	\$ 10,106
Business-type activities					
Compensated absences	<u>6,696</u>	<u>7,449</u>	<u>7,779</u>	<u>6,366</u>	<u>636</u>
Total long-term liabilities	<u><u>\$ 122,839</u></u>	<u><u>\$ 128,770</u></u>	<u><u>\$ 144,181</u></u>	<u><u>\$ 107,428</u></u>	<u><u>\$ 10,742</u></u>

City of Deephaven
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Liabilities (Continued)

For governmental activities, the general fund typically liquidates the liability related to compensate absences.

NOTE 6 – FUND BALANCE DETAIL

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

	General Fund	Capital Improvement Fund	Park Dedication Fund	Total
Nonspendable				
Prepays	\$ 22,215	\$ -	\$ -	\$ 22,215
Restricted				
Park dedication fees	-	-	235,295	235,295
Committed				
Compensated absences	101,062	-	-	101,062
OPEB obligation	114,515	-	-	114,515
Capital projects	-	288,663	-	288,663
Total committed	<u>215,577</u>	<u>288,663</u>	<u>-</u>	<u>504,240</u>
Unassigned	<u>2,973,218</u>	<u>-</u>	<u>-</u>	<u>2,973,218</u>
Total	<u><u>\$ 3,211,010</u></u>	<u><u>\$ 288,663</u></u>	<u><u>\$ 235,295</u></u>	<u><u>\$ 3,734,968</u></u>

NOTE 7 – RISK MANAGEMENT

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2017 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

City of Deephaven
Notes to Financial Statements

NOTE 7 – RISK MANAGEMENT (CONTINUED)

At December 31, 2017, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 8 – PENSION PLANS

The City participates in various pension plans, total pension expense for the year ended December 31, 2017 was \$231,187. The components of pension expense are noted in the following plan summaries.

Public Employees' Retirement Association

A. Plan Description

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

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

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

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.

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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.

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. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$41,584. The City's contributions were equal to the required contributions as set by state statute.

City of Deephaven
Notes to Financial Statements

NOTE 8 – 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 16.20% of pay for PEPFF members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$86,489. 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 \$549,018 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 \$6,868. 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 0.0086%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$57,973 for its proportionate share of General Employees Plan's pension expense. Included in this amount, the City recognized \$198 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 Deephaven
Notes to Financial Statements

NOTE 8 – 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 General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 18,093	\$ 36,402
Changes in actuarial assumptions	93,268	55,038
Difference between projected and actual investment earnings	6,531	-
Changes in proportion	-	37,570
Contributions paid to PERA subsequent to the measurement date	20,792	-
Total	<u>\$ 138,684</u>	<u>\$ 129,010</u>

\$20,792 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2018	\$ 258
2019	25,800
2020	(13,871)
2021	(23,305)
Total	<u>\$ (11,118)</u>

City of Deephaven
Notes to Financial Statements

NOTE 8 – 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 \$715,563 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 0.0530%, which was a decrease of 0.0040% from its proportion measured as of June 30, 2016. The City also recognized \$4,770 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 \$161,094 for its proportionate share of the Police and Fire Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 16,471	\$ 209,052
Changes in actuarial assumptions	1,007,132	1,015,923
Difference between projected and actual investment earnings	30,674	-
Changes in proportion	-	167,294
Contributions paid to PERA subsequent to the measurement date	43,245	-
Total	<u>\$ 1,097,522</u>	<u>\$ 1,392,269</u>

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

\$43,245 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2018	\$ (2,889)
2019	(2,889)
2020	(32,584)
2021	(72,986)
2022	(226,644)
Total	<u>\$ (337,992)</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 Deephaven
Notes to Financial Statements**

NOTE 8 – 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 Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

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

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proprionate share of the General Employees Fund net pension liability	\$ 851,568	\$ 549,018	\$ 301,326
	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proprionate share of the Police and Fire Fund net pension liability	\$ 1,347,614	\$ 715,563	\$ 193,770

H. Pension Plan Fiduciary Net Position

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

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

A. Plan Description

The Excelsior Firefighters Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Excelsior Fire District per Minnesota State Statutes. The cities of Deephaven, Excelsior, Greenwood, Shorewood, and Tonka Bay are sponsoring entities of the Excelsior Fire District. At December 31, 2017, the City of Deephaven's proportionate share was 28.52%.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Excelsior Firefighter's Association, at the City of Excelsior.

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

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

B. Benefits Provided

Full retirement benefits are payable to members who have reached age 50 and have completed 20 years of service. Partial benefits are payable to members who have reached 50 and have completed 10 years of service. Disability benefits and widow and children's survivor benefits are also payable to members of their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

C. Employees Covered by Benefit Terms

At the January 1, 2017, valuation date, the following employees were covered by the benefit terms:

Retirees and beneficiaries	0
Vested terminated and transfers	11
Actives	42
Total	53

D. Contributions.

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). During the year, the City did not recognize revenue or an expenditure or on behalf payment made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the January 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 %
Salary increase	2.5 average, including inflation
Investment rate of return	6.0 net of pensions plan investment expense: including inflation

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

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

E. Net Pension Liability (Continued)

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	0.00 %	2.25 %
Fixed income	30.00	3.30
Equities	70.00	7.30
Total	<u>100.00 %</u>	

The discount rate used to measure the total pension liability was 6%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

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

F. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2017	<u>\$ 1,139,893</u>	<u>\$ 1,432,954</u>	<u>\$ (293,061)</u>
Changes for the year			
Service cost	34,416	-	34,416
Interest cost	71,291	-	71,291
Plan changes	16,031	-	16,031
State contributions	-	41,281	(41,281)
Projected investment return	-	86,280	(86,280)
Gain or loss	(64,051)	14,005	(78,056)
Benefit payments	(27,770)	(27,770)	-
Administrative expense	-	(3,439)	3,439
Other changes	<u>(1)</u>	<u>(2)</u>	<u>1</u>
Net changes	<u>29,916</u>	<u>110,355</u>	<u>(80,439)</u>
Balances at December 31, 2017	<u><u>\$ 1,169,809</u></u>	<u><u>\$ 1,543,309</u></u>	<u><u>\$ (373,500)</u></u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 6.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00%) or 1-percentage-point higher (7.00%) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net pension liability/(asset)	<u><u>\$ (347,905)</u></u>	<u><u>\$ (373,500)</u></u>	<u><u>\$ (397,993)</u></u>

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

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

G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$12,120. At December 31, 2017, the City reported deferred outflows of resources related to the Relief Association Pension of \$63,101 for investment losses and \$41,977 for contributions made subsequent to the plan measurement date of December 31, 2016. The City reported deferred inflows of resources related to the Relief Association Pension of \$56,045 for liability gains.

\$41,977 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 of resources related to pensions will be recognized in pension expense as follows:

	<u>Amount</u>
2018	\$ 14,503
2019	14,503
2020	12,875
2021	(10,808)
2022	(8,007)
Thereafter	<u>(16,010)</u>
Total	<u><u>\$ 7,056</u></u>

NOTE 9 – COMMITMENTS

A. Legal Claims

The City had legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

NOTE 10 – 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. Medical coverage is administered by Blue Cross Blue Shield. 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.

City of Deephaven
Notes to Financial Statements

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

B. Funding Policy

Retirees and their spouses can participate in the health care plan at the same premium rate as City employees. Retirees and their spouses are responsible for 100% of these rates. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For 2017, the City contributed \$15,655 to the plan. As of January 1, 2016, there were three retirees receiving health benefits from the City's health plan.

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

The City's annual Other Post Employment Benefit (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	\$ 19,693
Interest on net OPEB obligation	4,977
Adjustment to ARC	(4,622)
Annual OPEB cost (expense)	<u>20,048</u>
Contributions made	<u>(15,655)</u>
Increase in net OPEB obligation	4,393
Net OPEB obligation - beginning of year	<u>124,436</u>
Net OPEB obligation - end of year	<u><u>\$ 128,829</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the following three years:

Year Ended	Annual Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/17	\$ 20,048	\$ 15,655	78%	\$ 128,829
12/31/16	18,954	4,669	25%	124,436
12/31/15	32,771	18,250	56%	110,151

City of Deephaven
Notes to Financial Statements

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the City had no assets deposited to fund the Plan. The actuarial accrued liability for benefits for 2017 was \$160,707 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$160,707. The covered payroll (annual payroll of active employees covered by the plan) for 2016 was \$1,070,000, and the ratio of the UAAL to the covered payroll was 15%.

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 health care cost trend. Amounts determined regarding the funded status of the Plan and the ARC 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 for the Retiree Health Plan, 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.

At the January 1, 2016, actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the investment yield expected to finance benefits. The actuarial assumption for payroll growth was 3.5%. The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care claims cost trend rate was calculated to be 9% initially, reduced incrementally to an ultimate rate of 5% after 12 years. The UAAL is being amortized on a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2016, was 30 years.

NOTE 11 – 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.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Deephaven
Schedule of Funding Progress for Retiree Health Plan

<u>Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/12	01/01/12	-	\$ 196,767	\$ 196,767	0.0%	\$ 954,784	20.6%
12/31/13	01/01/12	-	196,767	196,767	0.0%	954,784	20.6%
12/31/14	01/01/14	-	277,962	277,962	0.0%	1,101,836	25.2%
12/31/15	01/01/14	-	292,863	292,863	0.0%	1,143,155	25.6%
12/31/16	01/01/16	-	161,955	161,955	0.0%	1,070,000	15.1%
12/31/17	01/01/16	-	160,707	160,707	0.0%	1,070,000	15.0%

See Note 10 in the notes to financial statements for more detail on this schedule.

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

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.0086%	\$ 549,018	\$ 6,868	\$ 555,886	\$ 549,300	101.20%	75.90%
2016	0.0088%	714,516	9,316	723,832	536,727	134.86%	68.91%
2015	0.0091%	471,609	-	471,609	533,889	88.33%	78.19%

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

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

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.0530%	\$ 715,563	\$ 538,191	132.96%	85.43%
2016	0.0570%	2,287,509	551,355	414.89%	63.88%
2015	0.0600%	681,740	550,857	123.76%	86.61%

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

City of Deephaven
Schedule of City Contributions
General Employees Retirement Fund
Last Ten Years

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2017	\$ 41,584	\$ 41,584	\$ -	\$ 554,453	7.5%
2016	40,811	40,811	-	544,147	7.5%
2015	39,698	39,698	-	529,307	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

<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2017	\$ 86,489	\$ 86,489	\$ -	\$ 533,883	16.2%
2016	87,885	87,885	-	542,500	16.2%
2015	90,754	90,754	-	560,210	16.2%

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

City of Deephaven
Schedule of Changes in Net Pension Liability
and Related Ratios - Excelsior Fire Relief Association

	December 31, 2016	December 31, 2015	December 31, 2014
Total pension liability (TPL)			
Service cost	\$ 34,416	\$ 35,591	\$ 34,723
Interest costs	71,291	62,508	60,729
Plan changes	16,031	-	-
Gain or loss	(64,051)	-	-
Benefit payments	(27,770)	-	(7,868)
Other changes	(1)	-	(1)
Net change in total pension liability	<u>29,916</u>	<u>98,099</u>	<u>87,583</u>
Beginning of year	<u>1,139,893</u>	<u>1,041,794</u>	<u>954,211</u>
End of year	<u><u>\$ 1,169,809</u></u>	<u><u>\$ 1,139,893</u></u>	<u><u>\$ 1,041,794</u></u>
Plan fiduciary net position (FNP)			
State contributions	\$ 41,281	\$ 39,683	\$ 37,227
Projected investment return	86,280	86,788	80,566
Gain or loss	14,005	(118,418)	(8,136)
Benefit payments	(27,770)	-	(7,868)
Administrative expense	(3,439)	(3,457)	(3,036)
Other changes	(2)	1	(1)
Net change in plan fiduciary net position	<u>110,355</u>	<u>4,597</u>	<u>98,752</u>
Beginning of year	<u>1,432,954</u>	<u>1,428,357</u>	<u>1,329,605</u>
End of year	<u><u>\$ 1,543,309</u></u>	<u><u>\$ 1,432,954</u></u>	<u><u>\$ 1,428,357</u></u>
Net pension liability (NPL)	<u><u>\$ (373,500)</u></u>	<u><u>\$ (293,061)</u></u>	<u><u>\$ (386,563)</u></u>
Proportionate share	28.52%	28.52%	28.52%

The City implemented the provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not required retroactive reporting. Information prior to 2014 is not available.

City of Deephaven
Schedule of City Contributions
and Non-Employer Contributing
Entities - Excelsior Fire Relief Association

	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
City of Deephaven				
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to SDC	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
State Contribution				
2% aid on behalf of City of Deephaven	\$ 41,977	\$ 40,996	\$ 39,683	\$ 37,227
Contributions in relation to SDC	<u>41,977</u>	<u>40,996</u>	<u>39,683</u>	<u>37,227</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The City implemented the provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not required retroactive reporting. Information prior to 2014 is not available.

City of Deephaven
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.

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.

City of Deephaven
Notes to Required Supplementary Information

POLICE AND FIRE FUND (CONTINUED)

2017 Changes (Continued)

- 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 3 years younger) and female members (husbands assumed to be 4 years older) to the assumption that males are 2 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.

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SUPPLEMENTARY INFORMATION

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
General property taxes and fiscal disparities	\$ 1,828,916	\$ 1,838,591	\$ 9,675
Special assessments	500	-	(500)
Licenses and permits	245,300	310,346	65,046
Intergovernmental revenues			
PERA aid	2,501	2,501	-
Post board reimbursement	2,300	2,225	(75)
Fire aid	139,150	147,183	8,033
Police retirement aid	48,000	57,382	9,382
Road and other aid	9,500	9,684	184
Total intergovernmental revenues	<u>201,451</u>	<u>218,975</u>	<u>17,524</u>
Charges for services			
General government	22,800	21,606	(1,194)
Public safety	37,032	37,105	73
Public works	30,000	38,758	8,758
City of Greenwood	138,223	113,726	(24,497)
City of Woodland	187,864	177,255	(10,609)
Total charges for services	<u>415,919</u>	<u>388,450</u>	<u>(27,469)</u>
Fines and forfeitures	60,000	57,642	(2,358)
Miscellaneous revenues			
Investment income	45,000	24,976	(20,024)
Contributions and donations	100	200	100
Other	78,694	101,721	23,027
Total miscellaneous revenues	<u>123,794</u>	<u>126,897</u>	<u>3,103</u>
Total revenues	<u>2,875,880</u>	<u>2,940,901</u>	<u>65,021</u>
Expenditures			
General government			
Mayor and council			
Personnel services	26,400	26,400	-
Benefits	2,260	2,260	-
Other services and charges	6,590	5,235	(1,355)
Total mayor and council	<u>35,250</u>	<u>33,895</u>	<u>(1,355)</u>

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Expenditures (Continued)			
General government (continued)			
Elections			
Other services and charges	\$ 1,750	\$ 1,076	\$ (674)
Administrative and finance			
Personnel services	190,742	182,397	(8,345)
Benefits	31,498	29,732	(1,766)
Other services and charges	79,875	65,930	(13,945)
Total administrative and finance	<u>302,115</u>	<u>278,059</u>	<u>(24,056)</u>
Assessing	54,188	52,611	(1,577)
Auditing services	14,720	16,680	1,960
Legal services	4,000	7,037	3,037
Other general government	130,600	120,221	(10,379)
Total general government	<u>542,623</u>	<u>509,579</u>	<u>(33,044)</u>
Public safety			
Police			
Personnel services	608,540	608,202	(338)
Benefits	113,412	109,067	(4,345)
Prosecution services	44,352	42,898	(1,454)
Other services and charges	183,495	170,236	(13,259)
Total police	<u>949,799</u>	<u>930,403</u>	<u>(19,396)</u>
Fire			
Other services and charges	628,257	636,162	7,905
Total public safety	<u>1,578,056</u>	<u>1,566,565</u>	<u>(11,491)</u>
Public works			
Engineering fees	1,000	180	(820)
Administration			
Personnel services	226,607	211,329	(15,278)
Benefits	58,110	65,164	7,054
Other services and charges	63,880	56,630	(7,250)
Total administration	<u>348,597</u>	<u>333,123</u>	<u>(15,474)</u>

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Expenditures (Continued)			
Public works (continued)			
Streets			
Utility services	\$ 27,600	\$ 24,727	\$ (2,873)
Street repair and maintenance	85,000	81,694	(3,306)
Total streets	<u>112,600</u>	<u>106,421</u>	<u>(6,179)</u>
Planning and zoning			
Personnel services	82,101	82,322	221
Benefits	25,088	24,951	(137)
Professional services	103,025	111,015	7,990
Other services and charges	12,745	14,669	1,924
Total planning and zoning	<u>222,959</u>	<u>232,957</u>	<u>9,998</u>
Total public works	<u>685,156</u>	<u>672,681</u>	<u>(12,475)</u>
Parks and recreation			
Wildlife management	13,000	5,039	(7,961)
Professional services	46,000	44,081	(1,919)
Other	34,800	34,299	(501)
Total parks and recreation	<u>93,800</u>	<u>83,419</u>	<u>(10,381)</u>
Total expenditures	<u>2,899,635</u>	<u>2,832,244</u>	<u>(67,391)</u>
Excess of revenues over (under) expenditures	(23,755)	108,657	132,412
Other Financing Sources			
Proceeds from sale of capital assets	100	220	120
Transfers in	28,452	28,452	-
Total other financing sources	<u>28,552</u>	<u>28,672</u>	<u>120</u>
Net change in fund balances	<u>\$ 4,797</u>	137,329	<u>\$ 132,532</u>
Fund Balances			
Beginning of year		<u>3,073,681</u>	
End of year		<u>\$ 3,211,010</u>	

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Capital Improvement Fund
Year Ended December 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
General property taxes and fiscal disparities	\$ 300,000	\$ 298,764	\$ (1,236)
Intergovernmental revenue			
Road and other aid	-	33,231	33,231
Fines and forfeitures	-	2,126	2,126
Miscellaneous revenues			
Investment income	2,500	2,961	461
Franchise fees	93,000	94,473	1,473
Total miscellaneous revenues	95,500	97,434	1,934
Total revenues	395,500	431,555	36,055
Expenditures			
General government			
Capital outlay	-	5,213	5,213
Public safety			
Police			
Capital outlay	113,000	118,432	5,432
Public works			
Streets			
Capital outlay	414,875	398,080	(16,795)
Park and recreation			
Capital outlay	70,000	89,070	19,070
Total expenditures	597,875	610,795	12,920
Excess of revenues over (under) expenditures	(202,375)	(179,240)	23,135
Other Financing Sources			
Proceeds from sale of capital assets	15,000	20,065	5,065
	<u>\$ (187,375)</u>	<u>(159,175)</u>	<u>\$ 28,200</u>
Fund Balances			
Beginning of year		447,838	
End of year		<u>\$ 288,663</u>	

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Park Dedication Fund
Year Ended December 31, 2017

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Miscellaneous revenues			
Investment income	\$ 2,000	\$ 2,434	\$ 434
Other	25,800	226,443	200,643
Total revenues	<u>27,800</u>	<u>228,877</u>	<u>201,077</u>
Expenditures			
Park and recreation			
Other	4,300	8,421	4,121
Capital outlay	-	164,260	164,260
Total expenditures	<u>4,300</u>	<u>172,681</u>	<u>168,381</u>
Net change in fund balances	<u>\$ 23,500</u>	56,196	<u>\$ 32,696</u>
Fund Balances			
Beginning of year		<u>179,099</u>	
End of year		<u>\$ 235,295</u>	

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STATISTICAL SECTION

City of Deephaven Statistical Section

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information say about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors tax affecting the City's ability to generate its individual income sales.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

City of Deephaven
Net Position by Component
Last Ten Years
(Unaudited)

	Year			
	2008	2009	2010	2011
Governmental activities				
Investment in capital assets	\$ 4,907,661	\$ 4,913,579	\$ 4,748,385	\$ 4,751,436
Restricted	536,821	433,824	465,546	458,163
Unrestricted	<u>2,330,953</u>	<u>2,403,353</u>	<u>2,347,748</u>	<u>2,410,373</u>
Total governmental activities				
Net position	<u>\$ 7,775,435</u>	<u>\$ 7,750,756</u>	<u>\$ 7,561,679</u>	<u>\$ 7,619,972</u>
Business-type activities				
Investment in capital assets	\$ 2,671,641	\$ 2,878,023	\$ 2,754,165	\$ 2,710,132
Unrestricted	<u>1,225,658</u>	<u>956,137</u>	<u>1,016,488</u>	<u>1,080,259</u>
Total business-type activities				
Net position	<u>\$ 3,897,299</u>	<u>\$ 3,834,160</u>	<u>\$ 3,770,653</u>	<u>\$ 3,790,391</u>
Primary government				
Investment in capital assets	\$ 7,579,302	\$ 7,791,602	\$ 7,502,550	\$ 7,461,568
Restricted	536,821	433,824	465,546	458,163
Unrestricted	<u>3,556,611</u>	<u>3,359,490</u>	<u>3,364,236</u>	<u>3,490,632</u>
Total primary government				
Net position	<u>\$ 11,672,734</u>	<u>\$ 11,584,916</u>	<u>\$ 11,332,332</u>	<u>\$ 11,410,363</u>

Source: City of Deephaven financial records

Table 1

Year					
2012	2013	2014	2015	2016	2017
\$ 4,724,104	\$ 4,768,473	\$ 6,289,585	\$ 6,398,132	\$ 6,475,010	\$ 6,824,292
439,748	141,958	144,622	153,477	179,099	235,295
<u>2,528,138</u>	<u>3,229,783</u>	<u>3,110,519</u>	<u>2,618,637</u>	<u>2,379,926</u>	<u>2,271,514</u>
<u>\$ 7,691,990</u>	<u>\$ 8,140,214</u>	<u>\$ 9,544,726</u>	<u>\$ 9,170,246</u>	<u>\$ 9,034,035</u>	<u>\$ 9,331,101</u>
\$ 2,828,257	\$ 2,908,356	\$ 2,801,632	\$ 2,838,154	\$ 2,758,776	\$ 2,656,312
<u>879,169</u>	<u>771,574</u>	<u>792,993</u>	<u>632,689</u>	<u>719,819</u>	<u>761,428</u>
<u>\$ 3,707,426</u>	<u>\$ 3,679,930</u>	<u>\$ 3,594,625</u>	<u>\$ 3,470,843</u>	<u>\$ 3,478,595</u>	<u>\$ 3,417,740</u>
\$ 7,552,361	\$ 7,676,829	\$ 9,091,217	\$ 9,236,286	\$ 9,233,786	\$ 9,480,604
439,748	141,958	144,622	153,477	179,099	235,295
<u>3,407,307</u>	<u>4,001,357</u>	<u>3,903,512</u>	<u>3,251,326</u>	<u>3,099,745</u>	<u>3,032,942</u>
<u>\$ 11,399,416</u>	<u>\$ 11,820,144</u>	<u>\$ 13,139,351</u>	<u>\$ 12,641,089</u>	<u>\$ 12,512,630</u>	<u>\$ 12,748,841</u>

City of Deephaven
Changes in Net Position
Last Ten Years
(Unaudited)

	Year			
	2008	2009	2010	2011
Expenses				
Governmental activities				
General government	\$ 504,634	\$ 468,161	\$ 502,985	\$ 447,182
Public safety	1,157,123	1,237,012	1,260,436	1,407,646
Public works	851,220	873,465	1,037,303	841,784
Parks and recreation	136,025	144,238	129,720	119,517
Other	-	-	-	-
Total governmental activities expenses	<u>2,649,002</u>	<u>2,722,876</u>	<u>2,930,444</u>	<u>2,816,129</u>
Business-type activities				
Sewer	586,727	619,056	601,636	567,494
Water	79,291	81,168	69,953	68,183
Storm water	20,496	34,795	32,512	43,011
Marina	99,877	121,418	124,629	125,785
Recycling	22,533	29,607	20,008	23,956
Total business-type activities expenses	<u>808,924</u>	<u>886,044</u>	<u>848,738</u>	<u>828,429</u>
Total primary government expenses	<u>\$ 3,457,926</u>	<u>\$ 3,608,920</u>	<u>\$ 3,779,182</u>	<u>\$ 3,644,558</u>
Program Revenues				
Governmental activities				
Charges for service				
General government	\$ 100,468	\$ 96,938	\$ 114,442	\$ 127,964
Public safety	169,689	178,783	199,235	187,903
Public works	414,009	332,005	361,434	326,000
Parks and recreation	-	-	-	28,000
Operating grants and contributions	54,936	64,657	59,373	152,695
Capital grants and contributions	1,204	46,767	8,279	1,085
Total governmental activities	<u>740,306</u>	<u>719,150</u>	<u>742,763</u>	<u>823,647</u>
Business-type activities				
Charges for service				
Sewer	421,381	430,724	490,856	548,746
Water	68,563	67,777	62,766	64,395
Storm water	84,767	83,232	84,820	84,993
Marina	124,156	128,965	128,129	124,542
Recycling	10,459	16,755	11,962	15,482
Operating grants and contributions	12,098	12,011	12,370	12,248
Capital grants and contributions	-	16,000	-	6,560
Total business-type activities	<u>721,424</u>	<u>755,464</u>	<u>790,903</u>	<u>856,966</u>
Total primary government revenues	<u>\$ 1,461,730</u>	<u>\$ 1,474,614</u>	<u>\$ 1,533,666</u>	<u>\$ 1,680,613</u>
Net expense				
Governmental activities	\$ (1,908,696)	\$ (2,003,726)	\$ (2,187,681)	\$ (1,992,482)
Business-type activities	<u>(87,500)</u>	<u>(130,580)</u>	<u>(57,835)</u>	<u>28,537</u>
Total primary government net expense	<u>\$ (1,996,196)</u>	<u>\$ (2,134,306)</u>	<u>\$ (2,245,516)</u>	<u>\$ (1,963,945)</u>

Table 2

Year					
2012	2013	2014	2015	2016	2017
\$ 479,007	\$ 470,192	\$ 482,554	\$ 511,907	\$ 542,641	\$ 512,636
1,430,795	1,504,104	1,564,203	1,627,952	1,904,911	1,712,408
813,505	844,575	1,057,559	995,418	1,025,652	980,996
144,071	127,906	125,216	119,860	146,120	140,358
-	-	-	-	-	-
<u>2,867,378</u>	<u>2,946,777</u>	<u>3,229,532</u>	<u>3,255,137</u>	<u>3,619,324</u>	<u>3,346,398</u>
659,511	749,843	689,164	649,217	753,779	801,881
80,160	70,759	67,968	76,146	86,892	98,835
63,532	93,825	72,815	58,692	62,080	44,671
122,383	128,004	130,567	132,155	125,233	126,071
23,759	30,536	24,688	26,291	22,063	23,650
<u>949,345</u>	<u>1,072,967</u>	<u>985,202</u>	<u>942,501</u>	<u>1,050,047</u>	<u>1,095,108</u>
<u>\$ 3,816,723</u>	<u>\$ 4,019,744</u>	<u>\$ 4,214,734</u>	<u>\$ 4,197,638</u>	<u>\$ 4,669,371</u>	<u>\$ 4,441,506</u>
\$ 141,817	\$ 144,041	\$ 140,633	\$ 154,082	\$ 158,982	\$ 159,099
218,433	234,021	288,773	244,776	227,260	219,067
372,847	531,911	540,979	478,032	493,696	482,617
-	94,500	-	25,000	37,000	-
163,283	238,363	193,723	213,561	216,731	447,944
168	2,156	1,361,807	52,075	16,325	33,231
<u>896,548</u>	<u>1,244,992</u>	<u>2,525,915</u>	<u>1,167,526</u>	<u>1,149,994</u>	<u>1,341,958</u>
559,066	758,406	581,230	576,483	656,019	662,420
74,676	64,538	59,119	74,756	76,624	87,736
84,865	85,019	125,654	119,823	118,480	119,295
124,141	124,007	121,696	119,654	142,098	148,037
18,564	21,636	17,394	23,019	19,914	21,910
12,079	-	12,141	13,772	13,336	12,201
-	12,119	-	-	40,180	-
<u>873,391</u>	<u>1,065,725</u>	<u>917,234</u>	<u>927,507</u>	<u>1,066,651</u>	<u>1,051,599</u>
<u>\$ 1,769,939</u>	<u>\$ 2,310,717</u>	<u>\$ 3,443,149</u>	<u>\$ 2,095,033</u>	<u>\$ 2,216,645</u>	<u>\$ 2,393,557</u>
\$ (1,970,830)	\$ (1,701,785)	\$ (703,617)	\$ (2,087,611)	\$ (2,469,330)	\$ (2,004,440)
(75,954)	(7,242)	(67,968)	(14,994)	16,604	(43,509)
<u>\$ (2,046,784)</u>	<u>\$ (1,709,027)</u>	<u>\$ (771,585)</u>	<u>\$ (2,102,605)</u>	<u>\$ (2,452,726)</u>	<u>\$ (2,047,949)</u>

City of Deephaven
Changes in Net Position
Last Ten Fiscal Years
(Unaudited)

	Year			
	2008	2009	2010	2011
General Revenues and Other				
Changes in Net Position				
Governmental activities				
Property tax	\$ 1,780,490	\$ 1,878,584	\$ 1,879,440	\$ 1,909,458
Unrestricted state aid	16,673	2,790	2,473	2,515
Unrestricted investment earnings	119,490	69,415	38,224	30,363
Other general revenues	34,287	62,461	57,877	86,903
Gain on sale of asset	-	-	-	-
Transfers	20,191	(34,203)	20,590	21,536
Total governmental activities	<u>1,971,131</u>	<u>1,979,047</u>	<u>1,998,604</u>	<u>2,050,775</u>
Business-type activities				
Unrestricted investment earnings	58,163	33,238	14,918	12,737
Other general revenues	4,424	-	-	-
Transfers	(20,191)	34,203	(20,590)	(21,536)
Total business-type activities	<u>42,396</u>	<u>67,441</u>	<u>(5,672)</u>	<u>(8,799)</u>
Total primary government	<u>\$ 2,013,527</u>	<u>\$ 2,046,488</u>	<u>\$ 1,992,932</u>	<u>\$ 2,041,976</u>
Changes in net position				
Governmental activities	\$ 62,435	\$ (24,679)	\$ (189,077)	\$ 58,293
Business-type activities	(45,104)	(63,139)	(63,507)	19,738
Total primary government	<u>\$ 17,331</u>	<u>\$ (87,818)</u>	<u>\$ (252,584)</u>	<u>\$ 78,031</u>

Table 2

Year					
2012	2013	2014	2015	2016	2017
\$ 1,922,069	\$ 1,904,890	\$ 1,980,683	\$ 2,020,118	\$ 2,114,891	\$ 2,125,823
2,569	2,501	2,501	2,501	3,751	2,501
52,231	23,784	31,856	52,412	77,165	30,371
41,664	179,843	62,567	232,521	109,258	114,359
-	11,537	3,056	13,132	-	-
24,315	27,454	27,466	27,743	28,054	28,452
<u>2,042,848</u>	<u>2,150,009</u>	<u>2,108,129</u>	<u>2,348,427</u>	<u>2,333,119</u>	<u>2,301,506</u>
16,779	7,200	10,129	15,146	19,202	11,106
525	-	-	-	-	-
<u>(24,315)</u>	<u>(27,454)</u>	<u>(27,466)</u>	<u>(27,743)</u>	<u>(28,054)</u>	<u>(28,452)</u>
<u>(7,011)</u>	<u>(20,254)</u>	<u>(17,337)</u>	<u>(12,597)</u>	<u>(8,852)</u>	<u>(17,346)</u>
<u>\$ 2,035,837</u>	<u>\$ 2,129,755</u>	<u>\$ 2,090,792</u>	<u>\$ 2,335,830</u>	<u>\$ 2,324,267</u>	<u>\$ 2,284,160</u>
\$ 72,018	\$ 448,224	\$ 1,404,512	\$ 260,816	\$ (136,211)	\$ 297,066
<u>(82,965)</u>	<u>(27,496)</u>	<u>(85,305)</u>	<u>(27,591)</u>	<u>7,752</u>	<u>(60,855)</u>
<u>\$ (10,947)</u>	<u>\$ 420,728</u>	<u>\$ 1,319,207</u>	<u>\$ 233,225</u>	<u>\$ (128,459)</u>	<u>\$ 236,211</u>

City of Deephaven
Fund Balances of Governmental Funds
Last Ten Years
(Unaudited)

	Year			
	2008	2009	2010	2011
General Fund				
Reserved	\$ 19,583	\$ 18,392	\$ 22,350	\$ -
Unreserved	2,383,853	2,455,051	2,451,621	-
Nonspendable	-	-	-	22,348
Committed	-	-	-	155,000
Unassigned	-	-	-	2,383,144
Total general fund	<u>\$ 2,403,436</u>	<u>\$ 2,473,443</u>	<u>\$ 2,473,971</u>	<u>\$ 2,560,492</u>
All Other Governmental Funds				
Reserved	\$ 41	\$ -	\$ 54	\$ -
Unreserved, reported in				
Capital projects funds	536,821	433,824	465,546	-
Restricted	-	-	-	97,768
Committed	-	-	-	360,395
Total all other governmental funds	<u>\$ 536,862</u>	<u>\$ 433,824</u>	<u>\$ 465,600</u>	<u>\$ 458,163</u>

Source: City of Deephaven financial records

Note: GASB 54 was implemented in 2011.

Table 3

Year					
2012	2013	2014	2015	2016	2017
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
16,472	13,870	19,709	20,794	20,511	22,215
176,508	173,874	199,614	193,726	226,753	215,577
2,487,788	2,841,999	3,048,676	3,004,853	2,826,417	2,973,218
<u>\$ 2,680,768</u>	<u>\$ 3,029,743</u>	<u>\$ 3,267,999</u>	<u>\$ 3,219,373</u>	<u>\$ 3,073,681</u>	<u>\$ 3,211,010</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
54,872	141,958	144,622	153,477	179,099	235,295
384,876	369,733	32,036	222,850	447,838	288,663
<u>\$ 439,748</u>	<u>\$ 511,691</u>	<u>\$ 176,658</u>	<u>\$ 376,327</u>	<u>\$ 626,937</u>	<u>\$ 523,958</u>

City of Deephaven
Changes in Fund Balances of Governmental Funds
Last Ten Years
(Unaudited)

	2008	2009	2010	2011
Revenues				
Taxes	\$ 1,769,182	\$ 1,869,847	\$ 1,900,473	\$ 1,916,148
Special assessments	4,707	2,319	2,662	1,743
Licenses and permits	226,195	188,755	198,040	151,989
Intergovernmental	68,873	77,785	58,673	162,439
Charges for services	314,121	270,447	313,596	330,612
Fines and penalties	40,785	45,824	72,491	58,016
Franchise fees	92,667	92,015	91,977	92,953
Interest income	119,490	69,415	38,224	30,363
Miscellaneous revenues	47,421	62,808	59,036	107,682
Total revenues	<u>2,683,441</u>	<u>2,679,215</u>	<u>2,735,172</u>	<u>2,851,945</u>
Expenditures				
General government	479,541	448,887	486,622	445,153
Public safety	1,128,643	1,170,420	1,184,430	1,336,875
Public works	700,035	659,159	742,231	660,783
Parks and recreation	79,017	85,969	72,867	65,952
Capital outlay	232,332	375,063	238,329	293,923
Total expenditures	<u>2,619,568</u>	<u>2,739,498</u>	<u>2,724,479</u>	<u>2,802,686</u>
Other Financing				
Sources (Uses)				
Proceeds from sale of capital asset	8,441	6,547	1,021	8,289
Transfers in	20,191	20,705	20,590	21,536
Transfers out	-	-	-	-
Total other financing	<u>28,632</u>	<u>27,252</u>	<u>21,611</u>	<u>29,825</u>
Sources (uses)				
Net change in fund balances	<u>\$ 92,505</u>	<u>\$ (33,031)</u>	<u>\$ 32,304</u>	<u>\$ 79,084</u>

Table 4

2012	2013	2014	2015	2016	2017
\$ 1,909,862	\$ 1,923,389	\$ 1,974,766	\$ 2,020,498	\$ 2,113,077	\$ 2,137,355
780	775	778	535	145	-
211,812	323,964	302,517	255,794	283,668	310,346
144,836	219,049	189,627	262,019	228,707	252,206
343,713	390,457	442,743	434,217	426,851	388,450
80,076	92,095	125,666	81,815	67,627	59,768
92,673	93,139	93,128	93,586	93,903	94,473
52,231	23,784	31,856	52,412	77,165	30,371
67,503	309,055	74,717	269,182	156,942	328,364
<u>2,903,486</u>	<u>3,375,707</u>	<u>3,235,798</u>	<u>3,470,058</u>	<u>3,448,085</u>	<u>3,601,333</u>
464,716	464,847	464,222	503,460	514,194	509,579
1,369,465	1,446,132	1,490,048	1,569,973	1,554,503	1,566,565
634,389	799,914	656,126	704,887	702,884	672,681
87,713	68,083	75,659	95,751	103,566	91,840
297,207	216,207	677,042	485,819	496,104	775,055
<u>2,853,490</u>	<u>2,995,183</u>	<u>3,363,097</u>	<u>3,359,890</u>	<u>3,371,251</u>	<u>3,615,720</u>
27,550	12,940	3,056	13,132	30	20,285
24,315	27,454	27,466	300,743	328,054	28,452
-	-	-	(273,000)	(300,000)	-
<u>51,865</u>	<u>40,394</u>	<u>30,522</u>	<u>40,875</u>	<u>28,084</u>	<u>48,737</u>
<u>\$ 101,861</u>	<u>\$ 420,918</u>	<u>\$ (96,777)</u>	<u>\$ 151,043</u>	<u>\$ 104,918</u>	<u>\$ 34,350</u>

City of Deephaven
Tax Capacity and Estimated Actual Value of Taxable Property
Last Ten Years
(Unaudited)

Levy Year	Collection Year	Real Property		Ratio of Tax Capacity to Total Estimated Actual Value	Total City Levy Amounts
		Tax Capacity	Estimated Market Value		
2007	2008	\$ 12,494,365	\$ 1,105,355,400	1.1%	\$ 1,784,344
2008	2009	12,504,391	1,102,852,900	1.1%	1,885,370
2009	2010	12,067,361	1,064,980,400	1.1%	1,885,370
2010	2011	11,178,216	992,653,900	1.1%	1,922,124
2011	2012	11,851,077	973,857,600	1.2%	1,922,124
2012	2013	10,356,225	933,934,700	1.1%	1,922,124
2013	2014	10,366,151	933,646,600	1.1%	1,977,235
2014	2015	11,631,156	1,041,027,400	1.1%	2,024,878
2015	2016	12,940,677	1,144,459,796	1.1%	2,111,731
2016	2017	13,551,278	1,195,835,000	1.1%	2,121,916

Source: Hennepin County Taxpayer Services Department

Note - School District Tax Capacity Rate does not include levy referendum

Table 5

Total Direct Rates					
<u>General Revenue</u>	<u>Special</u>	<u>Total City</u>	<u>Total School</u>	<u>Total County</u>	<u>Total</u>
Tax Capacity per \$ 1,000 of Assessed Value					
14.263	0.000	14.263	22.029	38.731	75.023
15.094	0.000	15.094	17.408	40.379	72.881
15.601	0.000	15.601	19.074	42.561	77.236
17.222	0.000	17.222	21.269	46.250	84.741
17.776	0.000	17.776	23.014	48.777	89.567
18.624	0.000	18.624	24.458	49.349	92.431
19.117	0.000	19.117	24.348	49.859	93.324
17.379	0.000	17.379	25.075	46.648	89.102
16.335	0.000	16.335	22.812	45.314	84.461
15.663	0.000	16.335	22.768	43.999	83.102

City of Deephaven
Property Tax Levies and Collections
Last Ten Years
(Unaudited)

Table 6

<u>Year Ended December 31,</u>	<u>Total Levy</u>	<u>Collection of Current Year's Levy (1)</u>	<u>Percentage of Levy Collected</u>	<u>Collection of Prior Year's Levy</u>	<u>Total Collections</u>	<u>Percentage of Total Collections to Levy</u>
2008	\$ 1,784,344	\$ 1,750,801	98.12	\$ 16,989	\$ 1,767,790	99.07%
2009	1,885,370	1,823,718	96.73	21,803	1,845,521	97.89%
2010	1,885,370	1,836,917	97.43	34,850	1,871,767	99.28%
2011	1,922,124	1,869,209	97.25	14,458	1,883,667	98.00%
2012	1,922,124	1,879,933	97.80	7,259	1,887,192	98.18%
2013	1,922,124	1,890,889	98.37	9,562	1,900,451	98.87%
2014	1,977,235	1,943,848	98.31	5,066	1,948,914	98.57%
2015	2,024,878	1,989,357	98.25	5,319	1,994,676	98.51%
2016	2,111,731	2,078,739	98.44	10,446	2,089,185	98.93%
2017	2,121,916	2,105,815	99.24	8,537	2,114,352	99.64%

(1) Including Fiscal Disparities

**City of Deephaven
Principal Taxpayers
Current Year and Nine Years Ago
(Unaudited)**

Table 7

Property ID No.	Type of Business	2017			2008		
		Net Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value	Net Tax Capacity Value	Rank	Percentage of Total Tax Capacity Value
18-117-22-42-0024	Senior Apartments	\$ 141,563	1	1.04%			
13-117-23-43-0009	Residential Lakeshore	98,425	2	0.73%			
13-117-23-42-0010	Residential Lakeshore	87,825	3	0.65%	\$ 67,175	7	0.54%
13-117-23-43-0010	Seasonal Residential	86,425	4	0.64%			
13-117-23-43-0006	Residential Lakeshore	79,613	5	0.59%	92,500	1	0.75%
13-117-23-13-0002	Residential Lakeshore	75,875	6	0.56%	90,559	2	0.73%
18-117-22-23-0017	Residential Lakeshore	74,188	7	0.55%	86,150	3	0.70%
13-117-23-42-0009	Residential Lakeshore	67,938	8	0.50%			
24-117-23-14-0002	Residential Lakeshore	66,750	9	0.49%	65,659	8	0.53%
13-117-23-42-0003	Residential Lakeshore	63,750	10	0.47%	71,463	4	0.58%
13-117-23-43-0004	Seasonal Residential	63,088	11	0.47%	69,338	6	0.56%
24-117-23-11-0029	Seasonal Residential	61,225	12	0.45%	64,850	9	0.53%
23-117-23-41-0004	Residential Lakeshore	58,775	13	0.43%			
13-117-23-43-0001	Seasonal Residential	57,925	14	0.43%			
13-117-23-13-0001	Residential Lakeshore	57,838	15	0.43%			
18-117-22-23-0023	Residential Lakeshore				69,338	5	0.56%
23-117-23-41-0015	Residential Lakeshore				60,675	10	0.49%

City of Deephaven
Special Assessments Levies And Collections
Last Ten Years
(Unaudited)

Table 8

Year Ended December 31,	Total Levied	Total Collections	Total Past Due Assessments
2008	\$ 20,083	\$ 17,731	\$ 2,352
2009	26,321	25,451	870
2010	23,158	24,881	-
2011	31,847	33,016	-
2012	37,277	33,468	3,809
2013	42,064	45,985	-
2014	36,970	39,250	-
2015	41,732	42,803	-
2016	40,229	39,257	972
2017	42,858	42,810	48

Collections includes Special Assessment principal and interest and past due penalty amounts.

Source: Hennepin County Tax Settlement Reports

**City of Deephaven
Direct and Overlapping
Governmental Activities Debt
As of December 31, 2017
(Unaudited)**

Table 9

	Net G.O. Bonded Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Direct and Overlapping Debt
Governmental Unit			
Direct debt			
City of Deephaven	\$ -	100.00%	\$ -
Overlapping debt			
Hennepin County (1)	1,151,785,000	0.79%	9,073,258
Independent School District No. 276, Minnetonka (1)	198,372,683	18.36%	36,392,094
Three Rivers Park District (1)	70,475,000	1.11%	778,731
Metro Transit (1)(2)	-	0.83%	-
Metropolitan Council (1)	1,445,126,482	0.79%	11,392,146
Hennepin Regional RR Authority (1)	33,145,000	0.79%	261,102
Total Overlapping Debt	<u>2,898,904,165</u>		<u>57,897,331</u>
Total Direct and Overlapping Debt	<u>\$ 2,898,904,165</u>		<u>\$ 57,897,331</u>

(1) Source - Continuing Disclosure Document, Northland Securities

(2) Metropolitan Transit G.O. Debt is included in the Metropolitan Council outstanding G.O. Debt

Overlapping rates are those of local and county governments that apply to property owners within the City of Deephaven. Not all overlapping rates apply to all City of Deephaven property owners.

**City of Deephaven
Legal Debt Margin Information
Last Ten Years
(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Estimated market value (2)	<u>\$ 1,105,355,400</u>	<u>\$ 1,102,852,900</u>	<u>\$ 1,064,980,400</u>	<u>\$ 992,653,900</u>
Debt limit - 3% of market value (1)	\$ 33,160,662	\$ 33,085,587	\$ 31,949,412	\$ 29,779,617
Amount of debt applicable to debt limit				
Net debt applicable to limit (3)	<u>1,653,621</u>	<u>1,645,027</u>	<u>1,502,020</u>	<u>1,381,562</u>
Legal debt margin	<u>\$ 31,507,041</u>	<u>\$ 31,440,560</u>	<u>\$ 30,447,392</u>	<u>\$ 28,398,055</u>
Total net debt applicable to the limit as a percentage of debt limit	4.99%	4.97%	4.70%	4.64%

(1) *Minnesota Statutes* Section 475.53, Limit on Net Debt. Subdivision 1. Generally, except as otherwise provided in Section 475.51 to 475.75, no municipality, except a school district or a city of the first class, shall incur or be subject to a net debt in excess of 3% of the market value.

Note: Although the annual lease payment to the fire district is not considered as debt service, it does apply to the City's debt limit.

(2) Source: Hennepin County Taxpayer Services Department

(3) Source: City of Deephaven financial records

Table 10

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>\$ 973,857,600</u>	<u>\$ 933,934,700</u>	<u>\$ 933,646,600</u>	<u>\$ 1,041,027,400</u>	<u>\$ 1,148,951,300</u>	<u>\$ 1,195,835,000</u>
\$ 29,215,728	\$ 28,018,041	\$ 28,009,398	\$ 31,230,822	\$ 34,468,539	\$ 35,875,050
<u>1,391,792</u>	<u>1,286,550</u>	<u>1,216,160</u>	<u>1,122,573</u>	<u>875,000</u>	<u>848,448</u>
<u>\$ 27,823,936</u>	<u>\$ 26,731,491</u>	<u>\$ 26,793,238</u>	<u>\$ 30,108,249</u>	<u>\$ 33,593,539</u>	<u>\$ 35,026,602</u>
4.76%	4.59%	4.34%	3.59%	2.54%	2.37%

City of Deephaven
Demographics and Economic Statistics
Last Ten Years
(Unaudited)

Table 11

<u>Year</u>	<u>Population (1)</u>	<u>Deephaven Public School Enrollment (2)</u>	<u>Minnesota Unemployment Rate (3)</u>	<u>Median Household Income (4)</u>	<u>Total Personal Income (4)</u>	<u>Per Capita Personal Income (4)</u>
2008	3,774	432	5.9%	(5)	(5)	(5)
2009	3,814	516	7.0%	(5)	(5)	(5)
2010	3,642	559	7.0%	\$ 124,200	\$ 268,415,400	\$ 73,700
2011	3,642	560	5.7%	\$ 128,600	\$ 281,890,800	\$ 77,400
2012	3,648	633	5.0%	(5)	(5)	(5)
2013	3,690	624	4.6%	(5)	(5)	(5)
2014	3,677	670	3.7%	(5)	(5)	(5)
2015	3,793	650	3.5%	(5)	(5)	(5)
2016	3,727	671	3.0%	(5)	(5)	(5)
2017	3,921	668	2.4%	(5)	(5)	(5)

(1) Source: Minnesota State Demographer

(2) Source: Minnetonka Public Schools: Estimated Enrollment of Deephaven Elementary School

(3) Source: Bureau of Labor Statistics

(4) Source: Metropolitan Council

(5) Information is not available.

**City of Deephaven
Principal Employers
Current Year and Nine Years Ago
(Unaudited)**

Table 12

Employer	Product/Service	2017			2008		
		Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Deephaven Elementary School	Public Education	90	1	36.1 %	78	1	31.1 %
Streeter and Associates	Building Contractor	56	2	22.5	45	3	17.9
St. Therese Church/School	Religious Church/School	46	3	18.5	67	2	26.7
City of Deephaven	City Government	18	4	7.2	20	4	8.0
Grace Lutheran Church/School	Religious Church/School	15	5	6.0	13	6	5.2
Kyle Hunt and Partners, Inc.	Building Contractor	13	6	5.2	10	7	4.0
Steiner and Koppleman	Building Contractor	11	6	4.4	18	5	7.2
		<u>249</u>		<u>100.0 %</u>	<u>251</u>		<u>100.0 %</u>

Note: The above includes the largest principal employers of the City. Further information is not available.
Source: City of Deephaven Administrative Office

City of Deephaven
Full-time Equivalents by Program
Last Ten Years
(Unaudited)

Function/program	Full-Time - Equivalent Employees as of December 31,			
	2008	2009	2010	2011
General government	6	6	6	6
Public safety	7	8	8	8
Public works	5	5	5	4
Total	18	19	19	18

Notes: A full-time employee is scheduled to work 40 hours per week. Full-time equivalent employment is calculated by dividing total labor hours by 40.

Source: *City of Deephaven financial records*

Table 13

Full-Time - Equivalent Employees as of December 31,					
2012	2013	2014	2015	2016	2017
6	6	6	6	6	6
8	8	8	8	8	8
4	4	4	4	4	4
18	18	18	18	18	18

City of Deephaven
Capital Asset Statistics by Function/Program
Last Ten Years
(Unaudited)

Function/Program	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Public safety				
Police stations	1	1	1	1
Police patrol units	4	4	4	4
Fire stations	2	2	2	2
Fire response units	7	7	7	7
Public works				
Streets (miles)	30.85	30.85	30.85	30.85
Traffic signals	1	1	1	1
Culture and recreation				
Parks	8	8	8	8
Campgrounds	1	1	1	1
Beaches	6	6	6	6
Marina				
Dock slips	100	112	112	112
Buoys	53	53	53	53
Slides	115	115	115	115
Canoe racks	32	32	32	32
Utilities				
Sewer lift stations	9	9	9	9

Notes: No capital asset indicators are available for the general government function.

Source: Various City Departments

Table 14

2012	2013	2014	2015	2016	2017
1	1	1	1	1	1
4	4	4	4	4	4
2	2	2	2	2	2
7	7	7	7	7	7
30.85	30.85	30.85	30.85	30.85	30.85
1	1	1	1	1	1
8	8	8	8	8	8
1	1	1	1	1	1
6	6	6	6	6	6
112	112	112	112	112	112
53	53	53	53	53	53
113	113	113	113	113	113
32	32	32	32	32	32
9	9	9	9	9	9

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City of Deephaven
Schedule of Building Permits and Construction
Last 10 Years
(Unaudited)

Table 15

<u>Year</u>	<u>Number</u>	<u>Value</u>
2008	524	\$ 16,664,812
2009	399	11,737,115
2010	541	13,268,023
2011	494	7,579,378
2012	506	14,447,728
2013	572	18,515,926
2014	551	25,926,380
2015	606	15,562,559
2016	548	20,471,415
2017	623	22,453,999

Note: Other operating information is not available.

Source: Deephaven Planning Department. Permits include building, plumbing, mechanical, electrical and demolition.

City of Deephaven
Operating Indicators by Function/Program
Last Ten Years
(Unaudited)

	2008	2009	2010	2011
Public Safety				
Police				
Physical arrests	59	106	225	220
Parking violations	224	172	211	190
Traffic violations	443	741	2,204	2,971
Fire				
Number of calls answered	733	657	732	651
Inspections	460	524	707	664
Public Works				
Street maintenance				
Miles of city maintained	30.85	30.85	30.85	30.85
Planning				
Number of planning applications received	16	13	10	12
Number of building permits reviewed	524	399	541	494
Park and Recreation				
Parks and trails				
Number of parks maintained	12	13	13	13
Miles of trail and sidewalk maintained	2	2	2	2
Playgrounds	5	5	5	5
Ice skating rinks	4	4	4	4
Beaches	6	6	6	6
Municipal Sewer				
Number of customers	1,461	1,468	1,468	1,468
New connections	5	5	4	5
The city sewage disposal is through the Metropolitan waste control commission.				
Municipal Water				
Number of customers	144	144	145	144
The city purchases water from the municipalities of Minnetonka and Shorewood.				
Recycling				
Curbside recycling picked up on city-wide Clean up day (in tons)	544	508	474	405
Marina				
Dock slips	90	93	93	95
Shore space	15	15	15	17
Buoys	53	53	53	53
Slides	115	115	115	115
Canoe racks	32	32	32	32
Storm Water				
Number of utility customer accounts	1,463	1,470	1,470	1,469

(1) Information not available

Note: Indicators are not available for the general government function.

Source: Various City departments

Table 16

2012	2013	2014	2015	2016	2017
299	304	359	314	233	277
236	271	270	313	429	357
3,050	3,386	2,988	3,368	3,148	2,160
639	677	769	810	755	811
601	574	634	549	478	672
30.85	30.85	30.85	30.85	30.85	30.85
21	26	8	21	34	21
506	572	551	606	548	623
13	13	13	13	13	13
2	2	2	2	2	2
5	5	5	5	5	5
4	4	4	4	4	4
6	6	6	6	6	6
1,474	1,474	1,474	1,473	1,474	1,480
1	14	9	1	1	6
144	145	147	148	147	148
393	592	526	404	334	320
95	95	95	95	95	95
17	17	17	17	17	17
53	53	53	53	53	53
113	113	113	113	113	113
32	32	32	32	32	46
1,472	1,472	1,472	1,472	1,472	1,482