

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



EST. 1900
Deephaven

For The Fiscal Year Ended December 31, 2016

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

*For the Year Ended
December 31, 2016*

Dana Young, City Administrator

**Prepared By:
The Department of Finance**

City of Deephaven
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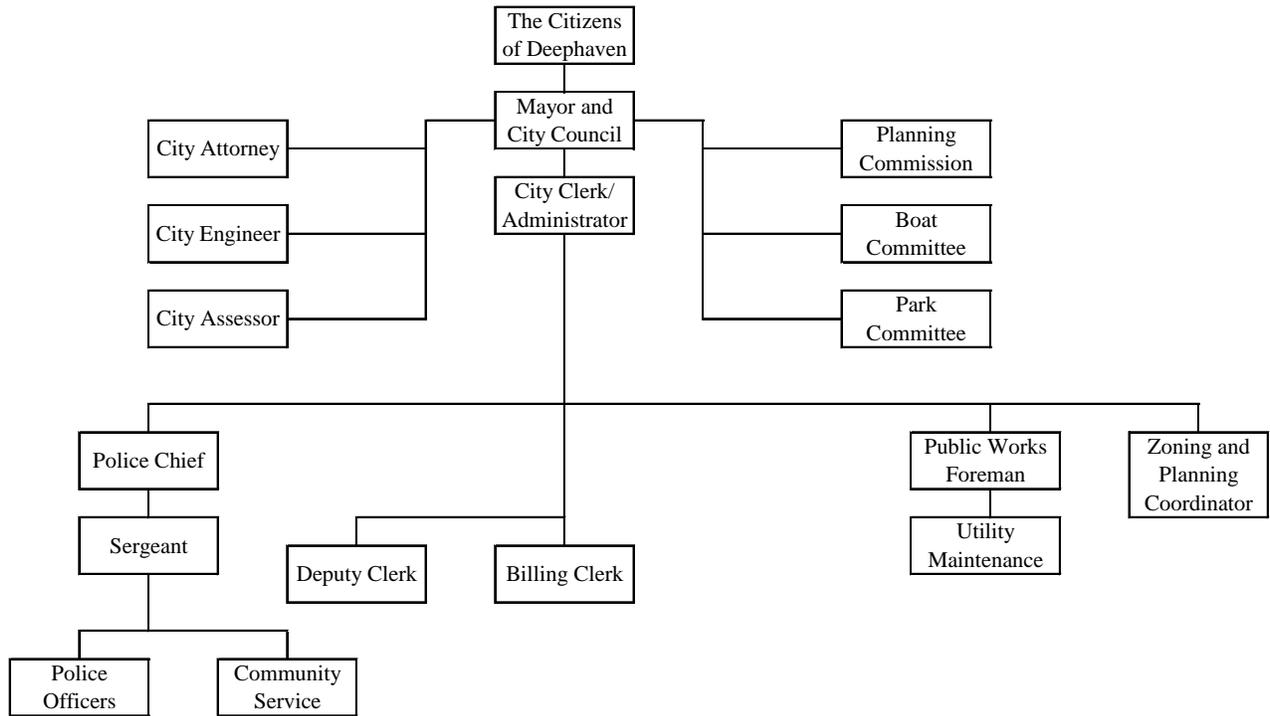
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INTRODUCTORY SECTION

**City of Deephaven
Elected Officials and Administration
December 31, 2016**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Paul Skrede	Mayor	December 31, 2016
Steve Erickson	Council Member	December 31, 2016
Darel Gustafson	Council Member	December 31, 2018
Tony Jewett	Council Member	December 31, 2018
Keith Kask	Council Member	December 31, 2016
<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 13, 2017

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, 2016, 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, 2016, 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, 2016, 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 3,727. 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-county 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:

	<u>Total Permits Number</u>		<u>Value</u>
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
2009	399		11,737,115
2008	524		16,664,812

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 and another 4.5% in 2017. The market value of the City of Deephaven is projected to reach an all-time high of 1.196 billion dollars in 2017. 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 and a 0.53% increase in 2017. 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 and 107.6% in 2016. 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, long range 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 has 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 will go 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, 2015. This is the 21st

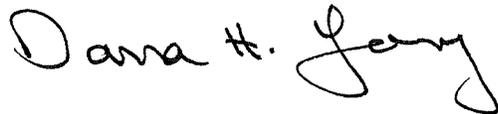
consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted 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 that reads "Dana H. Young". The signature is written in a cursive style with a large, looping "Y" at the end.

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, 2015

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, 2016, 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

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, 2016, 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 noted 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

Other Information

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 13, 2017, 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.

BergankDV, Ltd.

St. Cloud, Minnesota
March 13, 2017

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, 2016.

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 \$12,512,630 (total net position). Of this amount, \$3,099,745 (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 2016 decreased by \$128,459 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 \$3,700,618, an increase of \$104,918 in comparison with the prior year.
- At the end of the current year, the General Fund balance was \$3,073,681, which included \$20,511 that was nonspendable, \$226,753 committed for severance and other post employment benefits (OPEB) liability and \$2,826,417 for working capital. The total General Fund balance was 108% of total 2016 General Fund expenditures.
- The City's governmental activities compensated absences and OPEB liability long-term debt is \$226,753. This amount has been committed in the General Fund. In other words, \$116,143 has been designated to pay for one-third accrued sick leave that is paid to City employees upon their retirement with the City and \$110,610 has been designated towards the City's outstanding OPEB liability.
- The propriety funds have an ending cash balance of \$717,998. This represents an increase of \$45,198 over the prior year due to a sewer fund rate increase and grant proceeds offsetting an aggressive schedule of capital improvement projects undertaken in the Storm Water Fund and Sewer Fund in 2016.

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 24 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 29 for this Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 25 through 29 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 \$12,512,630 at the close of 2016.

The largest portion of the City's net position (\$9,233,786 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	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 4,061	\$ 4,061	\$ 988	\$ 923	\$ 5,049	\$ 4,984
Capital assets	6,475	6,398	2,759	2,838	9,234	9,236
Total assets	\$ 10,536	\$ 10,459	\$ 3,747	\$ 3,761	\$ 14,283	\$ 14,220
Deferred Outflows of Resources	\$ 2,030	\$ 222	\$ 59	\$ 13	\$ 2,089	\$ 235
Liabilities						
Other liabilities	\$ 67	\$ 78	\$ 146	\$ 176	\$ 213	\$ 254
Noncurrent liabilities	3,076	1,243	160	112	3,236	1,355
Total liabilities	\$ 3,143	\$ 1,321	\$ 306	\$ 288	\$ 3,449	\$ 1,609
Deferred Inflows of Resources	\$ 389	\$ 190	\$ 21	\$ 15	\$ 410	\$ 205
Net Position						
Invested in capital assets	\$ 6,475	\$ 6,398	\$ 2,759	\$ 2,838	\$ 9,234	\$ 9,236
Restricted	179	153	-	-	179	153
Unrestricted	2,380	2,619	720	633	3,100	3,252
Total net position	\$ 9,034	\$ 9,170	\$ 3,479	\$ 3,471	\$ 12,513	\$ 12,641

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 (\$3,099,745) may be used to meet the City's ongoing obligations to citizens and creditors. Restricted net position of \$179,099 can only be used for Park Dedication purposes.

The City's net position decreased by \$128,459 during the current year: \$136,211 of the decrease is in governmental activities with an increase of \$7,752 in business-type activities. This decrease is primarily attributable to the inclusion of net pension liability, which decreased the net position in government activities by \$286,794 over the prior year.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

There was a decrease in governmental activities net position by \$136,211 and an increase in business-type activities net position by \$7,752 in 2016, as noted previously. Key elements of this increase are as follows:

**CHANGES IN NET POSITION
(In Thousands)**

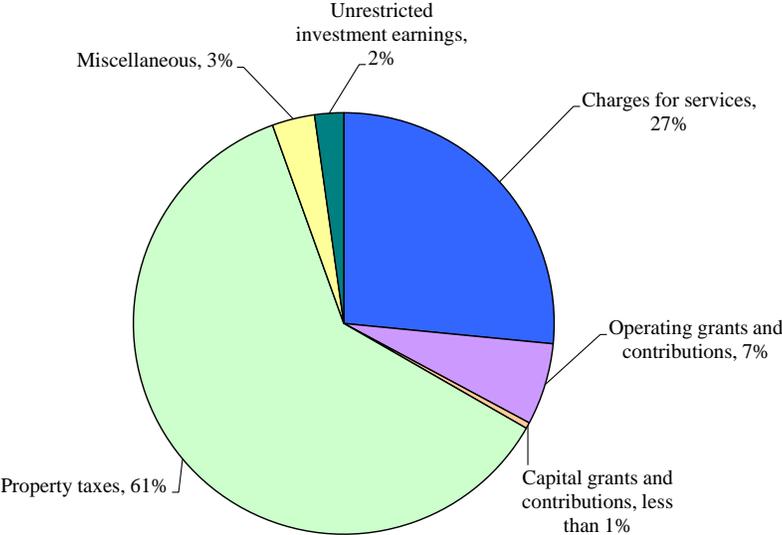
	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Charges for services	\$ 917	\$ 902	\$ 1,013	\$ 914	\$ 1,930	\$ 1,816
Operating grants and contributions	217	213	14	13	231	226
Capital grants and contributions	16	52	40	-	56	52
Property taxes	2,115	2,020	-	-	2,115	2,020
Miscellaneous	113	248	-	-	113	248
Unrestricted investment earnings	77	52	19	15	96	67
Total revenues	<u>3,455</u>	<u>3,487</u>	<u>1,086</u>	<u>942</u>	<u>4,541</u>	<u>4,429</u>
Expenses:						
General government	542	512	-	-	542	512
Public safety	1,905	1,628	-	-	1,905	1,628
Public works	1,026	995	-	-	1,026	995
Parks and recreation	146	120	-	-	146	120
Water	-	-	87	76	87	76
Sewer	-	-	754	649	754	649
Recycling	-	-	22	26	22	26
Storm water	-	-	62	59	62	59
Marina	-	-	125	132	125	132
Total expenses	<u>3,619</u>	<u>3,255</u>	<u>1,050</u>	<u>942</u>	<u>4,669</u>	<u>4,197</u>
Change in net position before transfers	(164)	232	36	-	(128)	232
Transfers	<u>28</u>	<u>28</u>	<u>(28)</u>	<u>(28)</u>	<u>-</u>	<u>-</u>
Change in net position	(136)	260	8	(28)	(128)	232
Net position						
Beginning of year	<u>9,170</u>	<u>9,545</u>	<u>3,471</u>	<u>3,595</u>	<u>12,641</u>	<u>13,140</u>
Change in accounting principle	<u>-</u>	<u>(635)</u>	<u>-</u>	<u>(96)</u>	<u>-</u>	<u>(731)</u>
End 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>

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

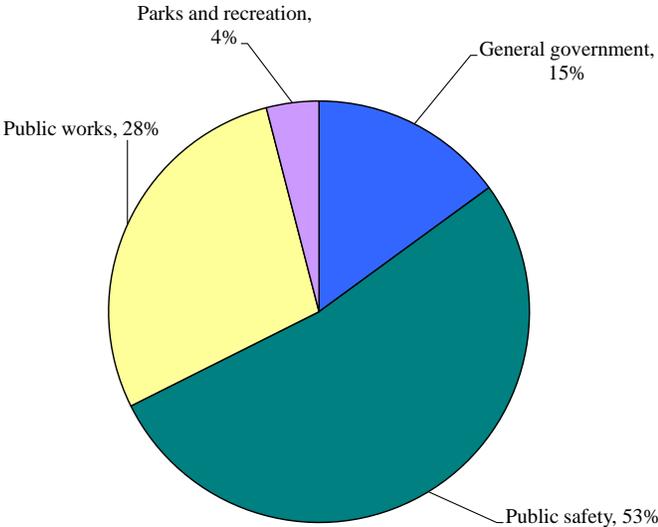
GOVERNMENTAL ACTIVITIES

Governmental activities decreased its overall net position by \$136,211. Below are specific graphs that provide comparisons of the governmental activities revenues and expenses:

Governmental Activities - Revenues



Governmental Activities - Expenses

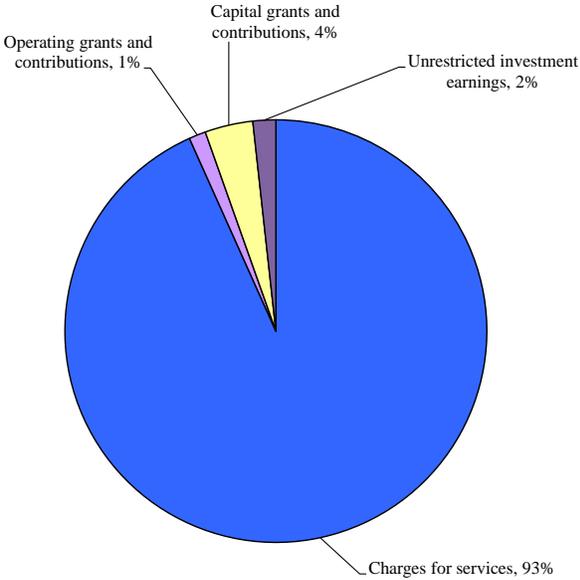


**City of Deephaven
Management's Discussion and Analysis**

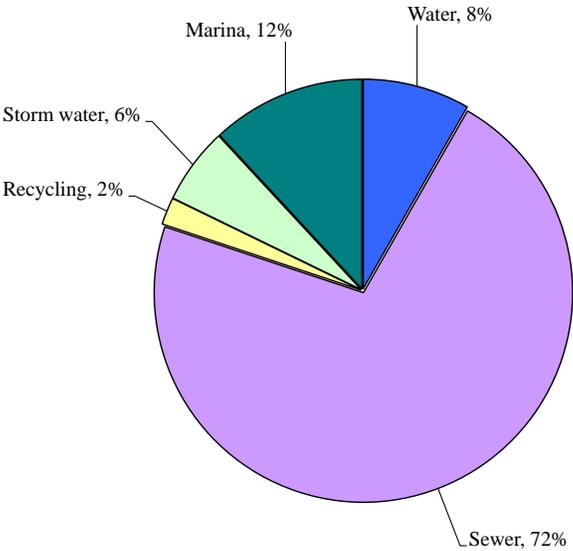
BUSINESS-TYPE ACTIVITIES

Business-type activities increased its overall net position by \$7,752. 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 \$3,700,618. Of this amount, \$20,511 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 (\$179,099)
- 2) Committed to pay severance and OPEB liability (\$226,753)
- 3) Committed to fund special capital projects (\$447,838)

The remaining unassigned balance of \$2,826,417 provides for ongoing operating costs.

The General Fund decreased \$145,692 in 2016. The 2016 General Fund was originally projected to decrease by \$298,426 due to a budgeted \$300,000 transfer into the Capital Improvement Fund. The reason for the lower than expected decrease is due to higher than anticipated revenues in the following areas:

- 1) Licenses and Permits, principally due to construction activity, were \$38,318 higher than anticipated.
- 2) Contract service fees with the cities of Greenwood and Woodland were \$24,171 higher than expected.
- 3) Bond administration fees in the amount of \$40,950 were received from an unplanned issuance of conduit debt.
- 4) Police services, particularly due to Safe and Sober Grants, were \$12,125 higher than expected.
- 5) Adjustments in the State Fire and Police Aid formulas by the State of Minnesota increased the State Fire Aid payment by \$6,642 and the State Police Aid by \$6,125.

2016 General Fund budgeted expenditures were \$15,232 over budget for the year primarily owing to the following three factors:

- 1) The reimbursement to the Fire Relief Association of their annual State Fire Aid payment was \$11,243 higher than anticipated due to an increase in the State Fire Aid payment.
- 2) Higher than anticipated building permit revenues resulted in higher than expected contract fees for plan review and inspection services (\$30,640).
- 3) Legal service costs were higher than anticipated (\$12,142).

The Capital Improvement Fund balance increased \$224,988 over the prior year primarily due to the fact that a \$300,000 transfer from the General Fund offset the purchase of a new skidsteer for the Public Works Department, equipment and technology upgrades for the Police Department, and a major street resurfacing project.

The Park Improvement Fund balance increased \$25,622 due to the receipt of two Park Dedication Fees totaling \$37,000, which offset the costs of a new strategic park plan.

**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 \$7,752, principally due to a sewer rate increase and an Inflow & Infiltration Mitigation Grant from the Metropolitan Council offset several capital projects undertaken in the Storm Water Fund and the Sewer Fund in 2016.

From a cash position, business-type activities increased \$45,198 in 2016. A brief summary of each business-type activity is described below:

- **Water Fund** – The cash position of the Water Fund increased \$14,991 in 2016, which is an indication that the water rate increase enacted back in 2004 continues to be adequate to finance the costs of operating the water system.
- **Sewer Fund** – The cash position of the Sewer Fund increased \$8,922 in 2016. This increase is reflective of a sewer rate increase in 2016 and a \$40,180 I/I Mitigation grant offsetting a manhole rehabilitation project (\$30,180), significant lift station improvements (\$17,947), the 2016 Linden Road Storm Sewer Project (\$58,475), and the 2016 Crest Avenue Storm Sewer Project (\$8,500).
- **Recycling Fund** – The cash position of the Recycling Fund increased \$11,377 in 2016. 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 2016 Spring and Fall Cleanup Day. However, adjustments to the 2014-2016 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 decreased \$22,153 in 2016, owing to the year three repayment of a five-year loan to the Sewer Fund and installing new catch basins and storm water main on Linden Road and Crest Avenue.
- **Marina Fund** – The cash position of the Marina Fund increased \$32,061 in 2016. A 2015 rate increase resulted in a positive increase in the cash position of the Fund.

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

BUDGETARY HIGHLIGHTS

General Fund

There were no changes made to the original General Fund Budget. During the year, actual expenditures and a \$300,000 transfer to the Capital Improvement Fund exceeded actual revenues and other financing sources by \$145,692, accomplishing the intended goal of using excess General Fund reserves towards the City's street maintenance program.

General Fund Revenues – With budgeted General Fund revenues and other financing sources of \$2,844,191 versus actual General Fund revenues and other financing sources of \$3,012,157, General Fund revenues and other financing sources came in \$167,966 higher than anticipated in 2016. A review of General Fund revenues illustrates there were five primary reasons for the surplus of General Fund revenues: 1) License and Permit Fees, 2) Contract Service Fees, 3) Conduit Bond Financing 4) Police Service Fees, and 5) increases in State Fire and Police Aid.

General Fund Expenditures – With budgeted General Fund expenditures of \$2,842,617 versus actual General Fund expenditures of \$2,857,849, General Fund expenditures were \$15,232 higher than expected in 2016 due to higher than expected costs in 1) State Fire Aid reimbursement to the Excelsior Firefighter's Relief Association, 2) building permit plan review and inspection costs, and 3) legal service 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, 2016, amounted to \$9,233,786 (net of accumulated depreciation). This investment in capital assets included land, land improvements, buildings, vehicles, and equipment.

	2016 (In Thousands)		2016 Total	2015 Total
	Governmental Activities	Business-Type Activities		
Land	\$ 692	\$ -	\$ 692	\$ 692
Building	320	-	320	340
Mains, lifts, hydrants, and distribution systems	-	2,440	2,440	2,499
Improvements other than buildings	1	9	10	14
Infrastructure	4,470	-	4,470	4,289
Vehicles and equipment	992	310	1,302	1,402
Total	\$ 6,475	\$ 2,759	\$ 9,234	\$ 9,236

City of Deephaven Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (Continued)

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

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

- Audio / Video Upgrades in the Council Chambers (\$23,579)
- 2016 Street Resurfacing Project (\$349,876)
- 2017 Bobcat (\$32,418)
- Chowen's Corner Street Lighting Repair (\$13,301)
- (2) Police Radar Units (\$5,702)
- (7) Police Portable Radios (\$25,344)
- (4) Police Vehicle Laptop Computers (\$18,383)
- (2) External Defibrillator Units (\$2,416)
- Lift Station & Pump Improvements (\$17,947)
- Sewer Manhole Repairs (\$30,150)
- Linden Road Storm Water Improvements (\$58,475)
- Crest Avenue Storm Water Improvements (\$8,500)

LONG-TERM DEBT

At the end of the current fiscal year, the City had total long-term debt totaling \$247,275 for accrued compensated absences and OPEB liability and net pension liability in the amount of \$3,002,025. 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, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 3,632,384	\$ 717,998	\$ 4,350,382
Accounts receivable	23,524	201,120	224,644
Interest receivable	31,644	-	31,644
Property taxes receivable			
Unremitted	31,098	-	31,098
Delinquent	11,532	-	11,532
Special assessments receivable			
Delinquent	-	5,330	5,330
Deferred	-	25,978	25,978
Due from other governments	17,006	-	17,006
Prepaid items	20,511	37,455	57,966
Pension asset	293,061	-	293,061
Capital assets not being depreciated			
Land	692,177	-	692,177
Capital assets net of accumulated depreciation			
Buildings	320,327	-	320,327
Mains, lifts, hydrants, and distribution systems	-	2,439,796	2,439,796
Improvements other than buildings	726	8,838	9,564
Infrastructure	4,469,728	-	4,469,728
Vehicles and equipment	992,052	310,142	1,302,194
Total assets	<u>10,535,770</u>	<u>3,746,657</u>	<u>14,282,427</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	<u>2,029,894</u>	<u>58,594</u>	<u>2,088,488</u>
Total assets and deferred outflows of resources	<u>\$ 12,565,664</u>	<u>\$ 3,805,251</u>	<u>\$ 16,370,915</u>
Liabilities			
Accounts and contracts payable	\$ 10,806	\$ 777	\$ 11,583
Salaries and benefits payable	24,552	2,626	27,178
Due to other governments	20,191	12,885	33,076
Unearned revenue	-	127,669	127,669
Compensated absences payable			
Payable within one year	11,614	1,623	13,237
Payable after one year	104,529	5,073	109,602
OPEB obligation	110,610	13,826	124,436
Net pension liability	2,860,551	141,474	3,002,025
Total liabilities	<u>3,142,853</u>	<u>305,953</u>	<u>3,448,806</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	<u>388,776</u>	<u>20,703</u>	<u>409,479</u>
Net position			
Investment in capital assets	6,475,010	2,758,776	9,233,786
Restricted for			
Park dedication fees	179,099	-	179,099
Unrestricted	2,379,926	719,819	3,099,745
Total net position	<u>9,034,035</u>	<u>3,478,595</u>	<u>12,512,630</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 12,565,664</u>	<u>\$ 3,805,251</u>	<u>\$ 16,370,915</u>

**City of Deephaven
Statement of Activities
Year Ended December 31, 2016**

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 542,641	\$ 158,982	\$ -	\$ -	\$ (383,659)	\$ -	\$ (383,659)
Public safety	1,904,911	227,260	204,498	16,325	(1,456,828)	-	(1,456,828)
Public works	1,025,652	493,696	9,763	-	(522,193)	-	(522,193)
Park and recreation	146,120	37,000	2,470	-	(106,650)	-	(106,650)
Total governmental activities	<u>3,619,324</u>	<u>916,938</u>	<u>216,731</u>	<u>16,325</u>	<u>(2,469,330)</u>	<u>-</u>	<u>(2,469,330)</u>
Business-type activities							
Water	86,892	76,624	-	-	-	(10,268)	(10,268)
Sewer	753,779	656,019	-	40,180	-	(57,580)	(57,580)
Recycling	22,063	19,914	13,336	-	-	11,187	11,187
Storm water	62,080	118,480	-	-	-	56,400	56,400
Marina	125,233	142,098	-	-	-	16,865	16,865
Total business-type activities	<u>1,050,047</u>	<u>1,013,135</u>	<u>13,336</u>	<u>40,180</u>	<u>-</u>	<u>16,604</u>	<u>16,604</u>
Total governmental and business-type activities	<u>\$ 4,669,371</u>	<u>\$ 1,930,073</u>	<u>\$ 230,067</u>	<u>\$ 56,505</u>	<u>(2,469,330)</u>	<u>16,604</u>	<u>(2,452,726)</u>
General revenues							
Property taxes					2,114,891	-	2,114,891
Unrestricted state aids					3,751	-	3,751
Unrestricted investment earnings					77,165	19,202	96,367
Other general revenue					109,258	-	109,258
Transfers					28,054	(28,054)	-
Total general revenues and transfers					<u>2,333,119</u>	<u>(8,852)</u>	<u>2,324,267</u>
Change in net position					<u>(136,211)</u>	<u>7,752</u>	<u>(128,459)</u>
Net position - beginning					<u>9,170,246</u>	<u>3,470,843</u>	<u>12,641,089</u>
Net position - ending					<u>\$ 9,034,035</u>	<u>\$ 3,478,595</u>	<u>\$ 12,512,630</u>

MAJOR GOVERNMENTAL FUNDS

City of Deephaven
Balance Sheet - Governmental Funds
December 31, 2016

	General Fund	Capital Projects		Total Governmental Funds
		Capital Improvement Fund	Park Dedication Fund	
Assets				
Cash and investments	\$ 3,026,986	\$ 426,299	\$ 179,099	\$ 3,632,384
Accounts receivable	-	23,524	-	23,524
Interest receivable	31,644	-	-	31,644
Property taxes receivable				
Unremitted	26,766	4,332	-	31,098
Delinquent	11,532	-	-	11,532
Due from other governments	17,006	-	-	17,006
Prepaid items	20,511	-	-	20,511
Total assets	\$ 3,134,445	\$ 454,155	\$ 179,099	\$ 3,767,699
Liabilities				
Accounts payable	\$ 4,489	\$ 6,317	\$ -	\$ 10,806
Salaries and benefits payable	24,552	-	-	24,552
Due to other governments	20,191	-	-	20,191
Total liabilities	49,232	6,317	-	55,549
Deferred Inflows of Resources				
Unavailable revenue - property taxes	11,532	-	-	11,532
Fund Balances				
Nonspendable	20,511	-	-	20,511
Restricted	-	-	179,099	179,099
Committed	226,753	447,838	-	674,591
Unassigned	2,826,417	-	-	2,826,417
Total fund balances	3,073,681	447,838	179,099	3,700,618
Total liabilities, deferred inflows, and fund balances	\$ 3,134,445	\$ 454,155	\$ 179,099	\$ 3,767,699

City of Deephaven
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2016

Total fund balances - governmental funds \$ 3,700,618

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	10,673,221
Less accumulated depreciation	(4,198,211)

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	(116,143)
Unfunded OPEB liability	(110,610)
Net pension liability	(2,860,551)

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

293,061

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	2,029,894
Deferred inflows of resources related to pensions	(388,776)

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

Property taxes	11,532
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Total net position - governmental activities	\$ 9,034,035
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City of Deephaven
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2016

	General Fund	Capital Projects		Total Governmental Funds
		Capital Improvement Fund	Park Dedication Fund	
Revenues				
General property taxes and fiscal disparities	\$ 1,816,659	\$ 296,418	\$ -	\$ 2,113,077
Special assessments	145	-	-	145
Licenses and permits	283,668	-	-	283,668
Intergovernmental	212,382	16,325	-	228,707
Charges for services	426,851	-	-	426,851
Fines	60,029	7,598	-	67,627
Miscellaneous				
Investment income	66,867	6,848	3,450	77,165
Franchise fees	-	93,903	-	93,903
Other	117,472	-	39,470	156,942
Total revenues	<u>2,984,073</u>	<u>421,092</u>	<u>42,920</u>	<u>3,448,085</u>
Expenditures				
Current				
General government	514,194	-	-	514,194
Public safety	1,554,503	-	-	1,554,503
Public works	702,884	-	-	702,884
Parks and recreation	86,268	-	17,298	103,566
Capital outlay				
General government	-	24,019	-	24,019
Public safety	-	51,845	-	51,845
Public works	-	420,240	-	420,240
Total expenditures	<u>2,857,849</u>	<u>496,104</u>	<u>17,298</u>	<u>3,371,251</u>
Excess of revenues over (under) expenditures	126,224	(75,012)	25,622	76,834
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	30	-	-	30
Transfers in	28,054	300,000	-	328,054
Transfers out	(300,000)	-	-	(300,000)
Total other financing sources	<u>(271,916)</u>	<u>300,000</u>	<u>-</u>	<u>28,084</u>
Net change in fund balances	(145,692)	224,988	25,622	104,918
Fund Balances				
Beginning of year	<u>3,219,373</u>	<u>222,850</u>	<u>153,477</u>	<u>3,595,700</u>
End of year	<u>\$ 3,073,681</u>	<u>\$ 447,838</u>	<u>\$ 179,099</u>	<u>\$ 3,700,618</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, 2016

Net change in fund balances - governmental funds \$ 104,918

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	478,477
Depreciation expense	(393,308)
Loss on disposal of capital assets	(8,291)

Compensated absences are recognized as paid in the governmental funds
but recognized as the expense is incurred in the Statement of Activities. (20,329)

OPEB costs are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. (12,698)

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	(291,924)
State contribution to PEPFF	5,130

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	1,814
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Change in net position- governmental activities \$ (136,211)

City of Deephaven
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Revenues			
General property taxes			
And fiscal disparities	\$ 1,822,731	\$ 1,816,659	\$ (6,072)
Special assessments	500	145	(355)
Licenses and permits	245,350	283,668	38,318
Intergovernmental	195,201	212,382	17,181
Charges for services	374,897	426,851	51,954
Fines and forfeitures	60,000	60,029	29
Miscellaneous revenues			
Investment income	40,000	66,867	26,867
Contributions and donations	100	-	(100)
Other	77,258	117,472	40,214
Total revenues	<u>2,816,037</u>	<u>2,984,073</u>	<u>168,036</u>
Expenditures			
Current			
General government	523,803	514,194	(9,609)
Public safety	1,548,496	1,554,503	6,007
Public works	677,443	702,884	25,441
Park and recreation	92,375	86,268	(6,107)
Capital outlay			
General government	500	-	(500)
Total expenditures	<u>2,842,617</u>	<u>2,857,849</u>	<u>15,232</u>
Excess of revenues over (under) expenditures	(26,580)	126,224	152,804
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	100	30	(70)
Transfers in	28,054	28,054	-
Transfers out	(300,000)	(300,000)	-
Total other financing sources (uses)	<u>(271,846)</u>	<u>(271,916)</u>	<u>(70)</u>
Net change in fund balances	<u>\$ (298,426)</u>	(145,692)	<u>\$ 152,734</u>
Fund Balances			
Beginning of year		<u>3,219,373</u>	
End of year		<u>\$ 3,073,681</u>	

See notes to financial statements.

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PROPRIETARY FUNDS

City of Deephaven
Statement of Net Position - Proprietary Funds
December 31, 2016

	Water	Sewer	Recycling	Storm Water	Marina	Total
Assets						
Current assets						
Cash and investments	\$ 205,346	\$ 297,694	\$ 46,031	\$ -	\$ 168,927	\$ 717,998
Accounts receivable	14,035	156,253	-	30,832	-	201,120
Special assessments receivable						
Delinquent	-	3,521	1,809	-	-	5,330
Deferred	714	25,264	-	-	-	25,978
Due from other funds	-	10,639	-	-	-	10,639
Advances to other funds	-	40,928	-	-	-	40,928
Prepaid items	73	36,735	-	89	558	37,455
Total current assets	<u>220,168</u>	<u>571,034</u>	<u>47,840</u>	<u>30,921</u>	<u>169,485</u>	<u>1,039,448</u>
Noncurrent assets						
Advances to other funds	-	41,900	-	-	-	41,900
Capital assets						
Mains, lifts, hydrants, and distribution systems	736,250	6,252,008	-	820,265	-	7,808,523
Improvements	-	-	-	-	102,190	102,190
Vehicles and equipment	23,481	116,464	-	-	334,075	474,020
Total capital assets	<u>759,731</u>	<u>6,368,472</u>	<u>-</u>	<u>820,265</u>	<u>436,265</u>	<u>8,384,733</u>
Less accumulated depreciation	<u>(456,687)</u>	<u>(4,873,335)</u>	<u>-</u>	<u>(89,138)</u>	<u>(206,797)</u>	<u>(5,625,957)</u>
Net capital assets	<u>303,044</u>	<u>1,495,137</u>	<u>-</u>	<u>731,127</u>	<u>229,468</u>	<u>2,758,776</u>
Total noncurrent assets	<u>303,044</u>	<u>1,537,037</u>	<u>-</u>	<u>731,127</u>	<u>229,468</u>	<u>2,800,676</u>
Total assets	<u>523,212</u>	<u>2,108,071</u>	<u>47,840</u>	<u>762,048</u>	<u>398,953</u>	<u>3,840,124</u>
Deferred Outflows of Resources						
Deferred outflows of resources related to pensions	1,776	42,021	-	1,776	13,021	58,594
Total assets and deferred outflows of resources	<u>\$ 524,988</u>	<u>\$ 2,150,092</u>	<u>\$ 47,840</u>	<u>\$ 763,824</u>	<u>\$ 411,974</u>	<u>\$ 3,898,718</u>
Liabilities						
Current liabilities						
Accounts and contracts payable	\$ -	\$ 217	\$ -	\$ 560	\$ -	\$ 777
Salaries and benefits payable	65	1,904	-	167	490	2,626
Due to other funds	-	-	-	10,639	-	10,639
Advances from other funds	-	-	-	40,928	-	40,928
Due to other governments	12,885	-	-	-	-	12,885
Unearned revenue	-	-	-	-	127,669	127,669
Compensated absences	16	923	-	303	381	1,623
Total current liabilities	<u>12,966</u>	<u>3,044</u>	<u>-</u>	<u>52,597</u>	<u>128,540</u>	<u>197,147</u>
Noncurrent liabilities						
Advances from other funds	-	-	-	41,900	-	41,900
Compensated absences	16	2,993	-	992	1,072	5,073
Unfunded OPEB liability	432	9,678	-	778	2,938	13,826
Net pension liability	4,287	101,461	-	4,287	31,439	141,474
Total noncurrent liabilities	<u>4,735</u>	<u>114,132</u>	<u>-</u>	<u>47,957</u>	<u>35,449</u>	<u>202,273</u>
Total liabilities	<u>17,701</u>	<u>117,176</u>	<u>-</u>	<u>100,554</u>	<u>163,989</u>	<u>399,420</u>
Deferred Inflows of Resources						
Deferred inflows of resources related to pensions	627	14,848	-	627	4,601	20,703
Net Position						
Investment in capital assets	303,044	1,495,137	-	731,127	229,468	2,758,776
Unrestricted	203,616	522,931	47,840	(68,484)	13,916	719,819
Total net position	<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>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 524,988</u>	<u>\$ 2,150,092</u>	<u>\$ 47,840</u>	<u>\$ 763,824</u>	<u>\$ 411,974</u>	<u>\$ 3,898,718</u>

City of Deephaven
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Recycling</u>	<u>Storm Water</u>	<u>Marina</u>	<u>Total</u>
Operating revenues						
Charges for services	\$ 76,574	\$ 631,536	\$ 19,854	\$ 118,480	\$ 141,023	\$ 987,467
Permits, hook-up fees, and penalties	50	12,058	60	-	-	12,168
Other income	-	52,605	-	-	1,075	53,680
Total operating revenues	<u>76,624</u>	<u>696,199</u>	<u>19,914</u>	<u>118,480</u>	<u>142,098</u>	<u>1,053,315</u>
Operating expenses						
Disposal charges	-	403,547	-	-	-	403,547
Water charges	63,572	-	-	-	-	63,572
Wages and benefits	5,015	130,745	-	11,261	40,070	187,091
Repairs and maintenance	850	18,412	-	-	2,139	21,401
Supplies	-	3,239	91	134	189	3,653
Utilities	-	4,171	-	-	832	5,003
Other	2,292	44,379	21,972	32,193	68,112	168,948
Depreciation	15,163	149,286	-	16,035	13,891	194,375
Total operating expenses	<u>86,892</u>	<u>753,779</u>	<u>22,063</u>	<u>59,623</u>	<u>125,233</u>	<u>1,047,590</u>
Operating income (loss)	(10,268)	(57,580)	(2,149)	58,857	16,865	5,725
Nonoperating revenues/expenses						
Interest income	4,594	10,026	997	694	2,891	19,202
Nonoperating grant	-	-	13,336	-	-	13,336
Interest expense	-	-	-	(2,457)	-	(2,457)
Total nonoperating revenues/expenses	<u>4,594</u>	<u>10,026</u>	<u>14,333</u>	<u>(1,763)</u>	<u>2,891</u>	<u>30,081</u>
Income (loss) before transfers	(5,674)	(47,554)	12,184	57,094	19,756	35,806
Transfers out	-	(28,054)	-	-	-	(28,054)
Change in net position	(5,674)	(75,608)	12,184	57,094	19,756	7,752
Net position						
Beginning of year	<u>512,334</u>	<u>2,093,676</u>	<u>35,656</u>	<u>605,549</u>	<u>223,628</u>	<u>3,470,843</u>
End 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>

City of Deephaven
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2016

	Water	Sewer	Recycling	Storm Water	Marina	Total
Cash Flows - Operating Activities						
Receipts from customers and users	\$ 79,236	\$ 621,583	\$ 19,107	\$ 118,408	\$ 139,513	\$ 977,847
Payments to suppliers	(64,092)	(506,537)	(22,063)	(31,755)	(71,600)	(696,047)
Payments to employees	(4,747)	(122,018)	-	(10,729)	(39,818)	(177,312)
Received from other sources	-	52,605	-	-	1,075	53,680
Net cash flows - operating activities	<u>10,397</u>	<u>45,633</u>	<u>(2,956)</u>	<u>75,924</u>	<u>29,170</u>	<u>158,168</u>
Cash Flows - Noncapital						
Financing Activities						
Grants received	-	-	13,336	-	-	13,336
Transfer out	-	(28,054)	-	-	-	(28,054)
Net cash flows - noncapital financing activities	<u>-</u>	<u>(28,054)</u>	<u>13,336</u>	<u>-</u>	<u>-</u>	<u>(14,718)</u>
Cash Flows - Capital and Related						
Financing Activities						
Interfund loan net receipts	-	29,339	-	-	-	29,339
Interfund loan net payments	-	-	-	(29,339)	-	(29,339)
Interest received on interfund loan	-	2,457	-	-	-	2,457
Interest paid on interfund loan	-	-	-	(2,457)	-	(2,457)
Acquisition of capital assets	-	(48,022)	-	(66,975)	-	(114,997)
Net cash flows - capital and related financing activities	<u>-</u>	<u>(16,226)</u>	<u>-</u>	<u>(98,771)</u>	<u>-</u>	<u>(114,997)</u>
Cash Flows - Investing Activities						
Interest and dividends received	<u>4,594</u>	<u>7,569</u>	<u>997</u>	<u>694</u>	<u>2,891</u>	<u>16,745</u>
Net change in cash and cash equivalents	14,991	8,922	11,377	(22,153)	32,061	45,198
Cash and Cash Equivalents						
Beginning of year	<u>190,355</u>	<u>288,772</u>	<u>34,654</u>	<u>22,153</u>	<u>136,866</u>	<u>672,800</u>
End of year	<u>\$ 205,346</u>	<u>\$ 297,694</u>	<u>\$ 46,031</u>	<u>\$ -</u>	<u>\$ 168,927</u>	<u>\$ 717,998</u>
Reconciliation of Operating Income (Loss) to Net Cash - Flows - Operating Activities						
Operating income (loss)	\$ (10,268)	\$ (57,580)	\$ (2,149)	\$ 58,857	\$ 16,865	\$ 5,725
Adjustments to reconcile operating income (loss) to net cash flows - operating activities						
Depreciation expense	15,163	149,286	-	16,035	13,891	194,375
Accounts receivable	1,749	(16,789)	-	(72)	-	(15,112)
Special assessments receivable	863	(5,222)	(807)	-	-	(5,166)
Prepaid items	8	549	-	12	90	659
Accounts and contracts payable	-	(33,338)	-	560	(418)	(33,196)
Salaries and benefits payable	14	487	-	36	106	643
Due to other governments	2,614	-	-	-	-	2,614
OPEB obligation	49	1,111	-	90	337	1,587
Unearned revenue	-	-	-	-	(1,510)	(1,510)
Compensated absences payable	16	665	-	217	295	1,193
Net pension expense	189	6,464	-	189	(486)	6,356
Total adjustments	<u>20,665</u>	<u>103,213</u>	<u>(807)</u>	<u>17,067</u>	<u>12,305</u>	<u>152,443</u>
Net cash flows - operating activities	<u>\$ 10,397</u>	<u>\$ 45,633</u>	<u>\$ (2,956)</u>	<u>\$ 75,924</u>	<u>\$ 29,170</u>	<u>\$ 158,168</u>

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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, 2016, 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 2016, the City paid \$309,645 to the District for fire services provided and \$156,603 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 estimated fair market value at the date of donation.

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

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

<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 two items that qualify for reporting in this category. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. 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

a. Classification

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, and liabilities, and deferred inflows, 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, 2016, 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	\$ 999,202
Certificates of deposit	<u>973,000</u>
Total deposits	<u><u>\$ 1,972,202</u></u>

City of Deephaven
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

As of December 31, 2016, the City had the following investments:

Investment Type	Fair Value	Investment Maturities	
		Less than One Year	1-5 Years
Brokered certificates of deposit	\$ 2,377,630	\$ 606,039	\$ 1,771,591

Maturity	Maximum Investments
Less than one year	25%
1-5 years	75%

The City has the following recurring fair value measurements as of December 31, 2016:

- \$2,377,630 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, 2016, the following investments, brokered CDs, of the City composed more than 5% of the City's portfolio:

Enterprise Bank, PA	5.68 %
State Bank of India, NY	9.90
Barclays Bank, DE	6.39
Ally Bank, UT	9.91
BMW Bank, UT	9.69
Discover Bank, DE	9.37
American Exp, UT	10.44
AMEX Centurion, UT	9.39
CIT, UT	8.71
Synchrony Bank, UT	6.28
Capital One Bank, VA	10.17

C. Balances

Summary of cash deposits and investments as of December 31, 2016, were as follows:

Deposits (Note 3. A.)	\$ 1,972,202
Investments	2,377,630
Petty cash	<u>550</u>
Total deposits and investments	<u><u>\$ 4,350,382</u></u>

Deposits and investments are presented in the December 31, 2016, basic financial statements as follows:

Statement of net position	
Cash and investments (including cash and cash equivalents)	<u><u>\$ 4,350,382</u></u>

NOTE 3 – INTERFUND ACTIVITY

During the year ended December 31, 2016, the City transferred \$28,054 from the Sewer Fund to the General Fund for various administration cost subsidies. The City also transferred \$300,000 from the General Fund to the Capital Improvement Fund for the street resurfacing project.

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, 2016, the outstanding balance was \$82,828. The current portion of the advance was \$40,928.

As of December 31, 2016, the Storm Water Fund owed the Sewer Fund \$10,639 for cash overdrafts. This amount will be repaid in 2017.

NOTE 4 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 692,177	\$ -	\$ -	\$ 692,177
Capital assets being depreciated				
Buildings	1,234,322	-	-	1,234,322
Improvements other than buildings	5,484	-	-	5,484
Infrastructure	5,665,488	373,747	-	6,039,235
Vehicles and equipment	2,661,680	104,730	64,407	2,702,003
Total capital assets being depreciated	<u>9,566,974</u>	<u>478,477</u>	<u>64,407</u>	<u>9,981,044</u>
Less accumulated depreciation for				
Buildings	894,017	19,978	-	913,995
Improvements other than buildings	4,392	366	-	4,758
Infrastructure	1,376,748	192,759	-	1,569,507
Vehicles and equipment	1,585,862	180,205	56,116	1,709,951
Total accumulated depreciation	<u>3,861,019</u>	<u>393,308</u>	<u>56,116</u>	<u>4,198,211</u>
Total capital assets being depreciated, net	<u>5,705,955</u>	<u>85,169</u>	<u>8,291</u>	<u>5,782,833</u>
Governmental activities capital assets, net	<u>\$ 6,398,132</u>	<u>\$ 85,169</u>	<u>\$ 8,291</u>	<u>\$ 6,475,010</u>
Business-type activities				
Capital assets being depreciated				
Mains, lifts, hydrants, and distribution systems	\$ 7,693,526	\$ 114,997	\$ -	\$ 7,808,523
improvements other than buildings	102,190	-	-	102,190
Vehicles and equipment	474,020	-	-	474,020
Total capital assets being depreciated	<u>8,269,736</u>	<u>114,997</u>	<u>-</u>	<u>8,384,733</u>
Less accumulated depreciation for				
Mains, lifts, hydrants, and distribution systems	5,194,305	174,422	-	5,368,727
improvements other than buildings	89,657	3,695	-	93,352
Vehicles and equipment	147,620	16,258	-	163,878
Total accumulated depreciation	<u>5,431,582</u>	<u>194,375</u>	<u>-</u>	<u>5,625,957</u>
Business-type activities capital assets, net	<u>\$ 2,838,154</u>	<u>\$ (79,378)</u>	<u>\$ -</u>	<u>\$ 2,758,776</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	\$ 7,756
Public safety	68,134
Public works	274,864
Parks and recreation	<u>42,554</u>
Total depreciation expense - governmental activities	<u><u>\$ 393,308</u></u>
Business-type activities	
Water	\$ 15,163
Sewer	149,286
Storm water	16,035
Marina	<u>13,891</u>
Total depreciation expense - business-type activities	<u><u>\$ 194,375</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, 2016, the City's outstanding conduit debt balances consisted of the following:

\$2,550,000 Minnesota Education Facilities Revenue Note (Excelsior Covenant Preschool Project), Series 2007	\$ 1,577,797
\$1,000,000 Minnesota Education Facilities Revenue Note (Benilde-St. Margaret School), Series 2011	798,339
\$19,450,000 Minnesota Housing and Healthcare Facilities Revenue Bond (St. Therese Senior Living Project), Series 2013A, B & C	19,450,000
\$3,690,000 Taxable Lease Revenue Bond (Eagle Ridge Academy Project), Series 2016A & B	3,690,000
\$4,500,000 Sports Facilities Revenue Note (Minnetonka Youth Hockey), Series 2016	<u>4,500,000</u>
Total	<u><u>\$ 30,016,136</u></u>

City of Deephaven
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, 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	\$ 95,814	\$ 110,890	\$ 90,561	\$ 116,143	\$ 11,614
Business-type activities					
Compensated absences	<u>5,503</u>	<u>7,304</u>	<u>6,111</u>	<u>6,696</u>	<u>1,623</u>
Total long-term liabilities	<u>\$ 101,317</u>	<u>\$ 118,194</u>	<u>\$ 96,672</u>	<u>\$ 122,839</u>	<u>\$ 13,237</u>

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.

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Park Dedication Fund</u>	<u>Total</u>
Nonspendable				
Prepays	\$ 20,511	\$ -	\$ -	\$ 20,511
Restricted				
Park dedication fees	-	-	179,099	179,099
Committed				
Compensated absences	116,143	-	-	116,143
OPEB obligation	110,610	-	-	110,610
Capital projects	<u>-</u>	<u>447,838</u>	<u>-</u>	<u>447,838</u>
Total committed	226,753	447,838	-	674,591
Unassigned	<u>2,826,417</u>	<u>-</u>	<u>-</u>	<u>2,826,417</u>
Total	<u>\$ 3,073,681</u>	<u>\$ 447,838</u>	<u>\$ 179,099</u>	<u>\$ 3,700,618</u>

City of Deephaven
Notes to Financial Statements

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 2016 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2016, 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

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 either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Public Employees Police and Fire 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.

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided

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

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

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

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

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.

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$40,811. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$87,885. 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, 2016, the City reported a liability of \$714,516 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 2016. 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 \$9,316. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0088%, which was a decrease of 0.0003% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$80,225 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized pension expense of \$2,778 in 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)

At December 31, 2016, the City reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 58,043
Changes in actuarial assumptions	139,903	-
Difference between projected and actual investment earnings	135,618	-
Changes in proportion	-	46,521
Contributions paid to PERA subsequent to the measurement date	20,406	-
Total	<u>\$ 295,927</u>	<u>\$ 104,564</u>

\$20,406 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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Pension Expense</u> <u>Amount</u>
2017	\$ 40,149
2018	40,151
2019	64,849
2020	25,808
Total	<u>\$ 170,957</u>

Police and Fire Fund Pension Costs

At December 31, 2016, the City reported a liability of \$2,287,509 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.0570%, which was a decrease of 0.0030% from its proportion measured as of June 30, 2015.

City of Deephaven
Notes to Financial Statements

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

For the year ended December 31, 2016, the City recognized pension expense of \$387,352 for its proportionate share of the Police and Fire Fund's pension expense. The City also recognized \$5,130 for the year ended December 31, 2016, as pension expense (and grant revenue) 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.

At December 31, 2016, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 262,421
Changes in actuarial assumptions	1,258,916	-
Difference between projected and actual investment earnings	349,090	-
Changes in proportion	-	42,494
Contributions paid to PERA subsequent to the measurement date	<u>43,943</u>	<u>-</u>
Total	<u>\$ 1,651,949</u>	<u>\$ 304,915</u>

\$43,943 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 280,240
2018	280,240
2019	280,240
2020	252,026
2021	<u>210,345</u>
Total	<u>\$ 1,303,091</u>

**City of Deephaven
Notes to Financial Statements**

NOTE 8 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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 the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016, 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 experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- 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, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund

- 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.

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	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
Total	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

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%)
	<hr/>	<hr/>	<hr/>
City's proportionate share of the General Employees Fund net pension liability	\$ 1,014,825	\$ 714,516	\$ 467,144
	1% Decrease in Discount Rate (4.6%)	Discount Rate (5.6%)	1% Increase in Discount Rate (6.6%)
	<hr/>	<hr/>	<hr/>
City's proportionate share of the Police and Fire Fund net pension liability	\$ 3,202,209	\$ 2,287,509	\$ 1,540,130

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, 2016, 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 December 31, 2014, valuation date, the following employees were covered by the benefit terms:

Retirees and beneficiaries	0
Vested terminated and transfers	8
Actives	46
Total	54

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 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, 2014, 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 December 31, 2014, 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	8.00 %	2.00 %
Fixed income	25.00	3.50
Equities	67.00	7.50
	<hr/>	<hr/>
Total	<u>100 %</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, 2016	\$ 1,041,794	\$ 1,428,357	\$ (386,563)
Changes for the year			
Service cost	35,591	-	35,591
Interest cost	62,508	-	62,508
State contributions	-	39,683	(39,683)
Municipal contributions	-	-	-
Projected investment return	-	86,788	(86,788)
Gain or loss	-	(118,418)	118,418
Benefit payments	-	-	-
Administrative expense	-	(3,457)	3,457
Other charges	-	1	(1)
Net charges	98,099	4,597	93,502
Balances at December 31, 2016	\$ 1,139,893	\$ 1,432,954	\$ (293,061)

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)	\$ (271,264)	\$ (293,061)	\$ (313,721)

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, 2016, the City recognized pension expense of \$395. At December 31, 2016, the City reported deferred outflows of resources related to the Relief Association Pension of \$99,616 for investment losses and \$40,996 for contributions made subsequent to the plan measurement date of December 31, 2015.

\$40,996 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Amount
2017	\$ 25,311
2018	25,311
2019	25,310
2020	23,684
Total	\$ 99,616

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 2016, the City contributed \$4,669 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	\$	18,297
Interest on net OPEB obligation		4,957
Adjustment to ARC		<u>(4,300)</u>
Annual OPEB cost (expense)		18,954
Contributions made		<u>(4,669)</u>
Increase in net OPEB obligation		14,285
Net OPEB obligation - beginning of year		<u>110,151</u>
Net OPEB obligation - end of year	<u>\$</u>	<u>124,436</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:

<u>Year Ended</u>	<u>Annual Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/16	\$ 18,954	\$ 4,669	25%	\$ 124,436
12/31/15	32,771	18,250	56%	110,151
12/31/14	32,111	18,681	58%	95,630

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 2016 was \$161,955 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$161,955. 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 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. This new statement requires additional note disclosures and additional required supplementary information. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. We are recommending that a review of your actuarial study be completed with your actuarial firm to ensure compliance with the new standard.

City of Deephaven
Notes to Financial Statements

NOTE 11 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)

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 is effective for financial statements for fiscal years beginning after June 15, 2017.

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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>
12/31/10	01/01/10	\$ -	\$ 173,758	\$ 173,758	0.0%	\$ 973,662	17.8%
12/31/11	01/01/10	-	173,758	173,758	0.0%	973,662	17.8%
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%

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

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>State's Proportionate Share (Amount) of the Net Pension Liability Associated with City</u>	<u>City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With City</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
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

<u>For Fiscal Year Ended June 30,</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>City's Covered- Employee Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
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- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
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- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
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, 2015	December 31, 2014
	<u> </u>	<u> </u>
Total pension liability (TPL)		
Service cost	\$ 35,591	\$ 34,723
Interest costs	62,508	60,729
Benefit payments	-	(7,868)
Other changes	-	(1)
Net change in total pension liability	<u>98,099</u>	<u>87,583</u>
Beginning of year	<u>1,041,794</u>	<u>954,211</u>
End of year	<u><u>\$ 1,139,893</u></u>	<u><u>\$ 1,041,794</u></u>
Plan fiduciary net position (FNP)		
State contributions	\$ 39,683	\$ 37,227
Projected investment return	86,788	80,566
Gain or loss	(118,418)	(8,136)
Benefit payments	-	(7,868)
Administrative expense	(3,457)	(3,036)
Other changes	1	(1)
Net change in plan fiduciary net position	<u>4,597</u>	<u>98,752</u>
Beginning of year	<u>1,428,357</u>	<u>1,329,605</u>
End of year	<u><u>\$ 1,432,954</u></u>	<u><u>\$ 1,428,357</u></u>
Net pension liability (NPL)	<u><u>\$ (293,061)</u></u>	<u><u>\$ (386,563)</u></u>
Proportionate share	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, 2016	December 31, 2015	December 31, 2014
	<u> </u>	<u> </u>	<u> </u>
City of Deephaven			
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -
Contributions in Relation to SDC	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
State Contribution			
2% aid on behalf of City of Deephaven	\$ 40,996	\$ 39,683	\$ 37,227
Contributions in relation to SDC	<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>

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

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

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
General property taxes and fiscal disparities	\$ 1,822,731	\$ 1,816,659	\$ (6,072)
Special assessments	500	145	(355)
Licenses and permits	245,350	283,668	38,318
Intergovernmental revenues			
PERA aid	2,501	3,751	1,250
Post board reimbursement	2,200	-	(2,200)
Fire aid	132,500	143,743	11,243
Police retirement aid	49,000	55,125	6,125
Road and other aid	9,000	9,763	763
Total intergovernmental revenues	<u>195,201</u>	<u>212,382</u>	<u>17,181</u>
Charges for services			
General government	22,975	27,499	4,524
Public safety	26,268	39,758	13,490
Public works	28,500	38,269	9,769
City of Greenwood	115,634	129,325	13,691
City of Woodland	181,520	192,000	10,480
Total charges for services	<u>374,897</u>	<u>426,851</u>	<u>51,954</u>
Fines and forfeitures	60,000	60,029	29
Miscellaneous revenues			
Investment income	40,000	66,867	26,867
Contributions and donations	100	-	(100)
Other	77,258	117,472	40,214
Total miscellaneous revenues	<u>117,358</u>	<u>184,339</u>	<u>66,981</u>
Total revenues	<u>2,816,037</u>	<u>2,984,073</u>	<u>168,036</u>
Expenditures			
General government			
Mayor and council			
Personnel services	13,200	13,200	-
Benefits	1,129	1,129	-
Other services and charges	5,790	5,004	(786)
Total mayor and council	<u>20,119</u>	<u>19,333</u>	<u>(786)</u>

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Expenditures (Continued)			
General government (continued)			
Elections			
Personnel services	\$ 6,300	\$ 5,102	\$ (1,198)
Other services and charges	4,000	3,307	(693)
Total elections	<u>10,300</u>	<u>8,497</u>	<u>(1,803)</u>
Administrative and finance			
Personnel services	188,215	186,703	(1,512)
Benefits	31,115	30,448	(667)
Other services and charges	73,488	73,264	(224)
Total administrative and finance	<u>292,818</u>	<u>290,415</u>	<u>(2,403)</u>
Assessing	52,871	54,131	1,260
Auditing services	16,100	16,265	165
Legal services	4,000	16,142	12,142
Other general government	127,595	109,411	(18,184)
Capital outlay	500	-	(500)
Total general government	<u>524,303</u>	<u>514,194</u>	<u>(10,109)</u>
Public safety			
Police			
Personnel services	598,338	598,238	(100)
Benefits	111,671	107,937	(3,734)
Prosecution services	43,300	43,310	10
Other services and charges	196,262	195,027	(1,235)
Total police	<u>949,571</u>	<u>944,512</u>	<u>(5,059)</u>
Fire			
Other services and charges	598,925	609,991	11,066
Total public safety	<u>1,548,496</u>	<u>1,554,503</u>	<u>6,007</u>
Public works			
Engineering fees	1,500	574	(926)
Administration			
Personnel services	218,563	229,930	11,367
Benefits	74,396	75,597	1,201
Other services and charges	67,940	54,090	(13,850)
Total administration	<u>360,899</u>	<u>359,617</u>	<u>(1,282)</u>

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Expenditures (Continued)			
Public works (continued)			
Streets			
Utility services	\$ 27,600	\$ 28,364	\$ 764
Street repair and maintenance	82,300	72,172	(10,128)
Total streets	109,900	100,536	(9,364)
Planning and zoning			
Personnel services	78,071	78,493	422
Benefits	28,933	27,558	(1,375)
Professional services	85,800	116,440	30,640
Other services and charges	12,340	19,666	7,326
Total planning and zoning	205,144	242,157	37,013
Total public works	677,443	702,884	25,441
 Parks and recreation			
Wildlife management	12,775	4,553	(8,222)
Professional services	44,000	46,025	2,025
Other	35,600	35,690	90
Total parks and recreation	92,375	86,268	(6,107)
Total expenditures	2,842,617	2,857,849	15,232
 Excess of revenues over (under) expenditures	(26,580)	126,224	152,804
 Other Financing Sources (Uses)			
Proceeds from sale of capital assets	100	30	(70)
Transfers in	28,054	28,054	-
Transfers out	(300,000)	(300,000)	-
Total other financing sources (uses)	(271,846)	(271,916)	(70)
Net change in fund balances	\$ (298,426)	(145,692)	\$ 152,734
 Fund Balances			
Beginning of year		3,219,373	
End of year		\$ 3,073,681	

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Capital Improvement Fund
Year Ended December 31, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
General property taxes and fiscal disparities	\$ 300,000	\$ 296,418	\$ (3,582)
Intergovernmental revenue			
Road and other aid	-	16,325	16,325
Fines and forfeitures	-	7,598	7,598
Miscellaneous revenues			
Investment income	1,000	6,848	5,848
Franchise fees	93,000	93,903	903
Total miscellaneous revenues	94,000	100,751	6,751
Total revenues	394,000	421,092	27,092
Expenditures			
General government			
Capital outlay	6,000	24,019	18,019
Public safety			
Police			
Capital outlay	58,000	51,845	(6,155)
Public works			
Streets			
Capital outlay	443,950	420,240	(23,710)
Park and recreation			
Capital outlay	35,000	-	(35,000)
Total expenditures	542,950	496,104	(46,846)
Excess of revenues over (under) expenditures	(148,950)	(75,012)	73,938
Other Financing Sources			
Transfers in	300,000	300,000	-
	\$ 151,050	224,988	\$ 73,938
Fund Balances			
Beginning of year		222,850	
End of year		\$ 447,838	

City of Deephaven
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Park Dedication Fund
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Revenues			
Miscellaneous revenues			
Investment income	\$ 1,000	\$ 3,450	\$ 2,450
Other	<u>31,800</u>	<u>39,470</u>	<u>7,670</u>
Total revenues	<u>32,800</u>	<u>42,920</u>	<u>10,120</u>
Expenditures			
Park and recreation			
Other	<u>22,300</u>	<u>17,298</u>	<u>(5,002)</u>
Net change in fund balances	<u>\$ 10,500</u>	25,622	<u>\$ 15,122</u>
Fund Balances			
Beginning of year		<u>153,477</u>	
End of year		<u>\$ 179,099</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.

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

Table 1

	Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Investment in capital assets	\$ 4,974,229	\$ 4,907,661	\$ 4,913,579	\$ 4,748,385	\$ 4,751,436	\$ 4,724,104	\$ 4,768,473	\$ 6,289,585	\$ 6,398,132	\$ 6,475,010
Restricted	-	536,821	433,824	465,546	458,163	439,748	141,958	144,622	153,477	179,099
Unrestricted	2,738,771	2,330,953	2,403,353	2,347,748	2,410,373	2,528,138	3,229,783	3,110,519	2,618,637	2,379,926
Total governmental activities	\$ 7,713,000	\$ 7,775,435	\$ 7,750,756	\$ 7,561,679	\$ 7,619,972	\$ 7,691,990	\$ 8,140,214	\$ 9,544,726	\$ 9,170,246	\$ 9,034,035
Business-type activities										
Investment in capital assets	\$ 2,669,863	\$ 2,671,641	\$ 2,878,023	\$ 2,754,165	\$ 2,710,132	\$ 2,828,257	\$ 2,908,356	\$ 2,801,632	\$ 2,838,154	\$ 2,758,776
Unrestricted	1,272,540	1,225,658	956,137	1,016,488	1,080,259	879,169	771,574	792,993	632,689	719,819
Total business-type activities	\$ 3,942,403	\$ 3,897,299	\$ 3,834,160	\$ 3,770,653	\$ 3,790,391	\$ 3,707,426	\$ 3,679,930	\$ 3,594,625	\$ 3,470,843	\$ 3,478,595
Primary government										
Investment in capital assets	\$ 7,644,092	\$ 7,579,302	\$ 7,791,602	\$ 7,502,550	\$ 7,461,568	\$ 7,552,361	\$ 7,676,829	\$ 9,091,217	\$ 9,236,286	\$ 9,233,786
Restricted	-	536,821	433,824	465,546	458,163	439,748	141,958	144,622	153,477	179,099
Unrestricted	4,011,311	3,556,611	3,359,490	3,364,236	3,490,632	3,407,307	4,001,357	3,903,512	3,251,326	3,099,745
Total primary government	\$ 11,655,403	\$ 11,672,734	\$ 11,584,916	\$ 11,332,332	\$ 11,410,363	\$ 11,399,416	\$ 11,820,144	\$ 13,139,351	\$ 12,641,089	\$ 12,512,630

Source: City of Deephaven financial records

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

Table 2

	Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities										
General government	\$ 465,244	\$ 504,634	\$ 468,161	\$ 502,985	\$ 447,182	\$ 479,007	\$ 470,192	\$ 482,554	\$ 511,907	\$ 542,641
Public safety	1,138,533	1,157,123	1,237,012	1,260,436	1,407,646	1,430,795	1,504,104	1,564,203	1,627,952	1,904,911
Public works	836,628	851,220	873,465	1,037,303	841,784	813,505	844,575	1,057,559	995,418	1,025,652
Parks and recreation	137,179	136,025	144,238	129,720	119,517	144,071	127,906	125,216	119,860	146,120
Other	-	-	-	-	-	-	-	-	-	-
Total governmental activities expenses	<u>2,577,584</u>	<u>2,649,002</u>	<u>2,722,876</u>	<u>2,930,444</u>	<u>2,816,129</u>	<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>
Business-type activities										
Sewer	526,404	586,727	619,056	601,636	567,494	659,511	749,843	689,164	649,217	753,779
Water	65,807	79,291	81,168	69,953	68,183	80,160	70,759	67,968	76,146	86,892
Storm water	43,765	20,496	34,795	32,512	43,011	63,532	93,825	72,815	58,692	62,080
Marina	104,937	99,877	121,418	124,629	125,785	122,383	128,004	130,567	132,155	125,233
Recycling	20,262	22,533	29,607	20,008	23,956	23,759	30,536	24,688	26,291	22,063
Total business-type activities expenses	<u>761,175</u>	<u>808,924</u>	<u>886,044</u>	<u>848,738</u>	<u>828,429</u>	<u>949,345</u>	<u>1,072,967</u>	<u>985,202</u>	<u>942,501</u>	<u>1,050,047</u>
Total primary government expenses	<u>\$ 3,338,759</u>	<u>\$ 3,457,926</u>	<u>\$ 3,608,920</u>	<u>\$ 3,779,182</u>	<u>\$ 3,644,558</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>
Program Revenues										
Governmental activities										
Charges for service:										
General government	\$ 108,290	\$ 100,468	\$ 96,938	\$ 114,442	\$ 127,964	\$ 141,817	\$ 144,041	\$ 140,633	\$ 154,082	\$ 158,982
Public safety	155,222	169,689	178,783	199,235	187,903	218,433	234,021	288,773	244,776	227,260
Public works	390,429	414,009	332,005	361,434	326,000	372,847	531,911	540,979	478,032	493,696
Parks and recreation	127,053	-	-	-	28,000	-	94,500	-	25,000	37,000
Operating grants and contributions	57,922	54,936	64,657	59,373	152,695	163,283	238,363	193,723	213,561	216,731
Capital grants and contributions	9,196	1,204	46,767	8,279	1,085	168	2,156	1,361,807	52,075	16,325
Total governmental activities	<u>848,112</u>	<u>740,306</u>	<u>719,150</u>	<u>742,763</u>	<u>823,647</u>	<u>896,548</u>	<u>1,244,992</u>	<u>2,525,915</u>	<u>1,167,526</u>	<u>1,149,994</u>
Program revenues										
Business-type activities										
Charges for service:										
Sewer	426,846	421,381	430,724	490,856	548,746	559,066	758,406	581,230	576,483	656,019
Water	65,807	68,563	67,777	62,766	64,395	74,676	64,538	59,119	74,756	76,624
Storm water	85,417	84,767	83,232	84,820	84,993	84,865	85,019	125,654	119,823	118,480
Marina	118,479	124,156	128,965	128,129	124,542	124,141	124,007	121,696	119,654	142,098
Recycling	10,690	10,459	16,755	11,962	15,482	18,564	21,636	17,394	23,019	19,914
Operating grants and contributions	-	12,098	12,011	12,370	12,248	12,079	-	12,141	13,772	13,336
Capital grants and contributions	10,396	-	16,000	-	6,560	-	12,119	-	-	40,180
Total business-type activities	<u>717,635</u>	<u>721,424</u>	<u>755,464</u>	<u>790,903</u>	<u>856,966</u>	<u>873,391</u>	<u>1,065,725</u>	<u>917,234</u>	<u>927,507</u>	<u>1,066,651</u>
Program revenues	<u>1,565,747</u>	<u>1,461,730</u>	<u>1,474,614</u>	<u>1,533,666</u>	<u>1,680,613</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>
Total primary government revenues	<u>\$ (1,729,472)</u>	<u>\$ (1,908,696)</u>	<u>\$ (2,003,726)</u>	<u>\$ (2,187,681)</u>	<u>\$ (1,992,482)</u>	<u>\$ (1,970,830)</u>	<u>\$ (1,701,785)</u>	<u>\$ (703,617)</u>	<u>\$ (2,087,611)</u>	<u>\$ (2,469,330)</u>
Business-type activities	<u>(43,550)</u>	<u>(87,500)</u>	<u>(130,580)</u>	<u>(57,835)</u>	<u>28,537</u>	<u>(75,954)</u>	<u>(7,242)</u>	<u>(67,968)</u>	<u>(14,994)</u>	<u>16,604</u>
Total primary government net expense	<u>\$ (1,773,022)</u>	<u>\$ (1,996,196)</u>	<u>\$ (2,134,306)</u>	<u>\$ (2,245,516)</u>	<u>\$ (1,963,945)</u>	<u>\$ (2,046,784)</u>	<u>\$ (1,709,027)</u>	<u>\$ (771,585)</u>	<u>\$ (2,102,605)</u>	<u>\$ (2,452,726)</u>

Source: City of Deephaven financial records

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

Table 2

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Revenues and Other										
Changes in Net Position										
Governmental activities										
Property tax	\$ 1,784,869	\$ 1,780,490	\$ 1,878,584	\$ 1,879,440	\$ 1,909,458	\$ 1,922,069	\$ 1,904,890	\$ 1,980,683	\$ 2,020,118	\$ 2,114,891
Unrestricted state aid	33,675	16,673	2,790	2,473	2,515	2,569	2,501	2,501	2,501	3,751
Unrestricted investment earnings	119,352	119,490	69,415	38,224	30,363	52,231	23,784	31,856	52,412	77,165
Other general revenues	31,874	34,287	62,461	57,877	86,903	41,664	179,843	62,567	232,521	109,258
Gain on sale of asset	-	-	-	-	-	-	11,537	3,056	13,132	-
Transfers	18,141	20,191	(34,203)	20,590	21,536	24,315	27,454	27,466	27,743	28,054
Total governmental activities	<u>1,987,911</u>	<u>1,971,131</u>	<u>1,979,047</u>	<u>1,998,604</u>	<u>2,050,775</u>	<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>
Business-type activities										
Unrestricted investment earnings	59,692	58,163	33,238	14,918	12,737	16,779	7,200	10,129	15,146	19,202
Other general revenues	6,778	4,424	-	-	-	525	-	-	-	-
Transfers	(18,141)	(20,191)	34,203	(20,590)	(21,536)	(24,315)	(27,454)	(27,466)	(27,743)	(28,054)
Total business-type activities	<u>48,329</u>	<u>42,396</u>	<u>67,441</u>	<u>(5,672)</u>	<u>(8,799)</u>	<u>(7,011)</u>	<u>(20,254)</u>	<u>(17,337)</u>	<u>(12,597)</u>	<u>(8,852)</u>
Total primary government	<u>\$ 2,036,240</u>	<u>\$ 2,013,527</u>	<u>\$ 2,046,488</u>	<u>\$ 1,992,932</u>	<u>\$ 2,041,976</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>
Changes in net position										
Governmental activities	\$ 258,439	\$ 62,435	\$ (24,679)	\$ (189,077)	\$ 58,293	\$ 72,018	\$ 448,224	\$ 1,404,512	\$ 260,816	\$ (136,211)
Business-type activities	<u>4,779</u>	<u>(45,104)</u>	<u>(63,139)</u>	<u>(63,507)</u>	<u>19,738</u>	<u>(82,965)</u>	<u>(27,496)</u>	<u>(85,305)</u>	<u>(27,591)</u>	<u>7,752</u>
Total primary government	<u>\$ 263,218</u>	<u>\$ 17,331</u>	<u>\$ (87,818)</u>	<u>\$ (252,584)</u>	<u>\$ 78,031</u>	<u>\$ (10,947)</u>	<u>\$ 420,728</u>	<u>\$ 1,319,207</u>	<u>\$ 233,225</u>	<u>\$ (128,459)</u>

Source: City of Deephaven financial records

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

	Year			
	2007	2008	2009	2010
General Fund				
Reserved	\$ 18,850	\$ 19,583	\$ 18,392	\$ 22,350
Unreserved	2,350,611	2,383,853	2,455,051	2,451,621
Nonspendable	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>\$ 2,369,461</u>	<u>\$ 2,403,436</u>	<u>\$ 2,473,443</u>	<u>\$ 2,473,971</u>
All Other Governmental Funds				
Reserved	\$ 37	\$ 41	\$ -	\$ 54
Unreserved, reported in				
Capital projects funds	478,295	536,821	433,824	465,546
Restricted	-	-	-	-
Committed	-	-	-	-
Total all other governmental funds	<u>\$ 478,332</u>	<u>\$ 536,862</u>	<u>\$ 433,824</u>	<u>\$ 465,600</u>

Source: City of Deephaven financial records
Note: GASB 54 was implemented in 2011.

Table 3

Year					
2011	2012	2013	2014	2015	2016
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
22,348	16,472	13,870	19,709	20,794	20,511
155,000	176,508	173,874	199,614	193,726	226,753
<u>2,383,144</u>	<u>2,487,788</u>	<u>2,841,999</u>	<u>3,048,676</u>	<u>3,004,853</u>	<u>2,826,417</u>
<u>\$ 2,560,492</u>	<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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
97,768	54,872	141,958	144,622	153,477	179,099
<u>360,395</u>	<u>384,876</u>	<u>369,733</u>	<u>32,036</u>	<u>222,850</u>	<u>447,838</u>
<u>\$ 458,163</u>	<u>\$ 439,748</u>	<u>\$ 511,691</u>	<u>\$ 176,658</u>	<u>\$ 376,327</u>	<u>\$ 626,937</u>

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

	2007	2008	2009	2010
Revenues				
Taxes	\$ 1,779,718	\$ 1,769,182	\$ 1,869,847	\$ 1,900,473
Special assessments	2,890	4,707	2,319	2,662
Licenses and permits	228,658	226,195	188,755	198,040
Intergovernmental	90,137	68,873	77,785	58,673
Charges for services	283,577	314,121	270,447	313,596
Fines and penalties	42,267	40,785	45,824	72,491
Franchise fees	88,479	92,667	92,015	91,977
Interest income	119,352	119,490	69,415	38,224
Miscellaneous revenues	171,347	47,421	62,808	59,036
Total revenues	<u>2,806,425</u>	<u>2,683,441</u>	<u>2,679,215</u>	<u>2,735,172</u>
Expenditures				
General government	444,895	479,541	448,887	486,622
Public safety	1,098,381	1,128,643	1,170,420	1,184,430
Public works	674,424	700,035	659,159	742,231
Parks and recreation	78,537	79,017	85,969	72,867
Capital outlay	208,623	232,332	375,063	238,329
Total expenditures	<u>2,504,860</u>	<u>2,619,568</u>	<u>2,739,498</u>	<u>2,724,479</u>
Other Financing				
Sources (Uses)				
Proceeds from sale of capital asset	11,988	8,441	6,547	1,021
Transfers in	18,141	20,191	20,705	20,590
Transfers out	-	-	-	-
Total other financing	<u>30,129</u>	<u>28,632</u>	<u>27,252</u>	<u>21,611</u>
Sources (uses)	<u>30,129</u>	<u>28,632</u>	<u>27,252</u>	<u>21,611</u>
Net change in fund balances	<u>\$ 331,694</u>	<u>\$ 92,505</u>	<u>\$ (33,031)</u>	<u>\$ 32,304</u>

Table 4

2011	2012	2013	2014	2015	2016
\$ 1,916,148	\$ 1,909,862	\$ 1,923,389	\$ 1,974,766	\$ 2,020,498	\$ 2,113,077
1,743	780	775	778	535	145
151,989	211,812	323,964	302,517	255,794	283,668
162,439	144,836	219,049	189,627	262,019	228,707
330,612	343,713	390,457	442,743	434,217	426,851
58,016	80,076	92,095	125,666	81,815	67,627
92,953	92,673	93,139	93,128	93,586	93,903
30,363	52,231	23,784	31,856	52,412	77,165
107,682	67,503	309,055	74,717	269,182	156,942
<u>2,851,945</u>	<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>
445,153	464,716	464,847	464,222	503,460	514,194
1,336,875	1,369,465	1,446,132	1,490,048	1,569,973	1,554,503
660,783	634,389	799,914	656,126	704,887	702,884
65,952	87,713	68,083	75,659	95,751	103,566
293,923	297,207	216,207	677,042	485,819	496,104
<u>2,802,686</u>	<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>
8,289	27,550	12,940	3,056	13,132	30
21,536	24,315	27,454	27,466	300,743	328,054
-	-	-	-	(273,000)	(300,000)
<u>29,825</u>	<u>51,865</u>	<u>40,394</u>	<u>30,522</u>	<u>40,875</u>	<u>28,084</u>
<u>\$ 79,084</u>	<u>\$ 101,861</u>	<u>\$ 420,918</u>	<u>\$ (96,777)</u>	<u>\$ 151,043</u>	<u>\$ 104,918</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		
2006	2007	\$ 11,181,602	\$ 995,692,300	1.1%	\$ 1,784,344
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

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					
15.936	0.000	15.936	24.793	39.129	79.858
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

**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>
2007	\$ 1,784,344	\$ 1,761,855	98.74	\$ 13,765	\$ 1,775,620	99.51%
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%

(1) Including Fiscal Disparities

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

Table 7

Property ID No.	Type of Business	2016			2007		
		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 Living	\$ 129,850	1	1.0154%	\$ 11,250	13	0.1019%
13-117-23-43-0009	Residential	98,425	2	0.7696%	35,000	11	0.3170%
13-117-23-42-0010	Residential	87,825	3	0.6868%	67,175	7	0.6083%
13-117-23-43-0006	Residential	79,613	4	0.6225%	92,500	2	0.8377%
13-117-23-13-0002	Residential	75,875	5	0.5933%	98,713	1	0.8940%
18-117-22-23-0017	Residential	74,188	6	0.5801%	86,150	3	0.7802%
13-117-23-42-0009	Residential	67,938	7	0.5312%	57,775	8	0.5232%
24-117-23-14-0002	Residential	66,750	8	0.5220%	69,225	6	0.6269%
13-117-23-42-0003	Residential	63,750	9	0.4985%	71,463	4	0.6472%
13-117-23-43-0004	Residential	63,088	10	0.4933%	69,338	5	0.6279%
23-117-23-41-0004	Residential	58,775	11	0.4596%	55,050	9	0.4985%
13-117-23-43-0001	Residential	57,925	12	0.4529%	47,638	10	0.4314%
13-117-23-13-0001	Residential	<u>57,838</u>	13	<u>0.4523%</u>	<u>73,725</u>	4	<u>0.6677%</u>
		<u>\$ 981,840</u>		<u>7.6775%</u>	<u>\$ 835,002</u>		<u>7.5618%</u>

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
2007	\$ 25,271	\$ 25,306	\$ -
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

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, 2016
(Unaudited)**

Table 9

Governmental Unit	<u>Net G.O. Bonded Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Direct debt			
City of Deephaven	\$ -	100.00%	\$ -
Overlapping debt			
Hennepin County (1)	838,110,000	0.81%	6,788,691
Independent School District No. 276, Minnetonka (1)	118,782,683	18.34%	21,784,744
Three Rivers Park District (1)	12,625,000	0.37%	46,713
Metro Transit (1)	193,395,999	0.42%	812,263
Metropolitan Council (1)	52,835,000	1.13%	597,036
Hennepin Regional RR Authority (1)	33,145,000	0.81%	268,475
Total Overlapping Debt	<u>1,248,893,682</u>		<u>30,297,922</u>
Total Direct and Overlapping Debt	<u>\$ 1,248,893,682</u>		<u>\$ 30,297,922</u>

(1) Source - Continuing Disclosure Document, Northland Securities

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Estimated market value (2)	<u>\$ 995,692,300</u>	<u>\$ 1,105,355,400</u>	<u>\$ 1,102,852,900</u>	<u>\$ 1,064,980,400</u>
Debt limit - 3% of market value (1)	\$ 29,870,769	\$ 33,160,662	\$ 33,085,587	\$ 31,949,412
Amount of debt applicable to debt limit				
Net debt applicable to limit (3)	<u>1,731,853</u>	<u>1,653,621</u>	<u>1,645,027</u>	<u>1,502,020</u>
Legal debt margin	<u>\$ 28,138,916</u>	<u>\$ 31,507,041</u>	<u>\$ 31,440,560</u>	<u>\$ 30,447,392</u>
Total net debt applicable to the limit as a percentage of debt limit	5.80%	4.99%	4.97%	4.70%

(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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>\$ 992,653,900</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>
\$ 29,779,617	\$ 29,215,728	\$ 28,018,041	\$ 28,009,398	\$ 31,230,822	\$ 34,468,539
<u>1,381,562</u>	<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>\$ 28,398,055</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>
4.64%	4.76%	4.59%	4.34%	3.59%	2.54%

**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>
2007	3,767	484	4.3%	(5)	(5)	(5)
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)

(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	2016			2007		
		Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Deephaven Elementary School	Public Education	95	1	36.5 %	86	1	32.2 %
St. Therese Church/School	Religious Church/School	56	2	21.5	73	2	27.3
Streeter and Associates	Building Contractor	55	3	21.2	46	3	17.2
City of Deephaven	City Government	18	4	6.9	20	4	7.5
Grace Lutheran Church/School	Religious Church/School	14	5	5.4	16	5	6.0
Steiner and Koppleman	Building Contractor	11	6	4.2	16	5	6.0
Kyle Hunt and Partners, Inc.	Building Contractor	11	6	4.2	10	7	3.7
		<u>260</u>		<u>100.0 %</u>	<u>267</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,		
	2007	2008	2009
General government	6	6	6
Public safety	8	7	8
Public works	5	5	5
Total	19	18	19

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,						
<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
6	6	6	6	6	6	6
8	8	8	8	8	8	8
<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
<u>19</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>

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

Function/Program	<u>2007</u>	<u>2008</u>	<u>2009</u>
Public safety			
Police stations	1	1	1
Police patrol units	4	4	4
Fire stations	2	2	2
Fire response units	7	7	7
Public works			
Streets (miles)	30.85	30.85	30.85
Traffic signals	1	1	1
Culture and recreation			
Parks	7	8	8
Campgrounds	1	1	1
Beaches	6	6	6
Marina			
Dock slips	92	100	112
Buoys	53	53	53
Slides	125	115	115
Canoe racks	32	32	32
Utilities			
Sewer lift stations	9	9	9

Notes: No capital asset indicators are available for the general government function.
Source: Various City Departments

Table 14

<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1	1	1	1	1	1	1
4	4	4	4	4	4	4
2	2	2	2	2	2	2
7	7	7	7	7	7	7
30.85	30.85	30.85	30.85	30.85	30.85	30.85
1	1	1	1	1	1	1
8	8	8	8	8	8	8
1	1	1	1	1	1	1
6	6	6	6	6	6	6
112	112	112	112	112	112	112
53	53	53	53	53	53	53
115	115	113	113	113	113	113
32	32	32	32	32	32	32
9	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

Year	Number	Value
2007	590	\$ 13,532,474
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

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)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Public Safety				
Police				
Physical arrests	(1)	59	106	225
Parking violations	(1)	224	172	211
Traffic violations	(1)	443	741	2,204
Fire				
Number of calls answered	751	733	657	732
Inspections	(1)	460	524	707
Public Works				
Street maintenance				
Miles of city maintained	30.85	30.85	30.85	30.85
Planning				
Number of planning applications received	18	16	13	10
Number of building permits reviewed	590	524	399	541
Park and Recreation				
Parks and trails				
Number of parks maintained	12	12	13	13
Miles of trail and sidewalk maintained	2	2	2	2
Playgrounds	(1)	5	5	5
Ice skating rinks	(1)	4	4	4
Beaches	(1)	6	6	6
Municipal Sewer				
Number of customers	1,460	1,461	1,468	1,468
New connections	5	5	5	4
The city sewage disposal is through the Metropolitan waste control commission.				
Municipal Water				
Number of customers	(1)	144	144	145
The city purchases water from the municipalities of Minnetonka and Shorewood.				
Recycling				
Curbside recycling picked up on city-wide Clean up day (in tons)	557	544	508	474
Marina				
Dock slips	80	90	93	93
Shore space	15	15	15	15
Buoys	53	53	53	53
Slides	125	115	115	115
Canoe racks	32	32	32	32
Storm Water				
Number of utility customer accounts	1,461	1,463	1,470	1,470

(1) Information not available

Note: Indicators are not available for the general government function.
Source: Various City departments

Table 16

2011	2012	2013	2014	2015	2016
220	299	304	359	314	233
190	236	271	270	313	429
2,971	3,050	3,386	2,988	3,368	3,148
651	639	677	769	810	755
664	601	574	634	549	478
30.85	30.85	30.85	30.85	30.85	30.85
12	21	26	8	21	34
494	506	572	551	606	548
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
1,468	1,474	1,474	1,474	1,473	1,474
5	1	14	9	1	1
144	144	145	147	148	147
405	393	592	526	404	334
95	95	95	95	95	95
17	17	17	17	17	17
53	53	53	53	53	53
115	113	113	113	113	113
32	32	32	32	32	32
1,469	1,472	1,472	1,472	1,472	1,472