

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2018**

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

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, 2018, 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, 2018, 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, 2018, 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, schedule of City’s share of net pension liability, and notes to the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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, schedule of changes in fund balances and net position, and schedule of indebtedness 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 25, 2019, 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, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's 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 25, 2019

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**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$57,521,205 (net position). Of this amount, \$8,268,917 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 \$290,194 or 8% 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, 2018**

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 \$57,521,205 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 2,627,127	\$ 2,585,320	\$ 8,461,493	\$ 7,988,671	\$ 11,088,620	\$ 10,573,991
Capital Assets	43,652,979	43,351,990	7,923,854	8,607,052	51,576,833	51,959,042
Total Assets	<u>46,280,106</u>	<u>45,937,310</u>	<u>16,385,347</u>	<u>16,595,723</u>	<u>62,665,453</u>	<u>62,533,033</u>
Deferred Outflows of Resources	<u>674,161</u>	<u>916,035</u>	<u>67,644</u>	<u>118,877</u>	<u>741,805</u>	<u>1,034,912</u>
Long-term Liabilities	1,215,784	1,189,859	2,997,040	3,059,216	4,212,824	4,249,075
Other Liabilities	171,080	170,496	424,014	454,888	595,094	625,384
Total Liabilities	<u>1,386,864</u>	<u>1,360,355</u>	<u>3,421,054</u>	<u>3,514,104</u>	<u>4,807,918</u>	<u>4,874,459</u>
Deferred Inflows of Resources	<u>967,313</u>	<u>1,067,793</u>	<u>110,822</u>	<u>111,346</u>	<u>1,078,135</u>	<u>1,179,139</u>
Net Position						
Net Investment in						
Capital Assets	43,432,215	43,351,990	5,386,127	6,058,595	48,818,342	49,410,585
Restricted	155,801	159,976	278,145	234,316	433,946	394,292
Unrestricted	1,012,074	913,231	7,256,843	6,796,239	8,268,917	7,709,470
Total Net Position	<u>\$ 44,600,090</u>	<u>\$ 44,425,197</u>	<u>\$ 12,921,115</u>	<u>\$ 13,089,150</u>	<u>\$ 57,521,205</u>	<u>\$ 57,514,347</u>

A portion of the City's net position (85%) 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, 2018**

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	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues						
Charges for Services	\$ 257,238	\$ 268,287	\$ 7,486,100	\$ 7,373,058	\$ 7,743,338	\$ 7,641,345
Operating Grants and Contributions	251,101	131,281			251,101	131,281
Capital Grants and Contributions	640,497	203,972			640,497	203,972
General Revenues						
Taxes	1,217,658	1,200,479	6	6	1,217,664	1,200,485
Unrestricted State Aid	712,234	692,804			712,234	692,804
Unrestricted Investment Earnings	51,455	48,096	4,653	2,937	56,108	51,033
Sale of Capital Asset	76,800				76,800	
Other General Revenue	218,497	943,168	20,219	15,268	238,716	958,436
Total Revenues	<u>3,425,480</u>	<u>3,488,087</u>	<u>7,510,978</u>	<u>7,391,269</u>	<u>10,936,458</u>	<u>10,879,356</u>
Expenses						
General Government	472,553	1,027,506			472,553	1,027,506
Public Safety	1,055,431	1,225,749			1,055,431	1,225,749
Public Works	1,179,615	1,084,134			1,179,615	1,084,134
Culture and Recreation	903,028	765,988			903,028	765,988
Economic Development	286,275	183,716			286,275	183,716
Airport	186,875	196,873			186,875	196,873
Interest on Long-term Debt	2,881				2,881	
Municipal Liquor Store			1,616,887	1,589,840	1,616,887	1,589,840
Water			491,066	544,954	491,066	544,954
Electric			3,673,137	4,056,227	3,673,137	4,056,227
Sewer Service			446,845	461,385	446,845	461,385
Roseau Court Townhomes			192,923	196,317	192,923	196,317
Garbage			422,084	406,231	422,084	406,231
Total Expenses	<u>4,086,658</u>	<u>4,483,966</u>	<u>6,842,942</u>	<u>7,254,954</u>	<u>10,929,600</u>	<u>11,738,920</u>
Change in Net Position Before Transfers	(661,178)	(995,879)	668,036	136,315	6,858	(859,564)
Transfers	836,071	1,203,373	(836,071)	(1,203,373)		
Change in Net Position	174,893	207,494	(168,035)	(1,067,058)	6,858	(859,564)
Net Position - January 1, Restated	44,425,197	44,217,703	13,089,150	14,156,208	57,514,347	58,373,911
Net Position - December 31	<u>\$ 44,600,090</u>	<u>\$ 44,425,197</u>	<u>\$ 12,921,115</u>	<u>\$ 13,089,150</u>	<u>\$ 57,521,205</u>	<u>\$ 57,514,347</u>

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Governmental Activities. The change in net position before transfers was a decrease of \$661,178. The governmental activities received \$836,071 from the business-type activities during 2018, resulting in an increase in net position of \$174,893.

Business-type Activities. The change in net position before transfers was an increase \$668,036. The business-type activities transferred \$836,071 to the governmental activities, resulting in a decrease in net position of \$168,035.

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)
	12/31/2018	12/31/2017		
Governmental Funds				
General	\$ 290,194	\$ 419,865	\$ (129,671)	-31%
Community and Economic Development	445,358	411,630	33,728	8%
Capital Projects	(123,168)	(275,603)	152,435	55%
Proprietary Funds				
Municipal Liquor Store	1,242,020	1,145,124	96,896	8%
Water	2,529,374	2,734,221	(204,847)	-7%
Electric	5,534,362	5,430,878	103,484	2%
Sewer Service	3,593,248	3,780,040	(186,792)	-5%
Roseau Court Townhomes	(583,221)	(566,289)	(16,932)	-3%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues under the budgeted amounts of \$394,136 and expended \$647,770 less than the budget. The majority of the difference in revenues and expenses pertains to the airport projects.

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, 2018, amounts to \$51,576,833 (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, 2018**

Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Land	\$ 12,339,014	\$ 12,339,014	\$ 292,613	\$ 292,613	\$ 12,631,627	\$ 12,631,627
Construction in Process	1,014,149	494,471			1,014,149	494,471
Buildings	9,599,465	9,942,598	2,189,165	2,263,481	11,788,630	12,206,079
Improvements Other Than Buildings	19,351,055	19,615,720	42,553	47,751	19,393,608	19,663,471
Plant and Equipment			5,269,901	5,834,557	5,269,901	5,834,557
Machinery and Equipment	1,349,296	960,187	129,622	168,650	1,478,918	1,128,837
Total	\$ 43,652,979	\$ 43,351,990	\$ 7,923,854	\$ 8,607,052	\$ 51,576,833	\$ 51,959,042

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-term Debt. At the end of the current fiscal year, the City had \$2,758,491 in bonds and other long-term obligations.

Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Loans Payable	\$	\$	\$ 2,537,727	\$ 2,548,457	\$ 2,537,727	\$ 2,548,457
Capital Lease	220,764				220,764	
Total	\$ 220,764	\$	\$ 2,537,727	\$ 2,548,457	\$ 2,758,491	\$ 2,548,457

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

Economic Factors

Strong national economic conditions in 2018 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 throughout 2018. However, a limited local workforce limits the amount of growth Polaris Industries can reasonably achieve in this region. 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 general long-term debt obligations, 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 employment and tax 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. In 2018 Polaris continued its' investment into the Roseau facility with major renovations and expansions to accommodate future growth.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add new staff. In 2018 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 the local Roseau clinic to improve care services for local residents and reduce the number of transfers to other health care facilities.

A traditional barrier to growth in Roseau has been a lack of available housing for new residents. However, in 2018 the community witnessed 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. In 2018, the City began working with housing partners to help ease this shortage.

Agriculture continues to provide a good diversification and stability for the overall local economy. However, international trade issues continue to depress commodity prices below past peaks and the overall ag economy remains slow.

In 2018 the U.S. Customs and Border Protection Agency instituted a new policy reducing the hours of operation of the Roseau Port of Entry from 8 am – 12 pm to 8 am – 8 pm. This U.S. port of entry provides the most direct access to Canada and the Northwest Angle of Minnesota for local residents and travelers to Lake of the Woods. It is believed by Roseau officials that this change will have a negative impact on the Roseau community by restricting access for residents of Canada and the NW Angle who work, shop and recreate in the Roseau area. The City is working with its congressional delegation to restore the reduced hours.

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.
- Additional changes that would further restrict entry at the Roseau Port of Entry from Canada.
- Inability to provide sufficient workforce and housing supply in the community for local employers.
- Changing retail trends negatively impacting local retail businesses.
- 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.
- Changing political attitudes and regulations involving power generation from fossil fuels, of which, the City of Roseau is a coal-fired power generation owner and provider.
- Increased regulations related to 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.

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 849,210	\$ 6,965,410	\$ 7,814,620
Receivables			
Accounts (Net of Allowance)	23,212	586,128	609,340
Delinquent Taxes	78,000		78,000
Special Assessments	582,500	600	583,100
Notes Receivable (Net of Allowance)	1,037,486		1,037,486
Internal Balances	(375,565)	375,565	
Due from Other Governments	432,284		432,284
Inventory		273,764	273,764
Prepaid Expense		25	25
Restricted: Funded Reserves		242,915	242,915
Restricted: Tenant Security Deposits, Cash		17,086	17,086
Capital Assets			
Land	12,339,014	292,613	12,631,627
Construction in Process	1,014,149		1,014,149
Buildings	13,757,730	3,109,520	16,867,250
Improvements Other than Buildings	27,155,163	103,975	27,259,138
Plant and Equipment		16,716,038	16,716,038
Machinery and Equipment	3,316,401	709,727	4,026,128
Less: Accumulated Depreciation	(13,929,478)	(13,008,019)	(26,937,497)
Total Capital Assets, Net of Depreciation	<u>43,652,979</u>	<u>7,923,854</u>	<u>51,576,833</u>
TOTAL ASSETS	<u>46,280,106</u>	<u>16,385,347</u>	<u>62,665,453</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	674,161	67,644	741,805
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>674,161</u>	<u>67,644</u>	<u>741,805</u>
LIABILITIES			
Accounts Payable	167,060	303,833	470,893
Accrued Payroll Expenses		1,868	1,868
Due to Other Governments	4,020	60,959	64,979
Consumer Deposits		49,386	49,386
Accrued Interest Payable		1,616	1,616
Prepaid Rent		894	894
Unearned Revenue		5,458	5,458
Noncurrent Liabilities			
Net Pension Liability	808,362	387,613	1,195,975
Due Within One Year	99,829	29,285	129,114
Due in More than One Year	307,593	2,580,142	2,887,735
TOTAL LIABILITIES	<u>1,386,864</u>	<u>3,421,054</u>	<u>4,807,918</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	967,313	110,822	1,078,135
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>967,313</u>	<u>110,822</u>	<u>1,078,135</u>
NET POSITION			
Net Investment in Capital Assets	43,432,215	5,386,127	48,818,342
Restricted for:			
Funded Reserves		242,915	242,915
MHFA - Residual Receipts		35,230	35,230
Economic Development	155,801		155,801
Unrestricted	1,012,074	7,256,843	8,268,917
TOTAL NET POSITION	<u>\$ 44,600,090</u>	<u>\$ 12,921,115</u>	<u>\$ 57,521,205</u>

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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	\$ 472,553	\$ 58,715	\$ 846	\$	\$ (412,992)	\$	\$ (412,992)
Public Safety	1,055,431	79,501	100,909		(875,021)		(875,021)
Public Works	1,179,615	23,765		28,020	(1,127,830)		(1,127,830)
Culture and Recreation	903,028	12,520	16,437	71,576	(802,495)		(802,495)
Economic Development	286,275	27,093	81,319		(177,863)		(177,863)
Airport	186,875	55,644	51,590	540,901	461,260		461,260
Interest on Long-term Debt	2,881				(2,881)		(2,881)
Total Governmental Activities	4,086,658	257,238	251,101	640,497	(2,937,822)		(2,937,822)
Business-type Activities:							
Municipal Liquor Store	1,616,887	1,813,546				196,659	196,659
Water	491,066	373,921				(117,145)	(117,145)
Electric	3,673,137	4,272,002				598,865	598,865
Sewer Service	446,845	360,047				(86,798)	(86,798)
Roseau Court Townhomes	192,923	207,409				14,486	14,486
Garbage	422,084	459,175				37,091	37,091
Total Business-type Activities	6,842,942	7,486,100				643,158	643,158
Total Government	\$ 10,929,600	\$ 7,743,338	\$ 251,101	\$ 640,497	(2,937,822)	643,158	(2,294,664)
		General Revenues:					
					1,120,358	6	1,120,364
					57,702		57,702
					39,598		39,598
					712,234		712,234
					51,455	4,653	56,108
					218,497	20,219	238,716
					76,800		76,800
					836,071	(836,071)	
					3,112,715	(811,193)	2,301,522
					174,893	(168,035)	6,858
					44,425,197	13,089,150	57,514,347
					\$ 44,600,090	\$ 12,921,115	\$ 57,521,205

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

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	\$ 251,867	\$ 426,357	\$	\$ 170,986	\$ 849,210
Receivables					
Accounts	9,989			13,223	23,212
Tax Receivable - Delinquent	78,000				78,000
Special Assessments					
Delinquent	53,500				53,500
Noncurrent	529,000				529,000
Notes Receivable	674,521	767,965			1,442,486
Due from Other Funds	19,227	19,101			38,328
Due from Other Governments	62,166		370,118		432,284
TOTAL ASSETS	<u>\$ 1,678,270</u>	<u>\$ 1,213,423</u>	<u>\$ 370,118</u>	<u>\$ 184,209</u>	<u>\$ 3,446,020</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 49,035	\$ 100	\$ 117,721	\$ 204	\$ 167,060
Due to Other Funds			375,565	38,328	413,893
Due to Other Governments	4,020				4,020
Total Liabilities	<u>53,055</u>	<u>100</u>	<u>493,286</u>	<u>38,532</u>	<u>584,973</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	78,000				78,000
Unavailable Revenue - Notes Receivable	674,521	767,965			1,442,486
Unavailable Revenue - Special Assessments	582,500				582,500
Total Deferred Inflows of Resources	<u>1,335,021</u>	<u>767,965</u>			<u>2,102,986</u>
FUND BALANCES					
Restricted for:					
Economic Development				155,801	155,801
Committed for:					
Economic Development		445,358			445,358
Birding Trail				3,376	3,376
Roseau P.D.				5,775	5,775
Unassigned	290,194		(123,168)	(19,275)	147,751
Total Fund Balances	<u>290,194</u>	<u>445,358</u>	<u>(123,168)</u>	<u>145,677</u>	<u>758,061</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,678,270</u>	<u>\$ 1,213,423</u>	<u>\$ 370,118</u>	<u>\$ 184,209</u>	<u>\$ 3,446,020</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, 2018**

Exhibit A-4

Total fund balances - governmental funds	\$ 758,061
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	57,582,457
Less: accumulated depreciation	(13,929,478)
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.	
	674,161
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	(808,362)
Capital Lease	(220,764)
Compensated absences	(186,658)
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.	
	(967,313)
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>2,102,986</u>
Net position - governmental activities	<u>\$ 44,600,090</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, 2018**

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	\$ 1,051,803	\$	\$	\$ 84,566	\$ 1,136,369
Hotel / Motel Tax				57,702	57,702
Franchise Fee	39,598				39,598
Special Assessments	75,020				75,020
Licenses and Permits	31,569				31,569
Intergovernmental					
Federal	109,759		314,390	43,000	467,149
State	943,842		116,753	16,437	1,077,032
Charges for Services	176,392				176,392
Fines and Forfeitures	16,205				16,205
Interest on Investments	30,553	902			31,455
Miscellaneous	183,283	105,620	7,725	45,346	341,974
Total Revenues	<u>2,658,024</u>	<u>106,522</u>	<u>438,868</u>	<u>247,051</u>	<u>3,450,465</u>
EXPENDITURES					
Current					
General Government	430,471		6,230		436,701
Public Safety	974,949			5,225	980,174
Public Works	467,707				467,707
Culture and Recreation	525,339			7,286	532,625
Economic Development	34,445	109,594		207,010	351,049
Airport	50,635				50,635
Capital Outlay					
Public Safety	410,871				410,871
Public Works	361,189				361,189
Culture and Recreation	121,492		149,002		270,494
Economic Development				490	490
Airport	79,045		556,707		635,752
Debt Service					
Principal	181,882				181,882
Interest	2,881				2,881
Total Expenditures	<u>3,640,906</u>	<u>109,594</u>	<u>711,939</u>	<u>220,011</u>	<u>4,682,450</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(982,882)</u>	<u>(3,072)</u>	<u>(273,071)</u>	<u>27,040</u>	<u>(1,231,985)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	836,235		425,670		1,261,905
Transfers Out	(425,670)		(164)		(425,834)
Capital Lease Proceeds	402,646				402,646
Sale of Land	40,000	36,800			76,800
Total Other Financing Sources	<u>853,211</u>	<u>36,800</u>	<u>425,506</u>		<u>1,315,517</u>
NET CHANGE IN FUND BALANCES	(129,671)	33,728	152,435	27,040	83,532
FUND BALANCE, JANUARY 1	419,865	411,630	(275,603)	118,637	674,529
FUND BALANCE, DECEMBER 31	<u>\$ 290,194</u>	<u>\$ 445,358</u>	<u>\$ (123,168)</u>	<u>\$ 145,677</u>	<u>\$ 758,061</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, 2018**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ 83,532
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	1,614,311
Depreciation expense	(1,313,322)
Proceeds from long-term debt provide current financial resources to governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(402,646)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	181,882
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(26,782)
Change in net pension liability	179,997
Change in deferred outflows and inflows of resources related to net pension liability	(141,394)
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>(685)</u>
Change in net position - governmental activities	<u>\$ 174,893</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

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	\$ 469,696	\$ 457,865	\$ 4,860,214	\$ 504,649	\$ 79,039	\$ 593,947	\$ 6,965,410
Accounts Receivable (Net of Allowance)	14,906	29,462	455,020	32,672	3,432	50,636	586,128
Special Assessments Receivable		600					600
Due From Other Funds			375,565				375,565
Prepays	25						25
Inventory	202,177		71,587				273,764
Total Current Assets	<u>686,804</u>	<u>487,927</u>	<u>5,762,386</u>	<u>537,321</u>	<u>82,471</u>	<u>644,583</u>	<u>8,201,492</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					242,915		242,915
Restricted: Tenant Security Deposits, Cash					17,086		17,086
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	(292,529)	(4,755,388)	(2,625,460)	(4,065,289)	(1,016,313)	(253,040)	(13,008,019)
Total Capital Assets	<u>702,630</u>	<u>2,137,574</u>	<u>182,174</u>	<u>3,147,766</u>	<u>1,636,858</u>	<u>116,852</u>	<u>7,923,854</u>
Total Noncurrent Assets	<u>702,630</u>	<u>2,137,574</u>	<u>182,174</u>	<u>3,147,766</u>	<u>1,896,859</u>	<u>116,852</u>	<u>8,183,855</u>
Total Assets	<u>1,389,434</u>	<u>2,625,501</u>	<u>5,944,560</u>	<u>3,685,087</u>	<u>1,979,330</u>	<u>761,435</u>	<u>16,385,347</u>
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	17,244	11,937	7,293	11,937		19,233	67,644
Total Deferred Outflows of Resources	<u>17,244</u>	<u>11,937</u>	<u>7,293</u>	<u>11,937</u>		<u>19,233</u>	<u>67,644</u>

cont.

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2018**

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	8,074	4,327	283,130	1,681	5,228	1,393	303,833
Accrued Expenses	235	923	100	434		176	1,868
Due to Other Governments	16,359	1,153	34,292			9,155	60,959
Consumer Deposits			32,300		17,086		49,386
Interest Payable					1,616		1,616
Prepaid Rent					894		894
Unearned Revenue	440		5,018				5,458
Current Portion - Long Term Liabilities	3,125	3,425	2,225	3,425	11,360	5,725	29,285
Total Current Liabilities	<u>28,233</u>	<u>9,828</u>	<u>357,065</u>	<u>5,540</u>	<u>36,184</u>	<u>16,449</u>	<u>453,299</u>
NONCURRENT LIABILITIES							
Loans Payable					2,537,727		2,537,727
Compensated Absences	12,500	13,700	8,900	13,700		22,900	71,700
Net Pension Liability	98,802	68,403	41,802	68,403		110,203	387,613
Less: Current Portion of Long Term Liabilities	(3,125)	(3,425)	(2,225)	(3,425)	(11,360)	(5,725)	(29,285)
Total Noncurrent Liabilities	<u>108,177</u>	<u>78,678</u>	<u>48,477</u>	<u>78,678</u>	<u>2,526,367</u>	<u>127,378</u>	<u>2,967,755</u>
Total Liabilities	<u>136,410</u>	<u>88,506</u>	<u>405,542</u>	<u>84,218</u>	<u>2,562,551</u>	<u>143,827</u>	<u>3,421,054</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	28,248	19,558	11,949	19,558		31,509	110,822
Total Deferred Inflows of Resources	<u>28,248</u>	<u>19,558</u>	<u>11,949</u>	<u>19,558</u>		<u>31,509</u>	<u>110,822</u>
NET POSITION							
Net Investment in Capital Assets	702,630	2,137,574	182,174	3,147,766	(900,869)	116,852	5,386,127
Restricted for Funded Reserves					242,915		242,915
Restricted for MHFA - Residual Receipts					35,230		35,230
Unrestricted	539,390	391,800	5,352,188	445,482	39,503	488,480	7,256,843
Total Net Position	<u>\$ 1,242,020</u>	<u>\$ 2,529,374</u>	<u>\$ 5,534,362</u>	<u>\$ 3,593,248</u>	<u>\$ (583,221)</u>	<u>\$ 605,332</u>	<u>\$ 12,921,115</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,813,546	\$	\$	\$	\$	\$	\$ 1,813,546
Cost of Sales	1,347,670						1,347,670
Gross Profit	465,876						465,876
Charges for Services		372,636	4,235,292	357,783		459,175	5,424,886
Other Services		1,284	36,710	2,264	207,409		247,667
Total Operating Revenues	465,876	373,920	4,272,002	360,047	207,409	459,175	6,138,429
OPERATING EXPENSES							
Production Expense		111,066	3,177,805				3,288,871
Distribution Expense			248,662	4,336			252,998
General Expense	249,144	122,003	208,887	173,634	110,129	389,433	1,253,230
Depreciation	20,072	257,998	37,783	268,875	65,819	32,651	683,198
Total Operating Expenses	269,216	491,067	3,673,137	446,845	175,948	422,084	5,478,297
Operating Income (Loss)	196,660	(117,147)	598,865	(86,798)	31,461	37,091	660,132
NONOPERATING REVENUE (EXPENSE)							
Property Taxes				6			6
Interest on Investments					4,653		4,653
Other Income	236	12,300	4,619			3,065	20,220
Interest Expense					(16,975)		(16,975)
Total Nonoperating Revenue (Expense)	236	12,300	4,619	6	(12,322)	3,065	7,904
Net Income (Loss) before Transfers	196,896	(104,847)	603,484	(86,792)	19,139	40,156	668,036
TRANSFERS OUT	(100,000)	(100,000)	(500,000)	(100,000)	(36,071)		(836,071)
Change in Net Position	96,896	(204,847)	103,484	(186,792)	(16,932)	40,156	(168,035)
TOTAL NET POSITION, JANUARY 1	1,145,124	2,734,221	5,430,878	3,780,040	(566,289)	565,176	13,089,150
TOTAL NET POSITION, DECEMBER 31	\$ 1,242,020	\$ 2,529,374	\$ 5,534,362	\$ 3,593,248	\$ (583,221)	\$ 605,332	\$ 12,921,115

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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	\$ 1,809,145	\$ 376,596	\$ 4,227,600	\$ 361,985	\$ 215,336	\$ 456,033	\$ 7,446,695
Payments to Suppliers	(1,435,442)	(132,757)	(3,565,786)	(76,465)	(108,691)	(173,180)	(5,492,321)
Payments to Employees	(165,039)	(110,521)	(90,720)	(110,529)		(211,959)	(688,768)
Net Cash Provided by Operating Activities	<u>208,664</u>	<u>133,318</u>	<u>571,094</u>	<u>174,991</u>	<u>106,645</u>	<u>70,894</u>	<u>1,265,606</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	236	12,300	4,619	6		3,065	20,226
Transfers to Other Funds	(100,000)	(100,000)	(500,000)	(100,000)	(36,071)		(836,071)
Due From Other Funds			(99,962)				(99,962)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(99,764)</u>	<u>(87,700)</u>	<u>(595,343)</u>	<u>(99,994)</u>	<u>(36,071)</u>	<u>3,065</u>	<u>(915,807)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Payment of Long-Term Debt					(10,730)		(10,730)
Interest on Long-Term Debt					(16,975)		(16,975)
Net Cash Used by Capital and Related Financing Activities					<u>(27,705)</u>		<u>(27,705)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Tax and Insurance Escrow, Net - MN Housing					39		39
Deposits into Reserve Accounts - MN Housing					(14,669)		(14,669)
Withdrawals from Reserves - MN Housing					4,058		4,058
Interest Earnings					93		93
Net Cash Used by Investing Activities					<u>(10,479)</u>		<u>(10,479)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,900	45,618	(24,249)	74,997	32,390	73,959	311,615
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>360,796</u>	<u>412,247</u>	<u>4,884,463</u>	<u>429,652</u>	<u>63,735</u>	<u>519,988</u>	<u>6,670,881</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 469,696</u>	<u>\$ 457,865</u>	<u>\$ 4,860,214</u>	<u>\$ 504,649</u>	<u>\$ 96,125</u>	<u>\$ 593,947</u>	<u>\$ 6,982,496</u>
Reconciliation of Cash, Cash Equivalents, and Restricted Cash							
Cash and Investments	\$ 469,696	\$ 457,865	\$ 4,860,214	\$ 504,649	\$ 79,039	\$ 593,947	\$ 6,965,410
Restricted Cash - Tenant Security Deposits					17,086		17,086
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 469,696</u>	<u>\$ 457,865</u>	<u>\$ 4,860,214</u>	<u>\$ 504,649</u>	<u>\$ 96,125</u>	<u>\$ 593,947</u>	<u>\$ 6,982,496</u>

cont.

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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)	\$ 196,660	\$ (117,147)	\$ 598,865	\$ (86,798)	\$ 31,461	\$ 37,091	\$ 660,132
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	20,072	257,998	37,783	268,875	65,819	32,651	683,198
Bad Debt Expense					5,139		5,139
Change in:							
Accounts Receivable	(4,841)	2,677	(44,511)	1,938	393	(3,142)	(47,486)
Inventory	(3,741)						(3,741)
Deferred Outflows	13,059	9,041	5,526	9,041		14,566	51,233
Accounts Payable	(2,334)	(8,863)	(18,066)	(7,112)	1,278	1,007	(34,090)
Prepaid Expenses	(25)						(25)
Prepaid Rent					71		71
Due to Other Governments	(137)	565	2,094			359	2,881
Other Current Liabilities			(2,945)		2,484	176	(285)
Unearned Revenue	440		109				549
Compensated Absences	6,200	600	(700)	600		6,800	13,500
Net Pension Liability	(16,555)	(11,461)	(7,004)	(11,461)		(18,465)	(64,946)
Deferred Inflows	(134)	(92)	(57)	(92)		(149)	(524)
Total Adjustments	<u>12,004</u>	<u>250,465</u>	<u>(27,771)</u>	<u>261,789</u>	<u>75,184</u>	<u>33,803</u>	<u>605,474</u>
Net Cash Provided by Operating Activities	<u>\$ 208,664</u>	<u>\$ 133,318</u>	<u>\$ 571,094</u>	<u>\$ 174,991</u>	<u>\$ 106,645</u>	<u>\$ 70,894</u>	<u>\$ 1,265,606</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, 2018**

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, 2018**

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, 2018**

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 \$470,000.

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, 2018, and is expected to be taken by December 31, 2019, is considered a current liability and is accrued in the December 31, 2018 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.

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.

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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

NOTE 2. DEFICIT FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2018, is as follows:

EDA Building Fund	\$ 19,275
Capital Projects Fund	123,168
Roseau Court Townhomes	583,221

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 3. 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, 2018, 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, 2018, the City was not exposed to custodial credit risk.

NOTE 4. NOTES RECEIVABLE

At December 31, 2018, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$1,442,486. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$405,000.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,339,014	\$	\$	\$ 12,339,014
Construction In Process	494,471	592,299	72,621	1,014,149
Total Capital Assets, Not Being Depreciated	<u>12,833,485</u>	<u>592,299</u>	<u>72,621</u>	<u>13,353,163</u>
Capital Assets, Being Depreciated:				
Buildings	13,757,730			13,757,730
Improvements Other Than Buildings	26,628,862	526,301		27,155,163
Machinery and Equipment	2,748,069	568,332		3,316,401
Total Capital Assets, Being Depreciated	<u>43,134,661</u>	<u>1,094,633</u>		<u>44,229,294</u>
Less: Accumulated Depreciation For:				
Buildings	3,815,132	343,133		4,158,265
Improvements Other Than Buildings	7,013,142	790,966		7,804,108
Machinery and Equipment	1,787,882	179,223		1,967,105
Total Accumulated Depreciation	<u>12,616,156</u>	<u>1,313,322</u>		<u>13,929,478</u>
Total Capital Assets, Being Depreciated, Net	<u>30,518,505</u>	<u>(218,689)</u>		<u>30,299,816</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,351,990</u>	<u>\$ 373,610</u>	<u>\$ 72,621</u>	<u>\$ 43,652,979</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 292,613	\$	\$	\$ 292,613
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	103,975			103,975
Buildings	3,109,520			3,109,520
Plant and Equipment	16,716,038			16,716,038
Machinery and Equipment	709,727			709,727
Total Capital Assets, Being Depreciated	<u>20,639,260</u>			<u>20,639,260</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	56,224	5,198		61,422
Buildings	846,039	74,316		920,355
Plant and Equipment	10,881,481	564,656		11,446,137
Machinery and Equipment	541,077	39,028		580,105
Total Accumulated Depreciation	<u>12,324,821</u>	<u>683,198</u>		<u>13,008,019</u>
Total Capital Assets, Being Depreciated, Net	<u>8,314,439</u>	<u>(683,198)</u>		<u>7,631,241</u>
Business-type Activities Capital Assets, Net	<u>\$ 8,607,052</u>	<u>\$ (683,198)</u>	<u>\$</u>	<u>\$ 7,923,854</u>

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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Governmental Activities:	
General Government	\$ 39,229
Public Safety	102,266
Public Works, including depreciation of general infrastructure assets	721,901
Culture and Recreation	350,623
Economic Development	9,350
Airport	89,953
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,313,322</u>
Business-type Activities:	
Municipal Liquor Store	\$ 20,072
Water	257,998
Electric	37,783
Sewer Service	268,875
Roseau Court Townhomes	65,819
Garbage Collections	32,651
Total Depreciation Expense - Business-type Activities	<u>\$ 683,198</u>

NOTE 6. 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, 2018, 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.

NOTE 7. 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

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

Public Employees Police and Fire Plan

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. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for all years of service. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50%, of their annual covered salary in fiscal year 2018, and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$69,742. 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 and the City was required to contribute 16.20% of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$69,997. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2018, the City reported a liability of \$760,023 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 \$16,000,000 to the fund in 2018. 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 \$25,019. The net pension liability was measured as of June 30, 2018, 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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.0137% which was a decrease of 0.0002% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$41,233 for its proportionate share of General Employee Plan's pension expense. In addition, the City recognized an additional \$5,384 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16,000,000 to the General Employees Fund.

At December 31, 2018, 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	\$ 20,396	\$ 23,624
Difference between projected and actual investment earnings		72,537
Changes in actuarial assumptions	77,371	86,250
Changes in proportion		34,888
Contributions paid to PERA subsequent to the measurement date	34,871	
Total	\$ 132,638	\$ 217,299

\$34,871 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ 14,950
2020	(53,185)
2021	(65,433)
2022	(15,864)

At December 31, 2018, the City reported a liability of \$435,952 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.0409% which was a decrease of 0.0001% from its proportion measured as of June 30, 2017. The City also recognized \$3,681 for the year ended December 31, 2018 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, 2018, the City recognized a pension expense of \$49,205 for its proportionate share of Police and Fire Plan's pension expense.

At December 31, 2018, 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:

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,595	\$ 110,565
Difference between projected and actual investment earnings		88,041
Changes in actuarial assumptions	556,573	643,310
Changes in proportion		18,920
Contributions paid to PERA subsequent to the measurement date	34,999	
Total	<u>\$ 609,167</u>	<u>\$ 860,836</u>

\$34,999 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2019	\$ (10,477)
2020	(31,759)
2021	(64,630)
2022	(178,057)
2023	(1,745)

Actuarial Assumptions – The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement are assumed to be 1.25% per year for the General Employees Plan and 1.0% per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 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 four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2018 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 were 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	\$ 1,235,130	\$ 760,023	\$ 367,830
Police and Fire Fund	934,708	435,952	23,501

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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 8. CAPITAL LEASE

The City entered into a lease agreement as a lessee for financing the acquisition of a fire truck in 2018. As of December 31, 2018, the total value of this capital asset was \$452,646. This year, \$9,430 was included as depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been calculated at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2018, is as follows:

Year Ending December 31,	Governmental Fund
2019	\$ 58,684
2020	58,684
2021	58,684
2022	58,684
Less: amount representing interest	(13,972)
Present value of minimum lease payments	<u>\$ 220,764</u>

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%	2019/35	\$ 290,903
MN Housing Finance Agency (*)		2023	2,246,824
			<u>\$ 2,537,727</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.

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

Year Ending December 31	Business-type Activities	
	Principal	Interest
2019	\$ 11,360	\$ 16,345
2020	12,028	15,678
2021	12,734	14,971
2022	13,482	14,224
2023	14,273	13,432
2024-2028	84,969	53,558
2029-2033	113,024	25,503
2034-2035	29,033	982
	<u>\$ 290,903</u>	<u>\$ 154,693</u>

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Capital Lease	\$	\$ 402,646	\$ 181,882	\$ 220,764	\$ 53,164
Compensated Absences Governmental Activity	<u>201,500</u>	<u>63,058</u>	<u>77,900</u>	<u>186,658</u>	<u>46,665</u>
Long-term Liabilities	<u>\$ 201,500</u>	<u>\$ 465,704</u>	<u>\$ 259,782</u>	<u>\$ 407,422</u>	<u>\$ 99,829</u>
<u>Business-type Activities</u>					
Other Long-term Obligations					
Loans Payable	\$ 2,548,457	\$	\$ 10,730	\$ 2,537,727	\$ 11,360
Compensated Absences Business-type Activity	<u>58,200</u>	<u>48,900</u>	<u>35,400</u>	<u>71,700</u>	<u>17,925</u>
Long-term Liabilities	<u>\$ 2,606,657</u>	<u>\$ 48,900</u>	<u>\$ 46,130</u>	<u>\$ 2,609,427</u>	<u>\$ 29,285</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, 2018, the aggregate principal amount payable of the Series 2006 was \$2,366,280.

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, 2018, the aggregate principal amount payable of the one series issued was \$1,481,206.

NOTE 11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2018, is as follows:

Due from / to other funds:

Receivable	Payable	Amount
Electric	Capital Projects	\$ 375,565
EDA	Nonmajor Governmental	19,101
General	Nonmajor Governmental	19,227
		<u>\$ 413,893</u>

The amounts payable are to cover cash deficits on December 31, 2018.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Electric	\$ 500,000
General	Sewer	100,000
General	Water	100,000
General	Liquor Store	100,000
Capital Projects	General	425,670
General	Roseau Court Townhomes	36,071
General	Capital Projects	164
		<u>\$ 1,261,905</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 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 ending December 31, 2018, premiums for Municipal Liability totaled \$11,541 for General Liability and \$18,639 for Errors and Omissions. Property and Inland Marine premiums totaled \$52,110, Automobile premiums totaled \$11,767, and Liquor Liability premiums totaled \$2,129. The City also carries a Municipal Excess Liability policy in the amount of \$1,000,000. The premium for this coverage for the year ending December 31, 2018 totaled \$8,186.

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 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 2018, however the Property and Casualty dividend received was \$6,199. 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 2018 and 2017 were \$500 and \$11,621, respectively. There was \$2,183 paid under Errors and Omissions claims for the year 2017 and \$0 paid in 2018. 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 2017.

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, 2018,

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

was \$67,134 and \$0 for the Volunteer Accident Plan, as was provided at no charge in 2018. Total liability claims for workers' compensation paid in 2018 and 2017 were \$1,439 and \$1,344, respectively.

NOTE 14. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 18% of the water utility billings.

NOTE 15. COMMITTED CONTRACTS

As of December 31, 2018, the City had construction commitments of approximately \$150,000 for the completion of the airport terminal project.

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. 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.

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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

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**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,049,242	\$ 1,051,803	\$ 2,561
Franchise Fee	45,000	39,598	(5,402)
Special Assessments	70,000	75,020	5,020
Licenses and Permits	29,350	31,569	2,219
Intergovernmental			
Federal	613,995	109,759	(504,236)
State			
Local Government Aid	707,139	707,308	169
Market Value Credit		106	106
Police Aid	50,000	59,857	9,857
Fire Aid	40,000	41,053	1,053
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	34,843	51,589	16,746
Other State Grants	155,248	79,109	(76,139)
	<u>1,606,045</u>	<u>1,053,601</u>	<u>(552,444)</u>
Charges for Services			
General Government	35,000	32,381	(2,619)
Public Safety	60,273	63,296	3,023
Culture and Recreation	56,000	70,206	14,206
Airport	12,000	10,509	(1,491)
	<u>163,273</u>	<u>176,392</u>	<u>13,119</u>
Fines and Forfeitures	17,750	16,205	(1,545)
Miscellaneous			
Interest on Investments	19,000	30,553	11,553
Contributions	2,500	16,846	14,346
Reimbursements	50,000	161,292	111,292
Other Receipts		5,145	5,145
	<u>71,500</u>	<u>213,836</u>	<u>142,336</u>
Total Revenues	<u>3,052,160</u>	<u>2,658,024</u>	<u>(394,136)</u>
EXPENDITURES			
General Government			
Mayor and Council	35,227	30,614	4,613
Finance / Administration	95,778	84,558	11,220
Independent Auditors	12,000	11,279	721
Election	7,250	5,537	1,713
Assessor	15,000	14,260	740
Legal Services	67,150	65,138	2,012
Planning, Zoning, Economic Development	123,945	119,995	3,950
Municipal Building	67,033	55,229	11,804
Miscellaneous	35,850	43,861	(8,011)
	<u>459,233</u>	<u>430,471</u>	<u>28,762</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, 2018**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	802,745	777,631	25,114
Fire	202,784	176,951	25,833
Building Inspector	27,500	12,674	14,826
Emergency Services	9,450	7,693	1,757
Capital Outlay		410,871	(410,871)
	<u>1,042,479</u>	<u>1,385,820</u>	<u>(343,341)</u>
Public Works			
Streets and Highways	407,677	424,106	(16,429)
Snow and Ice Removal	49,015	13,862	35,153
Street Lighting and Signals	42,500	29,739	12,761
Capital Outlay	610,000	361,189	248,811
	<u>1,109,192</u>	<u>828,896</u>	<u>280,296</u>
Culture and Recreation			
Library and Museum	101,404	93,269	8,135
Parks and Recreation	442,753	432,070	10,683
Capital Outlay - Parks and Recreation	160,000	121,492	38,508
	<u>704,157</u>	<u>646,831</u>	<u>57,326</u>
Economic Development			
Current Expenditures	33,676	34,445	(769)
	<u>33,676</u>	<u>34,445</u>	<u>(769)</u>
Airport			
Current Expenditures	73,082	50,635	22,447
Capital Outlay	806,857	79,045	727,812
	<u>879,939</u>	<u>129,680</u>	<u>750,259</u>
Debt Service			
Principal	60,000	181,882	(121,882)
Interest		2,881	(2,881)
	<u>60,000</u>	<u>184,763</u>	<u>(124,763)</u>
Total Expenditures	<u>4,288,676</u>	<u>3,640,906</u>	<u>647,770</u>
REVENUES UNDER EXPENDITURES	<u>(1,236,516)</u>	<u>(982,882)</u>	<u>253,634</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	836,235	800,235
Capital Lease Proceeds		402,646	402,646
Sale of Land	1,000	40,000	39,000
Transfers Out	(5,000)	(425,670)	(420,670)
Total Other Financing Sources (Uses)	<u>32,000</u>	<u>853,211</u>	<u>821,211</u>
NET CHANGE IN FUND BALANCE	(1,204,516)	(129,671)	1,074,845
FUND BALANCE, JANUARY 1	419,865	419,865	
FUND BALANCE, DECEMBER 31	<u>\$ (784,651)</u>	<u>\$ 290,194</u>	<u>\$ 1,074,845</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
COMMUNITY AND ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Interest on Investments	\$	\$ 902	\$ 902
Program Income	1,000	98,215	97,215
Contributions	2,500	3,745	1,245
Other Receipts		3,660	3,660
	<u>3,500</u>	<u>106,522</u>	<u>103,022</u>
Total Revenues			
EXPENDITURES			
Economic Development	<u>2,500</u>	<u>109,594</u>	<u>(107,094)</u>
Total Expenditures	<u>2,500</u>	<u>109,594</u>	<u>(107,094)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,000</u>	<u>(3,072)</u>	<u>(4,072)</u>
OTHER FINANCING SOURCES			
Sale of Land		<u>36,800</u>	<u>36,800</u>
Total Other Financing Sources		<u>36,800</u>	<u>36,800</u>
NET CHANGE IN FUND BALANCE	1,000	33,728	32,728
FUND BALANCE, JANUARY 1	<u>411,630</u>	<u>411,630</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 412,630</u>	<u>\$ 445,358</u>	<u>\$ 32,728</u>

See Notes to the Required Supplementary Information

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

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
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
	2018	69,742	69,742		929,900	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
	2018	69,997	69,997		432,080	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 Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered 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
	2018	0.0137	760,023	25,019	785,042	924,082	84.95	79.53
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
	2018	0.0409	435,952		435,952	425,387	102.48	88.84

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

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.

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 2018.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The community and economic development fund had \$107,094 of expenditures in excess of budget for the year ended December 31, 2018. No remedial action is required for this expense.

NOTE 3. DEFINED BENEFIT PLANS

PERA

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 Changes

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.

2016 Changes

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

2015 Changes

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

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

Police and Fire Fund

2018 Changes

Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2016 to MP-2017.

2017 Changes

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 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 Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions: The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018

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	\$ 83,205	\$ 78,600	\$	\$ 3,406	\$ 5,775	\$ 170,986
Accounts Receivable	13,223					13,223
TOTAL ASSETS	<u>\$ 96,428</u>	<u>\$ 78,600</u>	<u>\$</u>	<u>\$ 3,406</u>	<u>\$ 5,775</u>	<u>\$ 184,209</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$	\$	\$ 174	\$ 30	\$	\$ 204
Due to Other Funds		19,227	19,101			38,328
Total Liabilities		<u>19,227</u>	<u>19,275</u>	<u>30</u>		<u>38,532</u>
Fund Balances						
Restricted for						
Economic Development	96,428	59,373				155,801
Committed for Birding Trail				3,376		3,376
Committed for Public Safety					5,775	5,775
Unassigned			(19,275)			(19,275)
Total Fund Balances	<u>96,428</u>	<u>59,373</u>	<u>(19,275)</u>	<u>3,376</u>	<u>5,775</u>	<u>145,677</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 96,428</u>	<u>\$ 78,600</u>	<u>\$</u>	<u>\$ 3,406</u>	<u>\$ 5,775</u>	<u>\$ 184,209</u>

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

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.	Broadband	
REVENUES							
Property Taxes	\$	\$ 84,566	\$	\$	\$	\$	\$ 84,566
Hotel / Motel Tax	57,702						57,702
Intergovernmental - Federal						43,000	43,000
Intergovernmental - State	14,307			2,130			16,437
Miscellaneous							
Contributions				7,500			7,500
Rents			30,786				30,786
Miscellaneous	60			500	6,500		7,060
Total Revenues	<u>72,069</u>	<u>84,566</u>	<u>30,786</u>	<u>10,130</u>	<u>6,500</u>	<u>43,000</u>	<u>247,051</u>
EXPENDITURES							
Current							
Police					5,225		5,225
Culture and Recreation				7,286			7,286
Economic Development	82,343	78,467	3,200			43,000	207,010
Capital Outlay							
Economic Development			490				490
Total Expenditures	<u>82,343</u>	<u>78,467</u>	<u>3,690</u>	<u>7,286</u>	<u>5,225</u>	<u>43,000</u>	<u>220,011</u>
NET CHANGE IN FUND BALANCES	(10,274)	6,099	27,096	2,844	1,275		27,040
FUND BALANCE, JANUARY 1	<u>106,702</u>	<u>53,274</u>	<u>(46,371)</u>	<u>532</u>	<u>4,500</u>		<u>118,637</u>
FUND BALANCE, DECEMBER 31	<u>\$ 96,428</u>	<u>\$ 59,373</u>	<u>\$ (19,275)</u>	<u>\$ 3,376</u>	<u>\$ 5,775</u>	<u>\$</u>	<u>\$ 145,677</u>

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

	Beginning Balance	Revenues	Expenditures	Sale of Land	Capital Lease Proceeds	Transfer In	Transfer Out	Ending Balance
Governmental Funds								
General	\$ 419,865	\$ 2,658,024	\$ 3,640,906	\$ 40,000	\$ 402,646	\$ 836,235	\$ 425,670	\$ 290,194
Special Revenue								
Community and Economic Development	411,630	106,522	109,594	36,800				445,358
Lodging Tax	106,702	72,069	82,343					96,428
T.I.F.	53,274	84,566	78,467					59,373
EDA Building	(46,371)	30,786	3,690					(19,275)
Pine To Prairie Birding Trail	532	10,130	7,286					3,376
Roseau PD	4,500	6,500	5,225					5,775
Broadband		43,000	43,000					
Capital Projects	(275,603)	438,868	711,939			425,670	164	(123,168)
Total Governmental Funds	674,529	3,450,465	4,682,450	76,800	402,646	1,261,905	425,834	758,061
Proprietary Funds								
Municipal Liquor Store	1,145,124	1,813,782	1,616,886				100,000	1,242,020
Water	2,734,221	386,220	491,067				100,000	2,529,374
Electric	5,430,878	4,276,621	3,673,137				500,000	5,534,362
Sewer Service	3,780,040	360,053	446,845				100,000	3,593,248
Roseau Court Townhomes	(566,289)	212,062	192,923				36,071	(583,221)
Garbage Collection	565,176	462,240	422,084					605,332
Total Proprietary Funds	13,089,150	7,510,978	6,842,942				836,071	12,921,115
Total Primary Government	\$ 13,763,679	\$ 10,961,443	\$ 11,525,392	\$ 76,800	\$ 402,646	\$ 1,261,905	\$ 1,261,905	\$ 13,679,176

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2018**

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Amount of Issue</u>	<u>Balance 12/31/2017</u>	<u>Issued 2018</u>	<u>Retired 2018</u>	<u>Balance 12/31/2018</u>	<u>Principal 2019</u>	<u>Interest 2019</u>
Capital Lease		1/8/2018	6/1/2022	\$ 402,646	\$	\$ 402,646	\$ 181,882	\$ 220,764	\$ 53,164	\$ 5,520
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	301,633		10,730	290,903	11,360	16,345
Total					<u>2,548,457</u>		<u>10,730</u>	<u>2,537,727</u>	<u>11,360</u>	<u>16,345</u>
Total Indebtedness					<u>\$ 2,548,457</u>	<u>\$ 402,646</u>	<u>\$ 192,612</u>	<u>\$ 2,758,491</u>	<u>\$ 64,524</u>	<u>\$ 21,865</u>

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, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019. 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.



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

March 25, 2019

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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, 2018, 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 25, 2019. 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 2018-001 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 25, 2019

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

2018-001 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, 2018, 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.

2018-001 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