

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2017**

Mayor	Jeff Pelowski
Council	Patrick Novacek
Council	Amy Bassingthwaite
Council	Jane Evans
Council	Don Ross
City Clerk/Treasurer	Beth Carlson
Community Development Coordinator	Todd Peterson



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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.

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

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, net position, and revenues of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Roseau, Minnesota, as of December 31, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof 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, budgetary comparison information, schedule of City contributions, and schedule of City's share of net pension liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 Roseau's basic financial statements. The combining statements and schedules as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018, on our consideration of the City of Roseau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Roseau's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

March 29, 2018

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**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

As management of the City of Roseau, we offer readers of the City of Roseau's financial statements this narrative overview and analysis of the financial activities of the City of Roseau for the fiscal year ended December 31, 2017.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$57,514,347 (net position). Of this amount, \$7,709,470 may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, the unrestricted fund balance for the general fund was \$419,865 or 13% of the total general fund expenditures.

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 the 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 of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) 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, culture and recreation, economic development, and airport. The business-type activities of the City include, liquor, water, electric, sewer service, townhomes, and garbage.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related 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 used in evaluating a government's near-term financing 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 statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the 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 eight individual 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

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

general fund, community and economic development fund, and capital projects fund, all of which are considered major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and community and economic development fund to demonstrate compliance with this budget.

Proprietary Funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its liquor operations, water, electric, sewer service, townhomes, and garbage collection.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for all proprietary funds all of which are considered major funds, except for the garbage collection fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budgetary comparisons.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$57,514,347 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 2,585,320	\$ 2,465,114	\$ 7,988,671	\$ 9,077,426	\$ 10,573,991	\$ 11,542,540
Capital Assets	43,351,990	43,706,160	8,607,052	8,651,367	51,959,042	52,357,527
Total Assets	<u>45,937,310</u>	<u>46,171,274</u>	<u>16,595,723</u>	<u>17,728,793</u>	<u>62,533,033</u>	<u>63,900,067</u>
Deferred Outflows of Resources	<u>916,035</u>	<u>1,461,497</u>	<u>118,877</u>	<u>251,081</u>	<u>1,034,912</u>	<u>1,712,578</u>
Long-term Liabilities	1,189,859	2,435,403	3,059,216	3,264,238	4,249,075	5,699,641
Other Liabilities	170,496	94,218	454,888	474,154	625,384	568,372
Total Liabilities	<u>1,360,355</u>	<u>2,529,621</u>	<u>3,514,104</u>	<u>3,738,392</u>	<u>4,874,459</u>	<u>6,268,013</u>
Deferred Inflows of Resources	<u>1,067,793</u>	<u>286,235</u>	<u>111,346</u>	<u>85,274</u>	<u>1,179,139</u>	<u>371,509</u>
Net Position						
Net Investment in						
Capital Assets	43,351,990	43,706,160	6,058,595	6,061,709	49,410,585	49,767,869
Restricted	159,976	167,216	234,316	222,879	394,292	390,095
Unrestricted	913,231	943,539	6,796,239	7,871,620	7,709,470	8,815,159
Total Net Position	<u>\$ 44,425,197</u>	<u>\$ 44,816,915</u>	<u>\$ 13,089,150</u>	<u>\$ 14,156,208</u>	<u>\$ 57,514,347</u>	<u>\$ 58,973,123</u>

A portion of the City's net position (86%) reflects its investment in capital assets (e.g., land, construction in process, buildings, improvements other than buildings, machinery and equipment), less any related debt used to acquire assets

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$ 268,287	\$ 282,637	\$ 7,373,058	\$ 7,470,810	\$ 7,641,345	\$ 7,753,447
Operating Grants and Contributions	131,281	217,212			131,281	217,212
Capital Grants and Contributions	203,972	276,677			203,972	276,677
General Revenues						
Taxes	1,200,479	1,206,529	6	5,135	1,200,485	1,211,664
Unrestricted State Aid	692,804	667,292			692,804	667,292
Unrestricted Investment Earnings	48,096	49,562	2,937	2,377	51,033	51,939
Sale of Capital Asset		1,550				1,550
Other General Revenue	943,168	351,877	15,268	741	958,436	352,618
Total Revenues	<u>3,488,087</u>	<u>3,053,336</u>	<u>7,391,269</u>	<u>7,479,063</u>	<u>10,879,356</u>	<u>10,532,399</u>
Expenses						
General Government	1,027,506	461,435			1,027,506	461,435
Public Safety	1,225,749	1,323,606			1,225,749	1,323,606
Public Works	1,084,134	978,860			1,084,134	978,860
Culture and Recreation	765,988	815,394			765,988	815,394
Economic Development	183,716	227,377			183,716	227,377
Airport	196,873	153,894			196,873	153,894
Municipal Liquor Store			1,589,840	1,589,355	1,589,840	1,589,355
Water			544,954	631,871	544,954	631,871
Electric			4,056,227	3,780,196	4,056,227	3,780,196
Sewer Service			461,385	473,035	461,385	473,035
Roseau Court Townhomes			196,317	218,344	196,317	218,344
Garbage			406,231	411,233	406,231	411,233
Total Expenses	<u>4,483,966</u>	<u>3,960,566</u>	<u>7,254,954</u>	<u>7,104,034</u>	<u>11,738,920</u>	<u>11,064,600</u>
Change in Net Position Before Transfers	(995,879)	(907,230)	136,315	375,029	(859,564)	(532,201)
Transfers	<u>1,203,373</u>	<u>536,071</u>	<u>(1,203,373)</u>	<u>(536,071)</u>		
Change in Net Position	207,494	(371,159)	(1,067,058)	(161,042)	(859,564)	(532,201)
Net Position - January 1	44,816,915	45,188,074	14,156,208	14,317,250	58,973,123	59,505,324
Prior Period Adjustment See Note 2	<u>(599,212)</u>				<u>(599,212)</u>	
Net Position - January 1, Restated	<u>44,217,703</u>	<u>45,188,074</u>	<u>14,156,208</u>	<u>14,317,250</u>	<u>58,373,911</u>	<u>59,505,324</u>
Net Position - December 31	<u>\$ 44,425,197</u>	<u>\$ 44,816,915</u>	<u>\$ 13,089,150</u>	<u>\$ 14,156,208</u>	<u>\$ 57,514,347</u>	<u>\$ 58,973,123</u>

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Governmental Activities. The change in net position before transfers was a decrease of \$995,879. The governmental activities received \$1,203,373 from the business-type activities during 2017, resulting in an increase in net position of \$207,494.

Business-type Activities. The change in net position before transfers was an increase \$136,315. The business-type activities transferred \$1,203,373 to the governmental activities, resulting in a decrease in net position of \$1,067,058.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Major Funds

	Fund Balance / Net Position		Increase (Decrease)	Percentage Increase (Decrease)
	12/31/2017	12/31/2016		
Governmental Funds				
General	\$ 419,865	\$ 508,444	\$ (88,579)	-17%
Community and Economic Development	411,630	335,394	76,236	23%
Capital Projects	(275,603)	(500,682)	225,079	45%
Proprietary Funds				
Municipal Liquor Store	1,145,124	1,371,340	(226,216)	-16%
Water	2,734,221	2,972,930	(238,709)	-8%
Electric	5,430,878	5,848,741	(417,863)	-7%
Sewer Service	3,780,040	3,973,786	(193,746)	-5%
Roseau Court Townhomes	(566,289)	(537,376)	(28,913)	-5%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues under the budgeted amounts of \$297,707 and expended \$546,543 less than the budget. The majority of the difference in revenues pertains to the airport projects and a trail project.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$51,959,042 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings, and machinery and equipment.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Land	\$ 12,339,014	\$ 1,146,876	\$ 292,613	\$ 292,613	\$ 12,631,627	\$ 1,439,489
Construction in Process	494,471	15,988,989		32,888	494,471	16,021,877
Buildings	9,942,598	10,135,492	2,263,481	1,644,333	12,206,079	11,779,825
Improvements Other Than Buildings	19,615,720	15,537,371	47,751	40,792	19,663,471	15,578,163
Plant and Equipment			5,834,557	6,432,223	5,834,557	6,432,223
Machinery and Equipment	960,187	897,432	168,650	208,518	1,128,837	1,105,950
Total	\$ 43,351,990	\$ 43,706,160	\$ 8,607,052	\$ 8,651,367	\$ 51,959,042	\$ 52,357,527

Additional information on the City's capital assets can be found in Note 6 of this report.

Long-term Debt. At the end of the current fiscal year, the City had \$2,548,456 in bonds and other long-term obligations.

Outstanding Debt

	Business-type	
	Activities	
	2017	2016
General Obligation Bonds	\$	\$ 31,066
Loans Payable	2,548,457	2,558,592
Total	\$ 2,548,457	\$ 2,589,658

Additional information on the City's long-term debt can be found in Note 9 of this report.

Economic Factors

Improving national economic conditions in 2017 carried over into Roseau's local economy. The City's largest employer, Polaris Industries, experienced increasing sales for locally produced products leading to increasing levels of production and need for additional labor. Hourly workers witnessed increases in hours worked in 2017 and for the first time in over a year, new employees were being added. However, a limited local workforce limits the amount of growth Polaris Industries can reasonably achieve in a short period of time. Thus the City of Roseau, through its Economic Development Authority, continues to work with our area employers to develop a comprehensive marketing plan to market and grow our region's population and labor force in the coming years.

Stable State and Federal budgets have resulted in consistent aids for local government units, including the City of Roseau. While State and Federal operational aides do not constitute a significant portion of the City of Roseau's budget, those aides do help provide additional improvements otherwise unaffordable to the community. The City of Roseau currently carries no long-term debt, maintains healthy fund balances, and enjoys newer infrastructure, placing the community in a good position to maintain existing services without significantly increasing tax or fee levels to local residents and businesses. In addition, the City of Roseau maintains a lean workforce and an overall streamlined operation. The City's on-going efforts to reduce costs of services along with its ability to supplement funding for general city operations with revenues generated from local enterprise operations keeps our community less dependent on State LGA for critical services. LGA represents less than 10% of the City's total operating revenue.

The City of Roseau's tax and employment base is largely dependent upon two major employers, Polaris Industries and LifeCare Medical Center. Both entities continue to show commitment to Roseau through investments in local facilities. Polaris continues to design and manufacture new products in Roseau including its entire snowmobile line and all of its ATV models. A number of Polaris' newest market entries have been designed and/or manufactured in the Roseau facility.

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In 2017 Polaris began to expand production in the Roseau facility to include additional accessories and components previously manufacturer by outside entities.

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2017 LifeCare Medical Center and Altru Clinic continued its facility expansion and renovations to house new services and patient care facilities. Altru Clinic and LifeCare MC also continue to add doctors and specialists to the local Roseau clinic to improve care services for local residents.

A barrier to growth in Roseau has been a lack of available housing for new residents. However, in 2017 the community saw an easing in the multifamily rental market with a healthy number of available housing units available in various price points. However, a lack of contractors limits the number of for-sale single family homes which are in relatively short supply. Additional construction capacity is needed to meet demand.

Agriculture provides good diversification and stability for the overall local economy. However, commodity prices in 2017 still remain below past peaks and the overall ag economy is sluggish.

In 2017, the City of Roseau achieved permanent flood protection and removal from the 100-year floodplain with the certification of the U.S. Army Corps of Engineers' East Diversion permanent flood protection project. The City's removal from the 100-year floodplain will boost our economic vitality tremendously through the removal of onerous floodplain restrictions on building construction and renovation, as well as through the savings of hundreds of thousands of dollars in local flood insurance premiums.

The greatest issues of concern for the City's on-going operations include many of the following:

- Significant reductions or the elimination of aids and grants from the State and Federal Government for on-going City operations.
- Slowing economy or changing market forces resulting in reduced hours and/or major layoffs at area employers.
- Inability to provide sufficient workforce and housing supply in the community for local employers.
- Poor economic conditions resulting in increased tax delinquencies and reduced enterprise sales.
- Increasing costs of providing employee pensions and health benefits.
- Increasing costs of on-going operations as a result of unfunded State and Federal mandates.
- Continued efforts by the State and Federal governments to regulate and or restrict the use of coal-fired power plants for the production of electricity, of which the City of Roseau is a coal-fired power generation owner and provider.
- Increased regulations on sanitary sewer effluent, storm water discharge, and other environmental regulations on day-to-day city operations that would dramatically increase costs of service with limited ability to recapture those costs through improved service.
- State or Federal legislation restricting or eliminating the City's ability to operate various revenue generating enterprises and the transfer of those profits to the general fund.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk-Treasurer, City of Roseau, 121 Center Street East, Suite 202, Roseau, MN 56751.

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 1,009,036	\$ 6,656,139	\$ 7,665,175
Receivables			
Accounts (Net of Allowance)	16,031	543,781	559,812
Delinquent Taxes	78,000		78,000
Special Assessments	609,500	600	610,100
Notes Receivable (Net of Allowance)	1,037,268		1,037,268
Internal Balances	(275,603)	275,603	
Due from Other Governments	111,088		111,088
Inventory		270,023	270,023
Prepaid Expense			
Restricted: Funded Reserves		227,783	227,783
Restricted: Tenant Security Deposits, Cash		14,742	14,742
Capital Assets			
Land	12,339,014	292,613	12,631,627
Construction in Process	494,471		494,471
Buildings	13,757,730	3,109,520	16,867,250
Improvements Other than Buildings	26,628,862	103,975	26,732,837
Plant and Equipment		16,716,038	16,716,038
Machinery and Equipment	2,748,069	709,727	3,457,796
Less: Accumulated Depreciation	(12,616,156)	(12,324,821)	(24,940,977)
Total Capital Assets, Net of Depreciation	<u>43,351,990</u>	<u>8,607,052</u>	<u>51,959,042</u>
TOTAL ASSETS	<u>45,937,310</u>	<u>16,595,723</u>	<u>62,533,033</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	916,035	118,877	1,034,912
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>916,035</u>	<u>118,877</u>	<u>1,034,912</u>
LIABILITIES			
Accounts Payable	108,174	337,922	446,096
Salaries Payable	33,530		33,530
Accrued Payroll Expenses	4,169	1,592	5,761
Due to Other Governments	4,020	58,079	62,099
Consumer Deposits		49,947	49,947
Accrued Interest Payable		1,616	1,616
Prepaid Rent		823	823
Unearned Revenue	20,603	4,909	25,512
Noncurrent Liabilities			
Net Pension Liability	988,359	452,559	1,440,918
Due Within One Year	53,527	25,280	78,807
Due in More than One Year	147,973	2,581,377	2,729,350
TOTAL LIABILITIES	<u>1,360,355</u>	<u>3,514,104</u>	<u>4,874,459</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	1,067,793	111,346	1,179,139
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,067,793</u>	<u>111,346</u>	<u>1,179,139</u>
NET POSITION			
Net Investment in Capital Assets	43,351,990	6,058,595	49,410,585
Restricted for:			
Funded Reserves		227,783	227,783
MHFA - Residual Receipts		6,533	6,533
Economic Development	159,976		159,976
Unrestricted	913,231	6,796,239	7,709,470
TOTAL NET POSITION	<u>\$ 44,425,197</u>	<u>\$ 13,089,150</u>	<u>\$ 57,514,347</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	\$ 1,027,506	\$ 57,234	\$ 2,000	\$	\$ (968,272)	\$	\$ (968,272)
Public Safety	1,225,749	83,338	84,946		(1,057,465)		(1,057,465)
Public Works	1,084,134	23,983		8,428	(1,051,723)		(1,051,723)
Culture and Recreation	765,988	10,208	16,779		(739,001)		(739,001)
Economic Development	183,716	42,091		82,475	(59,150)		(59,150)
Airport	196,873	51,433	27,556	113,069	(4,815)		(4,815)
Total Governmental Activities	4,483,966	268,287	131,281	203,972	(3,880,426)		(3,880,426)
Business-type Activities:							
Municipal Liquor Store	1,589,840	1,830,882				241,042	241,042
Water	544,954	396,245				(148,709)	(148,709)
Electric	4,056,227	4,138,364				82,137	82,137
Sewer Service	461,385	367,633				(93,752)	(93,752)
Roseau Court Townhomes	196,317	200,538				4,221	4,221
Garbage	406,231	439,396				33,165	33,165
Total Business-type Activities	7,254,954	7,373,058				118,104	118,104
Total Government	\$ 11,738,920	\$ 7,641,345	\$ 131,281	\$ 203,972	(3,880,426)	118,104	(3,762,322)
		General Revenues:					
		Property Taxes			1,106,669	6	1,106,675
		Hotel / Motel Taxes			58,296		58,296
		Franchise Fee			35,514		35,514
		Unrestricted State Aid			692,804		692,804
		Unrestricted Investment Earnings			48,096	2,937	51,033
		Other General Revenue			943,168	15,268	958,436
		Transfers			1,203,373	(1,203,373)	
		Total General Revenues and Transfers			4,087,920	(1,185,162)	2,902,758
		Change in Net Position			207,494	(1,067,058)	(859,564)
		Net Position - January 1			44,816,915	14,156,208	58,973,123
		Prior Period Adjustment - See Note 2			(599,212)		(599,212)
		Net Position - January 1, Restated			44,217,703	14,156,208	58,373,911
		Net Position - December 31			\$ 44,425,197	\$ 13,089,150	\$ 57,514,347

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

Exhibit A-3

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 460,876	\$ 365,155	\$	\$ 183,005	\$ 1,009,036
Receivables					
Accounts	10,765	104		5,162	16,031
Tax Receivable - Delinquent	78,000				78,000
Special Assessments					
Delinquent	44,500				44,500
Noncurrent	565,000				565,000
Notes Receivable	674,521	767,747			1,442,268
Due from Other Funds	23,105	46,371			69,476
Due from Other Governments	111,088				111,088
TOTAL ASSETS	<u>\$ 1,967,855</u>	<u>\$ 1,179,377</u>	<u>\$</u>	<u>\$ 188,167</u>	<u>\$ 3,335,399</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 108,120	\$	\$	54	\$ 108,174
Salaries Payable	33,530				33,530
Accrued Compensated Absences	15,527				15,527
Unearned Revenue	20,603				20,603
Accrued Payroll Expenses	4,169				4,169
Due to Other Funds			275,603	69,476	345,079
Due to Other Governments	4,020				4,020
Total Liabilities	<u>185,969</u>	<u></u>	<u>275,603</u>	<u>69,530</u>	<u>531,102</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	78,000				78,000
Unavailable Revenue - Notes Receivable	674,521	767,747			1,442,268
Unavailable Revenue - Special Assessments	609,500				609,500
Total Deferred Inflows of Resources	<u>1,362,021</u>	<u>767,747</u>	<u></u>	<u></u>	<u>2,129,768</u>
FUND BALANCES					
Restricted for :					
Economic Development				159,976	159,976
Committed for:					
Economic Development		411,630			411,630
Birding Trail				532	532
Roseau P.D.				4,500	4,500
Unassigned	419,865		(275,603)	(46,371)	97,891
Total Fund Balances	<u>419,865</u>	<u>411,630</u>	<u>(275,603)</u>	<u>118,637</u>	<u>674,529</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,967,855</u>	<u>\$ 1,179,377</u>	<u>\$</u>	<u>\$ 188,167</u>	<u>\$ 3,335,399</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Exhibit A-4

Total fund balances - governmental funds	\$ 674,529
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	55,968,146
Less: accumulated depreciation	(12,616,156)
Deferred outflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	916,035
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Net pension liability	(988,359)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(1,067,793)
Compensated absences payable are not due and payable in the current period and, therefore, are not reported as a liability in the funds.	(185,973)
An allowance has been set up for notes receivable in the government-wide financial statements.	(405,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>2,129,768</u>
Net position - governmental activities	<u>\$ 44,425,197</u>

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit A-5

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property Taxes	\$ 1,057,071	\$	\$	\$ 52,553	\$ 1,109,624
Hotel / Motel Tax				58,296	58,296
Franchise Fee	35,514				35,514
Special Assessments	99,628				99,628
Licenses and Permits	28,023				28,023
Intergovernmental					
Federal	70,277				70,277
State	848,099			6,962	855,061
Charges for Services	176,357				176,357
Fines and Forfeitures	15,836				15,836
Interest on Investments	23,569	527			24,096
Miscellaneous	45,828	214,523	889,873	118,407	1,268,631
Total Revenues	<u>2,400,202</u>	<u>215,050</u>	<u>889,873</u>	<u>236,218</u>	<u>3,741,343</u>
EXPENDITURES					
Current					
General Government	401,470		605,432		1,006,902
Public Safety	1,059,247			4,219	1,063,466
Public Works	369,497				369,497
Culture and Recreation	431,621			14,530	446,151
Economic Development	32,644	138,814	4,061	125,424	300,943
Airport	55,267				55,267
Capital Outlay					
General Government	75,988				75,988
Public Safety	97,519				97,519
Public Works	515,666				515,666
Culture and Recreation	12,399		522,603		535,002
Economic Development				148,997	148,997
Airport	173,534				173,534
Total Expenditures	<u>3,224,852</u>	<u>138,814</u>	<u>1,132,096</u>	<u>293,170</u>	<u>4,788,932</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(824,650)</u>	<u>76,236</u>	<u>(242,223)</u>	<u>(56,952)</u>	<u>(1,047,589)</u>
OTHER FINANCING SOURCES					
Transfers In	736,071		467,302		1,203,373
Total Other Financing Sources	<u>736,071</u>		<u>467,302</u>		<u>1,203,373</u>
NET CHANGE IN FUND BALANCES	(88,579)	76,236	225,079	(56,952)	155,784
FUND BALANCE, JANUARY 1	<u>508,444</u>	<u>335,394</u>	<u>(500,682)</u>	<u>175,589</u>	<u>518,745</u>
FUND BALANCE, DECEMBER 31	<u>\$ 419,865</u>	<u>\$ 411,630</u>	<u>\$ (275,603)</u>	<u>\$ 118,637</u>	<u>\$ 674,529</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ 155,784
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	1,496,306
Depreciation expense	(1,251,264)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(127,383)
Change in net pension liability	1,278,044
Change in deferred outflows and inflows of resources related to net pension liability	(1,327,020)
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).	
Compensated absences	<u>(16,973)</u>
Change in net position - governmental activities	<u>\$ 207,494</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
ASSETS							
CURRENT ASSETS							
Cash and Investments	\$ 360,796	\$ 412,247	\$ 4,884,463	\$ 429,652	\$ 48,993	\$ 519,988	\$ 6,656,139
Accounts Receivable (Net of Allowance)	10,065	32,139	410,509	34,610	8,964	47,494	543,781
Special Assessments Receivable		600					600
Due From Other Funds			275,603				275,603
Inventory	198,436		71,587				270,023
Total Current Assets	<u>569,297</u>	<u>444,986</u>	<u>5,642,162</u>	<u>464,262</u>	<u>57,957</u>	<u>567,482</u>	<u>7,746,146</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					227,783		227,783
Restricted: Tenant Security Deposits, Cash					14,742		14,742
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Improvements Other than Buildings					103,975		103,975
Buildings	684,697				2,424,823		3,109,520
Plant and Equipment		6,876,712	2,745,749	7,093,577			16,716,038
Machinery and Equipment	290,462				49,373	369,892	709,727
Less: accumulated depreciation	(272,457)	(4,497,390)	(2,587,677)	(3,796,414)	(950,494)	(220,389)	(12,324,821)
Total Capital Assets	<u>722,702</u>	<u>2,395,572</u>	<u>219,957</u>	<u>3,416,641</u>	<u>1,702,677</u>	<u>149,503</u>	<u>8,607,052</u>
Total Noncurrent Assets	<u>722,702</u>	<u>2,395,572</u>	<u>219,957</u>	<u>3,416,641</u>	<u>1,945,202</u>	<u>149,503</u>	<u>8,849,577</u>
Total Assets	<u>1,291,999</u>	<u>2,840,558</u>	<u>5,862,119</u>	<u>3,880,903</u>	<u>2,003,159</u>	<u>716,985</u>	<u>16,595,723</u>
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	30,303	20,978	12,819	20,978		33,799	118,877
Total Deferred Outflows of Resources	<u>30,303</u>	<u>20,978</u>	<u>12,819</u>	<u>20,978</u>		<u>33,799</u>	<u>118,877</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2017

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
LIABILITIES							
CURRENT LIABILITIES							
Accounts Payable	10,408	13,190	301,195	8,793	3,950	386	337,922
Accrued Expenses	235	923		434			1,592
Due to Other Governments	16,496	588	32,199			8,796	58,079
Consumer Deposits			35,345		14,602		49,947
Interest Payable					1,616		1,616
Prepaid Rent					823		823
Unearned Revenue			4,909				4,909
Current Portion - Long Term Liabilities	1,575	3,275	2,400	3,275	10,730	4,025	25,280
Total Current Liabilities	<u>28,714</u>	<u>17,976</u>	<u>376,048</u>	<u>12,502</u>	<u>31,721</u>	<u>13,207</u>	<u>480,168</u>
NONCURRENT LIABILITIES							
Loans Payable					2,548,457		2,548,457
Compensated Absences	6,300	13,100	9,600	13,100		16,100	58,200
Net Pension Liability	115,357	79,864	48,806	79,864		128,668	452,559
Less: Current Portion of Long Term Liabilities	(1,575)	(3,275)	(2,400)	(3,275)	(10,730)	(4,025)	(25,280)
Total Noncurrent Liabilities	<u>120,082</u>	<u>89,689</u>	<u>56,006</u>	<u>89,689</u>	<u>2,537,727</u>	<u>140,743</u>	<u>3,033,936</u>
Total Liabilities	<u>148,796</u>	<u>107,665</u>	<u>432,054</u>	<u>102,191</u>	<u>2,569,448</u>	<u>153,950</u>	<u>3,514,104</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	28,382	19,650	12,006	19,650		31,658	111,346
Total Deferred Inflows of Resources	<u>28,382</u>	<u>19,650</u>	<u>12,006</u>	<u>19,650</u>		<u>31,658</u>	<u>111,346</u>
NET POSITION							
Net Investment in Capital Assets	722,702	2,395,572	219,957	3,416,641	(845,780)	149,503	6,058,595
Restricted for Funded Reserves					227,783		227,783
Restricted for MHFA - Residual Receipts					6,533		6,533
Unrestricted	422,422	338,649	5,210,921	363,399	45,175	415,673	6,796,239
Total Net Position	<u>\$ 1,145,124</u>	<u>\$ 2,734,221</u>	<u>\$ 5,430,878</u>	<u>\$ 3,780,040</u>	<u>\$ (566,289)</u>	<u>\$ 565,176</u>	<u>\$ 13,089,150</u>

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,830,882	\$	\$	\$	\$	\$	\$ 1,830,882
Cost of Sales	1,346,498						1,346,498
Gross Profit	484,384						484,384
Charges for Services		373,070	4,091,382	365,625		439,396	5,269,473
Other Services		23,175	46,982	2,008	200,538		272,703
Total Operating Revenues	484,384	396,245	4,138,364	367,633	200,538	439,396	6,026,560
OPERATING EXPENSES							
Production Expense		119,213	3,153,720				3,272,933
Distribution Expense		7,783	627,348	2,886			638,017
General Expense	234,983	125,989	229,714	189,943	113,198	373,580	1,267,407
Depreciation	8,359	291,969	45,445	268,251	65,549	32,651	712,224
Total Operating Expenses	243,342	544,954	4,056,227	461,080	178,747	406,231	5,890,581
Operating Income (Loss)	241,042	(148,709)	82,137	(93,447)	21,791	33,165	135,979
NONOPERATING REVENUE (EXPENSE)							
Property Taxes				6			6
Interest on Investments					2,937		2,937
Other Income	44	10,000				5,224	15,268
Interest Expense				(305)	(17,570)		(17,875)
Total Nonoperating Revenue (Expense)	44	10,000		(299)	(14,633)	5,224	336
Net Income (Loss) before Transfers	241,086	(138,709)	82,137	(93,746)	7,158	38,389	136,315
TRANSFERS OUT	(467,302)	(100,000)	(500,000)	(100,000)	(36,071)		(1,203,373)
Change in Net Position	(226,216)	(238,709)	(417,863)	(193,746)	(28,913)	38,389	(1,067,058)
TOTAL NET POSITION, JANUARY 1	1,371,340	2,972,930	5,848,741	3,973,786	(537,376)	526,787	14,156,208
TOTAL NET POSITION, DECEMBER 31	\$ 1,145,124	\$ 2,734,221	\$ 5,430,878	\$ 3,780,040	\$ (566,289)	\$ 565,176	\$ 13,089,150

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit A-9

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	\$ 1,825,529	\$ 409,112	\$ 4,210,938	\$ 376,767	\$ 193,480	\$ 446,712	\$ 7,462,538
Payments to Suppliers	(1,456,585)	(124,200)	(3,877,276)	(65,986)	(114,023)	(159,974)	(5,798,044)
Payments to Employees	(159,569)	(122,132)	(98,958)	(122,604)		(221,095)	(724,358)
Net Cash Provided by Operating Activities	<u>209,375</u>	<u>162,780</u>	<u>234,704</u>	<u>188,177</u>	<u>79,457</u>	<u>65,643</u>	<u>940,136</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	44	10,000		6		5,224	15,274
Transfers to Other Funds	(467,302)	(100,000)	(500,000)	(100,000)	(36,071)		(1,203,373)
Due From Other Funds			274,081				274,081
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(467,258)</u>	<u>(90,000)</u>	<u>(225,919)</u>	<u>(99,994)</u>	<u>(36,071)</u>	<u>5,224</u>	<u>(914,018)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Payment of Long-Term Debt				(31,067)	(10,135)		(41,202)
Interest on Long-Term Debt				(458)	(17,570)		(18,028)
Acquisition and Construction of Capital Assets	(651,810)	(4,000)		(4,000)	(8,100)		(667,910)
Net Cash Used by Capital and Related Financing Activities	<u>(651,810)</u>	<u>(4,000)</u>		<u>(35,525)</u>	<u>(35,805)</u>		<u>(727,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Tax and Insurance Escrow, Net - MN Housing					1,788		1,788
Deposits into Reserve Accounts - MN Housing					(16,795)		(16,795)
Withdrawals from Reserves - MN Housing					4,292		4,292
Interest Earnings					71		71
Net Cash Used by Investing Activities					<u>(10,644)</u>		<u>(10,644)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(909,693)	68,780	8,785	52,658	(3,063)	70,867	(711,666)
CASH AND CASH EQUIVALENTS, JANUARY 1	1,270,489	343,467	4,875,678	376,994	66,798	449,121	7,382,547
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 360,796	\$ 412,247	\$ 4,884,463	\$ 429,652	\$ 63,735	\$ 519,988	\$ 6,670,881

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit A-9

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating Income (Loss)	\$ 241,042	\$ (148,709)	\$ 82,137	\$ (93,447)	\$ 21,791	\$ 33,165	\$ 135,979
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	8,359	291,969	45,445	268,251	65,549	32,651	712,224
Bad Debt Expense					1,420		1,420
Change in:							
Accounts Receivable	(5,353)	12,868	73,737	9,134	(8,344)	7,316	89,358
Inventory	(39,172)		64,983				25,811
Deferred Outflows	33,699	23,330	14,258	23,330		37,588	132,205
Accounts Payable	6,600	8,997	(31,757)	6,535	(974)	(8,720)	(19,319)
Prepaid Rent					70		70
Due to Other Governments	(495)	(49)	247			(148)	(445)
Other Current Liabilities			1,800		(55)		1,745
Unearned Revenue			(1,163)				(1,163)
Compensated Absences	(3,200)	(3,400)	(1,400)	(3,400)		(400)	(11,800)
Net Pension Liability	(38,751)	(26,827)	(16,394)	(26,827)		(43,222)	(152,021)
Deferred Inflows	6,646	4,601	2,811	4,601		7,413	26,072
Total Adjustments	<u>(31,667)</u>	<u>311,489</u>	<u>152,567</u>	<u>281,624</u>	<u>57,666</u>	<u>32,478</u>	<u>804,157</u>
Net Cash Provided by Operating Activities	<u>\$ 209,375</u>	<u>\$ 162,780</u>	<u>\$ 234,704</u>	<u>\$ 188,177</u>	<u>\$ 79,457</u>	<u>\$ 65,643</u>	<u>\$ 940,136</u>

See Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification). The City's significant accounting policies are described below.

A. Financial Reporting Entity

For financial reporting purposes, the City of Roseau's primary government includes all funds, elected officials, departments, boards, commissions, and authorities that make up the City's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or is fiscally dependent upon by the potential component unit.

Based on these criteria, there is one organization considered to be a component unit of the City.

BLENDED COMPONENT UNIT – Economic Development Authority

The Authority's governing board is appointed by the government's governing body.

Complete financial statements for the individual component unit may be obtained at the City's administrative office.

Economic Development Authority
121 Center Street East, Suite 202
Roseau, Minnesota 56751

DISCRETELY PRESENTED COMPONENT UNITS – None.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants which 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*.

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

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds:

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

The *community and economic development fund* accounts, primarily, for monies loaned at low interest rates to individuals or businesses, specifically for the purpose of economic development.

The *capital projects fund* accounts for financial resources to be used for acquisition or construction of major capital facilities.

The government reports the following major proprietary funds:

The *municipal liquor store fund* is used to account for revenues and expenses to operate the municipal liquor store.

The *water fund* is used to account for revenues and expenses to operate the water utility.

The *electric fund* is used to account for revenues and expenses to operate the electric utilities.

The *sewer service fund* is used to account for revenues and expenses to operate the sewer facility.

The *Roseau Court Townhome fund* is used to account for revenues and expenses to operate the townhomes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

D. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund and the special revenue funds. All annual appropriations lapse at fiscal year end.

E. Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments.

The City considers cash equivalents to be certificates of deposits, money market funds, and other highly liquid investments with original maturities of three months or less. They are carried at cost.

F. Accounts Receivable

Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable was \$10,000. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 11 days. A late fee is charged on receivables that are outstanding for more than 11 days, and the late charge is 10%.

G. Property Taxes

Property tax levies are set by the city council in December each year and are certified to the county for collection the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: personal property - February 28 and June 30; and real property - May 15 and October 15. The county remits the collections to the City and other taxing districts three times a year, in April, July, and December.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. The receivable is fully offset by deferred revenue as it is not available to finance current expenditures.

H. Special Assessments Receivable

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with Minnesota Statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue.

Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

Noncurrent - assessment installments that will be billed to property owners in future years.

Special assessments receivables not expected to be collected within one year are \$505,000.

I. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

J. Inventories

The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in proprietary funds when used. Proprietary fund inventories for the electric fund and the municipal liquor store fund are presented at lower of cost or market.

K. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The government reports infrastructure assets on a network basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. General infrastructure assets acquired prior to January 1, 2004, are not reported in the basic financial statements.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred. In the case of donations, the government values these capital assets at the acquisition value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Buildings	40 years
Improvements other than Buildings	20-30 years
Machinery and Equipment	5-20 years
Plant and Equipment	5-60 years

L. Sales Tax

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

M. Compensated Absences

Vacation leave is recognized as an expenditure or expense when earned. Full-time City employees are granted from 7 to 28 days of vacation per year depending upon their years of service. Vacation that is earned as of December 31, 2017, and is expected to be taken by December 31, 2018, is considered a current liability and is accrued in the December 31, 2017 financial statements. Unused vacation leave can be accrued up to twice the employees annual earned vacation amount and can be carried over to the succeeding year, however once the maximum is reached, no vacation time will accrue until vacation time is used. No more than the maximum can ever be accrued.

Compensatory time is earned by full-time City employees working hours in excess of their regularly scheduled shift or a forty-hour week. Compensatory time is accrued as a current liability as it is to be used within one year.

All full-time City employees earn sick leave at the rate of one day per month to a maximum of 120 days.

Any full-time employee who has rendered at least five years of service and is in good standing is entitled upon retirement or termination, a portion of their accumulated sick leave balance. Due to the uncertainty as to when employees will terminate or retire, and payment of sick leave benefits will be required, the liability is considered to be long-term.

N. Unearned Revenue

The City reports a liability in connection with resources that have been received, but not yet earned.

O. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

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

P. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA 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.

PERA has a special funding situation created by direct aid contributions of \$6,000,000 and \$9,000,000 made by the State of Minnesota to the general employees fund and the police and fire fund, respectively, in 2017.

Q. 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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, special assessments and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item that qualifies for reporting in this category is named *Cost Sharing Defined Benefit Pension Plan*, which represents actuarial differences within PERA pension plans.

R. Fund Equity

The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

Nonspendable - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

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

Committed - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council delegates the power to assign fund balances to the City Clerk.

Unassigned – consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The City will strive to maintain an unrestricted general fund balance of 35% of next year's expenditures.

S. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital asset, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

T. 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 and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2. PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2017, a closeout of the East Diversion Flood Project was completed and project costs were less than originally requested by the Army Corp. This resulted in the project costs capitalized by the City in previous years being overstated by \$599,212.

NOTE 3. DEFICIT FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2017, is as follows:

EDA Building Fund	\$ 46,371
Capital Projects Fund	275,603
Roseau Court Townhomes	566,289

The deficit of the Capital Projects Fund is expected to be eliminated through receipt of donations or a transfer from another fund. The deficit of the Roseau Court Townhomes is expected to be eliminated upon the forgiveness of \$2,246,824 of mortgage payable in 2023. The deficit in the EDA building fund is expected to be eliminated through future rent payments.

NOTE 4. DEPOSITS AND INVESTMENTS

The City maintains a cash account at its depository bank. The City considers certificates of deposit to be cash.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The City may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers’ acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

As of December 31, 2017, the City held no investments.

Custodial Credit Risk – Deposits – The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2017, the City was not exposed to custodial credit risk.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5. NOTES RECEIVABLE

At December 31, 2017, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$1,442,268. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$405,000.

NOTE 6. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,146,876	\$ 11,192,138	\$	\$ 12,339,014
Construction In Process	15,988,989	183,544	15,678,062	494,471
Total Capital Assets, Not Being Depreciated	<u>17,135,865</u>	<u>11,375,682</u>	<u>15,678,062</u>	<u>12,833,485</u>
Capital Assets, Being Depreciated:				
Buildings	13,608,733	148,997		13,757,730
Improvements Other Than Buildings	21,797,311	4,831,551		26,628,862
Machinery and Equipment	2,529,143	218,926		2,748,069
Total Capital Assets, Being Depreciated	<u>37,935,187</u>	<u>5,199,474</u>		<u>43,134,661</u>
Less: Accumulated Depreciation For:				
Buildings	3,473,241	341,891		3,815,132
Improvements Other Than Buildings	6,259,940	753,202		7,013,142
Machinery and Equipment	1,631,711	156,171		1,787,882
Total Accumulated Depreciation	<u>11,364,892</u>	<u>1,251,264</u>		<u>12,616,156</u>
Total Capital Assets, Being Depreciated, Net	<u>26,570,295</u>	<u>3,948,210</u>		<u>30,518,505</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,706,160</u>	<u>\$ 15,323,892</u>	<u>\$ 15,678,062</u>	<u>\$ 43,351,990</u>

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 292,613	\$	\$	\$ 292,613
Construction In Process	32,888		32,888	
Total Capital Assets, Not Being Depreciated	<u>325,501</u>		<u>32,888</u>	<u>292,613</u>
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	95,875	8,100		103,975
Buildings	2,424,823	684,697		3,109,520
Plant and Equipment	16,708,038	8,000		16,716,038
Machinery and Equipment	709,727			709,727
Total Capital Assets, Being Depreciated	<u>19,938,463</u>	<u>700,797</u>		<u>20,639,260</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	55,083	1,141		56,224
Buildings	780,490	65,549		846,039
Plant and Equipment	10,275,815	605,666		10,881,481
Machinery and Equipment	501,209	39,868		541,077
Total Accumulated Depreciation	<u>11,612,597</u>	<u>712,224</u>		<u>12,324,821</u>
Total Capital Assets, Being Depreciated, Net	<u>8,325,866</u>	<u>(11,427)</u>		<u>8,314,439</u>
Business-type Activities Capital Assets, Net	<u>\$ 8,651,367</u>	<u>\$ (11,427)</u>	<u>\$ 32,888</u>	<u>\$ 8,607,052</u>

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

Governmental Activities:	
General Government	\$ 37,013
Public Safety	91,080
Public Works, including depreciation of general infrastructure assets	702,808
Culture and Recreation	317,841
Economic Development	8,108
Airport	94,414
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,251,264</u>
Business-type Activities:	
Municipal Liquor Store	\$ 8,359
Water	291,969
Electric	45,445
Sewer Service	268,251
Roseau Court Townhomes	65,549
Garbage Collections	32,651
Total Depreciation Expense - Business-type Activities	<u>\$ 712,224</u>

NOTE 7. CONTINGENT LIABILITIES

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2017, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8. DEFINED BENEFIT PENSION PLANS

The financial statements of the City of Roseau have been prepared in accordance with accounting principles generally accepted in the United States of America as described in Note 1. This note disclosure includes the proportionate share of the net pension liability, deferred inflows of resources, and deferred outflows of resources for both governmental and proprietary funds.

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

General Employees Retirement 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.

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.

Police and Fire Plan Benefits

Benefits for 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 members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

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

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$68,877. 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 2017. The City was required to contribute 16.20% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$67,828. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2017, the City reported a liability of \$887,369 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 \$6,000,000 to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$11,136. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0139% which was a decrease of 0.0007% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$94,348 for its proportionate share of General Employee Plan's pension expense. In addition, the City recognized an additional \$322 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 29,244	\$ 60,223
Difference between projected and actual investment earnings	14,343	
Changes in actuarial assumptions	154,743	88,961
Changes in proportion		69,144
Contributions paid to PERA subsequent to the measurement date	34,767	
Total	<u>\$ 233,097</u>	<u>\$ 218,328</u>

\$34,767 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 376
2019	42,714
2020	(25,421)
2021	(37,667)

At December 31, 2017, the City reported a liability of \$553,549 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.0410% which was a decrease of 0.0010% from its proportion measured as of June 30, 2016. The City also recognized \$3,690 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the City recognized a pension expense of \$137,408 for its proportionate share of Police and Fire Plan's pension expense.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 12,740	\$ 152,700
Difference between projected and actual investment earnings	13,063	
Changes in actuarial assumptions	742,098	785,900
Changes in proportion		22,211
Contributions paid to PERA subsequent to the measurement date	33,914	
Total	<u>\$ 801,815</u>	<u>\$ 960,811</u>

\$33,914 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 ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 10,022
2019	10,021
2020	(11,261)
2021	(44,133)
2022	(157,559)

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Actuarial Assumptions – The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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:

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	City Proportionate Share of NPL		
	1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
General Employees Plan	\$ 1,376,372	\$ 887,369	\$ 487,027
Police and Fire Fund	1,042,494	553,549	149,898

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

NOTE 9. LONG-TERM DEBT

Loans Payable. The City has entered into various loan agreements.

The City has the following loans:

<u>Business-type Activities</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
MN Housing Finance Agency	5.72%	2018/35	\$ 301,633
MN Housing Finance Agency (*)		2023	2,246,824
			<u>\$ 2,548,457</u>

* The debt service requirements to maturity are not disclosed because the loan will be forgiven after 20 years. There are no interest or principal payments due on an annual basis.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2018	\$ 10,730	\$ 16,975
2019	11,360	16,345
2020	12,028	15,678
2021	12,734	14,971
2022	13,482	14,224
2023-2027	80,256	58,271
2028-2032	106,755	31,772
2033-2035	54,288	3,432
	<u>\$ 301,633</u>	<u>\$ 171,668</u>

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Compensated Absences Governmental Activity	\$ 169,000	\$ 121,200	\$ 88,700	\$ 201,500	\$ 53,527
Long-term Liabilities	<u>\$ 169,000</u>	<u>\$ 121,200</u>	<u>\$ 88,700</u>	<u>\$ 201,500</u>	<u>\$ 53,527</u>
<u>Business-type Activities</u>					
Bonds Payable					
General Obligation Bonds	\$ 31,066	\$	\$ 31,066	\$	\$
Other Long-term Obligations					
Loans Payable	2,558,592		10,135	2,548,457	10,730
Compensated Absences	70,000	34,800	46,600	58,200	14,550
Business-type Activity					
Long-term Liabilities	<u>\$ 2,659,658</u>	<u>\$ 34,800</u>	<u>\$ 87,801</u>	<u>\$ 2,606,657</u>	<u>\$ 25,280</u>

In the governmental activities, compensated absences are generally liquidated by the general fund.

NOTE 10. CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued Senior Housing Revenue Bonds Series 2006 to provide financial assistance to a nonprofit corporation for the construction of an existing facility deemed to be in the public interest. The bonds are secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. The original issue amount totaled \$2,645,000. In 2015, the issue was refinanced to \$3,529,681.

As of December 31, 2017, the aggregate principal amount payable of the Series 2006 was \$2,478,220.

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a corporation for the construction of a facility deemed to be in the public interest. This Bond is secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

As of December 31, 2017, the aggregate principal amount payable of the one series issued was \$1,504,970.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2017, is as follows:

Due from / to other funds:

Receivable	Payable	Amount
Electric	Capital Projects	\$ 275,603
EDA	Nonmajor Governmental	46,371
General	Nonmajor Governmental	23,105
		<u>\$ 345,079</u>

The amounts payable are to cover cash deficits on December 31, 2017.

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Electric	\$ 500,000
General	Sewer	100,000
General	Water	100,000
General	Roseau Court Townhomes	36,071
2003 Flood Planning	Municipal Liquor Store	467,302
		<u>\$ 1,203,373</u>

Transfers are used to move unrestricted revenues to finance various programs that the governmental must account for in other funds.

NOTE 12. DEFERRED COMPENSATION PLAN AND TRUST

The City of Roseau offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employees. Accordingly, the plan/trust assets have been excluded from the City's reported assets.

NOTE 13. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters. The City participates with other cities in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its liability, property, automobile, and workers' compensation coverage.

The City's Municipal Liability policy is on a claims-made basis with an each occurrence deductible of \$500 and provides the annual Minnesota Statutory limit, up to a limit of \$2,000,000 per occurrence in liability coverage. For the year ended December 31, 2017, premiums for Municipal Liability totaled \$10,423 for General Liability and \$20,243 for Errors and Omissions, Property and Inland Marine premiums totaled \$45,541, Automobile premiums totaled \$10,015, and Liquor Liability premiums totaled \$2,177. The City also carries a Municipal Excess Liability policy in the amount of \$1,000,000. The premium for this coverage for the year ended December 31, 2017 totaled \$7,691.

The City also provides a blanket dishonesty policy that includes a faithful performance bond on all employees up to \$250,000. There has been no significant reduction in insurance coverage from the year 2016.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

The City may receive a dividend each year from the League of Minnesota Cities Insurance Trust. There was no dividend received for Workers' Compensation in 2017, however the Property and Casualty dividend received was \$14,242. The City has elected to participate in the Trust's premium refund option whereby a share of excess surplus funds, if any, are returned to the City according to the City's loss experience.

Total liability claims paid in 2017 and 2016 were \$11,621 and \$13,894, respectively. There was \$2,920 paid under Errors and Omissions claims for the year 2016 and \$2,183 paid in 2017. Settled claims have not exceeded the commercial coverage limit in any of the past three fiscal years. There were no significant reductions in the City's insurance coverage from the year 2016.

The City also participates in the LMCIT for its worker's compensation insurance program that is administered by a third party, Berkley Risk Administrators. The premium for the worker's compensation for the year ending December 31, 2017, was \$62,851 and \$0 for the Volunteer Accident Plan, as was provided at no charge in 2017. Total liability claims for workers' compensation paid in 2017 and 2016 were \$1,344 and \$12,461, respectively.

NOTE 14. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 19% of the water utility billings.

NOTE 15. COMMITTED CONTRACTS

On January 8th, 2018, the City entered in to a lease with option to purchase agreement for a fire pumper truck for \$452,646 less a \$50,000 down payment.

NOTE 16. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Roseau Court Townhomes' sole asset is a 24-unit townhome project. Roseau Court Townhomes' operations are concentrated in the multifamily real estate market. In addition, Roseau Court Townhomes operates in a heavily regulated environment. The operations of Roseau Court Townhomes are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, MHFA. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by MHFA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE 17. NEW PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on the City's financial statements.

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,049,242	\$ 1,057,071	\$ 7,829
Franchise Fee	45,000	35,514	(9,486)
Special Assessments	80,000	99,628	19,628
Licenses and Permits	33,100	28,023	(5,077)
Intergovernmental			
Federal	285,000	70,277	(214,723)
State			
Local Government Aid	664,213	687,880	23,667
Market Value Credit		104	104
Police Aid	50,000	44,212	(5,788)
Fire Aid	40,000	40,734	734
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	35,876	70,349	34,473
Other State Grants	116,000		(116,000)
	<u>1,195,909</u>	<u>918,376</u>	<u>(277,533)</u>
Charges for Services			
General Government	55,485	34,246	(21,239)
Public Safety	59,423	67,502	8,079
Culture and Recreation	56,000	61,779	5,779
Airport	13,000	12,830	(170)
	<u>183,908</u>	<u>176,357</u>	<u>(7,551)</u>
Fines and Forfeitures	16,750	15,836	(914)
Miscellaneous			
Interest on Investments	16,000	23,569	7,569
Contributions	5,000	2,000	(3,000)
Property Sales	1,000		(1,000)
Reimbursements	50,000	42,547	(7,453)
Other Receipts	22,000	1,281	(20,719)
	<u>94,000</u>	<u>69,397</u>	<u>(24,603)</u>
Total Revenues	<u>2,697,909</u>	<u>2,400,202</u>	<u>(297,707)</u>
EXPENDITURES			
General Government			
Mayor and Council	35,221	32,469	2,752
Finance / Administration	88,038	73,678	14,360
Independent Auditors	12,000	11,707	293
Assessor	15,000	14,318	682
Legal Services	64,822	69,564	(4,742)
Planning, Zoning, Economic Development	125,490	120,323	5,167
Municipal Building	67,602	41,421	26,181
Miscellaneous	47,600	37,990	9,610
Capital Outlay		75,988	(75,988)
	<u>455,773</u>	<u>477,458</u>	<u>(21,685)</u>
			cont.

See Notes to the Required Supplementary Information

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND - Continued
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	774,838	745,765	29,073
Fire	205,159	158,701	46,458
Building Inspector	106,935	147,397	(40,462)
Emergency Services	9,450	7,384	2,066
Capital Outlay	48,000	97,519	(49,519)
	<u>1,144,382</u>	<u>1,156,766</u>	<u>(12,384)</u>
Public Works			
Streets and Highways	324,595	309,056	15,539
Snow and Ice Removal	34,025	30,731	3,294
Street Lighting and Signals	43,860	29,710	14,150
Capital Outlay	620,000	515,666	104,334
	<u>1,022,480</u>	<u>885,163</u>	<u>137,317</u>
Culture and Recreation			
Library and Museum	102,510	89,737	12,773
Parks and Recreation	398,211	341,884	56,327
Capital Outlay - Parks and Recreation	189,000	12,399	176,601
	<u>689,721</u>	<u>444,020</u>	<u>245,701</u>
Economic Development			
Current Expenditures	30,949	32,644	(1,695)
	<u>30,949</u>	<u>32,644</u>	<u>(1,695)</u>
Airport			
Current Expenditures	58,090	55,267	2,823
Capital Outlay	370,000	173,534	196,466
	<u>428,090</u>	<u>228,801</u>	<u>199,289</u>
Total Expenditures	<u>3,771,395</u>	<u>3,224,852</u>	<u>546,543</u>
REVENUES UNDER EXPENDITURES	<u>(1,073,486)</u>	<u>(824,650)</u>	<u>248,836</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	736,071	700,071
Transfers Out	(7,500)		7,500
Total Other Financing Sources (Uses)	<u>28,500</u>	<u>736,071</u>	<u>707,571</u>
NET CHANGE IN FUND BALANCE	<u>(1,044,986)</u>	<u>(88,579)</u>	<u>956,407</u>
FUND BALANCE, JANUARY 1	<u>508,444</u>	<u>508,444</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (536,542)</u>	<u>\$ 419,865</u>	<u>\$ 956,407</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 YEARS**

	<u>Fiscal Year Ended 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>
General Employees Plan	2015	\$ 65,772	\$ 65,772	\$	\$ 876,961	7.50 %
	2016	68,194	68,194		909,571	7.50
	2017	68,877	68,877		918,263	7.50
Police and Fire Fund	2015	\$ 65,215	\$ 65,215	\$	\$ 402,563	16.20 %
	2016	67,860	67,860		418,888	16.20
	2017	67,828	67,828		418,694	16.20

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior year is not available.

See Notes to the Required Supplementary Information

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered-Employee Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Plan	2015	0.0149 %	\$ 772,196	\$	\$ 772,196	\$ 879,546	87.79 %	78.19 %
	2016	0.0146	1,185,448	15,492	1,200,940	893,266	134.44	68.90
	2017	0.0139	887,369	11,136	898,505	913,917	98.31	75.90
Police and Fire Fund	2015	0.0430 %	\$ 488,581	\$	\$ 488,581	\$ 398,812	122.51 %	86.61 %
	2016	0.0420	1,685,533		1,685,533	410,725	410.38	63.90
	2017	0.0410	553,549		553,549	418,791	132.18	85.40

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

The City implemented GASB Statement No. 68 for its fiscal year ended December 31, 2015. Information for the prior year is not available.

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

NOTE 1. LEGAL COMPLIANCE-BUDGETS

The City is required by state statutes to adopt an annual budget for its general fund. There is no legal restriction on expenditures in excess of appropriations.

Annual budgets are adopted for the general and the special revenue funds. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Formal budgetary policies are not employed for debt service funds and capital projects funds because effective budgetary control is alternatively achieved by bond requirements or by council approval of individual projects and expenditures. The board did not adopt a budget for the community and economic development fund.

Appropriations are authorized by the city council at the function and activity level within an individual fund, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. The city clerk may transfer budgeted amounts between line items. All unexpended appropriations lapse at year-end. Encumbrances outstanding at year-end expire and are not reported in the financial statements. Any changes in the total budget of each fund must be approved by a majority vote of the city council. No material supplemental appropriations were made during 2017.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The community and economic development fund had \$138,814 of expenditures in excess of budget for the year ended December 31, 2017. No remedial action is required for this expense.

NOTE 3. DEFINED BENEFIT PLANS

PERA

General Employees Fund

Changes in Actuarial Assumptions: The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Police and Fire Fund

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017

Exhibit B-1

	Special Revenue					Total Nonmajor Governmental Funds Exhibit A-3
	Lodging Tax	T.I.F.	EDA Building	Pine To Prairie Birding Trail	Roseau P.D.	
ASSETS						
Cash and Investments	\$ 101,572	\$ 76,379	\$	\$ 554	\$ 4,500	\$ 183,005
Accounts Receivable	5,162					5,162
TOTAL ASSETS	<u>\$ 106,734</u>	<u>\$ 76,379</u>	<u>\$</u>	<u>\$ 554</u>	<u>\$ 4,500</u>	<u>\$ 188,167</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 32	\$	\$	\$ 22	\$	\$ 54
Due to Other Funds		23,105	46,371			69,476
Total Liabilities	<u>32</u>	<u>23,105</u>	<u>46,371</u>	<u>22</u>		<u>69,530</u>
Fund Balances						
Restricted for						
Economic Development	106,702	53,274				159,976
Committed for Birding Trail				532		532
Committed for Public Safety					4,500	4,500
Unassigned			(46,371)			(46,371)
Total Fund Balances	<u>106,702</u>	<u>53,274</u>	<u>(46,371)</u>	<u>532</u>	<u>4,500</u>	<u>118,637</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 106,734</u>	<u>\$ 76,379</u>	<u>\$</u>	<u>\$ 554</u>	<u>\$ 4,500</u>	<u>\$ 188,167</u>

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

Exhibit B-2

	Special Revenue					Total Nonmajor Governmental Funds Exhibit A-5
	Lodging Tax	T.I.F.	EDA Building	Pine To Prairie Birding Trail	Roseau P.D.	
REVENUES						
Property Taxes	\$	\$ 52,553	\$	\$	\$	\$ 52,553
Hotel / Motel Tax	58,296					58,296
Intergovernmental - State	6,962					6,962
Miscellaneous						
Contributions				10,317	5,000	15,317
Rents			102,999			102,999
Miscellaneous				91		91
Total Revenues	<u>65,258</u>	<u>52,553</u>	<u>102,999</u>	<u>10,408</u>	<u>5,000</u>	<u>236,218</u>
EXPENDITURES						
Current						
Police					4,219	4,219
Culture and Recreation				14,530		14,530
Economic Development	75,401	49,650	373			125,424
Capital Outlay						
Economic Development			148,997			148,997
Total Expenditures	<u>75,401</u>	<u>49,650</u>	<u>149,370</u>	<u>14,530</u>	<u>4,219</u>	<u>293,170</u>
NET CHANGE IN FUND BALANCES	(10,143)	2,903	(46,371)	(4,122)	781	(56,952)
FUND BALANCE, JANUARY 1	<u>116,845</u>	<u>50,371</u>		<u>4,654</u>	<u>3,719</u>	<u>175,589</u>
FUND BALANCE, DECEMBER 31	<u>\$ 106,702</u>	<u>\$ 53,274</u>	<u>\$ (46,371)</u>	<u>\$ 532</u>	<u>\$ 4,500</u>	<u>\$ 118,637</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Ending Balance</u>
Governmental Funds						
General	\$ 508,444	\$ 2,400,202	\$ 3,224,852	\$ 736,071	\$	\$ 419,865
Special Revenue						
Community and Economic Development	335,394	215,050	138,814			411,630
Lodging Tax	116,845	65,258	75,401			106,702
T.I.F.	50,371	52,553	49,650			53,274
EDA Building		102,999	149,370			(46,371)
Pine To Prairie Birding Trail	4,654	10,408	14,530			532
Roseau PD	3,719	5,000	4,219			4,500
Capital Projects	(500,682)	889,873	1,132,096	467,302		(275,603)
Total Governmental Funds	<u>518,745</u>	<u>3,741,343</u>	<u>4,788,932</u>	<u>1,203,373</u>		<u>674,529</u>
Proprietary Funds						
Municipal Liquor Store	1,371,340	1,830,926	1,589,840		467,302	1,145,124
Water	2,972,930	406,245	544,954		100,000	2,734,221
Electric	5,848,741	4,138,364	4,056,227		500,000	5,430,878
Sewer Service	3,973,786	367,639	461,385		100,000	3,780,040
Roseau Court Townhomes	(537,376)	203,475	196,317		36,071	(566,289)
Garbage Collection	526,787	444,620	406,231			565,176
Total Proprietary Funds	<u>14,156,208</u>	<u>7,391,269</u>	<u>7,254,954</u>		<u>1,203,373</u>	<u>13,089,150</u>
Total Primary Government	<u>\$ 14,674,953</u>	<u>\$ 11,132,612</u>	<u>\$ 12,043,886</u>	<u>\$ 1,203,373</u>	<u>\$ 1,203,373</u>	<u>\$ 13,763,679</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2017**

BOND INDEBTEDNESS	Interest Rate	Date of Issue	Maturity Date	Amount of Issue	Balance 12/31/2016	Issued 2017	Retired 2017	Balance 12/31/2017	Principal 2018	Interest 2018
General Obligation Bonds										
1996 PFA		11/1/1995		950,000	\$ 31,068	\$	\$ 31,068	\$	\$	\$
Total Bonds					<u>31,068</u>		<u>31,068</u>			
Loans										
MHFA Flood EDHC Loan	0.0%	8/13/2003	8/13/2023	1,246,824	1,246,824			1,246,824		
MHFA - POPR Loan	0.0%	8/13/2003	8/13/2023	1,000,000	1,000,000			1,000,000		
Mortgage Note	5.72%	8/1/2004	7/1/2035	396,923	311,768		10,135	301,633	10,730	16,975
Total					<u>2,558,592</u>		<u>10,135</u>	<u>2,548,457</u>	<u>10,730</u>	<u>16,975</u>
Total Indebtedness					\$ <u>2,589,660</u>	\$	\$ <u>41,203</u>	\$ <u>2,548,457</u>	\$ <u>10,730</u>	\$ <u>16,975</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2018. The governmental activities has a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

Legal Compliance

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

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

Purpose of the Report

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

A handwritten signature in black ink that reads "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

March 29, 2018

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2018. The governmental activities had a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Finding

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

Purpose of the Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

March 29, 2018

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2017**

2017-001 FINDING

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare the full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2017, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

Cause

The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The City's management is aware of the deficiency and addresses it by reviewing and approving the adjusting entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

2017-001 FINDING

Contact Person – Todd Peterson, Community Development Coordinator

Corrective Action Plan - Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date - Ongoing