

**ANNUAL FINANCIAL REPORT  
OF THE  
CITY OF PINE CITY, MINNESOTA**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**

**Prepared By:**

**Administration Department**

**Matthew Van Steenwyk,  
City Administrator**

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## I. INTRODUCTORY SECTION

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**CITY OF PINE CITY, MINNESOTA**

**ORGANIZATION**

December 31, 2018

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	<u>Term Expires</u>
Mayor: Carl Pederson	January 1, 2021
Council Members: Gina Pettie	January 1, 2023
Brian Scholin	January 1, 2021
Steve Ovick	January 1, 2021
Mary Kay Sloan	January 1, 2023
City Administrator: Matthew Van Steenwyk	Appointed

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## **II. FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pine City, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Pine City, Minnesota'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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pine City, 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.

## **Emphasis of Matter**

As described in Note 16 to the financial statements, the City of Pine City, Minnesota adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

As described in Note 17 to the financial statements, the Pine City Housing and Redevelopment Authority, for the first time in 2018, qualified for presentation as a discrete component unit within the City of Pine City, Minnesota's financial statements. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the City of Pine City, Minnesota's 2017 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated October 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule and the schedules of OPEB and pension 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 Pine City, Minnesota's basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019, on our consideration of the City of Pine City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 of Pine City, Minnesota'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 Pine City, Minnesota's internal control over financial reporting and compliance.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

June 25, 2019

## **BASIC FINANCIAL STATEMENTS**

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CITY OF PINE CITY, MINNESOTA

STATEMENT OF NET POSITION

Statement 1

December 31, 2018 (March 31, 2019 for the Housing and Redevelopment Authority)

With Comparative Totals for December 31, 2017

	Primary Government				Component Unit
	Governmental Activities	Business-Type Activities	Total		Housing and Redevelopment Authority - 2018
			2018	2017	
<b>Assets:</b>					
Cash and investments	\$4,803,817	\$4,043,115	\$8,846,932	\$7,948,666	\$194,570
Cash and investments with escrow agent	-	-	-	1,246,129	-
<b>Receivables:</b>					
Accounts - net	20,763	160,724	181,487	164,835	215
Accrued interest	3,480	3,744	7,224	7,297	28
Due from other governments	95,098	1,297,832	1,392,930	55,601	492
Property taxes	85,522	-	85,522	88,740	-
Special assessments	519,332	209,941	729,273	965,753	-
Loans	50,000	-	50,000	7,903	-
Internal balances	166,927	(166,927)	-	-	-
Prepaid items	10,211	6,107	16,318	-	4,377
Inventories - at cost	-	342,020	342,020	380,894	-
Land held for resale	30,000	-	30,000	30,404	-
Net pension asset	245,324	-	245,324	142,831	-
<b>Capital assets (net of accumulated depreciation):</b>					
Nondepreciable	852,452	2,165,087	3,017,539	979,930	14,281
Depreciable	9,282,186	13,420,847	22,703,033	22,666,149	127,528
<b>Total assets</b>	<b>16,165,112</b>	<b>21,482,490</b>	<b>37,647,602</b>	<b>34,685,132</b>	<b>341,491</b>
<b>Deferred outflows of resources:</b>					
Related to pensions	158,997	-	158,997	239,767	-
Related to other post-employment benefits	22,753	-	22,753	-	-
<b>Total deferred outflows of resources</b>	<b>181,750</b>	<b>0</b>	<b>181,750</b>	<b>239,767</b>	<b>0</b>
<b>Liabilities:</b>					
Accounts payable	173,138	121,028	294,166	190,785	5,773
Due to other governments	3,738	20,527	24,265	20,527	5,727
Salaries payable	54,833	13,316	68,149	23,551	-
Contracts payable	408,992	584,501	993,493	55,852	-
Deposits payable	5,868	-	5,868	9,712	8,750
Accrued interest payable	27,728	103,314	131,042	131,890	-
<b>Compensated absences payable:</b>					
Due within one year	14,878	18,840	33,718	87,655	4,629
Due in more than one year	17,036	33,103	50,139	-	7,668
<b>Long-term debt:</b>					
Due within one year	550,000	587,838	1,137,838	2,401,625	-
Due in more than one year	3,950,266	7,267,486	11,217,752	10,565,653	-
<b>Other post-employment benefits liability:</b>					
Due in more than one year	141,303	-	141,303	-	-
<b>Net pension liability:</b>					
Due in more than one year	671,258	-	671,258	823,527	-
<b>Total liabilities</b>	<b>6,019,038</b>	<b>8,749,953</b>	<b>14,768,991</b>	<b>14,310,777</b>	<b>32,547</b>
Deferred inflows of resources related to pensions	261,590	-	261,590	169,541	-
<b>Net position:</b>					
Net investment in capital assets	5,673,547	7,477,405	13,150,952	12,059,784	141,809
<b>Restricted for:</b>					
Debt service	1,152,512	-	1,152,512	1,336,053	-
Revolving loans	479,921	-	479,921	498,733	-
Fire Relief Association net pension asset	221,571	-	221,571	142,831	-
Tax increment	78,252	-	78,252	93,140	-
Park improvements	13,731	-	13,731	21,884	-
Unrestricted	2,446,700	5,255,132	7,701,832	6,292,156	167,135
<b>Total net position</b>	<b>\$10,066,234</b>	<b>\$12,732,537</b>	<b>\$22,798,771</b>	<b>\$20,444,581</b>	<b>\$308,944</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF PINE CITY, MINNESOTA**

**STATEMENT OF ACTIVITIES**

For The Year Ended December 31, 2018 (March 31, 2019 for the Housing and Redevelopment Authority)

With Comparative Totals For The Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges For Services	Operating Grants and Contributions
<b>Governmental activities:</b>			
General government	\$577,865	\$34,515	\$22,637
Public safety	769,894	390,384	72,921
Public works	652,252	20,891	-
Culture and recreation	198,833	9,315	-
Economic development	95,116	-	-
Interest on long-term debt	180,177	-	-
Total governmental activities	<u>2,474,137</u>	<u>455,105</u>	<u>95,558</u>
<b>Business-type activities:</b>			
Liquor	1,758,547	1,929,963	-
Water	674,116	1,130,002	-
Sewer	523,342	713,919	23,030
Total business-type activities	<u>2,956,005</u>	<u>3,773,884</u>	<u>23,030</u>
Total primary government	<u>\$5,430,142</u>	<u>\$4,228,989</u>	<u>\$118,588</u>
<b>Component unit:</b>			
Housing and Redevelopment Authority	<u>\$214,730</u>	<u>\$133,155</u>	<u>\$49,027</u>

General revenues:  
 General property taxes  
 Tax increment collections  
 Grants and contributions not restricted to specific programs  
 Gain on disposal of capital assets  
 Unrestricted investment earnings  
 Miscellaneous  
 Transfers  
 Total general revenues and transfers

Change in net position

Net position - January 1, as previously reported  
 Prior period adjustment  
 Net position - January 1, as restated

Net position - December 31

The accompanying notes are an integral part of these financial statements.

Program Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government		Total		Component Unit Housing and Redevelopment Authority - 2018
	Governmental Activities	Business-Type Activities	2018	2017	
\$ -	(\$520,713)	\$ -	(\$520,713)	(\$531,581)	\$ -
-	(306,589)	-	(306,589)	(174,829)	-
35,264	(596,097)	-	(596,097)	(586,021)	-
5,000	(184,518)	-	(184,518)	(167,423)	-
-	(95,116)	-	(95,116)	(66,111)	-
-	(180,177)	-	(180,177)	(163,867)	-
<u>40,264</u>	<u>(1,883,210)</u>	<u>0</u>	<u>(1,883,210)</u>	<u>(1,689,832)</u>	<u>0</u>
-	-	171,416	171,416	203,989	-
351,980	-	807,866	807,866	516,602	-
939,884	-	1,153,491	1,153,491	288,061	-
<u>1,291,864</u>	<u>0</u>	<u>2,132,773</u>	<u>2,132,773</u>	<u>1,008,652</u>	<u>0</u>
<u>\$1,332,128</u>	<u>(1,883,210)</u>	<u>2,132,773</u>	<u>249,563</u>	<u>(681,180)</u>	<u>-</u>
<u>\$22,643</u>					<u>(9,905)</u>
	1,438,427	-	1,438,427	1,377,928	-
	59,819	-	59,819	58,680	-
	633,796	-	633,796	578,678	-
	-	-	-	2,751	-
	29,895	22,464	52,359	66,931	5
	52,998	-	52,998	110,201	-
	211,458	(211,458)	-	-	-
	<u>2,426,393</u>	<u>(188,994)</u>	<u>2,237,399</u>	<u>2,195,169</u>	<u>5</u>
	<u>543,183</u>	<u>1,943,779</u>	<u>2,486,962</u>	<u>1,513,989</u>	<u>(9,900)</u>
	9,655,823	10,788,758	20,444,581	18,774,717	318,844
	(132,772)	-	(132,772)	155,875	-
	<u>9,523,051</u>	<u>10,788,758</u>	<u>20,311,809</u>	<u>18,930,592</u>	<u>318,844</u>
	<u>\$10,066,234</u>	<u>\$12,732,537</u>	<u>\$22,798,771</u>	<u>\$20,444,581</u>	<u>\$308,944</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF PINE CITY, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2018  
With Comparative Totals For December 31, 2017

	<u>General Fund</u>	<u>312 Refunding Bonds of 2016A</u>
<b>Assets</b>		
Cash and investments	\$1,660,802	\$13,093
Cash and investments with escrow agent	-	-
Accrued interest receivable	307	11
Accounts receivable - net	20,763	-
Due from other governments	95,098	-
Property taxes receivable:		
Delinquent	34,695	-
Due from county	48,985	-
Due from other funds	-	-
Prepaid items	10,211	-
Special assessments receivable	708	-
Land held for resale	30,000	-
Loans receivable	-	-
	<u>\$1,901,569</u>	<u>\$13,104</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$129,774	\$ -
Due to other governments	3,738	-
Salaries payable	54,833	-
Contracts payable	-	-
Deposits payable	5,868	-
Due to other funds	-	-
Loans payable	-	-
	<u>194,213</u>	<u>0</u>
<b>Deferred inflows of resources:</b>		
Unavailable revenue	65,403	-
<b>Fund balance (deficit):</b>		
Nonspendable	10,211	-
Restricted	-	13,104
Committed	-	-
Assigned	-	-
Unassigned	1,631,742	-
	<u>1,641,953</u>	<u>13,104</u>
<b>Total fund balance (deficit)</b>	<u>\$1,901,569</u>	<u>\$13,104</u>

Fund balance reported above

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 in the funds.

Net pension asset and deferred outflows / inflows of resources related to the Pine City Fire Department Relief Association pension plan are not financial resources, and therefore, are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures, and therefore, are reported as unavailable revenue in the funds.

Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.

An internal service fund is used by management to charge the costs of pension and OPEB benefits to individual funds. The assets and liabilities are included in the governmental activities on the statement of net position.

Net position of governmental activities

401 Capital Improvement Fund	409 2018 Street Projects	Other Governmental Funds	Total Governmental Funds	
			2018	2017
\$945,084	\$462,138	\$1,722,700	\$4,803,817	\$4,057,674
-	-	-	-	1,246,129
751	995	1,416	3,480	3,354
-	-	-	20,763	15,147
-	-	-	95,098	55,414
-	-	-	34,695	64,398
-	-	1,842	50,827	24,342
239,659	-	163,930	403,589	416,076
-	-	-	10,211	-
-	-	518,624	519,332	676,823
-	-	-	30,000	30,404
-	-	50,000	50,000	7,903
<u>\$1,185,494</u>	<u>\$463,133</u>	<u>\$2,458,512</u>	<u>\$6,021,812</u>	<u>\$6,597,664</u>
\$4,391	\$10,501	\$28,472	\$173,138	\$85,563
-	-	-	3,738	-
-	-	-	54,833	13,928
-	408,992	-	408,992	45,082
-	-	-	5,868	9,712
-	-	248,004	248,004	234,560
-	-	-	-	16,835
<u>4,391</u>	<u>419,493</u>	<u>276,476</u>	<u>894,573</u>	<u>405,680</u>
-	-	516,781	582,184	763,089
-	-	-	10,211	-
-	-	1,234,874	1,247,978	2,645,251
200,000	-	317,075	517,075	492,994
981,103	43,640	219,905	1,244,648	934,770
-	-	(106,599)	1,525,143	1,355,880
<u>1,181,103</u>	<u>43,640</u>	<u>1,665,255</u>	<u>4,545,055</u>	<u>5,428,895</u>
<u>\$1,185,494</u>	<u>\$463,133</u>	<u>\$2,458,512</u>	<u>\$6,021,812</u>	<u>\$6,597,664</u>
			\$4,545,055	\$5,428,895
			10,134,638	9,785,826
			221,571	164,578
			582,184	763,089
			(4,559,908)	(5,735,991)
			(857,306)	(750,574)
			<u>\$10,066,234</u>	<u>\$9,655,823</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF PINE CITY, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For The Year Ended December 31, 2018  
With Comparative Totals For The Year Ended December 31, 2017

	<u>General Fund</u>	<u>312 Refunding Bonds of 2016A</u>
<b>Revenues:</b>		
General property taxes	\$733,415	\$ -
Tax increment collections	-	-
Special assessments	1,143	-
Licenses, fees and permits	108,132	-
Intergovernmental	724,218	-
Charges for services	261,935	-
Fines and forfeits	19,164	-
Investment income	969	11,301
Miscellaneous	50,599	-
Total revenues	<u>1,899,575</u>	<u>11,301</u>
<b>Expenditures:</b>		
<b>Current:</b>		
General government	524,138	-
Public safety	692,866	-
Public works	392,263	-
Culture and recreation	182,555	-
Economic development	-	-
<b>Capital outlay:</b>		
General government	-	-
Public safety	53,314	-
Public works	-	-
Culture and recreation	-	-
Economic development	-	-
<b>Debt service:</b>		
Principal	-	1,230,000
Interest and fiscal charges	-	28,400
Total expenditures	<u>1,845,136</u>	<u>1,258,400</u>
Revenues over (under) expenditures	<u>54,439</u>	<u>(1,247,099)</u>
<b>Other financing sources (uses):</b>		
Transfers in	135,000	14,074
Transfers out	(20,000)	-
Issuance of debt	-	-
Bond premium	-	-
Total other financing sources (uses)	<u>115,000</u>	<u>14,074</u>
Net change in fund balance	<u>169,439</u>	<u>(1,233,025)</u>
Fund balance - January 1, as previously reported	1,472,514	1,246,129
Prior period adjustment	-	-
Fund balance - January 1, as restated	<u>1,472,514</u>	<u>1,246,129</u>
Fund balance - December 31	<u>\$1,641,953</u>	<u>\$13,104</u>

The accompanying notes are an integral part of these financial statements.

401 Capital Improvement Fund	409 2018 Street Projects	Other Governmental Funds	Total Governmental Funds	
			2018	2017
\$223,500	\$ -	\$511,215	\$1,468,130	\$1,375,361
-	-	59,819	59,819	60,464
-	-	184,919	186,062	241,383
-	-	-	108,132	71,922
5,000	-	-	729,218	674,446
51,274	-	14,600	327,809	307,904
-	-	-	19,164	2,757
4,340	4,465	8,820	29,895	35,009
-	-	2,399	52,998	103,903
<u>284,114</u>	<u>4,465</u>	<u>781,772</u>	<u>2,981,227</u>	<u>2,873,149</u>
40,771	-	-	564,909	522,435
-	-	-	692,866	590,932
-	-	12,359	404,622	456,241
-	-	-	182,555	157,779
-	-	65,055	65,055	59,179
-	-	-	-	5,251
25,000	-	-	78,314	-
39,554	570,152	28,499	638,205	365,069
5,000	-	8,238	13,238	2,250
-	-	81,658	81,658	-
32,952	-	544,000	1,806,952	694,983
4,742	24,898	127,829	185,869	176,810
<u>148,019</u>	<u>595,050</u>	<u>867,638</u>	<u>4,714,243</u>	<u>3,030,929</u>
<u>136,095</u>	<u>(590,585)</u>	<u>(85,866)</u>	<u>(1,733,016)</u>	<u>(157,780)</u>
80,000	-	64,108	293,182	183,423
(1,650)	-	(60,074)	(81,724)	-
-	620,000	-	620,000	-
-	17,718	-	17,718	-
<u>78,350</u>	<u>637,718</u>	<u>4,034</u>	<u>849,176</u>	<u>183,423</u>
<u>214,445</u>	<u>47,133</u>	<u>(81,832)</u>	<u>(883,840)</u>	<u>25,643</u>
966,658	(3,493)	1,747,087	5,428,895	5,112,202
-	-	-	-	291,050
<u>966,658</u>	<u>(3,493)</u>	<u>1,747,087</u>	<u>5,428,895</u>	<u>5,403,252</u>
<u>\$1,181,103</u>	<u>\$43,640</u>	<u>\$1,665,255</u>	<u>\$4,545,055</u>	<u>\$5,428,895</u>

The accompanying notes are an integral part of these financial statements.

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**CITY OF PINE CITY, MINNESOTA**

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

**Statement 5**

For The Year Ended December 31, 2018

With Comparative Totals For The Year Ended December 31, 2017

	<u>2018</u>	<u>2017</u>
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Total net change in fund balance - governmental funds (Statement 4)	(\$883,840)	\$25,643
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 outlay	811,415	372,570
Capital outlay not capitalized	-	(51,670)
Depreciation expense	(462,603)	(415,656)
Adjustments to capital assets	-	34,589
Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in delinquent taxes	(29,703)	783
Change in delinquent and deferred special assessments	(150,798)	(151,423)
Change in land held for resale	(404)	30,404
The issuance of long-term debt (e.g. bonds) provides current financial resources for governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The amounts of these differences are:		
Principal payments on long-term debt	1,806,952	694,983
Issuance of long-term debt, including bond premium	(637,718)	-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Expenses reported in the statement of activities include the effects of the changes in these expense accruals as follows:		
Change in accrued interest payable	5,403	6,546
Change in compensated absences payable	1,157	(33,071)
Amortization of bond premiums	289	-
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities. This is the amount by which the Pine City Fire Department Relief Association's pension expense differs from pension contributions:		
Pension contributions	84,053	
Pension (expense)	<u>(27,060)</u>	164,578
An internal service fund is used by management to charge pension and OPEB costs to individual funds. This amount is the portion of net revenue (expense) attributable to governmental activities.	<u>26,040</u>	<u>(25,672)</u>
Change in net position of governmental activities (Statement 2)	<u><u>\$543,183</u></u>	<u><u>\$652,604</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF PINE CITY, MINNESOTA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

December 31, 2018

With Comparative Totals For Enterprise Funds For December 31, 2017

Statement 6

	Business-Type Activities Enterprise Funds				Governmental Activities	
	Liquor Fund	Water Utility Fund	Sewer Utility Fund	Totals		Internal Service Fund - 2018
				2018	2017	
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$333,213	\$2,133,207	\$1,576,695	\$4,043,115	\$3,890,992	\$ -
Accrued interest receivable	402	1,776	1,566	3,744	3,943	-
Accounts receivable - net	-	97,391	63,333	160,724	149,688	-
Due from other governments	-	344,993	952,839	1,297,832	187	-
Prepaid items	209	2,949	2,949	6,107	-	-
Inventories - at cost	342,020	-	-	342,020	380,894	-
Total current assets	675,844	2,580,316	2,597,382	5,853,542	4,425,704	0
<b>Noncurrent assets:</b>						
Special assessments receivable	-	103,694	106,247	209,941	288,930	-
<b>Capital assets:</b>						
Nondepreciable	33,000	656,515	1,475,572	2,165,087	651,546	-
Depreciable	449,856	10,637,066	7,554,885	18,641,807	18,144,921	-
Total capital assets	482,856	11,293,581	9,030,457	20,806,894	18,796,467	0
Less: accumulated depreciation	(266,671)	(2,471,842)	(2,482,447)	(5,220,960)	(4,936,214)	-
Net capital assets	216,185	8,821,739	6,548,010	15,585,934	13,860,253	0
Total assets	892,029	11,505,749	9,251,639	21,649,417	18,574,887	0
<b>Deferred outflows of resources:</b>						
Related to pensions	-	-	-	-	-	133,997
Related to other post-employment benefits	-	-	-	-	-	22,753
Total deferred outflows of resources	0	0	0	0	0	156,750
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable	80,802	16,775	23,451	121,028	107,203	-
Due to other governments	18,012	2,515	-	20,527	18,546	-
Salaries payable	6,598	3,359	3,359	13,316	9,623	-
Contracts payable	-	157,815	426,686	584,501	10,770	-
Due to other funds	-	71,567	84,018	155,585	181,516	-
Accrued interest payable	-	74,434	28,880	103,314	98,759	-
Compensated absences payable - current portion	6,898	5,971	5,971	18,840	54,584	-
Long-term debt - current portion	-	484,740	103,098	587,838	577,838	-
Total current liabilities	112,310	817,176	675,463	1,604,949	1,058,839	0
<b>Long-term liabilities:</b>						
Compensated absences payable - noncurrent portion	12,121	10,491	10,491	33,103	-	-
Long-term debt - noncurrent portion	-	5,599,592	1,667,894	7,267,486	6,702,816	-
Other post-employment benefits liability	-	-	-	-	-	141,303
Net pension liability	-	-	-	-	-	671,258
Total noncurrent liabilities	12,121	5,610,083	1,678,385	7,300,589	6,702,816	812,561
Total liabilities	124,431	6,427,259	2,353,848	8,905,538	7,761,655	812,561
Deferred inflows of resources related to pensions	-	-	-	-	-	212,837
<b>Net position:</b>						
Net investments in capital assets	216,185	2,548,050	4,713,170	7,477,405	6,568,829	-
Unrestricted	551,413	2,530,440	2,184,621	5,266,474	4,244,403	(868,648)
Total net position	\$767,598	\$5,078,490	\$6,897,791	\$12,743,879	\$10,813,232	(\$868,648)
Net position reported above				\$12,743,879		
Adjustment to report the cumulative internal balance for the net effect of activity between the internal service fund and the enterprise funds over time.				(11,342)		
Net position of business-type activities (Statement 1)				\$12,732,537		

The accompanying notes are an integral part of these financial statements.

**CITY OF PINE CITY, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**

**Statement 7**

For The Year Ended December 31, 2018

With Comparative Totals For Enterprise Funds For The Year Ended December 31, 2017

	Business-Type Activities Enterprise Funds					Governmental
	Liquor Fund	Water Utility Fund	Sewer Utility Fund	Totals		Internal Service Fund - 2018
				2018	2017	
Sales	\$1,925,977	\$ -	\$ -	\$1,925,977	\$1,900,980	\$ -
Cost of sales	(1,423,692)	-	-	(1,423,692)	(1,358,188)	-
Gross profit	502,285	0	0	502,285	542,792	0
Operating revenues:						
Customer billings	-	1,109,270	711,117	1,820,387	1,759,287	-
Charges for services	3,986	20,732	2,802	27,520	28,138	73,199
Intergovernmental revenue	-	-	23,030	23,030	-	5,136
Total operating revenues	3,986	1,130,002	736,949	1,870,937	1,787,425	78,335
Total gross profit and operating revenues	506,271	1,130,002	736,949	2,373,222	2,330,217	78,335
Operating expenses:						
Salaries and benefits	233,423	187,115	187,115	607,653	605,419	39,163
Contractual services	8,565	8,304	24,190	41,059	33,864	-
Advertising	8,516	678	-	9,194	7,329	-
Materials and supplies	6,150	22,886	6,402	35,438	30,265	-
Insurance	10,121	5,919	6,358	22,398	22,734	-
Utilities	16,873	50,409	50,497	117,779	132,273	-
Repairs and maintenance	9,290	20,571	21,537	51,398	25,859	-
Miscellaneous expenses	36,825	20,297	4,909	62,031	50,782	-
Depreciation	11,480	197,585	122,173	331,238	312,681	-
Total operating expenses	341,243	513,764	423,181	1,278,188	1,221,206	39,163
Operating income (loss)	165,028	616,238	313,768	1,095,034	1,109,011	39,172
Nonoperating revenues (expenses):						
Investment income	2,296	10,650	9,518	22,464	31,922	-
Interest and fiscal charges	-	(163,724)	(57,657)	(221,381)	(182,365)	-
Gain (loss) on disposal of capital assets	-	-	(45,876)	(45,876)	-	-
Total nonoperating revenues (expenses)	2,296	(153,074)	(94,015)	(244,793)	(150,443)	0
Income (loss) before capital contributions and transfers	167,324	463,164	219,753	850,241	958,568	39,172
Capital contributions and transfers:						
Capital contributions - special assessments	-	6,987	7,124	14,111	110,714	-
Capital contributions - intergovernmental revenue	-	344,993	932,760	1,277,753	-	-
Transfers out	(160,000)	(18,494)	(32,964)	(211,458)	(183,423)	-
Total capital contributions and transfers	(160,000)	333,486	906,920	1,080,406	(72,709)	0
Change in net position	7,324	796,650	1,126,673	1,930,647	885,859	39,172
Net position - January 1, as previously reported	760,274	4,281,840	5,771,118	10,813,232	10,215,969	(775,048)
Prior period adjustment	-	-	-	-	(288,596)	(132,772)
Net position - January 1, as restated	760,274	4,281,840	5,771,118	10,813,232	9,927,373	(907,820)
Net position - December 31	\$767,598	\$5,078,490	\$6,897,791	\$12,743,879	\$10,813,232	(\$868,648)
Change in net position reported for business-type activities above				\$1,930,647		
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds.				13,132		
Change in net position of business-type activities (Statement 2)				\$1,943,779		

The accompanying notes are an integral part of these financial statements.

CITY OF PINE CITY, MINNESOTA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For The Year Ended December 31, 2018

With Comparative Totals For Enterprise Funds For The Year Ended December 31, 2017

Statement 8

	Business-Type Activities Enterprise Funds					Governmental
	Liquor Fund	Water Utility Fund	Sewer Utility Fund	Totals		Internal Service Fund - 2018
				2018	2017	
Cash flows from operating activities:						
Receipts from customers and users	\$1,929,963	\$1,119,618	\$716,405	\$3,765,986	\$3,682,360	\$ -
Receipts from interfund charges for employee benefits	-	-	-	-	-	73,199
Payments to suppliers	(1,490,498)	(130,452)	(104,238)	(1,725,188)	(1,693,634)	-
Payments to employees and benefit providers	(234,391)	(186,104)	(186,104)	(606,599)	(600,719)	(73,199)
Net cash flows provided by (used in) operating activities	205,074	803,062	426,063	1,434,199	1,388,007	0
Cash flows from noncapital financing activities:						
Transfers to other funds	(160,000)	(18,494)	(32,964)	(211,458)	(183,423)	-
Due to other funds - payments	-	(11,928)	(14,003)	(25,931)	(51,862)	-
Net cash flows provided by (used in) noncapital financing activities	(160,000)	(30,422)	(46,967)	(237,389)	(235,285)	0
Cash flows from capital and related financing activities:						
Special assessment collections	-	46,358	46,742	93,100	43,599	-
Acquisition of capital assets	(9,797)	(506,735)	(1,001,762)	(1,518,294)	(674,582)	-
Proceeds from issuance of long-term debt	-	488,289	668,211	1,156,500	-	-
Principal paid on long-term debt	-	(474,740)	(103,098)	(577,838)	(561,837)	-
Interest paid on long-term debt	-	(167,879)	(52,939)	(220,818)	(191,273)	-
Net cash flows provided by (used in) capital and related financing activities	(9,797)	(614,707)	(442,846)	(1,067,350)	(1,384,093)	0
Cash flows from investing activities:						
Investment income	2,135	10,706	9,822	22,663	31,053	-
Net increase (decrease) in cash and cash equivalents	37,412	168,639	(53,928)	152,123	(200,318)	0
Cash and cash equivalents - January 1	295,801	1,964,568	1,630,623	3,890,992	4,091,310	-
Cash and cash equivalents - December 31	\$333,213	\$2,133,207	\$1,576,695	\$4,043,115	\$3,890,992	\$0
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$165,028	\$616,238	\$313,768	\$1,095,034	\$1,109,011	\$39,172
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:						
Depreciation	11,480	197,585	122,173	331,238	312,681	-
Changes in assets and liabilities:						
Decrease (increase) in receivables	-	(10,384)	(20,544)	(30,928)	(6,045)	-
Decrease (increase) in prepaid items	(209)	(2,949)	(2,949)	(6,107)	-	-
Decrease (increase) in inventory	38,874	-	-	38,874	(37,878)	-
Decrease (increase) in deferred outflows of resources	-	-	-	-	-	82,755
Increase (decrease) in accounts payable	(9,131)	1,563	12,604	5,036	5,686	-
Increase (decrease) in salaries payable	2,408	642	643	3,693	1,562	-
Increase (decrease) in compensated absences payable	(3,376)	367	368	(2,641)	2,990	-
Increase (decrease) in OPEB and net pension liability	-	-	-	-	-	(167,476)
Increase (decrease) in deferred inflows of resources	-	-	-	-	-	45,549
Total adjustments	40,046	186,824	112,295	339,165	278,996	(39,172)
Net cash provided by operating activities	\$205,074	\$803,062	\$426,063	\$1,434,199	\$1,388,007	\$0

The accompanying notes are an integral part of these financial statements.

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Pine City, Minnesota (the City) is a statutory city operating under Chapter 412 of Minnesota Statutes and under a number of other statutes that apply to cities. The government of the City is directed by a Council composed of an elected mayor and four other elected members. The Council exercises legislative authority and determines matters of policy. The Council appoints the City Administrator who is responsible for the administration of all affairs relating to the City.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

**COMPONENT UNITS**

The Economic Development Authority (EDA) is an entity legally separate from the City. However, for financial reporting purposes, the EDA is reported as if it were part of the City's operations (as a blended component unit) because the members of the City Council serve as EDA board members and its activity is confined to the City. The City established the EDA under State statutes to assist and support economic development projects undertaken within the City which are under the statutory authority of the EDA. The City reviews and approves tax levies and other financial matters related to the EDA. The City provides major financing of EDA activities and debt issued in connection with EDA projects. Separate financial statements are not prepared for the EDA.

The Pine City Housing and Redevelopment Authority (HRA) is an entity legally separate from the City. Established in 1966, the HRA helps to facilitate housing needs in the community. The HRA owns and manages Hillside Court, a thirty-four unit income-based apartment complex where tenants pay rent based on their household income. For financial reporting purposes, the HRA is a discretely presented component unit and its financial data is displayed in a separate column on the Statement of Net Position and the Statement of Activities. The HRA's governing body consists of a five-member Board of Commissioners appointed by the City Council. The City's mayor and one councilmember occupy two of the five seats. Due to this arrangement, as well as policies and initiatives established by the City Council, the primary government has the ability to impose its will on the HRA. The fiscal year-end of the HRA is March 31, and its financial data as of and for the year ended March 31, 2019 is included in these financial statements. Separate financial statements are not prepared for the HRA.

**RELATED ORGANIZATION**

The Pine City Fire Department Relief Association (the Association) is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. The Association's Board of Trustees is appointed by the membership of the Association and not by the City Council. All funding is conducted in accordance with Minnesota Statutes, whereby state aid flows to the Association and the Association pays benefits directly to its members. Because the Association is fiscally independent of

the City, the financial statements of the Association have not been included within the City's reporting entity.

## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or business-type activity. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or business-type activity; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not 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 expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues, except property taxes and reimbursement grants, to be available if they are collected within 90 days of the end of the current fiscal period. Property taxes are considered available if they are collected within 60 days of the end of the current year. Reimbursement grants are considered available if they are collected within one year 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.

**CITY OF PINE CITY, MINNESOTA**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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

The City 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 *Refunding Bonds of 2016A Debt Service Fund* was established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest associated with the crossover refunding bond.

The *Capital Improvement Fund* accounts for the accumulation of resources used to purchase capital equipment and make other capital improvements.

The *2018 Street Projects Fund* accounts for the accumulation of resources used to finance the Industrial Street / Madeline Court improvement project and other 2018 street projects.

The City reports the following major proprietary funds:

The *Liquor Fund* is an enterprise fund that is used to account for operations of the City's off-sale liquor operation.

The *Water Utility Fund* accounts for the water service charges which are used to finance the water operating expenses.

The *Sewer Utility Fund* accounts for sewer service charges which are used to finance the sewer operating expenses.

Additionally, the City reports an Internal Service Fund which is used to account for pension and other post-employment benefits provided to other funds on a cost reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

#### **D. BUDGETS**

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the General Fund and the Cemetery, Economic Development Authority, and Housing Operations Special Revenue Funds. Budgeted expenditure appropriations lapse at year end.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

#### **E. LEGAL COMPLIANCE - BUDGETS**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) The City Administrator submits to the City Council a proposed operating budget for the upcoming year in August. The operating budget includes proposed revenues and expenditures and the operating levy associated with operations.
- 2) The City Council and staff meet to review the proposed budget and Council recommends any appropriate changes.
- 3) Public hearings are conducted in September and December to obtain taxpayer comments and recommendations to the operating budget.
- 4) The budget and tax levy is legally enacted through the passage of a resolution on a department basis for the General Fund and on a fund basis for the Cemetery, Economic Development Authority, and Housing Operations Special Revenue Funds and Enterprise Funds that can be expended by each department based upon detailed budget estimates.
- 5) The City Administrator and Treasurer are authorized to transfer appropriations within any department budget. Interdepartmental or interfund appropriations and deletions are authorized by the City Council with fund contingency reserves or additional revenues.
- 6) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue, Capital Improvement and Enterprise Funds. The General Fund and the Cemetery, Economic Development Authority, and Housing Operations Special Revenue Funds and Enterprise Funds all have Council adopted annual budgets.
- 7) Legal debt obligation indentures determine the appropriation level of debt service tax levies for the Debt Service Funds. Supplementary budgets are adopted for the Proprietary Funds to determine and calculate user charges. These debt service and budget amounts represent general obligation bond indenture provisions and net income for operation and capital maintenance and are not reflected in the financial statements.

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- 8) A capital improvement program is reviewed annually by the City Council for the Capital Project Funds. However, appropriations for major projects are not adopted until the actual bid award of the improvement. The appropriations are not reflected in the financial statements.
- 9) The legal level of budgetary control is at the department level for the General Fund and the fund level for the Cemetery, Economic Development Authority, and Housing Operations Special Revenue Funds. Monitoring of budgets is maintained at the expenditure category level (i.e., personal services; materials and supplies; contractual services; and capital outlay) within each program. All amounts over budget have been approved by the City Council through the disbursement process.
- 10) The City Council may authorize transfer of budgeted amounts between City funds. The City Council made supplemental budgetary appropriations throughout the year. Individual amendments were not material in relation to the original appropriations which were adjusted.

The following is a listing of the General Fund departments whose expenditures exceed budget appropriations:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Budget</u>
General Fund:			
General government	\$513,636	\$524,138	\$10,502
Public safety	686,533	746,180	59,647
Culture and recreation	178,755	182,555	3,800

**F. CASH AND INVESTMENTS**

Cash and investment balances from all funds are pooled and invested to the extent available in authorized investments. Investment income is allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund balances are eliminated on the government-wide financial statements.

Investments are stated at fair value except for investments in external investment pools that meet the GASB 79 requirement, which are stated at amortized cost. Investment income is accrued at the balance sheet date.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the Proprietary Funds have original maturities of 90 days or less. Therefore, the entire balance in the Proprietary Funds is considered cash equivalents.

**G. RECEIVABLES AND PAYABLES**

The estimated portion of uncollectible property taxes and special assessments is not material and has not been reported. Because utility bills are considered liens on property, no estimated uncollectible amounts are established. Uncollectible amounts are not material for other receivables and have not been reported.

**H. PROPERTY TAX REVENUE RECOGNITION**

The City Council annually adopts a tax levy and certifies it to the County in December of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City during July and December of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes property tax revenue in the period for which the taxes were levied. Uncollectible property taxes are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes received by the City in July, December and January are recognized as revenue for the current year. Taxes collected by the County by December 31 (remitted to the City the following January) are classified as due from county. Taxes not collected by the county by December 31 are classified as delinquent taxes receivable. Delinquent taxes receivable are fully offset by deferred inflows of resources because they are not available to finance current expenditures.

**I. SPECIAL ASSESSMENT REVENUE RECOGNITION**

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale. Proceeds of sales from tax forfeit properties are allocated first to the County's costs of administering all tax forfeit properties. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments that are collected by the County by December 31 (remitted to the City the following January) are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funds are fully offset by deferred inflows of resources.

**J. INVENTORIES**

GOVERNMENTAL FUNDS

Inventories are valued at cost using the first-in, first-out (FIFO) method. The cost of such inventories are recorded as expenditures when consumed rather than when purchased. These funds do not maintain material amounts of inventory.

PROPRIETARY FUNDS

Inventories of the Proprietary Funds are stated at weighted average cost, which approximates market, using the first-in, first-out (FIFO) method.

**K. PREPAID ITEMS**

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

**L. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and intangible assets such as easements and computer software, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized

Property, plant and equipment of the primary government, as well as the component units, are depreciated/amortized using the straight-line method over the following estimated useful lives:

Assets	
Buildings and improvements	10 – 50 years
Other improvements	5 – 100 years
Equipment, furniture and fixtures	3 – 50 years
Infrastructure	30 – 100 years

**M. COMPENSATED ABSENCES**

It is the City's policy to permit employees to accumulate earned but unused personal leave benefits. All personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive personal leave benefits. However, a liability is recognized for that portion of accumulating personal leave benefits that is vested as severance pay.

**N. LONG-TERM OBLIGATIONS**

In the government-wide financial statements and proprietary funds 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 funds statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

**O. PENSION PLANS**

COST SHARING MULTIPLE – EMPLOYER PLANS

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 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.

SINGLE EMPLOYER PLAN

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pine City Fire Department Relief Association (Relief) and additions to / deductions from the Relief's fiduciary net position have been determined on the same basis as they were reported by the Relief. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

DEFINED CONTRIBUTION PLAN – HRA

All eligible employees as determined by the local HRA HUD approved personnel policy are covered by a defined contribution plan. See Note 8 for details.

**P. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has two items that qualify for reporting in this category. They are the pension and other post-employment benefits related deferred outflows of resources reported in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources

(revenue) until that time. The government has pension related deferred inflows of resources reported in the government-wide Statement of Net Position and the proprietary funds Statement of Net Position. The government also has a type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues relating to delinquent property taxes, delinquent and deferred special assessments, and land held for resale.

#### **Q. FUND BALANCE CLASSIFICATIONS**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* - consists of amounts that are not in spendable form, such as prepaid items.

*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 internally imposed constraints. These constraints are established by resolution of the City Council.

*Assigned* - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council policy, the City Administrator and/or City Treasurer are authorized to establish assignments of fund balance.

*Unassigned* - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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.

#### **R. NET POSITION**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**S. INTERFUND TRANSACTIONS**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

The City provides advances to funds that have insufficient cash balances by means of an advance from another fund shown as “due from other funds” in the advancing fund, and “due to other funds” in the fund with the deficit, until adequate resources are received. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

**T. USE OF ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**U. COMPARATIVE TOTALS**

The basic financial statements and schedules and combining fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City’s financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**V. RECLASSIFICATIONS**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

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**W. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “net pension asset and deferred inflows/outflows of resources related to the Pine City Fire Department Relief Association pension plan are not financial resources, and therefore, are not reported in the funds”. The details of this \$221,571 difference are as follows:

Net pension asset	\$245,324
Deferred outflows of resources	25,000
Deferred inflows of resources	<u>(48,753)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$221,571</u></u>

Another element of that reconciliation states that “other long-term assets are not available to pay for current-period expenditures, and therefore, are reported as unavailable revenue in the funds.” The details of this \$582,184 difference are as follows:

Delinquent property taxes receivable	\$34,695
Delinquent special assessments receivable	884
Deferred special assessments receivable	516,605
Land held for resale	<u>30,000</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>\$582,184</u></u>

Another element of that reconciliation states that “long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.” The details of this (\$4,559,908) difference are as follows:

Bonds payable	(\$4,384,000)
Unamortized bond premium	(17,429)
Loan payable	(98,837)
Accrued interest payable	(27,728)
Compensated absences payable	<u>(31,914)</u>
Net adjustment to decrease fund balance - total governmental funds to arrive at net position - governmental activities	<u><u>(\$4,559,908)</u></u>

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**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the City and HRA maintain deposits at depository banks authorized by the City Council and the HRA's Board of Commissioners, all of which are members of the Federal Reserve System.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. Minnesota statutes require that insurance, surety bonds or collateral protect all deposits. The market value of collateral pledged must equal 110% of deposits not covered by insurance or bonds. As of December 31, 2018, the bank balance of the City's deposits was insured by the FDIC or covered by pledged collateral held in the City's name.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the governmental entity or in a financial institution other than that furnishing the collateral. Authorized collateral includes the following:

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

At December 31, 2018, the carrying amount of the City's deposits with financial institutions was \$6,825,526. All deposits were covered by federal depository insurance or perfected collateral provided by the financial institution and held in the City's name.

At December 31, 2018, the carrying amount of the HRA's deposits with financial institutions was \$194,470. All deposits were covered by federal depository insurance.

**B. INVESTMENTS**

Minnesota Statutes authorize the City and HRA to invest in the following:

- a) Direct obligations or obligations guaranteed by the United States or its agencies, its instrumentalities or organizations created by an act of congress, excluding mortgage-backed securities defined as high risk.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above, general obligation tax-exempt securities, or repurchase or reverse repurchase agreements.
- c) State and local securities as follows:
  - 1) any security which is a general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service;
  - 2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and
  - 3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; certain Minnesota securities broker-dealers; or, a bank qualified as a depositor.
- g) General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.

**CITY OF PINE CITY, MINNESOTA**  
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As of December 31, 2018, the City had the following investments and maturities:

Investment Type	Rating	Fair Value	Investment Maturities (in Years)		
			Less Than 1	1-5	6
Brokered CD's	Not rated	\$1,556,343	\$537,425	\$837,560	\$181,358
FNMA note	Aaa	98,745	-	-	98,745
FHLMC note	Aaa	154,229	-	-	154,229
Money market funds	Not rated	210,164	210,164	-	-
<b>Total</b>		<b>\$2,019,481</b>	<b>\$747,589</b>	<b>\$837,560</b>	<b>\$434,332</b>
Total investments					\$2,019,481
Total deposits					6,825,526
Petty cash					1,925
Total cash and investments					<b>\$8,846,932</b>

As of December 31, 2018, the HRA held the following deposits and investments:

Total investments	\$ -
Total deposits	194,470
Petty cash	100
Total cash and investments	<b>\$194,570</b>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy has three levels. Level 1 investments are valued using inputs that are based on quoted prices in active markets for identical assets. Level 2 investments are valued using inputs that are based on quoted prices for similar assets or inputs that are observable, either directly or indirectly. Level 3 investments are valued using inputs that are unobservable.

The City has the following recurring fair value measurements as of December 31, 2018:

Investment Type	12/31/2018	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments at fair value:				
Brokered CD's	1,556,343	-	1,556,343	-
FNMA note	98,745	-	98,745	-
FHLMC note	154,229	-	154,229	-
Total/Subtotal	1,809,317	\$0	\$1,809,317	\$0
Investments not categorized:				
Money market funds	210,164			
Total	<b>\$2,019,481</b>			

**C. INVESTMENT RISKS**

Custodial credit risk – investments – For investments in securities, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. The City’s investment policy does not address custodial risk. However, investments in securities are held by the City’s broker-dealers of which \$500,000 is insured through SIPC. The broker-dealer has provided additional protection by providing additional insurance. This insurance is subject to aggregate limits applied to all of the broker-dealers’ accounts.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt investments could adversely affect the fair value of an investment. The City’s investment policy requires the City to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity. The policy also states the City’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. State law limits investments in commercial paper to those rated in the highest quality category by at least two nationally recognized rating agencies; in any security of the State of Minnesota or any of its municipalities which is rated “A” or better by a national bond rating service for general obligation and rated “AA” or better for a revenue obligation; a general obligation of the Minnesota Housing Finance Agency to those rated “A” or better by a national bond rating agency; mutual funds or money market funds whose investments are restricted to securities described in MS 118A.04. The City’s investment policy does not place further restrictions on investment options.

Concentration of credit risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. Investments in a single issuer exceeding 5% of the City’s overall investment portfolio are in various holdings as follows:

Federal Home Loan Mortgage Corp. note	7.6%
Various Brokered Certificates of Deposit	66.4%

**CITY OF PINE CITY, MINNESOTA**  
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**Note 3 RECEIVABLES**

Significant receivable balances not expected to be collected within one year of December 31, 2018 are as follows:

	Major Funds			Nonmajor Funds	Total
	General	Water	Sewer		
Special assessments receivable	\$ -	\$93,450	\$95,413	\$397,651	\$586,514
Delinquent property taxes	21,600	-	-	-	21,600
Loans receivable	-	-	-	47,259	47,259
	<u>\$21,600</u>	<u>\$93,450</u>	<u>\$95,413</u>	<u>\$444,910</u>	<u>\$655,373</u>

**Note 4 UNAVAILABLE REVENUES**

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	Property Taxes	Special Assessments	Land Held For Resale	Total
Major Fund:				
General Fund	\$34,695	\$708	\$30,000	\$65,403
Nonmajor Funds	-	516,781	-	516,781
	<u>\$34,695</u>	<u>\$517,489</u>	<u>\$30,000</u>	<u>\$582,184</u>

**CITY OF PINE CITY, MINNESOTA**  
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**Note 5 CAPITAL ASSETS**

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

<b>Primary Government</b>	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$251,688	\$ -	\$ -	\$251,688
Construction in progress	76,696	609,143	85,075	600,764
Total capital assets, not being depreciated	<u>328,384</u>	<u>609,143</u>	<u>85,075</u>	<u>852,452</u>
Capital assets, being depreciated:				
Buildings and improvements	3,284,401	-	-	3,284,401
Other improvements	11,848,738	169,480	-	12,018,218
Equipment, furniture and fixtures	3,103,793	117,867	50,000	3,171,660
Total capital assets, being depreciated	<u>18,236,932</u>	<u>287,347</u>	<u>50,000</u>	<u>18,474,279</u>
Less accumulated depreciation for:				
Buildings and improvements	1,281,230	96,877	-	1,378,107
Other improvements	5,293,582	213,425	-	5,507,007
Equipment, furniture and fixtures	2,204,678	152,301	50,000	2,306,979
Total accumulated depreciation	<u>8,779,490</u>	<u>462,603</u>	<u>50,000</u>	<u>9,192,093</u>
Total capital assets being depreciated - net	<u>9,457,442</u>	<u>(175,256)</u>	<u>0</u>	<u>9,282,186</u>
Governmental activities capital assets - net	<u>\$9,785,826</u>	<u>\$433,887</u>	<u>\$85,075</u>	<u>\$10,134,638</u>
<b>Primary Government</b>	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$138,278	\$ -	\$ -	\$138,278
Construction in progress	513,268	2,082,881	569,340	2,026,809
Total capital assets, not being depreciated	<u>651,546</u>	<u>2,082,881</u>	<u>569,340</u>	<u>2,165,087</u>
Capital assets, being depreciated:				
Buildings and improvements	1,152,164	-	-	1,152,164
Water and sewer systems	16,090,134	569,340	-	16,659,474
Equipment, furniture and fixtures	902,623	19,914	92,368	830,169
Total capital assets, being depreciated	<u>18,144,921</u>	<u>589,254</u>	<u>92,368</u>	<u>18,641,807</u>
Less accumulated depreciation for:				
Buildings and improvements	537,691	27,623	-	565,314
Water and sewer systems	3,741,551	281,255	-	4,022,806
Equipment, furniture and fixtures	656,972	22,360	46,492	632,840
Total accumulated depreciation	<u>4,936,214</u>	<u>331,238</u>	<u>46,492</u>	<u>5,220,960</u>
Total capital assets being depreciated - net	<u>13,208,707</u>	<u>258,016</u>	<u>45,876</u>	<u>13,420,847</u>
Business-type activities capital assets - net	<u>\$13,860,253</u>	<u>\$2,340,897</u>	<u>\$615,216</u>	<u>\$15,585,934</u>

**CITY OF PINE CITY, MINNESOTA**  
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<b>Component Unit - HRA</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$14,281	\$ -	\$ -	\$14,281
Capital assets, being depreciated:				
Buildings and improvements	1,283,038	18,743	-	1,301,781
Equipment, furniture and fixtures	62,584	4,260	601	66,243
Total capital assets, being depreciated	<u>1,345,622</u>	<u>23,003</u>	<u>601</u>	<u>1,368,024</u>
Less accumulated depreciation for:				
Buildings and improvements	1,152,486	33,289	-	1,185,775
Equipment, furniture and fixtures	53,097	2,225	601	54,721
Total accumulated depreciation	<u>1,205,583</u>	<u>35,514</u>	<u>601</u>	<u>1,240,496</u>
Total capital assets being depreciated - net	<u>140,039</u>	<u>(12,511)</u>	<u>0</u>	<u>127,528</u>
Component Unit - HRA capital assets - net	<u>\$154,320</u>	<u>(\$12,511)</u>	<u>\$0</u>	<u>\$141,809</u>

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

Governmental activities:	
General government	\$19,069
Public safety	134,400
Public works	262,655
Culture and recreation	16,418
Economic development	30,061
Total depreciation expense - governmental activities	<u>462,603</u>
Business-type activities:	
Liquor	11,480
Water	197,585
Sewer	122,173
Total depreciation expense - business-type activities	<u>331,238</u>
Total depreciation expense	<u>\$793,841</u>
Component Unit - HRA:	
Housing and Redevelopment Authority	<u>\$35,514</u>

**CITY OF PINE CITY, MINNESOTA**  
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**Note 6 LONG-TERM DEBT**

The City issues general obligation bonds to finance its street improvement program, tax increment projects and other City purposes. General obligation bonds are direct obligations of the City and are supported by the full faith and credit of the City. The City has several types of general obligation bonds outstanding at December 31, 2018. Following is a brief description of the different bond types:

- Improvement bonds are issued to finance street improvement projects. These bonds are payable primarily from special assessments levied on benefited properties. The costs of these projects are shared by the City; general property taxes levied provide the revenues for these costs.
- Tax increment bonds were used to finance redevelopment projects and are payable primarily from incremental property taxes derived from the tax increment districts with any deficiency to be provided from general property taxes.
- Building bonds were issued to finance the City’s Fire Hall Project. Property taxes are used to fund the debt service payments.
- General obligation revenue bonds are issued to finance improvements to the City’s water and sewer system. User charges from the Water and Sewer Funds are used to fund the debt service payments. The liability for these bonds is recorded in the Proprietary Funds.

GOVERNMENTAL ACTIVITIES

As of December 31, 2018, the long-term debt of the financial reporting entity consisted of the following:

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Payable 12/31/18
G.O. Bonds:					
G.O. Bonds, Series 2010A	2.00-3.45%	6/9/2010	2/1/2022	\$2,225,000	\$470,000
G.O. Building Bonds, Series 2016A	1.00-2.80%	4/1/2016	12/1/2031	1,315,000	1,315,000
Total general obligation bonds				<u>3,540,000</u>	<u>1,785,000</u>
G.O. Improvement Bonds:					
G.O. Improvement Bonds, Series 2012A	2.00-3.25%	1/1/2012	2/1/2023	645,000	370,000
G.O. Improvement Bonds, Series 2012B	1.20-2.25%	8/1/2012	2/1/2024	610,000	460,000
G.O. Taxable Improvement Bonds, Series 2013B	3.50%	7/25/2013	7/23/2033	585,000	474,000
G.O. Improvement Bonds, Series 2015A	1.35-3.10%	7/15/2015	12/1/2030	720,000	585,000
G.O. Improvement Bonds, Series 2018A	3.125% - 4.00%	9/17/2018	2/1/2034	620,000	620,000
Total general obligation improvement bonds				<u>3,180,000</u>	<u>2,509,000</u>
G.O. Tax Increment Revenue Bonds:					
G.O. Tax Increment Revenue Bonds, Series 2010B	1.00-4.25%	11/1/2010	12/1/2023	1,050,000	90,000
Total - bonded indebtedness				<u>7,770,000</u>	<u>4,384,000</u>
Unamortized bond premiums				17,718	17,429
Loan payable	2.95%	10/17/2016	10/14/2021	169,048	98,837
Compensated absences payable				N/A	31,914
Total City indebtedness - governmental activities				<u>\$7,956,766</u>	<u>\$4,532,180</u>

**CITY OF PINE CITY, MINNESOTA**  
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**BUSINESS-TYPE ACTIVITIES**

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Payable 12/31/18
G.O. Revenue Bonds:					
G.O. Water and Sewer Revenue Bonds, Series 2012A	2.00-3.25%	1/1/2012	2/1/2028	\$7,000,000	\$5,100,000
G.O. Taxable Water and Sewer Revenue Bonds, 2013A	2.75%	7/25/2013	1/1/2053	1,481,000	1,390,000
G.O. Water and Sewer Revenue Bonds, Series 2018A	3.125% - 4.00%	9/17/2018	2/1/2034	1,125,000	1,125,000
Total - bonded indebtedness				9,606,000	7,615,000
Unamortized bond premiums				90,593	62,649
Capital lease payable	0.00%	12/28/2017	12/28/2020	155,350	77,675
Note payable	1.00%	2/17/2012	2/17/2022	250,000	100,000
Compensated absences payable				N/A	51,943
Total City indebtedness - business-type activities				10,101,943	7,907,267
Total City indebtedness				<u>\$18,058,709</u>	<u>\$12,439,447</u>

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending December 31	Governmental Activities					
	G.O. Bonds		G.O. Improvement Bonds		G.O. Tax Increment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$320,000	\$39,005	\$215,000	\$66,566	\$15,000	\$3,825
2020	230,000	32,346	240,000	64,919	15,000	3,188
2021	140,000	28,055	251,000	58,945	20,000	2,550
2022	150,000	25,074	262,000	52,443	20,000	1,700
2023	95,000	22,225	268,000	45,583	20,000	850
2024	100,000	20,325	204,000	39,098	-	-
2025	100,000	18,325	120,000	34,119	-	-
2026	100,000	16,325	121,000	30,094	-	-
2027	105,000	14,125	122,000	26,234	-	-
2028	105,000	11,815	129,000	22,310	-	-
2029	110,000	9,190	135,000	18,199	-	-
2030	115,000	6,440	136,000	13,919	-	-
2031	115,000	3,220	82,000	9,575	-	-
2032	-	-	84,000	6,804	-	-
2033	-	-	90,000	3,838	-	-
2034	-	-	50,000	812	-	-
Total	<u>\$1,785,000</u>	<u>\$246,470</u>	<u>\$2,509,000</u>	<u>\$493,458</u>	<u>\$90,000</u>	<u>\$12,113</u>

**CITY OF PINE CITY, MINNESOTA**  
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Year Ending December 31	Governmental Activities		Business-type Activities			
	Loan Payable		G.O. Revenue Bonds		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$33,951	\$2,493	\$524,000	\$198,647	\$25,000	\$1,000
2020	34,976	1,467	590,000	192,767	25,000	750
2021	29,910	410	605,000	178,982	25,000	500
2022	-	-	626,000	163,687	25,000	250
2023	-	-	647,000	147,149	-	-
2024	-	-	553,000	130,658	-	-
2025	-	-	563,000	114,445	-	-
2026	-	-	594,000	96,681	-	-
2027	-	-	610,000	78,058	-	-
2028	-	-	676,000	57,901	-	-
2029	-	-	112,000	45,552	-	-
2030	-	-	118,000	42,112	-	-
2031	-	-	118,000	38,603	-	-
2032	-	-	119,000	35,038	-	-
2033	-	-	120,000	31,468	-	-
2034	-	-	126,000	27,589	-	-
2035	-	-	37,000	25,135	-	-
2036	-	-	38,000	24,117	-	-
2037	-	-	39,000	23,136	-	-
2038	-	-	40,000	22,000	-	-
2039	-	-	42,000	20,900	-	-
2040	-	-	43,000	19,745	-	-
2041	-	-	44,000	18,613	-	-
2042	-	-	45,000	17,352	-	-
2043	-	-	46,000	16,115	-	-
2044	-	-	48,000	14,850	-	-
2045	-	-	49,000	13,567	-	-
2046	-	-	50,000	12,182	-	-
2047	-	-	52,000	10,807	-	-
2048	-	-	53,000	9,377	-	-
2049	-	-	54,000	7,941	-	-
2050	-	-	56,000	6,435	-	-
2051	-	-	58,000	4,895	-	-
2052	-	-	59,000	3,300	-	-
2053	-	-	61,000	1,682	-	-
Total	<u>\$98,837</u>	<u>\$4,370</u>	<u>\$7,615,000</u>	<u>\$1,851,486</u>	<u>\$100,000</u>	<u>\$2,500</u>

It is not practicable to determine the specific year for payment of long-term accrued compensated absences.

**CITY OF PINE CITY, MINNESOTA**  
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CHANGE IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
G.O. bonds	\$3,310,000	\$ -	\$1,525,000	\$1,785,000	\$320,000
G.O. improvement bonds	2,123,000	620,000	234,000	2,509,000	215,000
G.O. tax increment revenue bonds	105,000	-	15,000	90,000	15,000
Total bonds payable	<u>5,538,000</u>	<u>620,000</u>	<u>1,774,000</u>	<u>4,384,000</u>	<u>550,000</u>
Unamortized bond premiums	-	17,718	289	17,429	-
Loan payable	131,789	-	32,952	98,837	33,951
Compensated absences	<u>33,071</u>	<u>18,691</u>	<u>19,848</u>	<u>31,914</u>	<u>14,878</u>
Total governmental activities	<u>\$5,702,860</u>	<u>\$656,409</u>	<u>\$1,827,089</u>	<u>\$4,532,180</u>	<u>\$598,829</u>
Business-type activities:					
G.O. revenue bonds	\$7,004,000	\$1,125,000	\$514,000	\$7,615,000	\$524,000
Unamortized bond premiums	35,141	31,500	3,992	62,649	-
Capital lease payable	116,513	-	38,838	77,675	38,838
Note payable	125,000	-	25,000	100,000	25,000
Compensated absences	<u>54,584</u>	<u>25,012</u>	<u>27,653</u>	<u>51,943</u>	<u>18,840</u>
Total business-type activities	<u>\$7,335,238</u>	<u>\$1,181,512</u>	<u>\$609,483</u>	<u>\$7,907,267</u>	<u>\$606,678</u>
Component Unit - HRA:					
Compensated absences	<u>\$11,876</u>	<u>\$6,467</u>	<u>\$6,046</u>	<u>\$12,297</u>	<u>\$4,629</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

All long-term bonded indebtedness outstanding at December 31, 2018 is backed by the full faith and credit of the City, including improvement and revenue bond issues. Delinquent assessments receivable at December 31, 2018 totaled \$884.

ADVANCED CROSSOVER REFUNDING

On April 6, 2016, the City issued \$1,315,000 in General Obligation Crossover Refunding Bonds, Series 2016A, with an average interest rate of 2.28% to advance refund \$1,230,000 of outstanding 2011A Series Bonds with an average interest rate of 3.63%. The net proceeds of \$1,272,907 were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the interest on the refunding bonds through December 1, 2018 (the crossover date) and called principal on the refunded bonds on December 1, 2018.

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PLEDGED REVENUE

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year	
		Type	Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
2010A Bonds	Street and Utility Infrastructure improvements	Special assessments Ad valorem taxes	47% 53%	2009 - 2021	\$491,100	\$238,440	\$194,909
2010B Tax Increment Bonds	Golden Horizons TIF District	Tax increment	100%	2011-2023	\$102,113	\$19,463	\$27,068
2012A Improvement Bonds	Infrastructure improvements	Special assessments Ad valorem taxes	11% 89%	2011 - 2022	\$392,025	\$78,940	\$89,574
2012A Revenue Bonds	Utility infrastructure improvements	Water & sewer revenue	100%	2011 - 2027	\$5,825,651	\$626,904	\$1,820,387
2012B Improvement Bonds	Infrastructure improvements	Special assessments Ad valorem taxes	39% 61%	2015 - 2023	\$489,814	\$79,513	\$91,210
2013A Taxable Revenue Bonds	Utility infrastructure improvements	Water & sewer revenue	100%	2015 - 2052	\$2,183,412	\$62,885	\$1,820,387
2013B Taxable Improvement Bonds	Infrastructure improvements	Special assessments Ad valorem taxes	67% 33%	2012 - 2033	\$617,780	\$41,430	\$48,981
2015A Improvement Bonds	Infrastructure improvements	Special assessments Ad valorem taxes	32% 68%	2015-2030	\$698,630	\$61,440	\$70,517
2016A Building Bonds	Fire Hall project	Ad valorem taxes	100%	2019 - 2031	\$1,540,370	\$ -	\$ -
2018A Improvement Bonds	Street and Utility Infrastructure improvements	Special assessments Ad valorem taxes	35% 65%	2019-2033	\$804,209	\$ -	\$ -
2018A Revenue Bonds	Utility infrastructure improvements	Water & sewer revenue	100%	2019-2033	\$1,457,423	\$ -	\$ -

CAPITAL LEASE PAYABLE

On December 28, 2017, the City entered into a lease purchase agreement to finance the purchase of a Vactor sewer truck. The agreement calls for yearly payments of \$38,838, maturing on December 28, 2020.

The present value of future minimum lease payments as of December 31, 2018 is \$77,675. The expense resulting from amortization of the asset is included with depreciation expense.

The net book value of assets acquired under the capital lease at December 31, 2018 is as follows:

	December 31, 2018
Cost	\$165,467
Accumulated depreciation	(16,547)
Net book value	<u>\$148,920</u>

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The following is a schedule of future minimum lease payments:

<u>Year</u>	<u>Payment</u>
2019	\$38,838
2020	38,837
	<u>77,675</u>
Less amount representing interest	<u>-</u>
Present value of future minimum lease payments	<u><u>\$77,675</u></u>

**Note 7 DEFINED BENEFIT PENSION PLANS**

**A. COST SHARING MULTIPLE – EMPLOYER PLANS**

**PLAN DESCRIPTION**

The City participates in the General Employees Retirement Fund (GERF) cost-sharing multiple-employer defined benefit pension plan 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.

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

**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.

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 Plan members is 1.2 % for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% for all years of service. The accrual rates for former Minneapolis Employees Retirement Fund (MERF) members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For

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retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). 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.

**CONTRIBUTIONS**

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018; the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the GERP for the year ended December 31, 2018, were \$63,283. 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 \$671,258 for its proportionate share of the GERP's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million 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 \$22,024. 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 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 .0121% which was a decrease of .0008% from its proportion measured as of June 30, 2017.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended December 31, 2018, the City recognized pension expense of \$38,333 for its proportionate share of the GERP's pension expense. In addition, the City recognized an additional \$5,136 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the GERP.

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At December 31, 2018, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$17,767	\$18,931
Changes in actuarial assumptions	62,002	75,423
Difference between projected and actual investment earnings	-	71,098
Changes in proportion	22,102	47,385
Contributions paid to PERA subsequent to the measurement date	32,126	-
Total	<u>\$133,997</u>	<u>\$212,837</u>

\$32,126 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense</u>
2019	\$18,655
2020	(45,347)
2021	(70,263)
2022	(14,011)
2023	-
Thereafter	-

**ACTUARIAL ASSUMPTIONS**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Growth	3.25% per year after 26 years of service
Investment Rate of Return	7.50%

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50% for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25% after one year of service, to 3.25% after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA’s experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015.

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 benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

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 (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

**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 position of the General Employees Fund was projected to be available to make all projected future

benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected-benefit payments to determine the total pension liability.

**PENSION LIABILITY SENSITIVITY**

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the GERF net pension liability	\$1,090,881	\$671,258	\$324,872

**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](http://www.mnpera.org).

**B. SINGLE EMPLOYER PLAN**

**PLAN DESCRIPTION**

All members of the Pine City Fire Department are covered by a defined benefit pension plan administered by the Relief. The Plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statutes, Chapters 69 and 424A.

**BENEFITS PROVIDED**

The Relief provides retirement benefits to members and benefits to survivors upon death of eligible members. Benefits are established in accordance with the State Statute and vest after twenty years of credited service. Benefit provisions can be amended by the Relief within the parameters provided by State Statutes.

Twenty Year Service Pension

Each member who is at least 50 years of age; has retired from the Pine City Fire Department; has served at least 20 years of active service with such department before retirement; and has been a member of the Relief in good standing at least 20 years prior to such retirement; shall be entitled to a service pension in the amount of \$2,600 annually for up to five years.

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Death Benefits

Upon the death of any retired member of the Relief Association who has received benefits for fewer than five years, the member's accrued benefit would be payable immediately to the surviving spouse or child for the remainder of the five year period.

State Supplemental Benefits

Minnesota Statute 424A.10 provides for the payment of a supplemental benefit equal to ten percent of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of a State income tax exclusion for lump sum distributions and will no longer be available if State tax law is modified to exclude lump sum distributions from State income tax. The Relief qualifies for these benefits.

**EMPLOYEES COVERED BY BENEFIT TERMS**

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

Active members	22
Retired/disabled members receiving benefits	28
Retired members entitled to benefits, but have not received them	<u>2</u>
Total	<u><u>52</u></u>

**CONTRIBUTIONS**

Minnesota Statutes Chapter 424A.092 sets the minimum contribution requirement for the City and State aid on an annual basis. These statutes are established and amended by the state legislature. The Relief is comprised of volunteers; therefore, members have no contribution requirements. The City receives the State aid contribution and is required by state statutes to pass this through as payment to the Relief. The City's contributions to the Relief for the year ended December 31, 2018 were \$25,000. The City's contributions exceeded the required contribution of \$9,890 as set by state statute. State aid contributions for the year ended December 31, 2018 were \$59,053.

**NET PENSION LIABILITY**

The City's net pension liability (asset) was measured using a one-year lookback as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2017.

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**ACTUARIAL ASSUMPTIONS**

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

Valuation date	01/01/17
Measurement date (assets and funded status)	12/31/17
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
	Closed Period
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	5.00%
20-year municipal bond yield	3.50%
Projected salary increases	2.50%
Includes inflation at	None
Cost-of-living adjustments	None
Age of service retirement	50
Post retirement benefit increase	None

Post retirement mortality is based on RP-2014 generational projected with Improvement Scale MP-2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation. All results are then rounded to the nearest quarter percentage point.

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

**CITY OF PINE CITY, MINNESOTA**  
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Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan’s asset allocation as of the measurement date are summarized in the following table:

Asset Class	Portfolio Weight	Expected Class Return
Cash	24.00%	2.25%
Fixed income	28.00%	3.50%
Equities	47.00%	7.50%
Other	1.00%	6.00%
Total (weighted ave, rounded to 1/4%)	100.00%	5.00%

**DISCOUNT RATE**

The discount rate used to measure the total pension liability was 5.00%. The liability discount rate was developed using the alternative method described in paragraph 43 of GASB 67, which states that “if the evaluations required by paragraph 41 can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan, alternative methods may be applied in making the evaluations.” The determination of the discount rate assumed that the plan’s current overfunded status, combined with Minnesota statutory funding requirements, provide sufficient reliability that projected plan assets will be adequate to pay future retiree benefits. Therefore, the plan’s long-term expected return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF PINE CITY, MINNESOTA**  
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**CHANGES IN THE NET PENSION LIABILITY (ASSET)**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at January 1, 2017	\$1,014,473	\$1,157,304	(\$142,831)
Changes for the year:			
Service cost	15,635	-	15,635
Interest	49,915	-	49,915
Differences between expected and actual experience	-	-	-
Change of assumptions	-	-	-
Plan changes	23,831	-	23,831
Contributions - employer	-	24,000	(24,000)
On behalf contributions - State of MN	-	57,672	(57,672)
Contributions - employee	-	-	-
Projected investment return	-	58,148	(58,148)
Gain or loss	-	58,830	(58,830)
Benefit payments, including refunds of employee contributions	(63,600)	(63,600)	-
Administrative expense	-	(6,776)	6,776
Net changes	25,781	128,274	(102,493)
Balance at December 31, 2017	\$1,040,254	\$1,285,578	(\$245,324)

During the measurement period, the benefit level increased from \$2,400 to \$2,600.

**PENSION LIABILITY (ASSET) SENSITIVITY**

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4%) or 1-percentage-point higher (6%) than the current rate:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Net pension liability (asset)	(\$120,124)	(\$245,324)	(\$348,856)

**PENSION EXPENSE AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES  
RELATED TO PENSIONS**

For the year ended December 31, 2018, the City recognized pension expense of (\$31,993). The City also recognized \$59,053 for the year ended December 31, 2018, as pension expense (and grant revenue) for the State of Minnesota's on-behalf contribution to the plan. At December 31, 2018, the City reported 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 projected and actual investment earnings	\$ -	\$48,753
City contribution to the Fire Relief subsequent to the measurement date	25,000	-
Total	<u>\$25,000</u>	<u>\$48,753</u>

**CITY OF PINE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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\$25,000 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense
2019	(\$12,330)
2020	(12,330)
2021	(12,327)
2022	(11,766)
2023	-
Thereafter	-

**PENSION PLAN FIDUCIARY NET POSITION**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Relief Association financial report. That report may be obtained by writing to Pine City Fire Department Relief Association, 3505 Silver Lake Road, Pine City, Minnesota, 55418.

**C. PENSION EXPENSE**

Pension expense recognized by the City for the fiscal year ended December 31, 2018 is as follows:

GERF	\$43,469
Fire Relief	<u>(31,993)</u>
Total	<u><u>\$11,476</u></u>

**Note 8 DEFINED CONTRIBUTION PENSION PLAN - HRA**

All eligible employees of the HRA, as determined by the local HRA HUD approved personnel policy, are covered by a pension plan with the Housing-Renewal and Local Agency Retirement Plan. The plan is funded by employer and employee contributions of 16% and 0% of gross wages, respectively. Pension amounts for the year ended March 31, 2019 are as follows:

Total payroll	\$64,238
Covered payroll	64,238
Employer contributions	10,278

**Note 9 OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

For the year ended December 31, 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. GASB Statement No. 75 established new accounting and financial reporting requirements for government whose employees are provided OPEB. Net position has been restated as a result of the change in accounting principle.

**A. PLAN DESCRIPTION**

In addition to providing the pension benefits described in Note 7, the City provides post-employment health care benefits, as defined in paragraph B, through its group health insurance plan (the plan). The plan is a single-employer defined benefit OPEB plan administered by the City. The authority to provide these benefits is established in Minnesota Statutes Sections 471.61 Subd. 2a and 299A.465. The benefits, benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual and collective bargaining agreements with employee groups. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**B. BENEFITS PROVIDED**

The City is required by State Statute to allow retirees to continue participation in the City's group health insurance plan if the individual terminates service with the City through service retirement or disability retirement. Active employees who retire from the City when over age 55 and with 5 years of service may continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program until age 65.

The City provides health coverage for firefighters disabled or killed in the line of duty in accordance with Minnesota Statute 299A.465. The amount of coverage provided is equal to the employer portion of health insurance premiums that would have otherwise been paid if the officer or firefighter was an active employee. During 2018, the City did not have any firefighters eligible for this benefit.

The City also pays 50% of the health care premiums for three retirees and one beneficiary, and 50% of the dental premiums for one retiree until age 65. During 2018, the City paid \$10,085 for these benefits. Two current employees are eligible to receive City reimbursement for 50% of their health care premiums upon retirement. The benefit is not available to any other current or future employees.

All health care coverage is provided through the City's group health insurance plans. Other than as described in the previous paragraph, the retiree is required to pay 100% of their premium cost for the City-sponsored group health insurance plan in which they participate. The premium is a blended rate determined on the entire active and retiree population. Since the projected claims costs for retirees exceed the blended premium paid by retirees, the retirees are receiving an implicit rate subsidy (benefit). The coverage levels are the same as those afforded to active employees. Upon a retiree reaching age 65, Medicare becomes the primary insurer and the City's plan becomes secondary.

**CITY OF PINE CITY, MINNESOTA**  
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**C. PARTICIPANTS**

As of the January 1, 2018 actuarial valuation, participants of the plan consisted of:

Active employees	12
Inactive employees or beneficiaries currently receiving benefits	<u>4</u>
Total	<u><u>16</u></u>

**D. TOTAL OPEB LIABILITY AND CHANGES IN TOTAL OPEB LIABILITY**

The City's total OPEB liability of \$141,303 was measured as of January 1, 2018, and was determined by an actuarial valuation as of that date. Changes in the total OPEB liability during 2018 were:

Balance - beginning of year	\$156,510
Changes for the year:	
Service cost	3,635
Interest	4,896
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	<u>(23,738)</u>
Net changes	<u>(15,207)</u>
Balance - end of year	<u><u>\$141,303</u></u>

**E. ACTUARIAL ASSUMPTIONS AND OTHER INPUTS**

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.00%
Discount rate	3.30%
Investment rate of return	3.30%
Healthcare cost trend rates	6.5% as of January 1, 2018 decreasing to 5.00% over 6 years
Dental trend rate	4.00%

Since the plan is funded on a pay-as-you-go basis, both the discount rate and the investment rate of return was based on the 20 year AA rated municipal bond yield. Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale. Based on past experience of the plan, 50% of future retirees are assumed to continue medical coverage until age 65.

**CITY OF PINE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**F. SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE**

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.3%) or 1% higher (4.3%) than the current discount rate:

	1% Decrease (2.3%)	Discount Rate (3.3%)	1% Increase (4.3%)
Total OPEB liability	<u>\$147,997</u>	<u>\$141,303</u>	<u>\$134,829</u>

**G. SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES**

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.5% decreasing to 4.0%) or 1% higher (7.5% decreasing to 6.0%) than the current healthcare cost trend rates:

	1% Decrease (5.5% decreasing to 4.0%)	Healthcare Cost Trend Rates (6.5% decreasing to 5.0%)	1% Increase (7.5% decreasing to 6.0%)
Total OPEB liability	<u>\$132,899</u>	<u>\$141,303</u>	<u>\$150,847</u>

**H. OPEB EXPENSE AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO OPEB**

For the year ended December 31, 2018, the City recognized (\$4,306) of OPEB expense. At December 31, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid subsequent to the measurement date	<u>\$22,753</u>	<u>\$0</u>

\$22,753 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019.

**CITY OF PINE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 10 DUE TO / FROM OTHER FUNDS AND TRANSFERS**

Amounts reported as due to/from other funds at December 31, 2018 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Major Funds:		
Capital Improvement Fund	\$239,659	\$ -
Water Utility Fund	-	71,567
Sewer Utility Fund	-	84,018
Nonmajor funds:		
Economic Development Authority	8,345	-
Golden Horizons TIF Fund	-	8,345
2009 Street Improvement	155,585	155,585
2017 Street Improvement	-	84,074
	<u>          </u>	<u>          </u>
Total	<u><u>\$403,589</u></u>	<u><u>\$403,589</u></u>

Due to/from balances in the amount of \$248,004 represent borrowing/lending arrangements to cover deficit cash balances at the end of the fiscal year. In addition, the Water and Sewer Funds owe the 2009 Street Improvement Fund \$155,585 for construction cost overages. The amount is being repaid at a rate of \$25,931 per year through the year 2024.

Interfund transfers made during 2018 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$135,000	\$20,000
Refunding Bonds of 2016A	14,074	-
Capital Improvement Fund	80,000	1,650
Liquor Fund	-	160,000
Water Utility Fund	-	18,494
Sewer Utility Fund	-	32,964
Nonmajor funds	<u>64,108</u>	<u>60,074</u>
	<u>          </u>	<u>          </u>
Total	<u><u>\$293,182</u></u>	<u><u>\$293,182</u></u>

Transfers were made to fund capital purchases / projects, to close funds, and to allocate financial resources to funds that received benefit from services provided by another fund. All transfers are considered routine and consistent with previous practices.

**CITY OF PINE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 11 DEFICIT FUND BALANCES / NET POSITION**

The City has deficit fund balances / net position at December 31, 2018 as follows:

	<u>Amount</u>
Nonmajor funds:	
2017 Street Improvement	\$86,477
2019 Street Projects	20,122
Internal Service Fund	868,648

The deficits of the nonmajor funds will be eliminated with transfers, future taxes and assessments, or bonding. Because the GERP pension plan continues to report a net pension liability, the deficit balance of the Internal Service Fund is not expected to be eliminated. The City will continue to contribute amounts to each pension plan as required by state statutes.

**Note 12 FUND BALANCE**

**A. CLASSIFICATIONS**

At December 31, 2018, governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Refunding Bonds of 2016A</u>	<u>Capital Improvement Fund</u>	<u>2018 Street Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:						
Prepaid items	\$10,211	\$ -	\$ -	\$ -	\$ -	\$10,211
Restricted for:						
Debt service	-	13,104	-	-	662,970	676,074
Revolving loans	-	-	-	-	479,921	479,921
Tax increment purposes	-	-	-	-	78,252	78,252
Park improvements	-	-	-	-	13,731	13,731
Total restricted	<u>0</u>	<u>13,104</u>	<u>0</u>	<u>0</u>	<u>1,234,874</u>	<u>1,247,978</u>
Committed for:						
Emergency purposes	-	-	200,000	-	-	200,000
Economic development	-	-	-	-	109,412	109,412
Cemetery operations	-	-	-	-	183,636	183,636
Housing purposes	-	-	-	-	24,027	24,027
Total committed	<u>0</u>	<u>0</u>	<u>200,000</u>	<u>0</u>	<u>317,075</u>	<u>517,075</u>
Assigned for:						
Capital projects	-	-	981,103	43,640	219,905	1,244,648
Unassigned	<u>1,631,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(106,599)</u>	<u>1,525,143</u>
Total	<u>\$1,641,953</u>	<u>\$13,104</u>	<u>\$1,181,103</u>	<u>\$43,640</u>	<u>\$1,665,255</u>	<u>\$4,545,055</u>

**B. MINIMUM UNASSIGNED FUND BALANCE POLICY**

The City Council has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the General Fund is property taxes. This revenue source is received in two installments during the year – June and December. As such, it is the City’s goal to begin each fiscal year with sufficient working capital to fund operations between each semi-annual receipt of property taxes.

The policy establishes a year-end targeted unassigned fund balance amount for cash-flow timing needs at 31% of the subsequent year’s budgeted expenditures. At December 31, 2018, the unassigned fund balance of the General Fund was 79% of the subsequent year’s budgeted expenditures, including transfers.

**Note 13 COMMITMENTS AND CONTINGENCIES**

**A. LEASE COMMITMENTS**

Effective January 1, 2015, the City entered into a lease agreement for its office space in Pine City, Minnesota. The term of the lease is 5 years, expiring December 31, 2019. For the year ended December 31, 2018, the City paid \$50,000 in rent under the terms of this lease. Future lease payments are as follows:

Fiscal Year Ended	Amount
2019	\$50,000

**B. CONSTRUCTION COMMITMENTS**

At December 31, 2018, the City had construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

Project	Contract Amount	Remaining Commitment
Snake River Crossing	\$1,896,306	\$362,242
2018 Street Improvement	756,699	109,178
		<u>\$471,420</u>

In addition, during 2019 the City entered into two construction contracts for infrastructure improvements totaling approximately \$2,629,000.

**C. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to the

LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. The City has no deductible and a managed care program to assist employees with their rehabilitation plan. Annual employee hours of service are audited and final premiums are then determined. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property, casualty and automobile insurance coverage are provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portions. These deductibles are considered immaterial to the financial statements.

The City continues to carry commercial insurance for all other risks of loss, including liquor liability, employee health and disability insurance.

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

**D. LITIGATION**

The City has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance; of an immaterial amount; or, in the judgment of the City, remotely recoverable by plaintiffs.

**E. FEDERAL AND STATE FUNDS**

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of the City at December 31, 2018.

**F. TAX INCREMENT DISTRICTS**

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

**CITY OF PINE CITY, MINNESOTA**  
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December 31, 2018

The City has two tax increment pay-as-you-go agreements. The agreements are not a general obligation of the City and are payable solely from available tax increment. Accordingly, these agreements are not reflected in the financial statements of the City. The City has a third tax increment district (Golden Horizons) which has an obligation to make debt service payments on the G.O. Tax Increment Refunding Bonds of 2010B. Details of the tax increment districts are as follows:

	TIF 1-11 (29) Golden Horizon	TIF 1-12 (30) Pine City Bottle Cap Condos	TIF 2-1 (31) DMC
Authorizing law	M.S. 469	M.S. 469	M.S. 469
Year established	2002	2002	2005
Final year of district	2027	2027	2030
Net tax capacity:			
Original	\$373	\$3,189	\$883
Current (payable 2018)	25,336	18,551	16,153
Captured - retained	\$24,963	\$15,362	\$15,270

**Note 14 DEFERRED AD VALOREM TAX LEVIES - BONDED DEBT**

General obligation bond issues sold by the City are financed by ad valorem tax levies and improvement bond issues sold by the City are partially financed by ad valorem tax levies in addition to special assessments levied against the benefiting properties. When a bond issue to be financed partially or completely by ad valorem tax levies is sold, specific annual amounts of such tax levies are stated in the bond resolution and the County Auditor is notified and instructed to levy these taxes over the appropriate years. The future tax levies are subject to cancellation when and if the City has provided alternative sources of financing. The City Council is required to levy any additional taxes found necessary for full payment of principal and interest.

These future scheduled tax levies are not shown as assets in the accompanying financial statements at December 31, 2018.

**Note 15 RECENTLY ISSUED ACCOUNTING STANDARDS**

The Governmental Accounting Standards Boards (GASB) recently approved the following statements which were not implemented for these financial statements:

**Statement No. 83 *Certain Asset Retirement Obligations.*** The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

**Statement No. 84 *Fiduciary Activities.*** The provisions of this Statement are effective for reporting periods beginning after December 15, 2018.

**Statement No. 87 *Leases.*** The provisions of this Statement are effective for reporting periods beginning after December 15, 2019.

**CITY OF PINE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Statement No. 88** *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

**Statement No. 89** *Accounting for Interest Cost Incurred before the End of a Construction Period.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2019.

**Statement No. 90** *Majority Equity Interests.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2018.

**Statement No. 91** *Conduit Debt Obligations.* The provisions of this Statement are effective for reporting periods beginning after December 15, 2020.

The effect these standards may have on future financial statements is not determinable at this time, but it is expected that Statement No. 87 may have a material impact.

**Note 16 CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 established new accounting and financial reporting requirements for governments whose employees are provided OPEB. See Note 9 for further information.

The standard required retroactive implementation which resulted in a restatement of net position for governmental activities at December 31, 2017. Certain amounts necessary to fully restate 2017 financial statements are not determinable, therefore, prior year comparative amounts have not been restated. Details of the prior period adjustment are as follows:

	<u>Governmental Activities</u>
Net position - January 1, 2018, as previously reported	\$9,655,823
Prior period adjustment:	
Effect of implementing GASB Statement No. 75	<u>(132,772)</u>
Net position - January 1, 2018, as restated	<u><u>\$9,523,051</u></u>

**Note 17 CHANGE IN REPORTING ENTITY**

The Pine City Housing and Redevelopment Authority (HRA) is a legally separate entity from the City. Prior to 2018, the financial activity of the HRA was not included in the financial statements of the City because the HRA did not meet the definition of a component unit. Beginning in 2018, the City and HRA began working more closely together on a variety of housing and redevelopment projects. As a result, management determined that the City has the ability to impose its will on the HRA. As such, the HRA now qualifies to be presented as a discrete component unit within the City's financial statements. The HRA's beginning net position of \$318,844 has been included on the Statement of Activities due to the change in reporting entity.

**CITY OF PINE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 18** **SUBSEQUENT EVENT**

The City issued the General Obligation Equipment Certificate, Series 2019A on June 1, 2019 in the amount of \$204,000 to finance the purchase of a sweeper. The equipment certificate contains an interest rate of 3.87% and matures on February 1, 2023.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PINE CITY, MINNESOTA**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended December 31, 2018  
 With Actual Amounts For The Year Ended December 31, 2017

**Statement 9**  
**Page 1 of 2**

	Budgeted Amounts		2018	Variance with	2017
	Original	Final	Actual Amounts	Final Budget - Positive (Negative)	Actual Amounts
<b>Revenues:</b>					
General property taxes	\$703,775	\$703,775	\$733,415	\$29,640	\$776,017
Special assessments	714	714	1,143	429	1,032
Licenses, fees and permits	67,531	67,531	108,132	40,601	71,922
Intergovernmental	711,364	711,364	724,218	12,854	674,446
Charges for services	270,625	270,625	261,935	(8,690)	249,955
Fines and forfeits	6,293	6,293	19,164	12,871	2,757
Investment income	4,110	4,110	969	(3,141)	9,871
Miscellaneous	55,477	55,477	50,599	(4,878)	57,125
<b>Total revenues</b>	<b>1,819,889</b>	<b>1,819,889</b>	<b>1,899,575</b>	<b>79,686</b>	<b>1,843,125</b>
<b>Expenditures:</b>					
<b>General government:</b>					
<b>Current:</b>					
City council	38,411	38,411	23,279	15,132	24,108
Administrative/finance	312,462	314,962	348,936	(33,974)	355,524
Elections	6,765	6,765	3,498	3,267	165
City assessor	17,000	17,000	16,390	610	16,185
Planning	106,998	106,998	105,383	1,615	74,461
Library	29,500	29,500	26,652	2,848	26,892
<b>Total general government</b>	<b>511,136</b>	<b>513,636</b>	<b>524,138</b>	<b>(10,502)</b>	<b>497,335</b>
<b>Public safety:</b>					
<b>Current:</b>					
Fire protection	418,837	377,057	387,415	(10,358)	329,949
Building inspections	110,382	110,382	108,739	1,643	81,170
Dog pound	2,200	2,200	-	2,200	-
Health officer	185,894	185,894	185,712	182	168,813
Legal	11,000	11,000	11,000	-	11,000
Capital outlay	-	-	53,314	(53,314)	-
<b>Total public safety</b>	<b>728,313</b>	<b>686,533</b>	<b>746,180</b>	<b>(59,647)</b>	<b>590,932</b>
<b>Public works:</b>					
<b>Current:</b>					
Streets	516,685	439,384	392,263	47,121	442,449
Capital outlay	-	-	-	-	500
<b>Total public works</b>	<b>516,685</b>	<b>439,384</b>	<b>392,263</b>	<b>47,121</b>	<b>442,949</b>
<b>Culture and recreation:</b>					
<b>Current:</b>					
Recreation/educational/social	28,930	28,930	28,428	502	39,654
Swimming	54,480	54,480	64,008	(9,528)	47,814
Softball fields	17,500	17,500	16,088	1,412	11,300
Parks and playground	57,595	57,595	63,379	(5,784)	57,156
Skating rink	10,350	10,350	10,652	(302)	1,105
Capital outlay	9,900	9,900	-	9,900	2,250
<b>Total culture and recreation</b>	<b>178,755</b>	<b>178,755</b>	<b>182,555</b>	<b>(3,800)</b>	<b>159,279</b>
<b>Total expenditures</b>	<b>1,934,889</b>	<b>1,818,308</b>	<b>1,845,136</b>	<b>(26,828)</b>	<b>1,690,495</b>

**CITY OF PINE CITY, MINNESOTA**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended December 31, 2018  
 With Actual Amounts For The Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
Revenues over (under) expenditures	<u>(\$115,000)</u>	<u>\$1,581</u>	<u>\$54,439</u>	<u>\$52,858</u>	<u>152,630</u>
Other financing sources (uses):					
Transfers in	135,000	135,000	135,000	-	125,000
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>	<u>(19,677)</u>
Total other financing sources (uses)	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>	<u>0</u>	<u>105,323</u>
Net change in fund balance	<u>\$0</u>	<u>\$116,581</u>	<u>169,439</u>	<u>\$52,858</u>	<u>257,953</u>
Fund balance - January 1, as previously reported			1,472,514		1,156,889
Prior period adjustment			<u>-</u>		<u>57,672</u>
Fund balance - January 1, as restated			<u>1,472,514</u>		<u>1,214,561</u>
Fund balance - December 31			<u>\$1,641,953</u>		<u>\$1,472,514</u>

**CITY OF PINE CITY, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**  
For The Last Ten Years

**Statement 10**

	2018
Total OPEB liability:	
Service cost	\$3,635
Interest	4,896
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(23,738)
Net change in total OPEB liability	(15,207)
Total OPEB liability - beginning	156,510
Total OPEB liability - ending	\$141,303
 Covered-employee payroll	 \$716,350
 Total OPEB liability as a percentage of covered-employee payroll	 19.7%

The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2018 and is intended to show a ten year trend. Additional years will be added as they become available.

CITY OF PINE CITY, MINNESOTA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY -  
 GENERAL EMPLOYEES RETIREMENT FUND  
 For The Last Ten Years

Statement 11

Measurement Date June 30,	Fiscal Year Ending December 31,	Pine City's Proportionate Share (Percentage) of the Net Pension Liability	Pine City's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with Pine City (b)	Pine City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with Pine City (a+b)	Covered Payroll (c)	Pine City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2015	0.0123%	\$637,450	\$ -	\$637,450	\$821,238	77.6%	78.2%
2016	2016	0.0128%	1,039,297	13,608	1,052,905	747,728	140.8%	68.9%
2017	2017	0.0129%	823,527	10,351	833,878	830,707	100.4%	75.9%
2018	2018	0.0121%	671,258	22,024	693,282	814,014	85.2%	79.5%

The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF PINE CITY, MINNESOTA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Statement 12**

**SCHEDULE OF PENSION CONTRIBUTIONS - GENERAL EMPLOYEES RETIREMENT FUND**

For The Last Ten Years

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<u>Fiscal Year Ending December 31,</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (c)</u>	<u>Contributions as a Percentage of Covered Payroll (b/c)</u>
2015	\$53,492	\$53,492	\$ -	\$713,227	7.5%
2016	56,711	56,711	-	756,147	7.5%
2017	62,310	62,310	-	830,800	7.5%
2018	63,283	63,283	-	843,773	7.5%

The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF PINE CITY, MINNESOTA

REQUIRED SUPPLEMENTARY INFORMATION

Statement 13

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS -

PINE CITY FIRE DEPARTMENT RELIEF ASSOCIATION

For The Last Ten Years

Fiscal year ending	December 31, 2018	December 31, 2017
Measurement date	December 31, 2017	December 31, 2016
Total pension liability:		
Service cost	\$15,635	\$15,254
Interest	49,915	49,994
Plan changes	23,831	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	(63,600)	(70,800)
Net change in total pension liability	25,781	(5,552)
Total pension liability - beginning	1,014,473	1,020,025
Total pension liability - ending (a)	<u>\$1,040,254</u>	<u>\$1,014,473</u>
Plan fiduciary net position:		
Contributions - employer	\$24,000	\$23,000
Contributions - State of Minnesota	57,672	57,853
Contributions - employee	-	-
Net investment income	58,148	54,887
Gain or loss	58,830	2,817
Benefit payments, including refunds of employee contributions	(63,600)	(70,800)
Administrative expense	(6,776)	(6,353)
Net change in plan fiduciary net position	128,274	61,404
Plan fiduciary net position - beginning	1,157,304	1,095,900
Plan fiduciary net position - ending (b)	<u>\$1,285,578</u>	<u>\$1,157,304</u>
Net pension liability (asset) - ending (a) - (b)	<u>(\$245,324)</u>	<u>(\$142,831)</u>
Plan fiduciary net position as a percentage of the total pension liability	123.6%	114.1%
Covered-employee payroll*	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll*	NA	NA
Annual pension benefit	\$2,600	\$2,400
Number of plan participants	52	52

GASB 68 was implemented in 2017. Information prior to 2017 is not available.

\*The Relief Association is comprised of volunteers, therefore, there are no payroll expenditures.

(i.e., there are no covered payroll amounts or percentage calculations).

**CITY OF PINE CITY, MINNESOTA**

REQUIRED SUPPLEMENTARY INFORMATION

**Statement 14**

SCHEDULE OF PENSION CONTRIBUTIONS - PINE CITY FIRE DEPARTMENT RELIEF ASSOCIATION

For The Last Ten Years

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Fiscal Year Ending December 31,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll*	Contributions as a Percentage of Covered Payroll* (b/c)
2009	\$15,178	\$55,471	(\$40,293)	\$ -	NA
2010	15,178	56,325	(41,147)	-	NA
2011	15,259	56,899	(41,640)	-	NA
2012	15,259	58,325	(43,066)	-	NA
2013	17,714	75,885	(58,171)	-	NA
2014	17,714	76,194	(58,480)	-	NA
2015	14,035	79,676	(65,641)	-	NA
2016	14,035	80,853	(66,818)	-	NA
2017	9,890	81,672	(71,782)	-	NA
2018	9,890	84,053	(74,163)	-	NA

\*The Relief Association is comprised of volunteers, therefore, there are no payroll expenditures. (i.e., there are no covered payroll amounts or percentage calculations).

**CITY OF PINE CITY, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO RSI**  
December 31, 2018

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**Note A LEGAL COMPLIANCE – BUDGETS**

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the department level for the General Fund.

**Note B OPEB INFORMATION**

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. Effective January 1, 2018, medical plan premiums were changed from age-based rates to blended rates which resulted in a liability for a post-employment implicit rate medical subsidy. In addition, the discount rate was changed from 3.5% to 3.3%.

**Note C PENSION INFORMATION**

**PERA – General Employees Retirement Fund**

2018 Changes in Actuarial Assumptions:

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

2017 Changes in Actuarial Assumptions:

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

2016 Changes 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.

**Single Employer – Fire Relief Association**

2018 Changes:

- A benefit level increase from \$2,400 to \$2,600 was reflected in the active liability.

2017 Changes:

- GASB 67 and 68 were implemented.

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

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## **NONMAJOR GOVERNMENTAL FUNDS**

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### SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

### DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of resources for, and payment of, interest, principal and related costs on long-term debt.

### CAPITAL PROJECT FUNDS

Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

**CITY OF PINE CITY, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
December 31, 2018  
With Comparative Totals For December 31, 2017

**Statement 15**

	Special Revenue	Debt Service	Capital Project	Total Nonmajor Governmental	
				2018	2017
<b>Assets</b>					
Cash and investments	\$742,727	\$755,791	\$224,182	\$1,722,700	\$1,862,598
Accrued interest receivable	636	598	182	1,416	1,217
Property taxes receivable:					
Delinquent	-	-	-	-	1,481
Due from county	1,235	-	607	1,842	-
Due from other funds	8,345	-	155,585	163,930	189,861
Special assessments receivable	-	506,009	12,615	518,624	675,190
Loans receivable	50,000	-	-	50,000	7,903
<b>Total assets</b>	<b>\$802,943</b>	<b>\$1,262,398</b>	<b>\$393,171</b>	<b>\$2,458,512</b>	<b>\$2,738,250</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	\$5,947	\$ -	\$22,525	\$28,472	\$30,044
Contracts payable	-	-	-	-	45,082
Due to other funds	-	8,345	239,659	248,004	234,560
Loans payable	-	-	-	-	16,835
<b>Total liabilities</b>	<b>5,947</b>	<b>8,345</b>	<b>262,184</b>	<b>276,476</b>	<b>326,521</b>
<b>Deferred inflows of resources:</b>					
Unavailable revenue	-	504,166	12,615	516,781	668,135
<b>Fund balance (deficit):</b>					
Restricted	479,921	698,879	56,074	1,234,874	1,399,122
Committed	317,075	-	-	317,075	292,994
Assigned	-	51,008	168,897	219,905	168,112
Unassigned	-	-	(106,599)	(106,599)	(116,634)
<b>Total fund balance (deficit)</b>	<b>796,996</b>	<b>749,887</b>	<b>118,372</b>	<b>1,665,255</b>	<b>1,743,594</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$802,943</b>	<b>\$1,262,398</b>	<b>\$393,171</b>	<b>\$2,458,512</b>	<b>\$2,738,250</b>

**CITY OF PINE CITY, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For The Year Ended December 31, 2018**  
**With Comparative Totals For The Year Ended December 31, 2017**

**Statement 16**

	Special Revenue	Debt Service	Capital Project	Total Nonmajor Governmental	
				2018	2017
<b>Revenues:</b>					
General property taxes	\$73,861	\$437,354	\$ -	\$511,215	\$219,344
Tax increment collections	-	27,068	32,751	59,819	60,464
Special assessments	-	182,837	2,082	184,919	235,930
Charges for services	14,600	-	-	14,600	6,675
Investment income	4,114	3,166	1,540	8,820	9,211
Other	2,399	-	-	2,399	39,039
<b>Total revenues</b>	<b>94,974</b>	<b>650,425</b>	<b>36,373</b>	<b>781,772</b>	<b>\$570,663</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Public works	11,713	-	646	12,359	13,792
Culture and recreation	-	-	-	-	750
Economic development	33,906	-	31,149	65,055	59,179
<b>Capital outlay:</b>					
Public works	-	-	28,499	28,499	208,867
Culture and recreation	-	-	8,238	8,238	-
Economic development	81,658	-	-	81,658	-
<b>Debt service:</b>					
Principal	-	544,000	-	544,000	387,121
Interest and fiscal charges	-	127,829	-	127,829	100,217
<b>Total expenditures</b>	<b>127,277</b>	<b>671,829</b>	<b>68,532</b>	<b>867,638</b>	<b>769,926</b>
<b>Revenues over (under) expenditures</b>	<b>(32,303)</b>	<b>(21,404)</b>	<b>(32,159)</b>	<b>(85,866)</b>	<b>(199,263)</b>
<b>Other financing sources (uses):</b>					
Transfers in	31,000	-	33,108	64,108	47,739
Transfers out	(46,000)	(14,074)	-	(60,074)	(13,748)
<b>Total other financing sources (uses)</b>	<b>(15,000)</b>	<b>(14,074)</b>	<b>33,108</b>	<b>4,034</b>	<b>33,991</b>
<b>Net change in fund balance</b>	<b>(47,303)</b>	<b>(35,478)</b>	<b>949</b>	<b>(81,832)</b>	<b>(165,272)</b>
Fund balance - January 1, as previously reported	844,299	785,365	117,423	1,747,087	1,675,488
Prior period adjustment	-	-	-	-	233,378
Fund balance - January 1, as restated	844,299	785,365	117,423	1,747,087	1,908,866
<b>Fund balance - December 31</b>	<b>\$796,996</b>	<b>\$749,887</b>	<b>\$118,372</b>	<b>\$1,665,255</b>	<b>\$1,743,594</b>

<b>Reconciliation of beginning fund balance to prior year ending fund balance:</b>	
Prior year ending fund balance reported above	\$1,743,594
Fund balance of fund 409 reported as nonmajor in prior year, major in current year	3,493
<b>Current year beginning fund balance</b>	<b>\$1,747,087</b>

**CITY OF PINE CITY, MINNESOTA**  
**SUBCOMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
December 31, 2018  
With Comparative Totals For December 31, 2017

	201 Economic Development Authority	203 Revolving Loan Fund
<b>Assets</b>		
Cash and investments	\$101,387	\$429,560
Accrued interest receivable	95	361
Property taxes receivable:		
Due from county	-	-
Due from other funds	8,345	-
Loans receivable	-	50,000
<b>Total assets</b>	<b>\$109,827</b>	<b>\$479,921</b>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Accounts payable	\$415	\$ -
Loans payable	-	-
<b>Total liabilities</b>	<b>415</b>	<b>0</b>
<b>Fund balance:</b>		
Restricted	-	479,921
Committed	109,412	-
<b>Total fund balance</b>	<b>109,412</b>	<b>479,921</b>
<b>Total liabilities and fund balance</b>	<b>\$109,827</b>	<b>\$479,921</b>

204 Cemetery Fund	213 Housing Operations Fund	214 HRA Loan Fund	Total Nonmajor Special Revenue Funds	
			2018	2017
\$183,483	\$6,988	\$21,309	\$742,727	\$845,279
153	27	-	636	\$854
-	1,235	-	1,235	-
-	-	-	8,345	8,345
-	-	-	50,000	7,903
<u>\$183,636</u>	<u>\$8,250</u>	<u>\$21,309</u>	<u>\$802,943</u>	<u>\$862,381</u>
\$ -	\$5,532	\$ -	\$5,947	\$1,247
-	-	-	-	16,835
<u>0</u>	<u>5,532</u>	<u>0</u>	<u>5,947</u>	<u>18,082</u>
-	-	-	479,921	551,305
183,636	2,718	21,309	317,075	292,994
<u>183,636</u>	<u>2,718</u>	<u>21,309</u>	<u>796,996</u>	<u>844,299</u>
<u>\$183,636</u>	<u>\$8,250</u>	<u>\$21,309</u>	<u>\$802,943</u>	<u>\$862,381</u>

**CITY OF PINE CITY, MINNESOTA**  
**SUBCOMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**For The Year Ended December 31, 2018**  
**With Comparative Totals For The Year Ended December 31, 2017**

	201 Economic Development Authority	202 Minnesota Investment RLF Fund	203 Revolving Loan Fund
<b>Revenues:</b>			
General property taxes	\$37,243	\$ -	\$ -
Charges for services	-	-	-
Investment income	551	198	2,254
Other	180	2,219	-
Total revenues	<u>37,974</u>	<u>2,417</u>	<u>2,254</u>
<b>Expenditures:</b>			
<b>Current:</b>			
Public works	-	-	-
Economic development	22,054	-	2,550
<b>Capital outlay:</b>			
Economic development	-	30,624	-
Total expenditures	<u>22,054</u>	<u>30,624</u>	<u>2,550</u>
Revenues over (under) expenditures	<u>15,920</u>	<u>(28,207)</u>	<u>(296)</u>
<b>Other financing sources (uses):</b>			
Transfers in	-	-	9,691
Transfers out	(14,691)	-	-
Total other financing sources (uses)	<u>(14,691)</u>	<u>0</u>	<u>9,691</u>
Net change in fund balance	1,229	(28,207)	9,395
Fund balance - January 1	<u>108,183</u>	<u>28,207</u>	<u>470,526</u>
Fund balance - December 31	<u>\$109,412</u>	<u>\$0</u>	<u>\$479,921</u>

204 Cemetery Fund	205 TIF District 1-1	213 Housing Operations Fund	214 HRA Loan Fund	Total Nonmajor Special Revenue Funds	
				2018	2017
\$ -	\$ -	\$36,618	\$ -	\$73,861	\$36,962
14,600	-	-	-	14,600	6,675
938	42	131	-	4,114	7,405
-	-	-	-	2,399	235
<u>15,538</u>	<u>42</u>	<u>36,749</u>	<u>0</u>	<u>94,974</u>	<u>51,277</u>
11,713	-	-	-	11,713	13,792
-	1,580	7,722	-	33,906	25,075
-	51,034	-	-	81,658	-
<u>11,713</u>	<u>52,614</u>	<u>7,722</u>	<u>0</u>	<u>127,277</u>	<u>38,867</u>
<u>3,825</u>	<u>(52,572)</u>	<u>29,027</u>	<u>0</u>	<u>(32,303)</u>	<u>12,410</u>
-	-	-	21,309	31,000	11,021
<u>(5,000)</u>	<u>-</u>	<u>(26,309)</u>	<u>-</u>	<u>(46,000)</u>	<u>(13,748)</u>
<u>(5,000)</u>	<u>0</u>	<u>(26,309)</u>	<u>21,309</u>	<u>(15,000)</u>	<u>(2,727)</u>
(1,175)	(52,572)	2,718	21,309	(47,303)	9,683
<u>184,811</u>	<u>52,572</u>	<u>-</u>	<u>-</u>	<u>844,299</u>	<u>834,616</u>
<u>\$183,636</u>	<u>\$0</u>	<u>\$2,718</u>	<u>\$21,309</u>	<u>\$796,996</u>	<u>\$844,299</u>

**CITY OF PINE CITY, MINNESOTA**  
**SUBCOMBINING BALANCE SHEET**  
**NONMAJOR DEBT SERVICE FUNDS**  
December 31, 2018  
With Comparative Totals For December 31, 2017

	303 Golden Horizons TIF	305 Improvement Bonds of 2012B	306 Refunding Bonds of 2008B
<b>Assets</b>			
Cash and investments	\$44,218	\$135,361	\$50,987
Accrued interest receivable	36	112	21
Special assessments receivable	-	83,971	-
<b>Total assets</b>	<b>\$44,254</b>	<b>\$219,444</b>	<b>\$51,008</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	8,345	-	-
<b>Total liabilities</b>	<b>8,345</b>	<b>0</b>	<b>0</b>
<b>Deferred inflows of resources:</b>			
Unavailable revenue	-	83,971	-
<b>Fund balance:</b>			
Restricted	35,909	135,473	-
Assigned	-	-	51,008
<b>Total fund balance</b>	<b>35,909</b>	<b>135,473</b>	<b>51,008</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$44,254</b>	<b>\$219,444</b>	<b>\$51,008</b>

307 Refunding Bonds of 2010A	309 Refunding Bonds of 2012A	310 Refunding Bonds of 2013B	311 Improvement Bonds of 2015A	Total Nonmajor Debt Service Funds	
				2018	2017
\$358,163	\$60,689	\$91,607	\$14,766	\$755,791	\$787,034
291	52	74	12	598	581
81,157	23,706	167,397	149,778	506,009	661,226
<u>\$439,611</u>	<u>\$84,447</u>	<u>\$259,078</u>	<u>\$164,556</u>	<u>\$1,262,398</u>	<u>\$1,448,841</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$2,441
-	-	-	-	8,345	8,345
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,345</u>	<u>10,786</u>
80,710	23,706	166,001	149,778	504,166	652,690
358,901	60,741	93,077	14,778	698,879	785,365
-	-	-	-	51,008	-
<u>358,901</u>	<u>60,741</u>	<u>93,077</u>	<u>14,778</u>	<u>749,887</u>	<u>785,365</u>
<u>\$439,611</u>	<u>\$84,447</u>	<u>\$259,078</u>	<u>\$164,556</u>	<u>\$1,262,398</u>	<u>\$1,448,841</u>

**CITY OF PINE CITY, MINNESOTA**  
**SUBCOMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NONMAJOR DEBT SERVICE FUNDS**  
**For The Year Ended December 31, 2018**  
**With Comparative Totals For The Year Ended December 31, 2017**

	303 Golden Horizons TIF	305 Improvement Bonds of 2012B	306 Refunding Bonds of 2008B	307 Refunding Bonds of 2010A
<b>Revenues:</b>				
General property taxes	\$ -	\$74,000	\$ -	\$104,000
Tax increment collections	27,068	-	-	-
Special assessments	-	17,210	-	90,909
Investment income	211	501	101	1,539
Other	-	-	-	-
Total revenues	<u>27,279</u>	<u>91,711</u>	<u>101</u>	<u>196,448</u>
<b>Expenditures:</b>				
Debt service:				
Principal	15,000	70,000	25,000	220,000
Interest and fiscal charges	6,627	10,482	500	18,914
Total expenditures	<u>21,627</u>	<u>80,482</u>	<u>25,500</u>	<u>238,914</u>
Revenues over (under) expenditures	<u>5,652</u>	<u>11,229</u>	<u>(25,399)</u>	<u>(42,466)</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	5,652	11,229	(25,399)	(42,466)
Fund balance - January 1	<u>30,257</u>	<u>124,244</u>	<u>76,407</u>	<u>401,367</u>
Fund balance - December 31	<u>\$35,909</u>	<u>\$135,473</u>	<u>\$51,008</u>	<u>\$358,901</u>

308 Refunding Bonds of 2011A	309 Refunding Bonds of 2012A	310 Refunding Bonds of 2013B	311 Improvement Bonds of 2015A	Total Nonmajor Debt Service Funds	
				2018	2017
\$125,000	\$80,000	\$12,500	\$41,854	\$437,354	\$182,382
-	-	-	-	27,068	24,572
-	9,574	36,481	28,663	182,837	235,930
131	213	356	114	3,166	4,713
-	-	-	-	-	20,020
<u>125,131</u>	<u>89,787</u>	<u>49,337</u>	<u>70,631</u>	<u>650,425</u>	<u>467,617</u>
75,000	70,000	24,000	45,000	544,000	387,121
47,720	9,240	17,430	16,916	127,829	100,217
<u>122,720</u>	<u>79,240</u>	<u>41,430</u>	<u>61,916</u>	<u>671,829</u>	<u>487,338</u>
2,411	10,547	7,907	8,715	(21,404)	(19,721)
-	-	-	-	-	32,968
(14,074)	-	-	-	(14,074)	-
<u>(14,074)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,074)</u>	<u>32,968</u>
(11,663)	10,547	7,907	8,715	(35,478)	13,247
11,663	50,194	85,170	6,063	785,365	772,118
<u>\$0</u>	<u>\$60,741</u>	<u>\$93,077</u>	<u>\$14,778</u>	<u>\$749,887</u>	<u>\$785,365</u>

**CITY OF PINE CITY, MINNESOTA**  
**SUBCOMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECT FUNDS**  
December 31, 2018  
With Comparative Totals For December 31, 2017

	<u>403 TIF District 2-1</u>	<u>404 Bottle Cap TIF District 1-12</u>	<u>405 2009 Street Improvement</u>
<b>Assets</b>			
Cash and investments	\$17,573	\$24,129	\$ -
Accrued interest receivable	14	20	-
Property taxes receivable:			
Delinquent	-	-	-
Due from county	-	607	-
Due from other funds	-	-	155,585
Special assessments receivable	-	-	-
<b>Total assets</b>	<u><u>\$17,587</u></u>	<u><u>\$24,756</u></u>	<u><u>\$155,585</u></u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ -
Contracts payable	-	-	-
Due to other funds	-	-	155,585
<b>Total liabilities</b>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>155,585</u></u>
<b>Deferred inflows of resources:</b>			
Unavailable revenue	-	-	-
<b>Fund balance (deficit):</b>			
Restricted	17,587	24,756	-
Assigned	-	-	-
Unassigned	-	-	-
<b>Total fund balance (deficit)</b>	<u><u>17,587</u></u>	<u><u>24,756</u></u>	<u><u>0</u></u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u><u>\$17,587</u></u>	<u><u>\$24,756</u></u>	<u><u>\$155,585</u></u>

406 2015 Street Improvement	407 2017 Street Improvement	410 2019 Street Projects	425 Park Dedication	Total Nonmajor Capital Project Funds	
				2018	2017
\$168,760	\$ -	\$ -	\$13,720	\$224,182	\$230,285
137	-	-	11	182	(218)
-	-	-	-	-	1,481
-	-	-	-	607	-
-	-	-	-	155,585	181,516
-	12,615	-	-	12,615	13,964
<u>\$168,897</u>	<u>\$12,615</u>	<u>\$0</u>	<u>\$13,731</u>	<u>\$393,171</u>	<u>\$427,028</u>
\$ -	\$2,403	\$20,122	\$ -	\$22,525	\$26,356
-	-	-	-	-	45,082
-	84,074	-	-	239,659	226,215
<u>0</u>	<u>86,477</u>	<u>20,122</u>	<u>0</u>	<u>262,184</u>	<u>297,653</u>
-	12,615	-	-	12,615	15,445
-	-	-	13,731	56,074	62,452
168,897	-	-	-	168,897	168,112
-	(86,477)	(20,122)	-	(106,599)	(116,634)
<u>168,897</u>	<u>(86,477)</u>	<u>(20,122)</u>	<u>13,731</u>	<u>118,372</u>	<u>113,930</u>
<u>\$168,897</u>	<u>\$12,615</u>	<u>\$0</u>	<u>\$13,731</u>	<u>\$393,171</u>	<u>\$427,028</u>

**CITY OF PINE CITY, MINNESOTA**  
**SUBCOMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NONMAJOR CAPITAL PROJECT FUNDS**  
For The Year Ended December 31, 2018  
With Comparative Totals For The Year Ended December 31, 2017

	403 TIF District 2-1	404 Bottle Cap TIF District 1-12	405 2009 Street Improvement
Revenues:			
Tax increment collections	\$15,927	\$16,824	\$ -
Special assessments	-	-	-
Investment income	72	101	214
Other	-	-	-
Total revenues	<u>15,999</u>	<u>16,925</u>	<u>214</u>
Expenditures:			
Current:			
Public works	-	-	-
Culture and recreation	-	-	-
Economic development	15,830	15,319	-
Capital outlay:			
Public works	-	-	-
Culture and recreation	-	-	-
Total expenditures	<u>15,830</u>	<u>15,319</u>	<u>0</u>
Revenues over (under) expenditures	<u>169</u>	<u>1,606</u>	<u>214</u>
Other financing sources:			
Transfers in	-	-	1,650
Net change in fund balance	169	1,606	1,864
Fund balance (deficit) - January 1, as previously reported	17,418	23,150	(1,864)
Prior period adjustment	-	-	-
Fund balance (deficit) - January 1, as restated	<u>17,418</u>	<u>23,150</u>	<u>(1,864)</u>
Fund balance (deficit) - December 31	<u>\$17,587</u>	<u>\$24,756</u>	<u>\$0</u>

406 2015 Street Improvement	407 2017 Street Improvement	408 Snake River Crossing	410 2019 Street Projects	425 Park Dedication	Total Nonmajor Capital Project Funds	
					2018	2017
\$ -	\$ -	\$ -	\$ -	\$ -	\$32,751	\$35,892
-	2,082	-	-	-	2,082	-
785	279	4	-	85	1,540	(2,907)
-	-	-	-	-	-	18,784
<u>785</u>	<u>2,361</u>	<u>4</u>	<u>0</u>	<u>85</u>	<u>36,373</u>	<u>51,769</u>
-	646	-	-	-	646	-
-	-	-	-	-	-	750
-	-	-	-	-	31,149	34,104
-	8,377	-	20,122	-	28,499	208,867
-	-	-	-	8,238	8,238	-
<u>0</u>	<u>9,023</u>	<u>0</u>	<u>20,122</u>	<u>8,238</u>	<u>68,532</u>	<u>243,721</u>
<u>785</u>	<u>(6,662)</u>	<u>4</u>	<u>(20,122)</u>	<u>(8,153)</u>	<u>(32,159)</u>	<u>(191,952)</u>
-	-	31,458	-	-	33,108	3,750
785	(6,662)	31,462	(20,122)	(8,153)	949	(188,202)
168,112	(79,815)	(31,462)	-	21,884	117,423	68,754
-	-	-	-	-	-	233,378
<u>168,112</u>	<u>(79,815)</u>	<u>(31,462)</u>	<u>0</u>	<u>21,884</u>	<u>117,423</u>	<u>302,132</u>
<u>\$168,897</u>	<u>(\$86,477)</u>	<u>\$0</u>	<u>(\$20,122)</u>	<u>\$13,731</u>	<u>\$118,372</u>	<u>\$113,930</u>

## Reconciliation of beginning fund balance to prior year ending fund balance:

Prior year ending fund balance reported above	\$113,930
Fund balance of fund 409 reported as nonmajor in prior year, major in current year	3,493
Current year beginning fund balance	<u>\$117,423</u>

**CITY OF PINE CITY, MINNESOTA**

SPECIAL REVENUE FUND - 201 ECONOMIC DEVELOPMENT AUTHORITY

**Statement 23**

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For The Year Ended December 31, 2018

With Comparative Actual Amounts For The Year Ended December 31, 2017

	2018			2017 Actual
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
General property taxes	\$37,243	\$37,243	\$37,243	\$36,962
Investment income	600	600	551	751
Other	100	100	180	235
Total revenues	<u>37,943</u>	<u>37,943</u>	<u>37,974</u>	<u>37,948</u>
Expenditures:				
Current:				
Economic development	<u>23,252</u>	<u>23,252</u>	<u>22,054</u>	<u>24,086</u>
Revenues over (under) expenditures	14,691	14,691	15,920	13,862
Other financing sources (uses):				
Transfer out	<u>(14,691)</u>	<u>(14,691)</u>	<u>(14,691)</u>	<u>(11,021)</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	1,229	2,841
Fund balance - January 1			<u>108,183</u>	<u>105,342</u>
Fund balance - December 31			<u>\$109,412</u>	<u>\$108,183</u>

**CITY OF PINE CITY, MINNESOTA**  
**SPECIAL REVENUE FUND - 204 CEMETERY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For The Year Ended December 31, 2018  
With Comparative Actual Amounts For The Year Ended December 31, 2017

**Statement 24**

	2018			2017 Actual
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Charges for services	\$8,000	\$8,000	\$14,600	\$6,675
Investment income	2,000	2,000	938	1,487
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>15,538</u>	<u>8,162</u>
Expenditures:				
Current:				
Public works	16,078	16,078	11,713	13,792
Capital outlay	<u>500</u>	<u>500</u>	-	-
Total expenditures	<u>16,578</u>	<u>16,578</u>	<u>11,713</u>	<u>13,792</u>
Revenues over (under) expenditures	(6,578)	(6,578)	3,825	(5,630)
Other financing sources (uses):				
Transfer out	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(2,727)</u>
Net change in fund balance	<u><u>(\$11,578)</u></u>	<u><u>(\$11,578)</u></u>	(1,175)	(8,357)
Fund balance - January 1			<u>184,811</u>	<u>193,168</u>
Fund balance - December 31			<u><u>\$183,636</u></u>	<u><u>\$184,811</u></u>

**CITY OF PINE CITY, MINNESOTA**  
**SPECIAL REVENUE FUND - 213 HOUSING OPERATIONS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For The Year Ended December 31, 2018  
With Comparative Actual Amounts For The Year Ended December 31, 2017

**Statement 25**

	2018			2017 Actual
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
General property taxes	\$37,243	\$37,243	\$36,618	\$ -
Investment income	-	-	131	-
Total revenues	<u>37,243</u>	<u>37,243</u>	<u>36,749</u>	<u>0</u>
Expenditures:				
Current:				
Economic development	<u>2,000</u>	<u>2,000</u>	<u>7,722</u>	<u>-</u>
Revenues over (under) expenditures	35,243	35,243	29,027	0
Other financing sources (uses):				
Transfer out	<u>(35,243)</u>	<u>(35,243)</u>	<u>(26,309)</u>	<u>-</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	2,718	0
Fund balance - January 1			<u>-</u>	<u>-</u>
Fund balance - December 31			<u>\$2,718</u>	<u>\$0</u>