

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 26, 2019

In the opinion of Briggs and Morgan, Professional Association, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences. See "TAX EXEMPTION" herein.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue

Rating Application Made: S&P Global Ratings

CITY OF MAHNOMEN, MINNESOTA (Mahnomen County)

(Minnesota City Credit Enhancement Program)

\$9,705,000* GENERAL OBLIGATION TEMPORARY WATER AND SEWER REVENUE BONDS, SERIES 2019A

PROPOSAL OPENING: October 7, 2019, 10:30 A.M., C.T. **CONSIDERATION:** October 7, 2019, 6:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$9,705,000* General Obligation Temporary Water and Sewer Revenue Bonds, Series 2019A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, and Sections 115.46 and 475.61, by the City of Mahnomen, Minnesota (the "City") to provide temporary financing for the construction of various improvements to the water and sewer system in the City, in anticipation of a long-term loan from the United States Department of Agriculture, Rural Development. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Briggs and Morgan, Professional Association, Minneapolis, Minnesota.

DATE OF BONDS: October 24, 2019

MATURITY: October 1 as follows:

<u>Year</u>	<u>Amount*</u>
2022	\$9,705,000

MATURITY ADJUSTMENTS: * The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: April 1, 2020 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on October 1, 2022 and thereafter are subject to call for prior optional redemption on October 1, 2020 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$9,666,180.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$194,100 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Briggs and Morgan, Professional Association

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the City is required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

TABLE OF CONTENTS

INTRODUCTORY STATEMENT	1	FINANCIAL STATEMENTS	A-1
THE BONDS	1	FORM OF LEGAL OPINION	B-1
GENERAL	1	BOOK-ENTRY-ONLY SYSTEM	C-1
OPTIONAL REDEMPTION	2	FORM OF CONTINUING DISCLOSURE CERTIFICATE ...	D-1
AUTHORITY; PURPOSE	2	TERMS OF PROPOSAL	E-1
ESTIMATED SOURCES AND USES	2		
SECURITY	3		
RATING	3		
CONTINUING DISCLOSURE	4		
LEGAL OPINION	4		
TAX EXEMPTION	5		
QUALIFIED TAX-EXEMPT OBLIGATIONS	6		
MUNICIPAL ADVISOR	6		
MUNICIPAL ADVISOR AFFILIATED COMPANIES ...	6		
INDEPENDENT AUDITORS	7		
RISK FACTORS	7		
VALUATIONS	9		
OVERVIEW	9		
CURRENT PROPERTY VALUATIONS	10		
2018/19 NET TAX CAPACITY BY CLASSIFICATION .	11		
TREND OF VALUATIONS	11		
LARGER TAXPAYERS	12		
DEBT	13		
DIRECT DEBT	13		
SCHEDULES OF BONDED INDEBTEDNESS	14		
DEBT LIMIT	17		
OVERLAPPING DEBT	17		
DEBT RATIOS	18		
DEBT PAYMENT HISTORY	18		
FUTURE FINANCING	18		
TAX RATES, LEVIES AND COLLECTIONS	19		
TAX LEVIES AND COLLECTIONS	19		
TAX CAPACITY RATES	19		
LEVY LIMITS	20		
THE ISSUER	21		
CITY GOVERNMENT	21		
EMPLOYEES; PENSIONS; UNIONS	21		
POST EMPLOYMENT BENEFITS	21		
LITIGATION	21		
MUNICIPAL BANKRUPTCY	22		
FUNDS ON HAND	22		
SUMMARY GENERAL FUND INFORMATION	24		
GENERAL INFORMATION	25		
LOCATION	25		
LARGER EMPLOYERS	25		
BUILDING PERMITS	25		
U.S. CENSUS DATA	26		
EMPLOYMENT/UNEMPLOYMENT DATA	26		

CITY OF MAHNOMEN CITY COUNCIL

		<u>Term Expires</u>
Duane Schouveiller	Mayor	January 2021
LuAnn Durant	Council Member	January 2023
Michelle Gieseke	Council Member	January 2021
Deb McArthur	Council Member	January 2023
Dave Wiemer	Council Member	January 2021

ADMINISTRATION

Mitch Berg, City Administrator
Judy Berger, Assistant City Administrator

PROFESSIONAL SERVICES

Briggs and Morgan, Professional Association, Bond Counsel, Minneapolis, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other offices located in Waukesha, Wisconsin and Denver, Colorado)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Mahanomen, Minnesota (the "City") and the issuance of its \$9,705,000* General Obligation Temporary Water and Sewer Revenue Bonds, Series 2019A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on October 7, 2019.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will bear interest at a single rate specified in the proposal of the purchaser and will be payable on April 1 and October 1 of each year, commencing April 1, 2020, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on October 1, 2022 shall be subject to optional redemption prior to maturity on October 1, 2020 or any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, and Sections 115.46 and 475.61, by the City to provide temporary financing for the construction of various improvements to the water and sewer system in the City, in anticipation of a long-term loan from the United States Department of Agriculture, Rural Development (the "USDA") (the "Project").

The City has made an application to the USDA for loan funds in the amount of \$11,919,000 for the municipal water and sewer system improvement project and received an obligation of those funds from USDA on September 17, 2018. The USDA requires the City to issue temporary financing until the Project is complete, at which time they will release their loan proceeds.

ESTIMATED SOURCES AND USES*

Sources		
Par Amount of Bonds	\$9,705,000	
Planned Issuer Equity contribution	<u>173,000</u>	
Total Sources		\$9,878,000
Uses		
Total Underwriter's Discount (0.400%)	\$38,820	
Costs of Issuance	78,000	
Deposit to Capitalized Interest (CIF) Fund	319,173	
Deposit to Project Construction Fund	9,441,345	
Deposit to Project Fund	<u>662</u>	
Total Uses		\$9,878,000

*Preliminary, subject to change.

SECURITY

The Bonds are general obligations of the City for which its full faith, credit and taxing powers are pledged without limitation as to rate or amount. The Bonds are payable from capitalized interest and proceeds.. The long-term bonds will be issued pursuant to Minnesota Statutes, Chapter 475 and Sections 115.46 and 444.075, and are expected to be paid from a combination of long-term bonds or additional temporary bonds, property taxes and utility revenues. Should the revenues pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy a tax for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

Nothing shall preclude the City from levying taxes for the payment of the sewer portion of the Bonds as permitted by Minnesota Statutes, Section 115.46.

The City anticipates using the proceeds of a loan from the USDA to provide permanent financing for the project.

RATING

The City will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from S&P Global Ratings ("S&P"). S&P has a policy which assigns a minimum rating of "AAA" to issuers participating in the MNCEP. The "AAA" rating is based on the State of Minnesota's current "AAA" rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM" for further details.

The City currently has an "A+" underlying rating from S&P and will be requesting an underlying rating on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM

By resolution adopted for this issue on September 3, 2019 (the "Resolution"), the City has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 446A.086 (the "Act"), which provides for payment by the State of Minnesota in the event of a potential default of certain obligations. The City has entered into a Credit Enhancement Program Agreement (the "Agreement") with the Minnesota Public Facilities Authority (the "Authority"), which is acting on behalf of the State of Minnesota. The provisions of the Agreement shall be binding on the City as long as any obligations of the issue remain outstanding.

The City covenants in the Agreement to deposit with the paying agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment. Under the Agreement, if the City believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Authority not less than 15 business days prior to the date a payment is due on the Bonds if the City will be unable to make all or a portion of the payment. The City's agreement with the Paying Agent for the Bonds requires the Paying Agent to immediately inform the Minnesota Commissioner of Management and Budget, with a copy to the Authority, if the Paying Agent becomes aware of a default or potential default in the payment of principal or interest on the Bonds, or if, on the day two business days before the date a payment is due on the Bonds, there are insufficient funds on deposit with the Paying Agent to make the payment.

If the City is unable to make any portion of the payment on the Bonds on or before the date due, the State of Minnesota, acting through the Authority, shall make such payment in its place pursuant to the Act, providing that funds are available in the State General Fund. The obligation to make a payment under the Act is not a general obligation of the State of Minnesota. The Act does not obligate the Minnesota legislature to provide for the availability of funds in the General Fund for this purpose.

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board ("MSRB ") through its Electronic Municipal Market Access ("EMMA ") system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the City.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Briggs and Morgan, Professional Association, Minneapolis, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION

On the date of issuance of the Bonds, Briggs and Morgan, Professional Association, Bond Counsel, will render an opinion, that, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts. The opinions are subject to the condition that the City complies with all applicable federal tax requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences.

Other Federal and State Tax Considerations

Other Tax Considerations

Though excluded from gross income, interest on the Bonds is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation, taxation to the extent it is included as part of (a) the adjusted current earnings of a corporation for purposes of the alternative minimum tax, (b) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (c) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (d) minimum effectively connected net investment income of a foreign insurance company. Interest on the Bonds is also taken into account in other ways for federal income tax purposes, including without implied limitation, (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers who may be subject to such collateral consequences should consult their tax advisers.

Original Issue Discount

Some of the Bonds ("the OID Bonds) may be sold at initial public offering prices which are less than the principal amounts payable at maturity. For each maturity of OID Bonds, original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds are sold. The appropriate portion of such original issue discount allocable to the original and each subsequent holder will be treated as interest and excluded from gross income for federal income tax purposes and will increase a holders' tax basis in such Bonds for purposes of determining gain or loss upon sale, exchange, redemption, or payment at maturity. Owners of such Bonds should consult their own tax advisors with respect to the computation and determination of the portion of original issue discount which will be treated as interest and added to a holder's tax basis during the period such Bonds are held.

Original Issue Premium

Some of the Bonds may be sold at initial public offering prices which are greater than the principal amounts payable at maturity. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the federal, state and local tax consequences of owning and selling Bonds acquired at a premium.

Proposed Changes in Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. No prediction is made whether such provisions will be enacted as proposed or concerning other future legislation affecting the tax treatment of interest on the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

The above is not a comprehensive list of all federal tax consequences that may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State of Minnesota income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2018 have been audited by Brady, Martz & Associates, P.C., Grand Forks, North Dakota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (utility revenues and federal loan program funds) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2016/17	2017/18	2018/19
Residential homestead ¹	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%	First \$500,000 - 1.00% Over \$500,000 - 1.25%
Agricultural homestead ¹	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,050,000 - 0.50% ² Over \$2,050,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,940,000 - 0.50% ² Over \$1,940,000 - 1.00% ²	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,900,000 - 0.50% ² Over \$1,900,000 - 1.00% ²
Agricultural non-homestead	Land - 1.00% ²	Land - 1.00% ²	Land - 1.00% ²
Seasonal recreational residential	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³	First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³
Residential non-homestead:	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$115,000 - .75% Over \$115,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$121,000 - .75% Over \$121,000 - .25%	1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$139,000 - .75% Over \$139,000 - .25%
Industrial/Commercial/Utility ⁵	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%	First \$150,000 - 1.50% Over \$150,000 - 2.00%

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2018/19 Economic Market Value \$47,303,737¹

	2018/19 Assessor's Estimated Market Value	2018/19 Net Tax Capacity
Real Estate	\$43,783,900	\$474,981
Personal Property	<u>3,006,100</u>	<u>58,455</u>
Total Valuation	<u>\$46,790,000</u>	\$533,436
Less: Captured Tax Increment Tax Capacity ²		<u>(9,158)</u>
Taxable Net Tax Capacity		<u>\$524,278</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Mahanomen is about 98.95% of the actual selling prices of property most recently sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the City of \$47,303,737.

² The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City of Mahanomen.

2018/19 NET TAX CAPACITY BY CLASSIFICATION

	2018/19 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 142,012	26.62%
Agricultural	2,612	0.49%
Commercial/industrial	217,900	40.85%
Public utility	170	0.03%
Railroad operating property	8,073	1.51%
Non-homestead residential	104,214	19.54%
Personal property	58,455	10.96%
Total	<u>\$533,436</u>	<u>100.00%</u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Taxable Net Tax Capacity²	Percent +/- in Estimated Market Value
2014/15	\$38,571,000	\$32,069,900	\$437,375	\$430,861	+ 0.64%
2015/16	38,998,800	32,708,721	444,148	437,632	+ 1.11%
2016/17	38,259,400	32,741,873	453,340	447,207	- 1.90%
2017/18	39,636,100	34,001,496	470,241	464,412	+ 3.60%
2018/19	46,790,000	40,461,606	533,436	524,278	+18.05%

¹ Net Tax Capacity is includes tax increment values.

² Taxable Net Tax Capacity does not include tax increment values.

LARGER TAXPAYERS

Taxpayer	Type of Property	2018/19 Net Tax Capacity	Percent of City's Total Net Tax Capacity
White Earth Bank of Chippewa	Commercial	\$ 67,208	12.60%
Otter Tail Power Company	Transmission Lines	40,244	7.54%
Wild Rice Electric Co-Op, Inc.	Commercial	25,210	4.73%
CHS, Inc.	Commercial	24,488	4.59%
4 Czechs, LLC	Commercial	15,208	2.85%
Cenex Harvest States	Struct-RR Operating	9,046	1.70%
Community Co-Ops of Lake Park	Utility	8,434	1.58%
DBD DGRP 17, LLC	Commercial	7,186	1.35%
Soo Line Railroad Company	Railroad	6,792	1.27%
Mahnomen Area Assisted Living	Apartments	6,233	1.17%
Total		<u>\$210,049</u>	<u>39.38%</u>

City's Total 2018/19 Net Tax Capacity \$533,436

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Mahnomen County.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total g.o. debt being paid from tax abatement revenues	\$ 30,925
Total g.o. debt being paid from utility revenues	<u>1,822,833</u>
Total General Obligation Debt*	<u><u>\$1,853,758</u></u>

Temporary Revenue Debt

Issue Date	Name of Issue	Final Maturity	Principal Outstanding
10/24/2019	G.O. Temporary Water and Sewer Revenue Bonds, Series 2019A (includes the Bonds)*	10/01/2022	\$9,705,000

Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations ²	<u>\$ 250,335</u>
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*Preliminary, subject to change.

¹ Outstanding debt is as of the dated date of the Bonds.

² Non-general obligation debt has not been included in the debt ratios.

**City of Mahanomen, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Tax Abatement Revenues
(As of 10/24/2019)**

**Taxable Tax Abatement Bonds
Series 2016A**

Dated Amount	11/21/2016 \$38,656	
Maturity	08/15	
Calendar Year Ending		
	Principal	Interest
2020	7,731	619
2021	7,731	464
2022	7,731	309
2023	7,731	155
	30,925	1,546

Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
7,731	619	8,350	23,194	25.00%	2020
7,731	464	8,195	15,462	50.00%	2021
7,731	309	8,040	7,731	75.00%	2022
7,731	155	7,886	0	100.00%	2023
30,925	1,546	32,471			

**City of Mahanomen, Minnesota
Schedule of Bonded Indebtedness
Non-General Obligation Debt Secured by Annual Appropriation
(As of 10/24/2019)**

**Liquor Store Lease
Series 2010**

Dated Amount	11/01/2010	
	\$500,050	
Maturity	Monthly	

Calendar Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2019	5,858	2,157	5,858	2,157	8,014	244,478	2.34%	2019
2020	36,230	11,857	36,230	11,857	48,087	208,248	16.81%	2020
2021	38,161	9,928	38,161	9,928	48,089	170,087	32.06%	2021
2022	40,195	7,896	40,195	7,896	48,090	129,892	48.11%	2022
2023	42,337	5,755	42,337	5,755	48,092	87,555	65.02%	2023
2024	44,593	3,500	44,593	3,500	48,093	42,962	82.84%	2024
2025	42,962	1,125	42,962	1,125	44,087	0	100.00%	2025
	250,335	42,218	250,335	42,218	292,553			

DEBT LIMIT

The statutory limit on debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" (Minnesota Statutes, Section 475.51, subd. 4) is the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of the following: (1) obligations payable wholly or partly from special assessments levied against benefitted property; (2) warrants or orders having no definite or fixed maturity; (3) obligations issued to finance any public revenue producing conveniences (includes the Bonds); (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) funds held as sinking funds for payment of principal and interest on debt other than those deductible under 1-4 above; (6) other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

2018/19 Assessor's Estimated Market Value	\$46,790,000
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 1,403,700
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	<u>0</u>
Unused Debt Limit	<u><u>\$ 1,403,700</u></u>

OVERLAPPING DEBT¹

Taxing District	2018/19 Taxable Net Tax Capacity	% In City	Total G.O. Debt ²	City's Proportionate Share
I.S.D. No. 432 (Mahnomon Public Schools)	\$3,579,826	14.6453%	\$8,255,000 ³	<u>\$1,208,970</u>
City's Share of Total Overlapping Debt				<u><u>\$1,208,970</u></u>

¹ Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. Does **not** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 31.9% of the principal and interest of the District's general obligation bonds. Assuming this percentage continues for the life of the issue, the State's proportionate share of principal is \$2,633,345.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$47,303,737)	Debt/ Current Population Estimate (1,257)
Direct G.O. Debt Being Paid From:			
Tax Abatement Revenues	\$ 30,925		
Utility Revenues	<u>1,823,666</u>		
Total General Obligation Debt	\$ 1,854,591		
Less: G.O. Debt Paid Entirely from Revenues ¹	<u>(1,823,666)</u>		
Tax Supported General Obligation Debt	\$ 30,925	0.07%	\$24.60
 City's Share of Total Overlapping Debt ²	 <u>\$ 1,208,970</u>	 <u>2.56%</u>	 <u>\$961.79</u>
 Total	 <u><u>\$ 1,239,895</u></u>	 <u><u>2.62%</u></u>	 <u><u>\$986.39</u></u>

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City has no current plans for additional financing in the next 12 months.

¹ Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

² After deducting the City's proportionate share of State Equalization Aid applicable to the underlying school districts of \$385,661.28, the City's net underlying debt is \$823,308.72, which results in a net underlying debt/market value ratio of 1.74% and net underlying debt/current population ratio of \$654.98.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date ²	% Collected
2014/15	\$208,253	\$203,117	\$208,022	99.89%
2015/16	208,622	204,198	208,286	99.84%
2016/17	217,117	213,595	216,440	99.69%
2017/18	217,442	212,322	212,322	97.65%
2018/19	228,412	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.³ Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES⁴

	2014/15	2015/16	2016/17	2017/18	2018/19
Mahnomen County	72.812%	72.251%	70.769%	72.938%	74.367%
City of Mahnomen	48.405%	47.657%	48.652%	46.849%	43.575%
I.S.D. No. 432 (Mahnomen Public Schools)	10.815%	15.455%	19.895%	22.306%	22.443%
Wild Rice Watershed	5.267%	5.109%	4.985%	6.556%	6.275%

Referendum Market Value Rates:

I.S.D. No. 432 (Mahnomen Public Schools)	0.16101%	0.15977%	0.15140%	0.13375%	0.13351%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Mahnomen County.

¹ This reflects the Final Levy Certification of the City after all adjustments have been made.

² Collections are through December 31, 2018.

³ Second half tax payments on agricultural property are due on November 15th of each year.

⁴ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

LEVY LIMITS

The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. For taxes levied in 2013, payable in 2014, only, the Legislature imposed a one year levy limit on all counties with a population greater than 5,000, and all cities with a population greater than 2,500. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers and Associates.

THE ISSUER

CITY GOVERNMENT

The City of Mahanomen was organized as a municipality in 1905. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator and Assistant City Administrator are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 9 full-time and 6 part-time employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

The City does not have any Recognized and Certified Bargaining Units.

POST EMPLOYMENT BENEFITS

The City does not pay directly for retirees' post-employment benefits. The City has some obligations for post-employment benefits as mandated by State Statutes. Specifically, the City is required to allow retirees to be covered by the City's health care plan as long as the retiree pays his/her premiums. Retiree membership in a health care plan typically increases costs of the premiums. This increased cost is commonly known as implicit price subsidy.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (As of December 31, 2018)

Fund	Total Cash and Investments
General	\$2,184,928
Debt Service	197,694
Enterprise Funds	<u>817,905</u>
Total Funds on Hand	<u><u>\$3,200,527</u></u>

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

	2016	2017	2018
Water			
Total Operating Revenues	\$318,177	\$320,007	\$ 354,214
Less: Operating Expenses	<u>(271,124)</u>	<u>(304,410)</u>	<u>(284,962)</u>
Operating Income	\$ 47,053	\$ 15,597	\$ 69,252
Plus: Depreciation	<u>92,674</u>	<u>93,276</u>	<u>94,342</u>
Revenues Available for Debt Service	<u><u>\$139,727</u></u>	<u><u>\$108,873</u></u>	<u><u>\$ 163,594</u></u>
Sewer			
Total Operating Revenues	\$260,658	\$254,228	\$ 259,132
Less: Operating Expenses	<u>(219,523)</u>	<u>(249,599)</u>	<u>(239,283)</u>
Operating Income	\$ 41,135	\$ 4,629	\$ 19,849
Plus: Depreciation	<u>94,128</u>	<u>94,616</u>	<u>97,559</u>
Revenues Available for Debt Service	<u><u>\$135,263</u></u>	<u><u>\$ 99,245</u></u>	<u><u>\$ 117,408</u></u>
Liquor Store			
Total Operating Revenues	\$370,826	\$366,875	\$ 367,169
Less: Operating Expenses	<u>(386,877)</u>	<u>(409,099)</u>	<u>(402,797)</u>
Operating Income	\$ (16,051)	\$ (42,224)	\$ (35,628)
Plus: Depreciation	<u>31,483</u>	<u>28,969</u>	<u>26,820</u>
Revenues Available for Debt Service	<u><u>\$ 15,432</u></u>	<u><u>\$ (13,255)</u></u>	<u><u>\$ (8,808)</u></u>

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the City's 2018 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING DECEMBER 31				
	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Adopted Budget ¹
Revenues					
Property taxes	\$ 134,666	\$ 119,723	\$ 134,619	\$ 210,085	\$ 228,449
Intergovernmental	1,134,026	1,252,113	865,214	909,789	984,576
Charges for services	39,166	53,440	45,853	42,640	128,972
Interest earnings	23,207	32,944	17,407	30,883	15,000
Grants	0	122,450	0	0	0
Contributions and donations	76,742	73,500	72,000	75,750	0
Special assessment	0	0	0	7,139	0
Other miscellaneous revenues	111,137	67,945	157,604	70,988	178,470
Total Revenues	\$ 1,518,944	\$ 1,722,115	\$ 1,292,697	\$ 1,347,274	\$ 1,535,467
Expenditures					
Current:					
General government	\$ 340,969	\$ 291,400	\$ 331,843	\$ 300,848	\$ 677,705
Public safety	470,386	392,720	395,095	442,192	381,663
Public works	162,321	136,255	97,043	99,895	241,573
Culture and recreation	21,821	20,493	36,864	38,460	97,537
Economic development	83,695	419,517	101,212	34,691	26,046
Capital outlay	196,896	87,766	561,351	128,099	0
Debt Service	15,500	15,600	15,833	75,906	0
Total Expenditures	\$ 1,291,588	\$ 1,363,751	\$ 1,539,241	\$ 1,120,091	\$ 1,424,524
Excess of revenues over (under) expenditures	\$ 227,356	\$ 358,364	\$ (246,544)	\$ 227,183	\$ 110,943
Other Financing Sources (Uses)					
Sale of capital asset	\$ 0	\$ 0	\$ 65,000	\$ 7,554	
Issuance of notes payable	0	0	100,000	0	
Issuance of capital lease	98,973	0	0	0	
Operating transfers in	0	166,000	0	0	
Total Other Financing Sources (Uses)	\$ 98,973	\$ 166,000	\$ 165,000	\$ 7,554	
Net Changes in Fund Balances	\$ 326,329	\$ 524,364	\$ (81,544)	\$ 234,737	
General Fund Balance January 1	1,511,739	1,838,068	2,362,432	2,280,888	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance December 31	\$ 1,838,068	\$ 2,362,432	\$ 2,280,888	\$ 2,515,625	
DETAILS OF DECEMBER 31 FUND BALANCE					
Nonspendable	\$ 15,177	\$ 13,686	\$ 13,505	\$ 13,691	
Restricted	0	100,000	1,024	0	
Assigned	0	173,085	144,053	118,336	
Unassigned	1,822,891	2,075,661	2,122,306	2,383,598	
Total	\$ 1,838,068	\$ 2,362,432	\$ 2,280,888	\$ 2,515,625	

¹ The 2019 budget was adopted on December 17, 2018.

GENERAL INFORMATION

LOCATION

The City of Mahanomen, with a 2010 U.S. Census population of 1,214 and a current population of 1,257, comprising an area of one square mile, is located approximately 250 miles northwest of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the City of Mahanomen include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Shooting Star Casino Hotel	Casinos and event center	1,000
I.S.D. No. (Mahanomen Public Schools)	Elementary and secondary education	135
Mahanomen Health Center	Hospital	125
Mahanomen County	County government and services	106
Gordon Construction	Excavating contractors	50
Wild Rice Electric Co-Op, Inc.	Electric companies	43
Community Cooperative	Oil-Fuel Wholesalers	37
Bruggeman's Supervalu	Grocers-retail	30
Sanford Home Care	Home health care services	30
City of Mahanomen	Municipal government and services	15

Source: *ReferenceUSA, written and telephone survey (August 2019), and the Minnesota Department of Employment and Economic Development.*

BUILDING PERMITS²

The City does not issue building permits.

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

² As of September 4, 2019.

U.S. CENSUS DATA

Population Trend: The City

2000 U.S. Census population	1,202
2010 U.S. Census population	1,214
2017 State Demographer's Estimate	1,257
Percent of Change 2000 - 2010	+ 1.00%

Income and Age Statistics

	The City	Mahnomen County	State of Minnesota	United States
2017 per capita income	\$21,268	\$20,720	\$34,712	\$31,177
2017 median household income	\$36,513	\$42,429	\$65,699	\$57,652
2017 median family income	\$54,286	\$52,286	\$82,785	\$70,850
2017 median gross rent	\$614	\$567	\$906	\$982
2017 median value owner occupied units	\$71,600	\$97,300	\$199,700	\$193,500
2017 median age	44.7 yrs.	35.7 yrs.	37.9 yrs.	37.8 yrs.

	State of Minnesota	United States
City % of 2017 per capita income	61.27%	68.22%
City % of 2017 median family income	65.57%	76.62%

Housing Statistics

	<u>The City</u>		Percent of Change
	2000	2017	
All Housing Units	572	587	2.62%

Source: 2000 and 2010 Census of Population and Housing, and 2017 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Mahnomen County	Mahnomen County	State of Minnesota	
2015	2,266	5.8%	3.7%	
2016	2,257	5.8%	3.9%	
2017	2,244	5.0%	3.4%	
2018	2,223	4.6%	2.9%	
2019, August	2,215	4.2%	3.0%	

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the City requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

**CITY OF MAHNOMEN
MAHNOMEN, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mahnomen, Minnesota, as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 unmodified and qualified audit opinions.

Summary of Opinions

<u>Opinion Units</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
TIF Districts Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Liquor Stores	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

Management has not adopted Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Mahnomen Fire Relief Association. Accounting principles generally accepted in the United States of America require that assets, liabilities, deferred outflows of resources, and deferred inflows of resources for defined benefit pension plans have an actuarial study to determine the effect on net position. The amount by which this departure would affect the assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City of Mahnomen, Minnesota as of December 31, 2018, and the changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mahnomen, Minnesota, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of City's contributions to PERA retirement fund, and schedule of City's and non-employer proportionate share of the net pension liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mahanomen, Minnesota's basic financial statements. The combining statements and combining schedule of revenues, expenditures and changes in fund net position – liquor stores are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2019 on our consideration of the City of Mahanomen, Minnesota's internal control over financial reporting and 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 Mahanomen, 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 Mahanomen, Minnesota's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

May 7, 2019

CITY OF MAHNOMEN
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,093,636	\$ 617,898	\$ 1,711,534
Investments	1,288,986	200,007	1,488,993
Accounts Receivable (Net of Allowance for Uncollectibles of \$16,900 for Governmental & \$9,164 for Business-Type)	8,916	152,572	161,488
Taxes and Special Assessments Receivable	69,056	90,647	159,703
Loans Receivable	1,352	200,133	201,485
Accrued Interest Receivable	2,493	924	3,417
Internal Balances	308,180	(308,180)	-
Inventory	-	134,013	134,013
Prepaid Expenses	13,691	13,429	27,120
Total Current Assets	<u>2,786,310</u>	<u>1,101,443</u>	<u>3,887,753</u>
Non-current Assets:			
Capital Assets:			
Non Depreciable:			
Land	195,177	210,574	405,751
Construction in Progress	-	241,798	241,798
Depreciable:			
Utility Systems and Buildings	907,699	7,957,814	8,865,513
Machinery and Equipment	1,574,681	259,084	1,833,765
Infrastructure	4,068,894	-	4,068,894
Less Accumulated Depreciation	<u>(4,287,959)</u>	<u>(4,090,564)</u>	<u>(8,378,523)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>2,458,492</u>	<u>4,578,706</u>	<u>7,037,198</u>
Other Non-Current Assets			
Loans Receivable	<u>32,557</u>	<u>29,179</u>	<u>61,736</u>
Total Assets	<u>5,277,359</u>	<u>5,709,328</u>	<u>10,986,687</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	<u>22,739</u>	<u>58,903</u>	<u>81,642</u>
Total Deferred Outflows of Resources	<u>22,739</u>	<u>58,903</u>	<u>81,642</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF NET POSITION - CONTINUED
AS OF DECEMBER 31, 2018

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 24,452	\$ 11,672	\$ 36,124
Compensated Absences	9,906	35,942	45,848
Accrued Interest Payable	-	21,170	21,170
Meter Deposits Payable	-	1,800	1,800
Due to Other Governments	-	5,006	5,006
Bonds and Notes Payable - Current Portion	17,731	195,248	212,979
Total Current Liabilities	<u>52,089</u>	<u>270,838</u>	<u>322,927</u>
Non-Current Liabilities:			
Bonds and Notes Payable (Net of Current)	110,092	1,730,935	1,841,027
Net Pension Liability	65,701	294,891	360,592
Total Non-Current Liabilities	<u>175,793</u>	<u>2,025,826</u>	<u>2,201,619</u>
Total Liabilities	<u>227,882</u>	<u>2,296,664</u>	<u>2,524,546</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	20,944	69,462	90,406
Total Deferred Inflows of Resources	<u>20,944</u>	<u>69,462</u>	<u>90,406</u>
NET POSITION			
Net Investment in Capital Assets	2,369,325	2,713,771	5,083,096
Restricted for Debt Service	197,694	-	197,694
Unrestricted	2,484,253	688,334	3,172,587
Total Net Position	<u>\$ 5,051,272</u>	<u>\$ 3,402,105</u>	<u>\$ 8,453,377</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Operating</u>		<u>Capital</u>	<u>Primary Government</u>		
		<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary Government:							
Governmental Activities:							
General Government	\$ 296,200	\$ -	\$ -	\$ -	\$ (296,200)	\$ -	\$ (296,200)
Public Safety	506,354	42,640	-	-	(463,714)	-	(463,714)
Public Works	216,512	-	-	-	(216,512)	-	(216,512)
Culture and Recreation	80,192	-	-	-	(80,192)	-	(80,192)
Economic Development	34,690	-	-	-	(34,690)	-	(34,690)
Interest and Fees	12,053	-	-	-	(12,053)	-	(12,053)
Total Governmental Activities	<u>1,146,001</u>	<u>42,640</u>	<u>-</u>	<u>-</u>	<u>(1,103,361)</u>	<u>-</u>	<u>(1,103,361)</u>
Business-type Activities:							
Water	312,774	354,214	-	-	-	41,440	41,440
Sewer	266,036	296,504	-	-	-	30,468	30,468
Liquor Stores	402,797	367,169	6,000	-	-	(29,628)	(29,628)
Revolving Loan	-	-	7,099	-	-	7,099	7,099
Storm Sewer	4,856	1,144	-	-	-	(3,712)	(3,712)
Total Business-type Activities	<u>986,463</u>	<u>1,019,031</u>	<u>13,099</u>	<u>-</u>	<u>-</u>	<u>45,667</u>	<u>45,667</u>
Total Primary Government	<u>\$ 2,132,464</u>	<u>\$ 1,061,671</u>	<u>\$ 13,099</u>	<u>\$ -</u>	<u>(1,103,361)</u>	<u>45,667</u>	<u>(1,057,694)</u>
General Revenues:							
Property Taxes - General					206,585	-	206,585
Property Taxes - Debt Service					1,454	-	1,454
Property Taxes - TIF District					8,056	-	8,056
State Aid Distribution					909,789	-	909,789
Other Revenues					146,736	20,937	167,673
Proceeds from Sale of Asset					7,554	-	7,554
Special Assessment Interest					2,785	9,622	12,407
Unrestricted Investment Earnings					30,883	5,619	36,502
Transfers					(107,678)	107,678	-
Total General Revenues and Transfers					<u>1,206,164</u>	<u>143,856</u>	<u>1,350,020</u>
Change in Net Position					<u>102,803</u>	<u>189,523</u>	<u>292,326</u>
Net Position - Beginning					<u>4,948,469</u>	<u>3,212,582</u>	<u>8,161,051</u>
Net Position - Ending					<u>\$ 5,051,272</u>	<u>\$ 3,402,105</u>	<u>\$ 8,453,377</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	General	Debt Service	TIF Districts	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 895,942	\$ 197,694	\$ -	\$ 1,093,636
Investments	1,288,986	-	-	1,288,986
Receivables (Net of Allowance for Uncollectibles)	8,917	-	-	8,917
Accrued Interest Receivable	2,493	-	-	2,493
Due from Other Funds	330,048	-	-	330,048
Taxes Receivable	8,624	-	-	8,624
Special Assessments Receivable	60,431	-	-	60,431
Prepaid Expenses	13,691	-	-	13,691
	\$ 2,609,132	\$ 197,694	\$ -	\$ 2,806,826
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 24,452	\$ -	\$ -	\$ 24,452
Due to General Fund	-	-	21,868	21,868
	24,452	-	21,868	46,320
 Deferred Inflows of Resources:				
Unavailable Revenue	69,055	-	-	69,055
	69,055	-	-	69,055
 Fund Balances:				
Nonspendable	13,691	-	-	13,691
Restricted for Debt Service	-	197,694	-	197,694
Assigned for the Fire Department	118,336	-	-	118,336
Unassigned	2,383,598	-	(21,868)	2,361,730
	2,515,625	197,694	(21,868)	2,691,451
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,609,132	\$ 197,694	\$ -	\$ 2,806,826

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

Total Governmental Funds Balance \$ 2,691,451

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 not reported in the governmental funds.

Capital Assets	\$ 6,746,451	
Accumulated Depreciation	<u>(4,287,959)</u>	2,458,492

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

Taxes Receivable	8,624	
Notes Receivable	33,909	
Special Assessments Receivable	<u>60,431</u>	102,964

Net deferred outflows/(inflows) of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported as deferred outflows (inflows) of resources in the governmental funds.

Deferred Outflows of Resources	22,739	
Deferred Inflows of Resources	<u>(20,944)</u>	1,795

Long-term liabilities not due and payable in the current period and therefore are not included in the governmental funds:

Bonds Payable	(127,823)	
Net Pension Liability	(65,701)	
Compensated Absences	<u>(9,906)</u>	<u>(203,430)</u>

Net Position of Governmental Activities \$ 5,051,272

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>TIF Districts</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 210,085	\$ 1,454	\$ 8,056	\$ 219,595
Intergovernmental	909,789	-	-	909,789
Charges for Services	42,640	-	-	42,640
Interest Earnings	30,883	-	-	30,883
Contributions and Donations	75,750	-	-	75,750
Special Assessment	7,139	-	-	7,139
Other Revenue	70,988	-	-	70,988
Total Revenues	<u>1,347,274</u>	<u>1,454</u>	<u>8,056</u>	<u>1,356,784</u>
EXPENDITURES				
Current:				
General Government	300,848	-	-	300,848
Public Safety	442,192	-	-	442,192
Public Works	99,895	-	-	99,895
Culture and Recreation	38,460	-	-	38,460
Economic Development	34,691	-	-	34,691
Capital Outlay	128,099	-	-	128,099
Debt Service and Revolving Loan:				
Principal Retirement	71,970	-	-	71,970
Interest and Fees	3,936	750	7,367	12,053
Total Expenditures	<u>1,120,091</u>	<u>750</u>	<u>7,367</u>	<u>1,128,208</u>
Excess of Revenues over Expenditures	<u>227,183</u>	<u>704</u>	<u>689</u>	<u>228,576</u>
OTHER FINANCING SOURCES				
Sale of Capital Asset	7,554	-	-	7,554
Total Other Financing Sources	<u>7,554</u>	<u>-</u>	<u>-</u>	<u>7,554</u>
Net Change in Fund Balances	234,737	704	689	236,130
Fund Balances - Beginning	<u>2,280,888</u>	<u>196,990</u>	<u>(22,557)</u>	<u>2,455,321</u>
Fund Balances - Ending	<u>\$ 2,515,625</u>	<u>\$ 197,694</u>	<u>\$ (21,868)</u>	<u>\$ 2,691,451</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balance - Total Governmental Funds \$ 236,130

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 128,099	
Depreciation	<u>(214,376)</u>	(86,277)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Taxes Receivable	3,500	
Capital Contribution	(107,678)	
Special Assessments Receivable	<u>(11,354)</u>	(115,532)

Change in net pension liability 11,988

Change in deferred outflows and inflows of resources related to the net pension liability. (12,844)

Repayment of long-term debt principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Bonds Payable	10,000	
Lease Payable	61,970	
Compensated Absences	<u>(2,632)</u>	
Total		<u>69,338</u>

Changes in Net Position \$ 102,803

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
AS OF DECEMBER 31, 2018

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Nonmajor Funds	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ -	\$ 234,679	\$ 372,754	\$ 10,465	\$ 617,898
Investments	7	-	200,000	-	200,007
Accounts Receivable (Net of Allowance for Uncollectibles)	85,260	67,312	-	-	152,572
Loans Receivable	-	-	-	200,133	200,133
Special Assessments Receivable	49,856	40,791	-	-	90,647
Accrued Interest Receivable	-	-	924	-	924
Inventory	18,301	962	114,750	-	134,013
Prepaid Expenses	2,407	2,378	8,644	-	13,429
Total Current Assets	<u>155,831</u>	<u>346,122</u>	<u>697,072</u>	<u>210,598</u>	<u>1,409,623</u>
Non-Current Assets:					
Capital Assets:					
Land	12,850	91,000	106,724	-	210,574
Machinery and Equipment	14,307	40,037	204,740	-	259,084
Utility Systems and Buildings	3,566,009	3,460,623	826,056	105,126	7,957,814
Construction In Progress	207,109	34,689	-	-	241,798
Less Accumulated Depreciation	<u>(1,490,739)</u>	<u>(2,023,319)</u>	<u>(544,676)</u>	<u>(31,830)</u>	<u>(4,090,564)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>2,309,536</u>	<u>1,603,030</u>	<u>592,844</u>	<u>73,296</u>	<u>4,578,706</u>
Other Non-Current Assets:					
Loans Receivable	-	-	-	29,179	29,179
Total Assets	<u>2,465,367</u>	<u>1,949,152</u>	<u>1,289,916</u>	<u>313,073</u>	<u>6,017,508</u>
Deferred Outflows of Resources					
Cost Sharing Defined Benefit Pension Plan	21,792	17,370	19,741	-	58,903
Total Deferred Outflows of Resources	<u>21,792</u>	<u>17,370</u>	<u>19,741</u>	<u>-</u>	<u>58,903</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF NET POSITION – PROPRIETARY FUNDS - CONTINUED
AS OF DECEMBER 31, 2018

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Nonmajor Funds	Total
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 877	\$ 2,868	\$ 7,927	\$ -	\$ 11,672
Compensated Absences	13,715	11,031	11,196	-	35,942
Accrued Interest Payable	10,921	10,249	-	-	21,170
Meter Deposits Payable	1,800	-	-	-	1,800
Due to Other Governments	284	-	4,722	-	5,006
Due to General Fund	40,584	-	264,209	3,387	308,180
Notes Payable - Current Portion	-	-	-	61,248	61,248
Revenue Bonds Payable- Current Portion	62,250	71,750	-	-	134,000
Total Current Liabilities	130,431	95,898	288,054	64,635	579,018
Non-Current Liabilities:					
Revenue Bonds Payable (Net of Current)	857,590	873,345	-	-	1,730,935
Net Pension Liability	102,548	79,017	113,326	-	294,891
Total Non-Current Liabilities	960,138	952,362	113,326	-	2,025,826
Total Liabilities	1,090,569	1,048,260	401,380	64,635	2,604,844
Deferred Inflows of Resources					
Cost Sharing Defined Benefit Pension Plan	21,309	16,352	31,801	-	69,462
Total Deferred Inflows of Resources	21,309	16,352	31,801	-	69,462
NET POSITION					
Net Investment in Capital Assets	1,389,696	657,935	592,844	73,296	2,713,771
Unrestricted	(14,415)	243,975	283,632	175,142	688,334
Total Net Position	\$ 1,375,281	\$ 901,910	\$ 876,476	\$ 248,438	\$ 3,402,105

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities-Enterprise Funds				Totals
	Water	Sewer	Liquor Stores	Non Major Funds	
Operating Revenues:					
Charges for Services	\$ 354,214	\$ 259,132	\$ 929,095	\$ 1,144	\$ 1,543,585
Less: Cost of Sales	-	-	(561,926)	-	(561,926)
Total Operating Revenues	<u>354,214</u>	<u>259,132</u>	<u>367,169</u>	<u>1,144</u>	<u>981,659</u>
Operating Expenses:					
Salaries & Benefits	121,176	93,870	221,248	-	436,294
Insurance	5,708	5,671	11,051	-	22,430
Chemicals	9,820	4,730	-	-	14,550
Utilities	19,730	7,724	25,109	-	52,563
Maintenance and Repair	7,211	8,172	15,438	-	30,821
Testing	763	11,333	-	-	12,096
Supplies	1,260	-	13,261	-	14,521
Meters Expense	5,574	-	-	-	5,574
Depreciation	94,342	97,559	26,820	3,504	222,225
Freight	-	-	3,239	-	3,239
Professional Fees	3,992	6,531	4,817	1,352	16,692
Office Expense	618	325	110	-	1,053
Other	14,768	3,368	81,704	-	99,840
Total Operating Expenses	<u>284,962</u>	<u>239,283</u>	<u>402,797</u>	<u>4,856</u>	<u>931,898</u>
Operating Income (Loss)	<u>69,252</u>	<u>19,849</u>	<u>(35,628)</u>	<u>(3,712)</u>	<u>49,761</u>
Non-Operating Revenues (Expenses):					
Intergovernmental	-	-	6,000	7,099	13,099
Interest Income	231	218	5,170	-	5,619
Interest Expense	(27,812)	(26,753)	-	-	(54,565)
Miscellaneous	566	12,514	7,857	-	20,937
Insurance Proceeds	-	37,372	-	-	37,372
Interest on Special Assessments	5,871	3,751	-	-	9,622
Total Non-Operating Revenue (Expenses)	<u>(21,144)</u>	<u>27,102</u>	<u>19,027</u>	<u>7,099</u>	<u>32,084</u>
Income Before Capital Contributions	48,108	46,951	(16,601)	3,387	81,845
Capital Contributions	<u>59,223</u>	<u>48,455</u>	<u>-</u>	<u>-</u>	<u>107,678</u>
Changes in Net Position	107,331	95,406	(16,601)	3,387	189,523
Total Net Position - Beginning	<u>1,267,950</u>	<u>806,504</u>	<u>893,077</u>	<u>245,051</u>	<u>3,212,582</u>
Total Net Position - Ending	<u>\$ 1,375,281</u>	<u>\$ 901,910</u>	<u>\$ 876,476</u>	<u>\$ 248,438</u>	<u>\$ 3,402,105</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities-Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Liquor Stores</u>	<u>Non Major Funds</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers and Users	\$ 347,024	\$ 256,708	\$ 367,169	\$ 1,144	\$ 972,045
Payments to Suppliers	(89,012)	(63,845)	(146,415)	(1,352)	(300,624)
Payments to Employees	(120,954)	(92,546)	(218,763)	-	(432,263)
Net Cash Provided (Used) by Operating Activities	<u>137,058</u>	<u>100,317</u>	<u>1,991</u>	<u>(208)</u>	<u>239,158</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Due to Other Funds	28,937	-	(38,198)	208	(9,053)
Other Income	566	12,514	7,857	-	20,937
Insurance Proceeds	-	37,372	-	-	37,372
Intergovernmental Revenue	-	-	6,000	7,099	13,099
Special Assessments	15,238	11,415	-	-	26,653
Economic Development Loans Issued	-	-	-	(7,259)	(7,259)
Economic Development Loan Repayments	-	-	-	54,969	54,969
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>44,741</u>	<u>61,301</u>	<u>(24,341)</u>	<u>55,017</u>	<u>136,718</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of Property and Equipment	(93,246)	(142,907)	(12,174)	-	(248,327)
Interest Paid on Capital Debt	(27,777)	(26,904)	-	-	(54,681)
Principal Payments on Long-Term Debt	(61,000)	(73,000)	-	(60,628)	(194,628)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(182,023)</u>	<u>(242,811)</u>	<u>(12,174)</u>	<u>(60,628)</u>	<u>(497,636)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES					
Interest Income	231	218	5,170	-	5,619
Net Cash Provided (Used) by Investing Activities	<u>231</u>	<u>218</u>	<u>5,170</u>	<u>-</u>	<u>5,619</u>
Net Increase (Decrease) in Cash and Investments	7	(80,975)	(29,354)	(5,819)	(116,141)
Cash and Investments, January 1	-	315,654	602,108	16,284	934,046
Cash and Investments, December 31	<u>\$ 7</u>	<u>\$ 234,679</u>	<u>\$ 572,754</u>	<u>\$ 10,465</u>	<u>\$ 817,905</u>

See Notes to the Basic Financial Statements

CITY OF MAHNOMEN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities-Enterprise Funds				
	Water	Sewer	Liquor Stores	Non Major Funds	Totals
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 69,252	\$ 19,849	\$ (35,628)	\$ (3,712)	\$ 49,761
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	94,342	97,559	26,820	3,504	222,225
Changes in Assets and Liabilities:					
Accounts Receivable	(6,240)	(2,424)	-	-	(8,664)
Accrued Interest Receivable	-	-	(479)	-	(479)
Prepaid Insurance	(71)	(40)	2,280	-	2,169
Inventory	(97)	180	4,882	-	4,965
Due to Other Governments	7	-	(488)	-	(481)
Accounts Payable	(19,407)	(16,131)	2,119	-	(33,419)
Compensated Absences	(320)	910	1,336	-	1,926
Net Pension Liability	(7,624)	(5,823)	(16,160)	-	(29,607)
Deferred Pension Inflows	2,307	1,762	4,889	-	8,958
Deferred Pension Outflows	5,859	4,475	12,420	-	22,754
Meter Deposits Payable	(950)	-	-	-	(950)
Net Cash Provided (Used) by Operating Activities	<u>\$ 137,058</u>	<u>\$ 100,317</u>	<u>\$ 1,991</u>	<u>\$ (208)</u>	<u>\$ 239,158</u>
Reconciliation of Cash, Cash Equivalents, and Investments					
Cash and Cash Equivalents	\$ -	\$ 234,679	\$ 372,754	\$ 10,465	\$ 617,898
Investments	7	-	200,000	-	200,007
Total Cash, Cash Equivalents, and Investments	<u>\$ 7</u>	<u>\$ 234,679</u>	<u>\$ 572,754</u>	<u>\$ 10,465</u>	<u>\$ 817,905</u>

See Notes to the Basic Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mahomen operates under a city council form of government. The financial statements of the City of Mahomen have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The City's policy is to include all funds, organizations, institutions, agencies, departments and offices over which the Council exercises significant influence over and/or is financially accountable, or the organizations for which the nature and significance of their relationships with the City is such that exclusion would cause the City's financial statements to be misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit, or is fiscally dependent upon the potential component unit.

Based on the preceding criteria, there are no organizations that have been included in the accompanying financial statements.

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 non-fiduciary activities of the City. For the most part, the effect of inter-fund 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, deferred inflows/outflows of resources, net position, revenues, and expenditures or expenses, as appropriate.

The City has the following funds:

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) General Fund — The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the City, including operation of the City's general service departments such as public safety are accounted for in this fund.
- b) Debt Service Fund — The Debt Service Fund accounts for receipt of property taxes used for the payment of bond principal, interest and fees.
- c) TIF Districts — The Tax Increment Financing Districts were established to promote economic development and redevelopment within the City.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

Enterprise Funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following comprise the City's major enterprise funds:

- a) Water Fund - To account for the operation and maintenance of the City's Water Utility.
- b) Sewer System Fund - To account for the operation and maintenance of the City's Sanitary Sewer System.
- c) Liquor Stores Fund - To account for the operation of the City's two liquor stores.

The other enterprise funds the City considers non-major are:

- d) Storm Water Fund - To account for the operations and maintenance of the City's Storm Water System.
- e) Revolving Loan Fund - The Revolving Loan Fund accounts for the economic development of the City.

depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets

The City submits a proposed budget and levy to the County Auditor's office by September 15. Truth in Taxation public hearings are held in December. The City must prepare a final budget and certify the levy to the County by December 31. A copy of the final budget and prior year revenue and expenditures must be submitted to the State Auditor's office. Expenditures in the General fund were less than the budget by \$345,557.

Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less.

Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Mahnomen as assets with an initial useful life of one year or greater and a cost of \$5,000 or more. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, utility systems, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings and Systems	10-50 Years
Machinery and Equipment	5-7 Years
Infrastructure	25-40 Years

Investments

Investments are reported at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates.

Fair Value Measurements – The Organization accounts for all assets and liabilities that are being measured and reported on a fair value basis in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements.

Measurement Focus and Basis of Accounting

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

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

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to the purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria is met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations.

The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Inventories

Inventories are stated at the lower of cost or net realizable value and consist of consumable supplies. The cost of these supplies is recorded as an expense at the time they are relieved from inventory for use. Inventories are determined by actual count and priced on the first-in, first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2018 are recorded as prepaid items.

Utility Billings Receivable

Utility billings receivables are carried at the original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Utility billing receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A utility billing receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. The largest customer accounts for approximately 30 percent of the utility sales.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The City has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the PERA pension plan as well as amounts paid to the plan after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category. The governmental funds report unavailable revenues from property taxes and special assessments. These amounts are unavailable and recognized as an inflow of resources in the period that the amounts become available. The City also has one item reported on the statement of net position as *cost sharing defined benefit pension plan*, which represents actuarial differences within the PERA pension plan.

Interfund Transactions

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "due to/from other funds" or "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Compensated Absences

City employees accumulate vacation leave hours for subsequent use or for payment upon termination, death or retirement. City employees can also accumulate sick leave. Sick leave will accumulate one day per month up to a maximum of 120 days. Sick leave beyond the 120-day maximum will be banked and computed as severance pay to be payable under certain circumstances of employment termination.

All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Pensions

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

Long-Term Debt

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

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

Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – consists of internally imposed constraints. These constraints are established by formal action 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. Pursuant to Council resolution, the City's Administrator is 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, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

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

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included

in the determination of net investment in capital assets or the restricted component of net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

In accordance with Minnesota Statutes, the City maintains deposits at the depository banks designated by the City Council. All depositories are members of the Federal Reserve System. Investments are valued at amortized costs. The City considers Certificates of Deposit to be cash.

Minnesota laws require all public deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of Minnesota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the State of Minnesota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At December 31, 2018, the City's carrying amount of deposits was \$3,200,527 and the bank balance was \$3,377,518. All of the deposits were covered by Federal Depository Insurance or with securities held by the pledging financial institution's agent in the government's name.

As of December 31, 2018, the City's investments were in certificates of deposits.

Interest Rate Risk

In accordance with Minnesota Statutes, the City has developed a formal investment policy governing that investments will be made, based on statutory constraints, in safe, low risk instruments.

Credit Risk

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

- (a) City obligations or obligations guaranteed by the United States or its agencies.
- (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.

CITY OF MAHONOMIEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

CITY OF MAHONOMIEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

- (c) General obligations of the State of Minnesota or any of its municipalities.
- (d) Bankers Acceptance of United States banks eligible for purchases 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, or certain Minnesota securities broker-dealers.
- (g) Futures contracts sold under authority of Minnesota Statutes 471.56, Subd. 5.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk - Investments

The investment at First National Bank is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 3 TAXES AND SPECIAL ASSESSMENTS RECEIVABLE

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

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

Property taxes are payable in equal installments by property owners to the county as follows: Personal Property - February 29 and June 30; and Real Property - May 15 and October 15.

The county remits the collections to the City and other taxing districts three times a year, in January, July and December.

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

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

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

Special assessments receivable includes the following components:

- Unremitted - Amounts collected by Mahnomien County and not remitted to the City.
- Delinquent - Amounts billed to property owners but not paid.
- Deferred - Assessment installments which will be billed to property owners in future years.

NOTE 4 LOANS RECEIVABLE

The City has entered into agreements with five local businesses to provide funding for economic development. Loans receivable as of December 31, 2018 for the City are as follows:

	Original Loan	Maturity Date	Interest Rate	Balance as of 12/31
Loan 1	\$300,000	12/1/2019	1.00%	\$ 120,000
Loan 2	81,891	4/1/2019	3.00%	67,270
Loan 3	46,091	10/1/2022	1.00%	35,545
Loan 4	33,909	2/1/2028	1.00%	33,909
Loan 5	7,259	8/1/2021	3.00%	6,497

The annual requirements to amortize the loans receivable at December 31, 2018 are as follows:

Year Ending Dec. 31,	Principal	Interest	Total
2019	\$ 200,133	\$ 4,081	\$ 204,214
2020	15,307	630	15,937
2021	14,678	428	15,106
2022	11,553	279	11,832
2023	3,744	206	3,950
2024-2028	17,806	459	18,265
Total	\$ 263,221	\$ 6,083	\$ 269,304

CITY OF MAHONOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

NOTE 5 CAPITAL ASSETS

The following is a summary of governmental activities capital asset activity for the year ended December 31, 2018:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 164,389	\$ 30,788	-	\$ 195,177
Total	<u>164,389</u>	<u>30,788</u>	<u>-</u>	<u>195,177</u>
Capital assets, depreciable:				
Buildings	907,699	-	-	907,699
Machinery and equipment	1,477,370	97,311	-	1,574,681
Infrastructure	4,068,894	-	-	4,068,894
Total	<u>6,453,963</u>	<u>97,311</u>	<u>-</u>	<u>6,551,274</u>
Less accumulated depreciation for:				
Buildings	(226,301)	(21,099)	-	(247,400)
Machinery and equipment	(989,415)	(110,431)	-	(1,099,846)
Infrastructure	(2,857,867)	(82,846)	-	(2,940,713)
Total accumulated depreciation	<u>(4,073,583)</u>	<u>(214,376)</u>	<u>-</u>	<u>(4,287,959)</u>
Total depreciable capital assets, net	<u>2,380,380</u>	<u>(117,065)</u>	<u>-</u>	<u>2,263,315</u>
Total governmental activities capital assets, net	<u>\$ 2,544,769</u>	<u>\$ (86,277)</u>	<u>\$ -</u>	<u>\$ 2,458,492</u>

Governmental activities depreciation expense was charged to government functions as follows:

General Government	\$ 28,560
Public Safety	60,722
Public Works	125,094
	<u>\$ 214,376</u>

CITY OF MAHONOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

The following is a summary of business-type activities capital asset activity for the year ended December 31, 2018:

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 210,574	-	-	\$ 210,574
Construction in process	188,158	53,640	-	241,798
Total	<u>398,732</u>	<u>53,640</u>	<u>-</u>	<u>452,372</u>
Capital assets, depreciable				
Buildings and systems	7,780,125	189,562	(11,873)	7,957,814
Machinery and equipment	253,959	5,125	-	259,084
Total	<u>8,034,084</u>	<u>194,687</u>	<u>(11,873)</u>	<u>8,216,898</u>
Less accumulated depreciation for:				
Buildings and systems	(3,699,291)	(210,866)	11,873	(3,898,284)
Machinery and equipment	(180,921)	(11,359)	-	(192,280)
Total accumulated depreciation	<u>(3,880,212)</u>	<u>(222,225)</u>	<u>11,873</u>	<u>(4,090,564)</u>
Total depreciable capital assets, net	<u>4,153,872</u>	<u>(27,538)</u>	<u>-</u>	<u>4,126,334</u>
Total business-type activities capital assets, net	<u>\$ 4,552,604</u>	<u>\$ 26,102</u>	<u>\$ -</u>	<u>\$ 4,578,706</u>

Business-type activities depreciation expense was charged to government functions as follows:

Water	\$ 94,342
Sewer	97,559
Liquor Stores	26,820
Storm Water	3,504
	<u>\$ 222,225</u>

NOTE 6 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From by Fund

Receivable	Payable	Amount
General	Liquor Stores	\$ 264,209
General	Water	40,584
General	TIF District	21,868
General	Nonmajor Proprietary	3,387
		<u>\$ 330,048</u>

CITY OF MAHONOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

The due to/from's resulted from the general fund expending funds for another fund in which it is expecting payment. The amount due to the general fund from the liquor store fund resulted from the City paying off the balance of a loan for the purchase of a building and land for the Lucky 7 liquor store. The liquor fund will pay back the general fund using the same life of the loan without an interest element. The amount due to the general fund from the water, TIF, and nonmajor proprietary funds is due to cash shortages in those funds.

The interfund transfers resulted from the early pay off of special assessment debt; remaining special assessment receivable has been allocated to the proprietary funds the assessment was originally supporting.

NOTE 7 LONG-TERM DEBT

During the year ended December 31, 2018, the following changes occurred in liabilities reported in the long-term debt:

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18	Due Within One Year
Governmental Activities:					
Capital Lease	\$ 61,970	\$ -	\$ (61,970)	\$ -	\$ -
Notes Payable	137,823	-	(10,000)	127,823	17,731
Net Pension Liability	77,689	-	(11,988)	65,701	-
Compensated Absences	7,273	15,636	(13,003)	9,906	9,906
Governmental Activities Total	\$ 284,755	\$ 15,636	\$ (96,961)	\$ 203,430	\$ 27,637
Business-Type Activities:					
MPFA Clean Water Revolving Loan	\$ 408,000	\$ -	\$ (38,000)	\$ 370,000	\$ 38,000
MPFA Drinking Water Revolving Loan	222,000	-	(21,000)	201,000	21,000
2011A Sewer & Water Revenue Bonds	1,380,000	-	(75,000)	1,305,000	75,000
Bond Discount	(11,928)	-	863	(11,065)	-
Notes Payable	121,876	-	(60,628)	61,248	61,248
Net Pension Liability	324,498	-	(29,607)	294,891	-
Compensated Absences	34,016	30,219	(28,293)	35,942	35,942
Business-Type Activities Total	\$ 2,478,462	\$ 30,219	\$ (251,665)	\$ 2,257,016	\$ 231,190

The Governmental activities, compensated absences and net pension liability are generally liquidated by the general fund.

General obligation bonds outstanding at December 31, 2018 are as follows:

Date of Issue	Interest Rate	Maturity Date	Original Amount	Current Year Retired	Balance 12/31/18	Amounts Due	
						Principal	Interest
2008	1.78%	8/20/2027	\$ 718,929	\$ 38,000	\$ 370,000	\$ 38,000	\$ 6,608
2008	1.52%	8/20/2027	390,054	21,000	201,000	21,000	3,052
2011	2.3%-3.7%	2/1/2032	1,725,000	75,000	1,305,000	75,000	41,938

CITY OF MAHONOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

The annual requirements to amortize all outstanding debt as of December 31, 2018, including interest payments, are as follows:

Year Ending December 31,	Business-Type		Total
	Principal	Interest	
2019	\$ 134,000	\$ 51,598	\$ 185,598
2020	140,000	48,817	188,817
2021	142,000	45,681	187,681
2022	142,000	42,233	184,233
2023	148,000	38,710	186,710
2024-2028	735,000	35,019	770,019
2029-2032	435,000	30,994	465,994
	\$ 1,876,000	\$ 293,052	\$ 2,169,052

The City has pledged \$1,647,750 of future water revenue for the water and sewer upgrades for the 2011A Sewer & Water Revenue Bond. Revenues are pledged through 2032. The Water and Sewer funds had net revenues, excluding depreciation, interest, and contributed capital, of \$341,525 that exceeded the annual payments from the pledged revenue for debt of \$118,550.

During 2014, the City received a \$300,000 loan in the Revolving Loan fund. A lease was entered into between the Mahnomen Economic Development Authority (a fund of the City of Mahnomen), for common space in the Mahnomen Area Assisted Living Center for a onetime payment of \$300,000. A sublease was then entered into between the Mahnomen Economic Development Authority and the Mahnomen Health Center for the common space. The leases and the loan have a 60 month term. The sublease will pay \$300,000 plus interest over the 5 year period.

Year Ending December 31,	Business-Type	
	Principal	Interest
2019	\$ 61,248	\$ 337

During 2017, the City entered into a zero percent 10-year loan for \$100,000 to purchase a fire truck. The loan will be paid in monthly increments maturing on November 1, 2027. The City also entered into a loan with the Minnesota Department of Economic Development for the demolition of hazardous property. This note was issued for \$38,656, carries an interest rate of 2% and will mature August 15, 2023.

Year Ending December 31,	Governmental	
	Principal	Interest
2019	\$ 17,731	\$ 700
2020	17,731	546
2021	17,731	392
2022	17,731	236
2023	17,732	-
2024-2027	39,167	-
	\$ 127,823	\$ 1,874

NOTE 8 FUND BALANCE

Classifications

At December 31, 2018, a summary of governmental fund balance classifications is as follows:

	General Fund	Debt Service	Total
Nonspendable:			
Prepaid Items	\$ 13,691	\$ -	\$ 13,691
Total Nonspendable	\$ 13,691	\$ -	\$ 13,691
Restricted for:			
Debt Service	\$ -	\$ 197,694	\$ 197,694
Total Restricted	\$ -	\$ 197,694	\$ 197,694
Assigned for:			
Fire	\$ 118,336	\$ -	\$ 118,336
Total Nonspendable	\$ 118,336	\$ -	\$ 118,336

Minimum Fund Balance Policy

The City of Mahnomen does not currently have a minimum fund balance policy in place, but tries to keep adequate reserves.

NOTE 9 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 10 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.

The City of Mahnomen carries commercial insurance for all other risks of loss, including employee's health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Substantially, all employees of the City are required by state law to belong to pension plans administered by the Public Employees Retirement Association (PERA) which is administered on a statewide basis.

Disclosures relating to these plans follow:

Public Employees Retirement Association

A. Plan Description

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

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

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.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

B. 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 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$33,247. The City's contributions were equal to the required contributions for each year as set by state statute.

CITY OF MAHONOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

C. Pension Costs

At December 31, 2018, the City reported a liability of \$360,592 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 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 \$11,805. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.0065%, which was an increase of 0.0002% from its proportion measured as of June 30, 2017.

Department's proportionate share of the net pension liability	\$ 360,592
State of Minnesota's proportionate share of the net pension liability associated with the Department	11,805
Total	\$ 372,397

For the year ended December 31, 2018, the City recognized pension expense of \$24,132 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$2,753 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,262	\$ 9,384
Changes in actuarial assumptions	30,734	39,663
Difference between projected and actual investment earnings	-	40,062
Changes in proportion	24,903	1,297
Contributions paid to PERA subsequent to the measurement date	16,743	-
Total	\$ 81,642	\$ 90,406

\$16,743 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF MAHONOMEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Year ending June 30:	Pension Expense Amount
2019	17,407
2020	(9,884)
2021	(25,496)
2022	(7,534)

D. Actuarial Assumptions

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

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

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

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in 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 post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.0%

E. 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.

F. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the net pension liability:	\$ 586,010	\$ 360,592	\$ 174,518

G. 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.

NOTE 12 VOLUNTEER FIRE RELIEF ASSOCIATION

Plan Description

The City remits a state aid payment to the Mahnommen Fire Relief Association (Association), a single-employer public retirement system that acts as an administrator for volunteer firefighters. All volunteer firefighters of the City are members of the Mahnommen Fire Department Relief Association. Retiring individuals receive a lump sum distribution in an amount equal to \$900 per year of service. The members are 60% vested after 10 years and vest another 4% each year for 10 years to be 100% vested. If members are not age 50 when they retire, they receive a deferred benefit until age 50. These benefit provisions and all other requirements are consistent with enabling state statutes.

Funding Policy

The City passes through state aids allocated to the plan in accordance with state statutes. The state aid was \$36,100 for 2018.

Ten-Year Historical Trend Information

Ten-year historical trend information is available in the Association's financial reports.

Related Party Investments

As of December 31, 2018, and for the fiscal year then ended, the Association held no securities issued by the City or other related parties.

The City has elected not to implement Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates to the Mahnommen Firefighters' Relief Association.

NOTE 13 JOINT VENTURE

The Mahnommen County-City Hospital is run under a joint powers agreement between the County of Mahnommen and the City of Mahnommen. The ownership of the hospital is 78 percent County owned and 22 percent City owned. The City has responsibility for 22 percent of any capital costs or deficits. During 2018, costs incurred under the City's agreement was \$6,777.

NOTE 14 CONCENTRATION OF SALES AND REVENUES

Shooting Star Casino is the largest customer of the Water and Sewer Funds. The Casino's purchases account for approximately 30% of the Water Fund's operating revenue and approximately 29% of the Sewer Fund's operating revenue.

NOTE 15 NEW PRONOUNCEMENTS

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

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

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

CITY OF MAHONOMIEN
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2018

Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

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

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

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

NOTE 16 FUND BALANCE DEFICIT

There was a deficit fund balance of \$21,868 in the tax increment district fund as of December 31, 2018. This will be funded through tax increment collections.

NOTE 17 SUBSEQUENT EVENTS

No significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through May 7, 2019, which is the date these financial statements were available to be issued.

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original & Final			
REVENUES				
Taxes:				
Property	\$ 217,570	\$ 210,085	\$	(7,485)
Intergovernmental Revenue:				
State Grants:				
Local Government	643,572	643,573		1
Fire Aid	16,500	37,915		21,415
Casino Aid	160,000	160,000		-
Court Fees	11,000	20,943		9,943
Miscellaneous Intergovernmental	29,272	37,838		8,566
County Grants	9,520	9,520		-
Total Intergovernmental	869,864	909,789		39,925
Charges for Services:				
Fire Department	40,000	35,397		(4,603)
Refuse	-	3,128		3,128
Licenses	3,000	4,115		1,115
	43,000	42,640		(360)
Other Revenues:				
Interest	14,500	30,883		16,383
Contributions	70,000	75,750		5,750
Special Assessments	-	7,139		7,139
Rents	37,976	42,185		4,209
Other	89,433	28,803		(60,630)
Total Other Revenue	211,909	184,760		(27,149)
TOTAL REVENUES	1,342,343	1,347,274		4,931

See Notes to the Required Supplementary Information

CITY OF MAHONOMIEN
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - CONTINUED
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Variance with Final Budget -	
	Original & Final	Actual Amounts	Positive	(Negative)
EXPENDITURES				
General Government				
Council Salaries	\$ 13,995	\$ 13,995	\$ -	
Office Salaries	95,066	94,819	247	
Travel Expense	250	286	(36)	
Street Lighting	48,760	43,706	5,054	
City Attorney	9,825	7,831	1,994	
City Office:				
PERA	6,980	6,919	61	
FICA	7,120	6,728	392	
Taxes and Assessments	2,232	3,259	(1,027)	
Utilities	21,180	20,262	918	
Repairs and Maintenance	8,002	8,002	-	
General Supplies	2,700	2,109	591	
Insurance	100,371	49,489	50,882	
Dues and Subscriptions	4,750	5,948	(1,198)	
Management	29,500	2,326	27,174	
Professional Fees	26,000	23,322	2,678	
Training and Meetings	5,000	3,715	1,285	
Other Expenses	4,998	8,132	(3,134)	
Debt Principal	144,000	71,970	72,030	
Debt Interest	-	3,936	(3,936)	
Capital Outlay	21,500	1,141	20,359	
Total City Office	384,333	217,258	167,075	
Total General Government	552,229	377,895	174,334	

See Notes to the Required Supplementary Information

CITY OF MAHONOMIEN
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - CONTINUED
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Variance with Final Budget -	
	Original & Final	Actual Amounts	Positive	(Negative)
Public Safety:				
Police Protection:				
Contract with County	\$ 247,621	\$ 239,933	\$ 7,688	
Fire Protection:				
Salaries	38,830	58,671	(19,841)	
Utilities	15,100	8,007	7,093	
Telephone	3,200	1,281	1,919	
Supplies	5,000	3,385	1,615	
Other Services and Charges	109,300	113,207	(3,907)	
Repairs and Maintenance	12,000	13,818	(1,818)	
Training and Meetings	5,000	1,810	3,190	
Gas and Oil	4,500	2,080	2,420	
Capital Outlay	3,000	29,846	(26,846)	
Total Fire Protection	195,930	232,105	(36,175)	
Total Public Safety:	443,551	472,038	(28,487)	
Public Works				
Streets:				
Salaries	44,920	46,074	(1,154)	
Street Supplies and Maintenance	4,000	3,718	282	
Other Charges	5,240	2,680	2,560	
Utilities	8,700	9,929	(1,229)	
Repairs and Maintenance	60,500	29,618	30,882	
Gas, Oil and Lubricants	16,000	7,876	8,124	
Capital Outlay	170,575	55,380	115,195	
Total Public Works	309,935	155,275	154,660	

See Notes to the Required Supplementary Information

CITY OF MAHONOMIEN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u> <u>& Final</u>	<u>Amounts</u>	<u>(Negative)</u>
Culture and Recreation	\$ 47,073	\$ 38,460	\$ 8,613
Library	60,000	41,732	18,268
Capital Outlay	107,073	80,192	26,881
Total Culture and Recreation			
Economic Development	52,860	26,645	26,215
Economic Development	-	8,046	(8,046)
Hospital Financial Support	52,860	34,691	18,169
Total Economic Development			
Total Expenditures	1,465,648	1,120,091	345,557
Excess of Revenues over (under) Expenditures	(123,305)	227,183	350,488
Other Financing Sources		7,554	7,554
Proceeds from Sale of Asset		7,554	7,554
Total Other Financing Sources			
Net Change in Fund Balance	(123,305)	234,737	358,042
Fund Balances - Beginning	2,280,888	2,280,888	-
Fund Balances - Ending	\$ 2,157,583	\$ 2,515,625	\$ 358,042

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF CITY'S CONTRIBUTIONS TO PERA RETIREMENT FUND
LAST 10 YEARS

Year Ended	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 25,823	\$ 25,823	-	\$ 344,308	7.50%
2016	28,655	28,655	-	382,064	7.50%
2017	32,028	32,028	-	427,307	7.50%
2018	33,247	33,247	-	443,297	7.50%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31.

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

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
SCHEDULE OF CITY'S AND NON-EMPLOYER PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS

Year Ended	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0059%	\$ 305,769	\$ -	\$ 305,769	\$ 345,189	88.6%	78.8%
2016	0.0058%	470,931	6,176	477,107	359,401	132.8%	68.9%
2017	0.0063%	402,187	5,046	407,233	405,363	100.5%	75.9%
2018	0.0065%	360,592	11,805	372,397	435,303	85.5%	79.5%

The amounts presented for each fiscal year were determined as of the measurement date of the City's net pension liability which is June 30, of the previous year for PERA.

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

See Notes to the Required Supplementary Information

CITY OF MAHNOMEN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 BUDGETARY COMPARISON

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance, which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLAN

General Employees Fund

2018 Changes:

Changes in Actuarial Assumptions:

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

2017 Changes:

Changes in Plan Provisions:

The State's special funding contribution increased from \$6 million to \$16 million.

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

CITY OF MAHNOMEN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

2015 Changes:

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

CITY OF MAHNOMEN
COMBINING STATEMENT OF NET POSITION - NONMAJOR PROPRIETARY FUNDS
AS OF DECEMBER 31, 2018

	<u>Non Major</u>		
	<u>Revolving Loan</u>	<u>Storm Water</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 10,465	\$ -	\$ 10,465
Loans Receivable	200,133	-	200,133
Total Current Assets	<u>210,598</u>	<u>-</u>	<u>210,598</u>
Non-Current Assets:			
Capital Assets:			
Utility Systems and Buildings	-	105,126	105,126
Less Accumulated Depreciation	<u>-</u>	<u>(31,830)</u>	<u>(31,830)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>73,296</u>	<u>73,296</u>
Other Non-Current Assets:			
Loans Receivable	<u>29,179</u>	<u>-</u>	<u>29,179</u>
Total Assets	<u>239,777</u>	<u>73,296</u>	<u>313,073</u>
LIABILITIES			
Due to General Fund	-	3,387	3,387
Notes Payable - Current Portion	<u>61,248</u>	<u>-</u>	<u>61,248</u>
Total Liabilities	<u>61,248</u>	<u>3,387</u>	<u>64,635</u>
NET POSITION			
Net Investment in Capital Assets	-	73,296	73,296
Unrestricted	<u>178,529</u>	<u>(3,387)</u>	<u>175,142</u>
Total Net Position	<u>\$ 178,529</u>	<u>\$ 69,909</u>	<u>\$ 248,438</u>

CITY OF MAHNOMEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET
POSITION - NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Non-Major</u>		<u>Total</u>
	<u>Revolving Loan</u>	<u>Storm Water</u>	
Operating Revenues:			
Charges for Services	\$ -	\$ 1,144	\$ 1,144
Total Operating Revenues	<u>-</u>	<u>1,144</u>	<u>1,144</u>
Operating Expenses:			
Depreciation	-	3,504	3,504
Professional Fees	-	1,352	1,352
Total Operating Expenses	<u>-</u>	<u>4,856</u>	<u>4,856</u>
Operating Income (Loss)	<u>-</u>	<u>(3,712)</u>	<u>(3,712)</u>
Non-Operating Revenues (Expenses):			
Intergovernmental	<u>7,099</u>	<u>-</u>	<u>7,099</u>
Total Non-Operating Revenue (Expenses)	<u>7,099</u>	<u>-</u>	<u>7,099</u>
Changes in Net Position	7,099	(3,712)	3,387
Total Net Position - Beginning	<u>171,430</u>	<u>73,621</u>	<u>245,051</u>
Total Net Position - Ending	<u>\$ 178,529</u>	<u>\$ 69,909</u>	<u>\$ 248,438</u>

CITY OF MAHNOMEN
COMBINING STATEMENT OF CASH FLOWS- NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Non Major</u>		<u>Totals</u>
	<u>Revolving Loan</u>	<u>Storm Water</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ -	\$ 1,144	\$ 1,144
Payments to Suppliers	-	(1,352)	(1,352)
Net Cash Provided (Used) by Operating Activities	<u>-</u>	<u>(208)</u>	<u>(208)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Due to Other Funds	-	208	208
Intergovernmental Revenue	7,099	-	7,099
Economic Development Loans Issued	(7,259)	-	(7,259)
Economic Development Loan Repayments	<u>54,969</u>	<u>-</u>	<u>54,969</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>54,809</u>	<u>208</u>	<u>55,017</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Payments on Long-Term Debt	<u>(60,628)</u>	<u>-</u>	<u>(60,628)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(60,628)</u>	<u>-</u>	<u>(60,628)</u>
Net Increase (Decrease) in Cash and Investments	(5,819)	-	(5,819)
Cash and Investments, January 1	<u>16,284</u>	<u>-</u>	<u>16,284</u>
Cash and Investments, December 31	<u>\$ 10,465</u>	<u>\$ -</u>	<u>\$ 10,465</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ -	\$ (3,712)	\$ (3,712)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	<u>-</u>	<u>3,504</u>	<u>3,504</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -</u>	<u>\$ (208)</u>	<u>\$ (208)</u>

CITY OF MAHNOMEN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND NET POSITION – LIQUOR STORES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Municipal Liquor</u>	<u>Lucky Seven</u>	<u>Total</u>
Operating Revenues	\$ 478,971	\$ 450,124	\$ 929,095
Less: Cost of Sales	<u>257,961</u>	<u>303,965</u>	<u>561,926</u>
Gross Profit on Sales	<u>221,010</u>	<u>146,159</u>	<u>367,169</u>
Operating Expenses:			
Salaries & Benefits	121,080	100,168	221,248
Insurance	6,212	4,839	11,051
Utilities	12,675	12,434	25,109
Maintenance and Repair	9,796	5,642	15,438
Supplies	10,050	3,211	13,261
Depreciation	8,451	18,369	26,820
Freight	1,042	2,197	3,239
Office Expense	110	-	110
Professional Fees	2,887	1,930	4,817
Other	<u>34,184</u>	<u>47,520</u>	<u>81,704</u>
Total Operating Expenses	<u>206,487</u>	<u>196,310</u>	<u>402,797</u>
Operating Income (Loss)	<u>14,523</u>	<u>(50,151)</u>	<u>(35,628)</u>
Non-Operating Revenues:			
Intergovernmental	6,000	-	6,000
Interest Income	(416)	5,586	5,170
Miscellaneous Income	<u>4,943</u>	<u>2,914</u>	<u>7,857</u>
Total Non-Operating Revenues	<u>10,527</u>	<u>8,500</u>	<u>19,027</u>
Changes in Net Position	25,050	(41,651)	(16,601)
Total Net Position - Beginning	<u>500,825</u>	<u>392,252</u>	<u>893,077</u>
Total Net Position - Ending	<u>\$ 525,875</u>	<u>\$ 350,601</u>	<u>\$ 876,476</u>



INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the City Council
City of Mahnomen
Mahnomen, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Mahnomen, Minnesota, as of and for the year ended December 31, 2018, and have issued our report thereon dated May 7, 2019.

Legal Compliance

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

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

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

May 7, 2019



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

To the City Council
City of Mahanomen
Mahanomen, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Mahanomen, Minnesota as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 7, 2019. A qualified opinion was issued for the year ended December 31, 2018 over the governmental activities for not implementing Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* for the Fire Relief Association, which should be included in order to conform with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness and one deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

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

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

May 7, 2019

CITY OF MAHNOMEN
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

2018-001 Material Weakness

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

Condition: The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The City is aware of this material weakness, and obtains our assistance in the preparation of the City's annual financial statements.

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

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

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

Views of Responsible Officials and Planned Corrective Actions:

Management agrees with the recommendation that it is not cost effective for the City to prepare the financial statements and maintain a working knowledge of the required disclosures.

CITY OF MAHNOMEN
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

2018-002 Significant Deficiency

Criteria: Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition: The City has one employee who is responsible for the majority of the accounting functions. The employee handles incoming monies, prepares the receipt documents, prepares deposits, issues checks and distributes them, and receives and reconciles the bank statements. The employee maintains the general ledger and has check signing authority.

Cause: Considering the size of the entity, it is not feasible to obtain proper separation of duties and the degree of internal control is limited.

Effect: Internal controls are compromised due to limited staff.

Recommendation: The City should separate the duties when it becomes feasible.

Views of Responsible Officials and Planned Corrective Actions:

The planned completion for the corrective action plan is when it becomes cost effective.

FORM OF LEGAL OPINION

(See following pages)



2200 IDS Center
80 South 8th Street
Minneapolis, MN 55402
OFC 612-977-8400
FAX 612-977-8650
URL Briggs.com

PROPOSED FORM OF LEGAL OPINION

\$9,705,000*
GENERAL OBLIGATION TEMPORARY WATER AND
SEWER REVENUE BONDS, SERIES 2019A
CITY OF MAHNOMEN
MAHNOMEN COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Mahnomen, Mahnomen County, Minnesota (the "Issuer"), of its \$9,705,000* General Obligation Temporary Water and Sewer Revenue Bonds, Series 2019A, bearing a date of original issue of October 24, 2019 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the Bonds, and we express no opinion related thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and federal laws (which excludes any pending legislation which may have a retroactive effect on or before the date hereof), regulations, rulings and decisions, it is our opinion that:

(1) The proceedings show lawful authority for the issuance of the Bonds according to their terms under the Constitution and laws of the State of Minnesota now in force.

*Preliminary, subject to change

PROPOSED FORM OF LEGAL OPINION

(2) The Bonds are valid and binding general obligations of the Issuer and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

(3) At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

BRIGGS AND MORGAN
Professional Association

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Mahanomen, Minnesota (the "Issuer"), in connection with the issuance of its \$9,705,000* General Obligation Temporary Water and Sewer Revenue Bonds, Series 2019A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on October 7, 2019 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any annual financial information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean the financial statements of the Issuer audited annually by an independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean such party from time to time designated in writing by the Issuer to act as information dissemination agent and which has filed with the Issuer a written acceptance of such designation.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" shall be the fiscal year of the Issuer.

"Governing Body" shall, with respect to the Bonds, have the meaning given that term in Minnesota Statutes, Section 475.51, Subdivision 9.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 5 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated _____, 2019, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Resolution" shall mean the resolution or resolutions adopted by the Governing Body of the Issuer providing for, and authorizing the issuance of, the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

A. Beginning in connection with the Fiscal Year ending on December 31, 2019, the Issuer shall, or shall cause the Dissemination Agent to provide to the MSRB by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking by not later than December 31, 2020, and by December 31 of each year thereafter.

B. If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection A, the Issuer shall send a notice of such delay and estimated date of delivery to the MSRB.

SECTION 4. Content and Format of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the financial information and operating data pertaining to the Issuer listed below as of the end of the preceding Fiscal Year. The Annual Report may be submitted to the MSRB as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Disclosure Undertaking.

The following financial information and operating data shall be supplied:

A. An update of the operating and financial data of the type of information contained in the Official Statement under the captions: Current Property Valuations; Direct Debt; Tax Levies and Collections; US Census Data/Population Trend; and Employment/Unemployment Data.

B. Audited Financial Statements of the Issuer. The Audited Financial Statements of the Issuer may be submitted to the MSRB separately from the balance of the Annual Report. In the event Audited Financial Statements of the Issuer are not available on or before the date for filing the Annual Report with the MSRB as set forth in Section 3.A. above, unaudited financial statements shall be provided as part of the Annual Report. The accounting principles pursuant to which the financial statements will be prepared will be pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as such principles are modified by the governmental accounting standards promulgated by the Government Accounting

Standards Board, as in effect from time to time. If Audited Financial Statements are not provided because they are not available on or before the date for filing the Annual Report, the Issuer shall promptly provide them to the MSRB when available.

SECTION 5. Reporting of Significant Events. This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and,
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

Whenever an event listed above has occurred, the Issuer shall promptly, which may not be in excess of the ten (10) business days after the Occurrence, file a notice of such Occurrence with the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of a failure by the Issuer to provide the Annual Reports described in Section 4.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 10. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: October 24, 2019.

CITY OF MAHNOMEN, MINNESOTA

By _____
Its Mayor

By _____
Its Administrator

TERMS OF PROPOSAL

**\$9,705,000* GENERAL OBLIGATION TEMPORARY WATER
AND SEWER REVENUE BONDS, SERIES 2019A
CITY OF MAHNOMEN, MINNESOTA**

Proposals for the purchase of \$9,705,000* General Obligation Temporary Water and Sewer Revenue Bonds, Series 2019A (the "Bonds") of the City of Mahnomen, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on October 7, 2019, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 6:30 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapters 444 and 475, and Sections 115.46 and 475.61, by the City to provide temporary financing for the construction of various improvements to the water and sewer system in the City, in anticipation of a long-term loan from the United States Department of Agriculture, Rural Development. The Bonds will be general obligations of the City for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated October 24, 2019, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on October 1 as follows:

<u>Year</u>	<u>Amount*</u>
2022	\$9,705,000

ADJUSTMENT OPTION

* The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

The Bonds will bear interest at a single rate specified in the proposal of the purchaser and will be payable on April 1 and October 1 of each year, commencing April 1, 2020, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on October 1, 2022 shall be subject to optional redemption prior to maturity on October 1, 2020 or any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about October 24, 2019, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Briggs and Morgan, Professional Association, Minneapolis, Minnesota, Bond Counsel to the City, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$9,666,180 plus accrued interest on the principal sum of \$9,705,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$194,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Mahnommen, Minnesota

PROPOSAL FORM

The City Council
City of Mahnomen, Minnesota

October 7, 2019

RE: \$9,705,000* General Obligation Temporary Water and Sewer Revenue Bonds, Series 2019A (the "Bonds")
DATED: October 24, 2019

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$9,666,180) plus accrued interest to date of delivery for fully registered Bonds bearing interest rate and maturing in the stated years as follows:

_____ % due 2022

* The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

The Bonds will bear interest at a single rate specified in the proposal of the purchaser and will be payable on April 1 and October 1 of each year, commencing April 1, 2020, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month.

A good faith deposit ("Deposit") in the amount of \$194,100 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about October 24, 2019.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ___ NO: ___.

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
Account Members: _____

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from October 24, 2019 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Mahnomen, Minnesota, on October 7, 2019.

By: _____ By: _____
Title: _____ Title: _____