

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 24, 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 PINE CITY, MINNESOTA (Pine County)

\$7,255,000* GENERAL OBLIGATION BONDS, SERIES 2019B

PROPOSAL OPENING: November 6, 2019, 10:00 A.M., C.T. **CONSIDERATION:** November 6, 2019, 6:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$7,255,000* General Obligation Bonds, Series 2019B (the "Bonds") are authorized pursuant to Minnesota Statutes, Chapters 429, 444 and 475, and Section 475.67, by the City of Pine City, Minnesota (the "City"), for the purposes of (i) financing the City's 2019 improvement project; and (ii) effecting a current refunding of certain outstanding general obligations of the City as more fully described herein. 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: November 21, 2019

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2021	\$600,000	2027	\$680,000	2033	\$205,000
2022	805,000	2028	740,000	2034	215,000
2023	825,000	2029	190,000	2035	220,000
2024	650,000	2030	195,000	2036	220,000
2025	650,000	2031	195,000		
2026	665,000	2032	200,000		

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: August 1, 2020 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2030 and thereafter are subject to call for prior optional redemption on February 1, 2029 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: \$7,167,940.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$145,100 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 sale of these securities in 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.

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CITY OF PINE CITY CITY COUNCIL

		<u>Term Expires</u>
Carl Pederson	Mayor	January 2021
Steve Ovick	Council Member	January 2021
Gina Pettie	Council Member	January 2023
Brian Scholin	Council Member	January 2021
Mary Kay Sloan	Council Member	January 2023

ADMINISTRATION

Matthew Van Steenwyk, 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 Pine City, Minnesota (the "City") and the issuance of its \$7,255,000* General Obligation Bonds, Series 2019B (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 November 6, 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 be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of November 21, 2019. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 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. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%).** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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 or after February 1, 2030 shall be subject to optional redemption prior to maturity on February 1, 2029 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 authorized pursuant to Minnesota Statutes, Chapters 429, 444 and 475, and Section 475.67 by the City, for the purpose of: (i) financing the cost of the City’s 2019 Improvement Project (the "Improvement Portion"); and (ii) effecting a current refunding of the City’s \$7,645,000 General Obligation Crossover Refunding Bonds, Series 2012A, (the “Series 2012A Bonds” and as further broken out herein) as follows:

Issue Being Refunded	Date of Refunded Issue	Call Date	Call Price	Maturities Being Refunded	Interest Rates	Principal to be Refunded	CUSIP Base 722494
Series 2012A Bonds	1/1/12	12/12/19	Par	2020	2.05%	\$590,000	PG0
				2021	2.20%	590,000	PH8
				2022	2.35%	610,000	PJ4
				2023	2.50%	635,000	PK1
				2024	2.70%	460,000	PL9
				2025	2.85%	465,000	PM7
				2026	3.00%	485,000	PN5
				2027	3.10%	500,000	PP0
				2028	3.25%	<u>565,000</u>	PQ8
Total Series 2012A Bonds Being Refunded						<u>\$4,900,000</u>	

Proceeds of the Bonds will be used to call and prepay the maturities described above and to pay all or most of the costs of issuance.

ESTIMATED SOURCES AND USES*

Sources	Improvement Portion	Improvement Refunding Portion	Utility Revenue Refunding Portion	Water Revenue Refunding Portion	Total Bond Issue
Par Amount of Bonds	\$2,885,000	\$230,000	\$315,000	\$3,825,000	\$7,255,000
Transfers from Prior Issue Debt					
Service Funds	<u>-</u>	<u>78,420</u>	<u>104,675</u>	<u>471,590</u>	<u>654,685</u>
Total Sources	\$2,885,000	\$308,420	\$419,675	\$4,296,590	\$7,909,685
 Uses					
Total Underwriter's Discount (1.200%)	\$34,620	\$2,760	\$3,780	\$45,900	\$87,060
Costs of Issuance	44,533	1,332	1,898	22,767	70,530
Deposit to Cap. Int. (CIF) Fund	73,052	-	-	-	73,052
Deposit to Project Construction Fund	2,727,227	-	-	-	2,727,227
Deposit to Current Refunding Fund	-	302,489	413,402	4,231,185	4,947,076
Rounding Amount	<u>5,568</u>	<u>1,839</u>	<u>594</u>	<u>(3,262)</u>	<u>4,740</u>
Total Uses	\$2,885,000	\$308,420	\$419,675	\$4,296,590	\$7,909,685

Breakdown of Principal Payments:

Payment Date	Improvement Portion	Improvement Refunding Portion	Utility Revenue Refunding Portion	Water Revenue Refunding Portion	Total Bond Issue
2/01/2021	-	\$70,000	\$100,000	\$430,000	\$600,000
2/01/2022	\$170,000	80,000	105,000	455,000	810,000
2/01/2023	175,000	80,000	110,000	460,000	825,000
2/01/2024	175,000	-	-	470,000	645,000
2/01/2025	175,000	-	-	475,000	650,000
2/01/2026	180,000	-	-	485,000	665,000
2/01/2027	185,000	-	-	495,000	680,000
2/01/2028	185,000	-	-	555,000	740,000
2/01/2029	190,000	-	-	-	190,000
2/01/2030	195,000	-	-	-	195,000
2/01/2031	195,000	-	-	-	195,000
2/01/2032	200,000	-	-	-	200,000
2/01/2033	205,000	-	-	-	205,000
2/01/2034	215,000	-	-	-	215,000
2/01/2035	220,000	-	-	-	220,000
2/01/2036	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,000</u>
Total	\$2,885,000	\$230,000	\$315,000	\$3,825,000	\$7,255,000

*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 City anticipates that the debt service on the Improvement Portion will be paid from a combination of special assessments levied against properties benefitted by improvements financed by the Bonds and from ad valorem property taxes. Receipt of special assessments and collection of ad valorem taxes will be sufficient to provide not less than 105% of principal and interest on the Bonds as required by Minnesota law.

The City anticipates that the debt service on the Improvement and Utility Refunding Portion will be paid from a combination of special assessments levied against properties benefitted by improvements financed by a portion of the Series 2012A Bonds, from ad valorem property taxes, and from net revenues of the water and sewer systems which are owned and operated by the City. Receipt of special assessments and collection of ad valorem taxes will be sufficient to provide not less than 105% of principal and interest on the Bonds as required by Minnesota law.

The City anticipates that the debt service on the Utility Revenue Refunding Portion will be paid entirely from net revenues of the water system which are owned and operated by the City.

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 additional taxes for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

RATING

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "A+" by S&P Global Ratings ("S&P").

The City has requested a rating on the Bonds from S&P, and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P. 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 judgment 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.

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.

The annual operating data reports for fiscal years ending December 31, 2013; December 31, 2015 and December 31, 2016 were missing certain operating data. A corrective report has since been filed. Also in the interest of full disclosure, the City notes the following: Prior continuing disclosure undertakings entered into by the City included language stating that the annual report including audited financial statements and operating data would be filed "as soon as available." Although the City did not always comply with this requirement, the audited financial statements were timely filed within the required 365 days after the end of the fiscal year timeframe as provided for in each undertaking. Except to the extent that the preceding are deemed to be material, the City believes it has not failed to comply in the previous five years 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 Redpath and Company, LTD., St. Paul, Minnesota, 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 (special assessments and utility revenues) 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 \$224,523,728¹

	2018/19 Assessor's Estimated Market Value	2018/19 Net Tax Capacity
Real Estate	\$203,267,200	\$ 2,306,981
Personal Property	<u>3,547,900</u>	<u>68,519</u>
Total Valuation	<u>\$206,815,100</u>	\$ 2,375,500
Less: Captured Tax Increment Tax Capacity ²		<u>(56,760)</u>
Taxable Net Tax Capacity		<u>\$ 2,318,740</u>

¹ According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for the City of Pine City is about 92.04% 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 \$224,523,728.

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

2018/19 NET TAX CAPACITY BY CLASSIFICATION

	2018/19 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 810,237	34.11%
Agricultural	7,265	0.31%
Commercial/industrial	996,439	41.95%
Public utility	9,198	0.39%
Railroad operating property	5,482	0.23%
Non-homestead residential	392,416	16.52%
Commercial & residential seasonal/rec.	85,944	3.62%
Personal property	68,519	2.88%
Total	<u>\$2,375,500</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	\$ 181,726,100	\$ 161,816,200	\$2,112,451	\$ 2,049,050	+ 0.58%
2015/16	186,153,800	165,856,900	2,155,164	2,101,526	+ 2.44%
2016/17	196,785,600	176,691,600	2,282,380	2,226,947	+ 5.71%
2017/18	201,522,200	181,325,700	2,334,117	2,278,522	+ 2.41%
2018/19	206,815,100	186,308,000	2,375,500	2,318,740	+ 2.63%

¹ Net Tax Capacity 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
Wal-Mart Real Estate Business Trust	Commercial	\$145,926	6.14%
County of Kanabec	Commercial	51,512	2.17%
Duno, LLC	Industrial	42,420	1.79%
East Central Energy	Utility	37,536	1.58%
M&M Ventures, LLC	Industrial	31,946	1.34%
Lakeside Nursing Home, Inc.	Multi-unit Residential	30,511	1.28%
Nordic Star, LLC	Commercial	28,838	1.21%
Lake Superior Laundry, Inc.	Industrial	28,446	1.20%
MAC of Pine City, LLC	Commercial	28,342	1.19%
Minnesota Energy Resources Corp.	Gas/Utility	27,170	1.14%
Total		<u>\$452,647</u>	<u>19.05%</u>

City's Total 2018/19 Net Tax Capacity \$2,375,500

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

Total G.O. debt secured by special assessments and taxes (includes the Improvement Portion and Improvement Refunding Portion of the Bonds)*	\$ 5,499,000
Total G.O. debt secured by special assessments, taxes and utility revenues	240,000
Total G.O. debt secured by tax abatement revenues	75,000
Total G.O. debt secured by tax increment revenues	90,000
Total G.O. debt secured by taxes	1,519,000
Total G.O. debt secured by utility revenues (includes the Utility Revenue Refunding Portion and Water Revenue Refunding Portion of the Bonds)*	6,211,000
Total General Obligation Debt*	<u>\$13,634,000</u>

Lease Purchase Obligations (see schedule following)

Total lease purchase obligations paid by annual appropriations ²	<u>\$ 77,675</u>
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Other Obligations

Issue Date	Original Amount	Name of Issue	Final Maturity	Amount Outstanding
2/17/12	\$250,000	Promissory Note	2/17/22	\$75,000

*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 Pine City, Minnesota
 Schedule of Bonded Indebtedness
 General Obligation Debt Secured by Special Assessments and Taxes
 (As of 11/21/2019)

Calendar Year Ending	Improvement Refunding Bonds Series 2012B		Taxable Improvement Bonds Series 2013B		Improvement Bonds Series 2015A		Improvement Bonds (1) Series 2018A		Improvement and Refunding Bonds (2) Series 2019B		Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
	Dated Amount	Maturity	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest				
2019			0	0		7,916	0	0	0	0	7,916	5,454,000	.82%	2019
2020	70,000	08/01/2012	25,000	15,715	45,000	14,843	40,000	32,619	0	45,510	115,964	295,964	4.09%	2020
2021	75,000	05/10/2012	26,000	14,840	45,000	13,853	50,000	30,819	0	63,225	128,686	394,686	8.93%	2021
2022	80,000	02/01	27,000	13,930	45,000	12,863	55,000	28,719	70,000	60,763	120,674	4,551,000	17.24%	2022
2023	75,000	07/25	28,000	12,985	45,000	11,873	55,000	26,519	250,000	56,785	110,918	4,093,000	25.57%	2023
2024	85,000	02/01	29,000	12,005	50,000	10,635	60,000	24,219	175,000	53,301	101,116	3,694,000	32.82%	2024
2025			30,000	10,990	50,000	9,260	65,000	21,719	175,000	50,414	92,383	3,374,000	38.64%	2025
2026			31,000	9,940	50,000	7,885	65,000	19,119	180,000	47,395	84,339	3,048,000	44.57%	2026
2027			32,000	8,855	50,000	6,510	65,000	16,844	185,000	44,109	76,318	2,716,000	50.61%	2027
2028			34,000	7,735	50,000	4,960	70,000	14,819	185,000	40,594	68,108	2,377,000	56.77%	2028
2029			35,000	6,545	55,000	3,410	70,000	12,719	190,000	36,843	59,516	2,027,000	63.14%	2029
2030			36,000	5,320	55,000	1,705	70,000	10,619	195,000	32,799	40,643	1,671,000	69.61%	2030
2031			37,000	4,060			70,000	8,475	195,000	28,460	40,995	1,369,000	73.10%	2031
2032			39,000	2,765			75,000	6,209	200,000	23,868	32,842	1,055,000	80.81%	2032
2033			40,000	1,400			80,000	3,819	215,000	13,964	34,276	735,000	86.63%	2033
2034								1,300	220,000	8,525	15,264	440,000	92.00%	2034
2035									220,000	2,860	228,525	220,000	96.00%	2035
2036									220,000	2,860	222,860	0	100.00%	2036
			385,000	21,340	585,000	105,711	965,000	258,535	3,115,000	628,470	1,141,141	5,499,000		
														6,640,141

* Preliminary, subject to change.

- 1) This represents the \$965,000 Improvement Bonds portion of the \$1,745,000 General Obligation Bonds, Series 2018A.
- 2) This represents the \$3,115,000 Improvement Bonds portion of the \$7,255,000 General Obligation Bonds, Series 2019B. This portion refunded the 2020 through 2023 maturities of the City's \$7,645,000 General Obligation Crossover Refunding Bonds, Series 2012A dated January 1, 2012.

City of Pine City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Special Assessments, Taxes and Utility Revenues
(As of 11/21/2019)

Improvement and Utility Revenue
 Refunding Bonds
 Series 2010A

Dated Amount	06/09/2010 \$2,225,000	Maturity	02/01					
Calendar Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2020	135,000	5,816	135,000	5,816	140,816	105,000	56.25%	2020
2021	50,000	2,760	50,000	2,760	52,760	55,000	77.08%	2021
2022	55,000	949	55,000	949	55,949	0	100.00%	2022
	240,000	9,525	240,000	9,525	249,525			

**City of Pine City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Tax Abatement Revenues
(As of 11/21/2019)**

**Tax Abatement Bonds 1)
Series 2018A**

Dated Amount	09/27/2018 \$75,000	Maturity	02/01										
Calendar Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending					
2020	5,000	2,538	5,000	2,538	7,538	70,000	6.67%	2020					
2021	5,000	2,338	5,000	2,338	7,338	65,000	13.33%	2021					
2022	5,000	2,138	5,000	2,138	7,138	60,000	20.00%	2022					
2023	5,000	1,938	5,000	1,938	6,938	55,000	26.67%	2023					
2024	5,000	1,738	5,000	1,738	6,738	50,000	33.33%	2024					
2025	5,000	1,538	5,000	1,538	6,538	45,000	40.00%	2025					
2026	5,000	1,338	5,000	1,338	6,338	40,000	46.67%	2026					
2027	5,000	1,163	5,000	1,163	6,163	35,000	53.33%	2027					
2028	5,000	1,013	5,000	1,013	6,013	30,000	60.00%	2028					
2029	5,000	863	5,000	863	5,863	25,000	66.67%	2029					
2030	5,000	713	5,000	713	5,713	20,000	73.33%	2030					
2031	5,000	559	5,000	559	5,559	15,000	80.00%	2031					
2032	5,000	403	5,000	403	5,403	10,000	86.67%	2032					
2033	5,000	244	5,000	244	5,244	5,000	93.33%	2033					
2034	5,000	81	5,000	81	5,081	0	100.00%	2034					
	75,000	18,600	75,000	18,600	93,600								

1) This represents the \$75,000 Tax Abatement Bonds portion of the \$1,745,000 General Obligation Bonds, Series 2018A

City of Pine City, Minnesota
 Schedule of Bonded Indebtedness
 General Obligation Debt Secured by Tax Increment Revenues
 (As of 11/21/2019)

Taxable Tax Increment Refunding
 Bonds
 Series 2010B

Dated Amount	11/01/2010 \$740,000
Maturity	12/01
Calendar Year Ending	Principal
2019	15,000
2020	15,000
2021	20,000
2022	20,000
2023	20,000
	90,000
	Interest
2019	1,913
2020	3,188
2021	2,550
2022	1,700
2023	850
	10,200

Total Principal	90,000	Total P & I	100,200
Total Interest	10,200	Principal Outstanding	75,000
		% Paid	16.67%
			33.33%
			55.56%
			77.78%
			100.00%
		Calendar Year Ending	2019
			2020
			2021
			2022
			2023

**City of Pine City, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 11/21/2019)**

		Building Refunding Bonds Series 2016A		Equipment Certificate Series 2019A							
Dated Amount		04/01/2016 \$1,315,000	06/01/2019 \$204,000								
Maturity		12/01	02/01								
Calendar Year Ending		Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2019		90,000	13,715	0	0	90,000	13,715	103,715	1,429,000	5.92%	2019
2020		95,000	26,530	0	9,223	95,000	35,753	130,753	1,334,000	12.18%	2020
2021		90,000	25,295	65,000	6,646	155,000	31,941	186,941	1,179,000	22.38%	2021
2022		95,000	24,125	68,000	4,069	163,000	28,194	191,194	1,016,000	33.11%	2022
2023		95,000	22,225	71,000	1,376	166,000	23,601	189,601	850,000	44.04%	2023
2024		100,000	20,325			100,000	20,325	120,325	750,000	50.63%	2024
2025		100,000	18,325			100,000	18,325	118,325	650,000	57.21%	2025
2026		100,000	16,325			100,000	16,325	116,325	550,000	63.79%	2026
2027		105,000	14,125			105,000	14,125	119,125	445,000	70.70%	2027
2028		105,000	11,815			105,000	11,815	116,815	340,000	77.62%	2028
2029		110,000	9,190			110,000	9,190	119,190	230,000	84.86%	2029
2030		115,000	6,440			115,000	6,440	121,440	115,000	92.43%	2030
2031		115,000	3,220			115,000	3,220	118,220	0	100.00%	2031
		1,315,000	211,655	204,000	21,313	1,519,000	232,968	1,751,968			

City of Pine City, Minnesota
 Schedule of Bonded Indebtedness
 General Obligation Debt Secured by Utility Revenues
 (As of 11/21/2019)

Calendar Year Ending	Taxable Water & Sewer Revenue Bonds Series 2013A		Utility Bonds 1) Series 2018A		Utility Refunding Bonds 2) Series 2019B		Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
	Dated Amount	Maturity	Principal	Interest	Principal	Interest						
2020	25,000	01/01	30,000	23,763	0	49,837	55,000	110,820	165,820	6,156,000	.89%	2020
2021	25,000	01/01	40,000	22,363	530,000	65,835	595,000	124,731	719,731	5,561,000	10.47%	2021
2022	26,000	01/01	40,000	20,763	560,000	57,520	626,000	114,115	740,115	4,935,000	20.54%	2022
2023	27,000	01/01	40,000	19,163	570,000	48,620	637,000	102,886	739,886	4,298,000	30.80%	2023
2024	28,000	01/01	40,000	17,563	470,000	40,183	538,000	92,093	630,093	3,760,000	39.46%	2024
2025	28,000	01/01	40,000	15,963	475,000	32,386	543,000	81,926	624,926	3,217,000	48.20%	2025
2026	29,000	01/01	50,000	14,163	485,000	24,224	564,000	71,180	635,180	2,653,000	57.29%	2026
2027	30,000	01/01	50,000	12,413	495,000	15,401	575,000	59,796	634,796	2,078,000	66.54%	2027
2028	31,000	01/01	50,000	10,913	555,000	5,411	636,000	47,468	683,468	1,442,000	76.78%	2028
2029	32,000	01/01	50,000	9,413			82,000	39,690	121,690	1,360,000	78.10%	2029
2030	33,000	01/01	55,000	7,838			88,000	37,221	125,221	1,272,000	79.52%	2030
2031	33,000	01/01	55,000	6,153			88,000	34,629	122,629	1,184,000	80.94%	2031
2032	34,000	01/01	55,000	4,434			89,000	31,989	120,989	1,095,000	82.37%	2032
2033	35,000	01/01	55,000	2,681			90,000	29,288	119,288	1,005,000	83.82%	2033
2034	36,000	01/01	55,000	894			91,000	26,524	117,524	914,000	85.28%	2034
2035	37,000	01/01	37,000	24,626			37,000	24,626	61,626	877,000	85.88%	2035
2036	38,000	01/01	38,000	23,595			38,000	23,595	61,595	839,000	86.49%	2036
2037	39,000	01/01	39,000	22,536			39,000	22,536	61,536	800,000	87.12%	2037
2038	40,000	01/01	40,000	21,450			40,000	21,450	61,450	760,000	87.76%	2038
2039	42,000	01/01	42,000	20,323			42,000	20,323	62,323	718,000	88.44%	2039
2040	43,000	01/01	43,000	19,154			43,000	19,154	62,154	675,000	89.13%	2040
2041	44,000	01/01	44,000	17,958			44,000	17,958	61,958	631,000	89.84%	2041
2042	45,000	01/01	45,000	16,734			45,000	16,734	61,734	586,000	90.57%	2042
2043	46,000	01/01	46,000	15,483			46,000	15,483	61,483	540,000	91.31%	2043
2044	48,000	01/01	48,000	14,190			48,000	14,190	62,190	492,000	92.08%	2044
2045	49,000	01/01	49,000	12,856			49,000	12,856	61,856	443,000	92.87%	2045
2046	50,000	01/01	50,000	11,495			50,000	11,495	61,495	393,000	93.67%	2046
2047	52,000	01/01	52,000	10,093			52,000	10,093	62,093	341,000	94.51%	2047
2048	53,000	01/01	53,000	8,649			53,000	8,649	61,649	288,000	95.36%	2048
2049	54,000	01/01	54,000	7,178			54,000	7,178	61,178	234,000	96.23%	2049
2050	56,000	01/01	56,000	5,665			56,000	5,665	61,665	178,000	97.13%	2050
2051	58,000	01/01	58,000	4,098			58,000	4,098	62,098	120,000	98.07%	2051
2052	59,000	01/01	59,000	2,489			59,000	2,489	61,489	61,000	99.02%	2052
2053	61,000	01/01	61,000	839			61,000	839	61,839	0	100.00%	2053
	1,366,000		705,000	188,475	4,140,000	339,417	6,211,000	1,263,764	7,474,764			

* Preliminary, subject to change.

- 1) This represents the \$705,000 Utility Bonds portion of the \$1,745,000 General Obligation Bonds, Series 2018A.
- 2) This represents the \$4,140,000 Utility Refunding Bonds portion of the \$7,255,000 General Obligation Bonds, Series 2019B. This portion is refunding the 2020 through 2028 maturities of the City's \$7,645,000 General Obligation Crossover Refunding Bonds, Series 2012A dated January 1, 2012.

City of Pine City, Minnesota
 Schedule of Bonded Indebtedness
 Non-General Obligation Debt Secured by Annual Appropriation
 (As of 11/21/2019)

Lease-Purchase 1)
 2017

Dated Amount	12/01/2017 \$155,350	Maturity	12/28					
Calendar Year Ending	Principal	Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Calendar Year Ending
2019	38,838	0	38,838	0	38,838	38,838	50.00%	2019
2020	38,838	0	38,838	0	38,838	0	100.00%	2020
	77,675	0	77,675	0	77,675			

1) Interest rate for this issue is 0%.

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 (includes the Improvement Portion of the Bonds and Improvement and Utility Refunding Portion of the Bonds); (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences; (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any public revenue producing convenience (includes the Utility Revenue Refunding Portion of the Bonds); (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations issued to pay judgments against the City; and (8) 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	\$206,815,100
Multiply by 3%	<u>0.03</u>
Statutory Debt Limit	\$ 6,204,453
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes	<u>(1,519,000)</u>
Unused Debt Limit	<u><u>\$ 4,685,453</u></u>

OVERLAPPING DEBT¹

Taxing District	2018/19 Taxable Net Tax Capacity	% In City	Total G.O. Debt²	City's Proportionate Share
Pine County	\$27,868,232	8.3204%	\$ 24,555,000	\$ 2,043,074
I.S.D. No. 578 (Pine City)	9,411,861	24.6364%	16,205,000 ³	<u>3,992,329</u>
City's Share of Total Overlapping Debt				<u><u>\$ 6,035,403</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 Currently, the State of Minnesota is paying approximately 5.2% of the principal and interest on the Pine City School District's general obligation bonds. Assuming this percentage continues for the life of the bonds, the State's proportionate share of principal is \$842,660. Based upon the long term facilities maintenance revenue formula and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$224,523,728)	Debt/ Current Population Estimate (3,261)
Direct G.O. Debt Secured By:			
Special Assessments & Taxes	\$ 5,499,000		
Special Assessments, Taxes and Utility Revenues	240,000		
Tax Abatement Revenues	75,000		
Tax Increment Revenues	90,000		
Taxes	1,519,000		
Utility Revenues	<u>6,211,000</u>		
Total General Obligation Debt (includes the Bonds)*	\$ 13,634,000		
Less: G.O. Debt Paid Entirely from Revenues ¹	<u>(6,211,000)</u>		
Tax Supported General Obligation Debt*	\$ 7,423,000	3.31%	\$2,276.30
 City's Share of Total Overlapping Debt ²	 <u>\$ 6,035,403</u>	 <u>2.69%</u>	 <u>\$1,850.78</u>
 Total*	 <u>\$ 13,458,403</u>	 <u>5.99%</u>	 <u>\$4,127.08</u>

*Preliminary, subject to change.

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 the agricultural land valuation applicable to the overlapping school districts of \$207,601.09, the City's net overlapping debt is \$5,827,802, which results in a net overlapping debt/market value ratio of 2.60% and net overlapping population ratio of \$1,787.12.

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	\$ 1,147,799	\$ 1,096,663	\$ 1,145,584	99.81%
2015/16	1,195,486	1,169,661	1,193,803	99.86%
2016/17	1,345,646	1,309,753	1,342,472	99.76%
2017/18	1,398,473	1,386,082	1,386,082	99.11%
2018/19	1,470,165	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
Pine County	64.579%	66.457%	66.586%	67.177%	67.426%
Pine Countywide	0.243%	0.237%	0.223%	0.224%	0.216%
City of Pine City	56.936%	57.853%	60.710%	62.103%	63.706%
I.S.D. No. 578 (Pine City)	29.454%	32.142%	26.871%	25.340%	21.665%
Pine City HRA	N/A	N/A	N/A	1.634%	1.653%

Referendum Market Value Rates:

I.S.D. No. 578 (Pine City)	0.17690%	0.17437%	0.16805%	0.16369%	0.17391%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Pine County.

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

² Collections are through March 19, 2019.

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 Pine City was organized as a municipality in 1881. 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/Clerk and Treasurer are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 13 full-time, 10 part-time, and 21 seasonal 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

Bargaining Unit	Expiration Date of Current Contract
AFSCME Local #1647	December 31, 2019
Teamsters Local #320	December 31, 2019

POST EMPLOYMENT BENEFITS

The City has obligations for some post-employment benefits (some mandated by State Statute and others that cover a portion of the cost of health insurance during retirement) for the majority of its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 75 (GASB 75). The most recent actuarial study shows a total OPEB liability of \$141,303 as of January 1, 2018. The City is currently funding these obligations on a pay-as-you-go basis.

Source: The City's most recent actuarial study.

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 and the 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	\$ 1,660,802
Special Revenue	742,727
Debt Service	755,791
Capital Projects	1,631,404
Enterprise Funds	<u>4,043,115</u>
Total Funds on Hand	<u><u>\$ 8,833,839</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
Liquor Fund			
Total Operating Revenues	\$ 504,199	\$ 544,370	\$ 506,271
Less: Operating Expenses	<u>(337,230)</u>	<u>(328,381)</u>	<u>(341,243)</u>
Operating Income	\$ 166,969	\$ 215,989	\$ 165,028
Plus: Depreciation	<u>9,184</u>	<u>7,549</u>	<u>11,480</u>
Revenues Available for Debt Service	<u><u>\$ 176,153</u></u>	<u><u>\$ 223,538</u></u>	<u><u>\$ 176,508</u></u>
Sewer Utility Fund			
Total Operating Revenues	\$ 735,675	\$ 685,157	\$ 736,949
Less: Operating Expenses	<u>(678,145)</u>	<u>(415,136)</u>	<u>(423,181)</u>
Operating Income	\$ 57,530	\$ 270,021	\$ 313,768
Plus: Depreciation	<u>422,532</u>	<u>107,428</u>	<u>122,173</u>
Revenues Available for Debt Service	<u><u>\$ 480,062</u></u>	<u><u>\$ 377,449</u></u>	<u><u>\$ 435,941</u></u>
Water Utility Fund			
Total Operating Revenues	\$ 1,144,153	\$ 1,100,690	\$ 1,130,002
Less: Operating Expenses	<u>(138,227)</u>	<u>(477,689)</u>	<u>(513,764)</u>
Operating Income	\$ 1,005,926	\$ 623,001	\$ 616,238
Plus: Depreciation	<u>(107,840)</u>	<u>197,704</u>	<u>197,585</u>
Revenues Available for Debt Service	<u><u>\$ 898,086</u></u>	<u><u>\$ 820,705</u></u>	<u><u>\$ 813,823</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.

		FISCAL YEAR ENDING DECEMBER 31				
COMBINED STATEMENT		2015	2016	2017	2018	2019
		Audited	Audited	Audited	Audited	Adopted Budget¹
Revenues						
Property taxes	\$	578,470	\$ 583,332	\$ 776,017	\$ 733,415	\$ 799,200
Special assessments		1,309	887	1,032	1,143	750
Intergovernmental		609,097	577,574	674,446	724,218	616,441
Fees, licenses and permits		38,104	27,546	71,922	108,132	64,885
Charges for services		420,233	385,662	241,451	261,935	315,748
Fines and forfeitures		4,767	2,922	6,446	19,164	3,482
Interest earned		6,797	4,361	0	0	4,925
Refunds and reimbursements		20,617	28,551	0	0	25,805
Grants		11,096	46,876	0	0	81,489
Investment income		0	0	9,871	969	0
Other miscellaneous revenues		21,750	31,661	59,189	50,599	3,710
Total Revenues		<u>\$ 1,712,240</u>	<u>\$ 1,689,372</u>	<u>\$ 1,840,374</u>	<u>\$ 1,899,575</u>	<u>\$ 1,916,435</u>
Expenditures						
Current:						
General government	\$	510,616	\$ 523,380	\$ 497,335	\$ 524,138	\$ 533,533
Public safety		617,402	580,061	590,932	692,866	751,830
Public works		458,208	399,160	442,449	392,263	583,280
Culture and recreation		173,842	149,886	157,029	182,555	188,776
Miscellaneous		53,036	51,906	0	0	0
Capital outlay		0	0	2,750	53,314	0
Debt Service		0	0	0	0	0
Total Expenditures		<u>\$ 1,813,104</u>	<u>\$ 1,704,393</u>	<u>\$ 1,690,495</u>	<u>\$ 1,845,136</u>	<u>\$ 2,057,420</u>
Excess of revenues over (under) expenditures	\$	(100,864)	\$ (15,021)	\$ 149,879	\$ 54,439	\$ (140,985)
Other Financing Sources (Uses)						
Sale of capital assets	\$	0	\$ 0	\$ 2,751	\$ 0	\$ 0
Transfers in		125,000	125,000	125,000	135,000	145,000
Transfers out		0	0	(19,677)	(20,000)	0
Total Other Financing Sources (Uses)	\$	125,000	\$ 125,000	\$ 108,074	\$ 115,000	\$ 145,000
Net Changes in Fund Balances	\$	24,136	\$ 109,979	\$ 257,953	\$ 169,439	\$ 4,015
General Fund Balance January 1		949,729	1,046,910	1,156,889	1,472,514	
Prior Period Adjustment		73,045	0	57,672	0	
Residual Equity Transfer in (out)		0	0	0	0	
General Fund Balance December 31	\$	1,046,910	\$ 1,156,889	\$ 1,472,514	\$ 1,641,953	
DETAILS OF DECEMBER 31 FUND BALANCE						
Nonspendable	\$	7,715	\$ 0	\$ 0	\$ 10,211	
Unassigned		1,039,195	1,156,889	1,472,514	1,631,742	
Total		<u>\$ 1,046,910</u>	<u>\$ 1,156,889</u>	<u>\$ 1,472,514</u>	<u>\$ 1,641,953</u>	

¹ The 2019 budget was adopted on November 29, 2018.

GENERAL INFORMATION

LOCATION

The City of Pine City, with a 2010 U.S. Census population of 3,123 and a current population estimate of 3,261, and comprising an area of 3.91 square miles, is located approximately 73 miles northeast of the Minneapolis-St. Paul metropolitan area. The City is the County Seat of Pine County.

LARGER EMPLOYERS¹

Larger employers in the City of Pine City include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Walmart	Discount retail store	300
Pine County	County government and services	279
I.S.D. No.578 (Pine City)	Elementary and secondary education	263
Community Living Options	Residential group home	175 ²
Pine Technical & Community College	Technical Institute and Community College	135
Minpack	Packaging materials-manufacturer	100
Atscott Manufacturing	Machine metal shop	80
McDonalds	Restaurant	65
Meadow Creek Treatment Center	Alcoholism treatment center	50
First Health System	Clinics	46
Phase	Human Services Organization	40

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

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 Includes 125 full-time and 50 part-time employees.

BUILDING PERMITS

	2015	2016	2017	2018	2019 ¹
<u>New Single Family Homes</u>					
No. of building permits	7	6	14	18	4
Valuation	\$1,070,000	\$770,000	\$1,803,000	\$2,780,678	\$742,812
<u>New Commercial/Industrial</u>					
No. of building permits	1	1	1	0	0
Valuation	\$1,100,000	\$2,225,000	\$0	\$0	\$0
<u>All Building Permits</u> <i>(including additions and remodelings)</i>					
No. of building permits	117	121	137	161	82
Valuation	\$4,368,596	\$3,474,378	\$2,815,763	\$5,662,675	\$1,139,989

Source: The City.

¹ As of July 8, 2019.

U.S. CENSUS DATA

Population Trend: The City

2000 U.S. Census population	3,043
2010 U.S. Census population	3,123
2018 State Demographer's Estimate	3,261
Percent of Change 2000 - 2010	+ 2.63%

Income and Age Statistics

	The City	Pine County	State of Minnesota	United States
2017 per capita income	\$21,726	\$24,044	\$34,712	\$31,177
2017 median household income	\$32,800	\$47,285	\$65,699	\$57,652
2017 median family income	\$44,861	\$58,642	\$82,785	\$70,850
2017 median gross rent	\$669	\$713	\$906	\$982
2017 median value owner occupied units	\$124,500	\$151,600	\$199,700	\$193,500
2017 median age	44.8 yrs.	44.5 yrs.	37.9 yrs.	37.8 yrs.

	State of Minnesota	United States
City % of 2017 per capita income	62.59%	69.69%
City % of 2017 median family income	54.19%	63.32%

Housing Statistics

	<u>The City</u>		
	2000	2017	Percent of Change
All Housing Units	1,275	1,586	24.39%

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>	
	Pine County	Pine County	Pine County	State of Minnesota
2015	13,961	5.5%	3.7%	
2016	14,011	5.8%	3.9%	
2017	14,138	5.6%	3.4%	
2018	14,130	4.8%	2.9%	
2019, August	14,284	3.8%	3.0%	

Source: Minnesota Department of Employment and Economic Development.

APPENDIX A

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.

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

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

**Prepared By:
Administration Department
Matthew Van Steenwyk,
City Administrator**

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CITY OF PINE CITY, MINNESOTA
ORGANIZATION
December 31, 2018



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



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

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

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

Report on Summarized Comparative Information

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

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pine City, Minnesota's basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019, on our consideration of the City of Pine City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Pine City, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pine City, Minnesota's internal control over financial reporting and compliance.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

June 25, 2019

CITY OF PINE CITY, MINNESOTA

STATEMENT OF NET POSITION

Statement 1

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

With Comparative Totals for December 31, 2017

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

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

CITY OF PINE CITY, MINNESOTA

STATEMENT OF ACTIVITIES

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

With Comparative Totals For The Year Ended December 31, 2017

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

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

Change in net position

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

Net position - December 31

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

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

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

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

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

Fund balance reported above

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

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

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

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

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

Net position of governmental activities

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

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

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

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

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

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

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

CITY OF PINE CITY, MINNESOTA

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

Statement 5

For The Year Ended December 31, 2018

With Comparative Totals For The Year Ended December 31, 2017

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

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

CITY OF PINE CITY, MINNESOTA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

December 31, 2018

With Comparative Totals For Enterprise Funds For December 31, 2017

Statement 6

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

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

CITY OF PINE CITY, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For The Year Ended December 31, 2018
With Comparative Totals For Enterprise Funds For The Year Ended December 31, 2017

Statement 7

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

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

CITY OF PINE CITY, MINNESOTA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For The Year Ended December 31, 2018

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

Statement 8

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

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

Note 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. FINANCIAL REPORTING ENTITY

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

COMPONENT UNITS

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

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

RELATED ORGANIZATION

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or business-type activity. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or business-type activity; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business-type activity. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues, except property taxes and reimbursement grants, to be available if they are collected within 90 days of the end of the current fiscal period. Property taxes are considered available if they are collected within 60 days of the end of the current year. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in

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

D. BUDGETS

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

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

E. LEGAL COMPLIANCE - BUDGETS

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

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

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

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

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

F. CASH AND INVESTMENTS

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

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

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

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

G. RECEIVABLES AND PAYABLES

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

H. PROPERTY TAX REVENUE RECOGNITION

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

I. SPECIAL ASSESSMENT REVENUE RECOGNITION

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

J. INVENTORIES

GOVERNMENTAL FUNDS

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

PROPRIETARY FUNDS

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

K. PREPAID ITEMS

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

L. CAPITAL ASSETS

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

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

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

M. COMPENSATED ABSENCES

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

N. LONG-TERM OBLIGATIONS

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

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

O. PENSION PLANS

COST SHARING MULTIPLE—EMPLOYER PLANS

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

SINGLE EMPLOYER PLAN

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

DEFINED CONTRIBUTION PLAN—HRA

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

P. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

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

Q. FUND BALANCE CLASSIFICATIONS

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

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

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

Committed - consists of internally imposed constraints. These constraints are established by resolution of the City Council.

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

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

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

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

R. NET POSITION

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

S. INTERFUND TRANSACTIONS

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

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

T. USE OF ESTIMATES

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

U. COMPARATIVE TOTALS

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

V. RECLASSIFICATIONS

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

W. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

Note 2 – DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

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

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

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

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

B. INVESTMENTS

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

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

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

C. INVESTMENT RISKS

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

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

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

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

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

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

As of December 31, 2018, the City had the following investments and maturities:

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

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

Total investments	\$ -
Total deposits	194,470
Petty cash	100
Total cash and investments	\$194,570

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

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

Investment Type	12/31/2018	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments at fair value:				
Brokered CD's	1,556,343	-	1,556,343	-
FNMA note	98,745	-	98,745	-
FHLMC note	154,229	-	154,229	-
Total/Subtotal	1,809,317	\$0	\$1,809,317	\$0

Investments not categorized:

Money market funds	210,164
Total	\$2,019,481

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

Note 3 RECEIVABLES

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

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

Note 4 UNAVAILABLE REVENUES

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

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

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

Note 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government				
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$251,688	\$ -	\$ -	\$251,688
Construction in progress	76,696	609,143	85,075	600,764
Total capital assets, not being depreciated	328,384	609,143	85,075	852,452
Capital assets, being depreciated:				
Buildings and improvements	3,284,401	-	-	3,284,401
Other improvements	11,848,738	169,480	-	12,018,218
Equipment, furniture and fixtures	3,103,793	117,867	50,000	3,171,660
Total capital assets, being depreciated	18,236,932	287,347	50,000	18,474,279
Less accumulated depreciation for:				
Buildings and improvements	1,281,230	96,877	-	1,378,107
Other improvements	5,293,582	213,425	-	5,507,007
Equipment, furniture and fixtures	2,204,678	152,301	50,000	2,306,979
Total accumulated depreciation	8,779,490	462,603	50,000	9,192,093
Total capital assets being depreciated - net	9,457,442	(175,256)	0	9,282,186
Governmental activities capital assets - net	\$9,785,826	\$433,887	\$85,075	\$10,134,638
Primary Government				
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$138,278	\$ -	\$ -	\$138,278
Construction in progress	513,268	2,082,881	569,340	2,026,809
Total capital assets, not being depreciated	651,546	2,082,881	569,340	2,165,087
Capital assets, being depreciated:				
Buildings and improvements	1,152,164	-	-	1,152,164
Water and sewer systems	16,090,134	569,340	-	16,659,474
Equipment, furniture and fixtures	902,633	19,914	92,368	830,169
Total capital assets, being depreciated	18,144,931	589,254	92,368	18,641,807
Less accumulated depreciation for:				
Buildings and improvements	537,691	27,623	-	565,314
Water and sewer systems	3,741,551	281,255	-	4,022,806
Equipment, furniture and fixtures	656,972	22,360	46,492	632,840
Total accumulated depreciation	4,936,214	331,238	46,492	5,220,960
Total capital assets being depreciated - net	13,208,707	258,016	45,876	13,420,847
Business-type activities capital assets - net	\$13,860,253	\$2,340,897	\$615,216	\$15,585,934

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

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

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

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

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

Note 6 - LONG-TERM DEBT

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

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

GOVERNMENTAL ACTIVITIES

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

G.O. Bonds:	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Payable 12/31/18
G.O. Bonds, Series 2010A	2.00-3.45%	6/9/2010	2/1/2022	\$2,225,000	\$470,000
G.O. Building Bonds, Series 2016A	1.00-2.80%	4/1/2016	12/1/2031	1,315,000	1,315,000
Total general obligation bonds				3,540,000	1,785,000
G.O. Improvement Bonds:					
G.O. Improvement Bonds, Series 2012A	2.00-3.25%	1/1/2012	2/1/2023	645,000	370,000
G.O. Improvement Bonds, Series 2012B	1.20-2.25%	8/1/2012	2/1/2024	610,000	460,000
G.O. Taxable Improvement Bonds, Series 2013B	3.50%	7/25/2013	7/23/2033	585,000	474,000
G.O. Improvement Bonds, Series 2015A	1.55-3.10%	7/15/2015	12/1/2030	720,000	585,000
G.O. Improvement Bonds, Series 2018A	3.125% - 4.00%	9/17/2018	2/1/2034	620,000	620,000
Total general obligation improvement bonds				3,180,000	2,509,000
G.O. Tax Increment Revenue Bonds:					
G.O. Tax Increment Revenue Bonds, Series 2010B	1.00-4.25%	11/1/2010	12/1/2023	1,050,000	900,000
Total - bonded indebtedness				7,770,000	4,384,000
Unamortized bond premiums				17,718	17,429
Loan payable	2.95%	10/17/2016	10/14/2021	169,048	98,837
Compensated absences payable				N/A	31,914
Total City indebtedness - governmental activities				\$7,966,766	\$4,532,180

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

BUSINESS-TYPE ACTIVITIES

G.O. Revenue Bonds:	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Payable 12/31/18
G.O. Water and Sewer Revenue Bonds, Series 2012A	2.00-3.25%	1/1/2012	2/1/2028	\$7,000,000	\$5,100,000
G.O. Taxable Water and Sewer Revenue Bonds, 2013A	2.75%	7/25/2013	1/1/2053	1,481,000	1,390,000
G.O. Water and Sewer Revenue Bonds, Series 2018A	3.125% - 4.00%	9/17/2018	2/1/2034	1,125,000	1,125,000
Total - bonded indebtedness				9,606,000	7,615,000
Unamortized bond premiums	0.00%	12/28/2017	12/28/2020	90,593	62,649
Capital lease payable	1.00%	2/17/2012	2/17/2022	153,330	77,675
Note payable				250,000	100,000
Compensated absences payable				N/A	51,943
Total City indebtedness - business-type activities				10,101,943	7,907,267
Total City indebtedness				\$18,058,709	\$12,439,447

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

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

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

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

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

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

CHANGE IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
G.O. bonds	\$3,310,000	\$ -	\$1,525,000	\$1,785,000	\$320,000
G.O. improvement bonds	2,123,000	620,000	234,000	2,509,000	215,000
G.O. tax increment revenue bonds	105,000	-	13,000	92,000	15,000
Total bonds payable	5,538,000	620,000	1,772,000	4,386,000	550,000
Unamortized bond premiums	131,789	17,718	289	174,299	33,951
Loan payable	33,071	18,691	32,952	98,837	14,878
Compensated absences	\$5,702,860	\$656,409	\$1,827,089	\$4,532,180	\$598,829
Total governmental activities	\$7,004,000	\$1,125,000	\$514,000	\$7,615,000	\$824,000
Business-type activities:					
G.O. revenue bonds	35,141	31,500	3,992	62,649	-
Unamortized bond premiums	116,513	-	38,838	77,675	38,838
Capital lease payable	125,000	-	25,000	100,000	25,000
Note payable	54,284	25,012	27,653	51,943	18,840
Compensated absences	\$7,335,238	\$1,181,512	\$609,483	\$7,907,267	\$606,678
Total business-type activities	\$11,876	\$6,467	\$6,046	\$12,297	\$4,629

For the governmental activities, compensated absences are generally liquidated by the General Fund. All long-term bonded indebtedness outstanding at December 31, 2018 is backed by the full faith and credit of the City, including improvement and revenue bond issues. Delinquent assessments receivable at December 31, 2018 totaled \$884.

ADVANCED CROSSOVER REFUNDING

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

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

PLEGDED REVENUE

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

Bond Issue	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year Principal and Interest Paid	Pledged Revenue Received
		Type	Percent of Total Debt Service	Term of Pledge			
2010A Bonds	Street and Utility Infrastructure Improvements	Special assessments Ad valorem taxes	47% -35%	2009-2021	\$491,100	\$28,440	\$194,909
2010B Tax Increment Bonds	Golden Horizons TIF District	Tax Increment	100%	2011-2023	\$102,113	\$19,463	\$27,068
2012A Improvement Bonds	Infrastructure Improvements	Special assessments Ad valorem taxes	11% 89%	2011-2022	\$392,025	\$78,940	\$89,574
2012A Revenue Bonds	Utility Infrastructure Improvements	Water & sewer revenue	100%	2011-2027	\$5,825,651	\$626,904	\$1,820,387
2012B Improvement Bonds	Infrastructure Improvements	Special assessments Ad valorem taxes	39% 61%	2015-2023	\$489,814	\$79,513	\$91,210
2013A Taxable Revenue Bonds	Utility Infrastructure Improvements	Water & sewer revenue	100%	2015-2032	\$2,183,412	\$62,885	\$1,820,387
2013B Taxable Improvement Bonds	Infrastructure Improvements	Special assessments Ad valorem taxes	67% 33%	2012-2033	\$617,780	\$41,420	\$48,981
2015A Improvement Bonds	Infrastructure Improvements	Special assessments Ad valorem taxes	32% 68%	2015-2030	\$698,620	\$61,440	\$70,517
2016A Building Bonds	Fire Hall project	Ad valorem taxes	100%	2019-2031	\$1,540,370	\$ -	\$ -
2018A Improvement Bonds	Street and Utility Infrastructure Improvements	Special assessments Ad valorem taxes	35% 65%	2019-2033	\$804,209	\$ -	\$ -
2018A Revenue Bonds	Utility Infrastructure Improvements	Water & sewer revenue	100%	2019-2033	\$1,457,423	\$ -	\$ -

CAPITAL LEASE PAYABLE

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

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

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

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

The following is a schedule of future minimum lease payments:

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

Note 7. DEFINED BENEFIT PENSION PLANS

A. COST SHARING MULTIPLE – EMPLOYER PLANS

PLAN DESCRIPTION

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

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

BENEFITS PROVIDED

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% for all years of service. The accrual rates for former Minneapolis Employees Retirement Fund (MERF) members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unretired Social Security benefits capped at 66.

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

retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

CONTRIBUTIONS

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018; the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the GERF for the year ended December 31, 2018, were \$63,283. The City's contributions were equal to the required contributions as set by state statute.

PENSION COSTS

At December 31, 2018, the City reported a liability of \$671,258 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$22,024. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was .0121% which was a decrease of .0008% from its proportion measured as of June 30, 2017.

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

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

At December 31, 2018, the City reported its proportionate share of the GRF'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	\$17,767	\$18,931
Changes in actuarial assumptions	62,002	75,423
Difference between projected and actual investment earnings	-	71,098
Changes in proportion	22,102	47,385
Contributions paid to PERA subsequent to the measurement date	32,126	-
Total	<u>\$133,997</u>	<u>\$212,837</u>

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

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

ACTUARIAL ASSUMPTIONS

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

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

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

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

The following changes in actuarial assumptions occurred in 2018:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

DISCOUNT RATE

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future

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

PENSION LIABILITY SENSITIVITY

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

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

PENSION PLAN FIDUCIARY NET POSITION

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mmpcra.org.

B. SINGLE EMPLOYER PLAN

PLAN DESCRIPTION

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

BENEFITS PROVIDED

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

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

Death Benefits

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

State Supplemental Benefits

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

EMPLOYEES COVERED BY BENEFIT TERMS

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

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

CONTRIBUTIONS

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

NET PENSION LIABILITY

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

ACTUARIAL ASSUMPTIONS

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

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

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

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

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

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of the measurement date are summarized in the following table:

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

DISCOUNT RATE

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

CHANGES IN THE NET PENSION LIABILITY (ASSET)

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

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

PENSION LIABILITY (ASSET) SENSITIVITY

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

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

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

For the year ended December 31, 2018, the City recognized pension expense of (\$31,993). The City also recognized \$39,053 for the year ended December 31, 2018, as pension expense (and grant revenue) for the State of Minnesota's on-behalf contribution to the plan. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ -	\$48,753
City contribution to the Fire Relief subsequent to the measurement date	25,000	-
Total	\$25,000	\$48,753

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

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

PENSION PLAN FIDUCIARY NET POSITION

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

C. PENSION EXPENSE

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

GERF	\$43,469
Fire Relief	(31,993)
Total	\$11,476

Note 8 - DEFINED CONTRIBUTION PENSION PLAN - HRA

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

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

Note 9 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

A. PLAN DESCRIPTION

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

B. BENEFITS PROVIDED

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

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

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

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

C. PARTICIPANTS

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

Active employees	12
Inactive employees or beneficiaries	4
currently receiving benefits	16
Total	<u>32</u>

D. TOTAL OPEB LIABILITY AND CHANGES IN TOTAL OPEB LIABILITY

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

Balance - beginning of year	\$156,510
Changes for the year:	
Service cost	3,635
Interest	4,896
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(23,738)
Benefit payments	(15,207)
Net changes	<u>(\$14,303)</u>
Balance - end of year	<u>\$141,303</u>

E. ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

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

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

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

F. SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

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

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

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

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

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

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

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

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

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

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

Note 10 - DUE TO / FROM OTHER FUNDS AND TRANSFERS

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

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

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

Interfund transfers made during 2018 are summarized as follows:

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

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

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

Note 11 - DEFICIT FUND BALANCES / NET POSITION

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

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

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

Note 12 - FUND BALANCE

A. CLASSIFICATIONS

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

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

B. MINIMUM UNASSIGNED FUND BALANCE POLICY

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

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

Note 13 COMMITMENTS AND CONTINGENCIES

A. LEASE COMMITMENTS

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

Fiscal Year	Amount
Ended	-----
2019	\$50,000

B. CONSTRUCTION COMMITMENTS

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

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

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

C. RISK MANAGEMENT

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

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

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

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

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

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

D. LITIGATION

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

E. FEDERAL AND STATE FUNDS

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

F. TAX INCREMENT DISTRICTS

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

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

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

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

Note 14 DEFERRED AD VALOREM TAX LEVIES - BONDED DEBT

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

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

Note 15 RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

Statement No. 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018.

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

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

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

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

Note 16 CHANGE IN ACCOUNTING PRINCIPLE

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

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

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

Note 17 CHANGE IN REPORTING ENTITY

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

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

Note 18 - SUBSEQUENT EVENT

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)	2017 Actual Amounts
	Original	Final			
Revenues:					
General property taxes	\$703,775	\$703,775	\$733,415	\$29,640	\$776,017
Special assessments	714	714	1,143	429	1,032
Licenses, fees and permits	67,531	67,531	108,132	40,601	71,922
Intergovernmental	711,364	711,364	724,218	12,854	674,446
Charges for services	270,625	270,625	261,935	(8,690)	249,955
Fines and forfeits	6,293	6,293	19,164	12,871	2,757
Investment income	4,110	4,110	969	(3,141)	9,871
Miscellaneous	55,477	55,477	50,599	(4,878)	57,125
Total revenues	1,819,889	1,819,889	1,899,575	79,686	1,843,125
Expenditures:					
General government:					
Current:					
City council	38,411	38,411	23,279	15,132	24,108
Administrative/finance	312,462	314,962	348,936	(33,974)	355,524
Elections	6,765	6,765	3,498	3,267	165
City assessor	17,000	17,000	16,390	610	16,185
Planning	106,998	106,998	105,383	1,615	74,461
Library	29,500	29,500	26,892	2,608	26,892
Total general government	511,136	513,636	524,138	(10,502)	497,335
Public safety:					
Current:					
Fire protection	418,837	377,057	387,415	(10,358)	329,949
Building inspections	110,382	110,382	108,739	1,643	81,170
Dog pound	2,200	2,200	-	2,200	-
Health officer	185,894	185,894	185,712	182	168,813
Legal	11,000	11,000	11,000	-	11,000
Capital outlay	-	-	53,314	(53,314)	-
Total public safety	728,313	686,533	746,180	(59,647)	590,932
Public works:					
Current:					
Streets	516,685	439,384	392,263	47,121	442,449
Capital outlay	-	-	-	-	500
Total public works	516,685	439,384	392,263	47,121	442,949
Culture and recreation:					
Current:					
Recreation/educational/social	28,930	28,930	28,428	502	39,654
Swimming	54,480	54,480	64,008	(9,528)	47,814
Softball fields	17,500	17,500	16,088	1,412	11,300
Parks and playground	57,595	57,595	63,379	(5,784)	57,156
Skating rink	10,350	10,350	10,652	(302)	1,105
Capital outlay	9,900	9,900	-	9,900	2,250
Total culture and recreation	178,755	178,755	182,555	(3,800)	159,279
Total expenditures	1,934,889	1,818,308	1,845,136	(26,828)	1,690,495

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

Statement 10

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

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

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

Statement 11

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

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

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

Statement 12

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

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

CITY OF PINE CITY, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS - PINE CITY FIRE DEPARTMENT RELIEF ASSOCIATION
 For The Last Ten Years

Statement 13

	December 31, 2018	December 31, 2017	December 31, 2017	December 31, 2016
Fiscal year ending				
Measurement date	December 31, 2018	December 31, 2017	December 31, 2017	December 31, 2016
Total pension liability:				
Service cost	\$15,635	\$15,254	\$15,254	\$15,254
Interest	49,915	49,994	49,994	49,994
Plan changes	23,831	-	-	-
Differences between expected and actual experience	-	-	-	-
Changes of assumptions	(63,600)	-	-	(70,800)
Benefit payments, including refunds of employee contributions	25,781	(6,552)	(6,552)	(6,552)
Net change in total pension liability	1,014,473	1,014,473	1,020,025	1,020,025
Total pension liability - beginning	\$1,040,254	\$1,040,254	\$1,014,473	\$1,014,473
Total pension liability - ending (a)				
Plan fiduciary net position:				
Contributions - employer	\$24,000	\$24,000	\$23,000	\$23,000
Contributions - State of Minnesota	57,672	57,672	57,853	57,853
Contributions - employee	-	-	-	-
Net investment income	58,148	58,148	54,887	54,887
Gain or loss	58,830	58,830	2,817	2,817
Benefit payments, including refunds of employee contributions	(63,600)	(63,600)	(70,800)	(70,800)
Administrative expense	(6,776)	(6,776)	(6,353)	(6,353)
Net change in plan fiduciary net position	128,274	128,274	61,404	61,404
Plan fiduciary net position - beginning	1,157,304	1,157,304	1,095,900	1,095,900
Plan fiduciary net position - ending (b)	\$1,285,578	\$1,285,578	\$1,157,304	\$1,157,304
Net pension liability (asset) - ending (a) - (b)	(\$245,324)	(\$245,324)	(\$642,831)	(\$642,831)
Plan fiduciary net position as a percentage of the total pension liability	123.6%	123.6%	114.1%	114.1%
Covered-employee payroll*	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll*	NA	NA	NA	NA
Annual pension benefit	\$2,600	\$2,600	\$2,400	\$2,400
Number of plan participants	52	52	52	52

GASB 68 was implemented in 2017. Information prior to 2017 is not available.
 *The Relief Association is comprised of volunteers, therefore, there are no payroll expenditures. (i.e., there are no covered payroll amounts or percentage calculations).

Statement 14
CITY OF PINE CITY, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS - PINE CITY FIRE DEPARTMENT RELIEF ASSOCIATION
 For The Last Ten Years

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

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

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

Note A - LEGAL COMPLIANCE - BUDGETS

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

Note B - OPEB INFORMATION

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

Note C - PENSION INFORMATION

PERA - General Employees Retirement Fund

2018 Changes in Actuarial Assumptions:

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

2017 Changes in Actuarial Assumptions:

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

2016 Changes in Actuarial Assumptions:

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

Single Employer - Fire Relief Association

2018 Changes:

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

2017 Changes:

- GASB 67 and 68 were implemented.

NONMAJOR GOVERNMENTAL FUNDS

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

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

Statement 15

SPECIAL REVENUE FUNDS

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

DEBT SERVICE FUNDS

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

CAPITAL PROJECT FUNDS

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

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

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

Statement 16

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

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

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

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

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

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

Statement 17

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

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

Statement 18

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

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

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

Statement 19

	307 Refunding Bonds of 2010A	309 Refunding Bonds of 2012A	310 Refunding Bonds of 2013B	311 Improvement Bonds of 2015A	Total Nonmajor Debt Service Funds	
						2017
	\$358,163	\$60,689	\$91,607	\$14,766	\$755,791	\$787,034
	291	52	74	12	598	581
	81,157	23,706	167,397	149,778	506,009	661,226
	<u>\$439,611</u>	<u>\$84,447</u>	<u>\$259,078</u>	<u>\$164,556</u>	<u>\$1,262,398</u>	<u>\$1,448,841</u>
Revenues:						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$104,000
Tax increment collections						
Special assessments						90,909
Investment income						1,539
Other						
Total revenues	27,279				91,711	196,448
Expenditures:						
Debt service:						
Principal	15,000				70,000	220,000
Interest and fiscal charges	6,627				10,482	18,914
Total expenditures	21,627				80,482	238,914
Revenues over (under) expenditures	5,652				11,229	(42,466)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	5,652				11,229	(42,466)
Net change in fund balance	30,257				124,244	401,367
Fund balance - January 1	\$35,909				\$135,473	\$51,008
Fund balance - December 31	\$66,166				\$259,717	\$252,375

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

Statement 20

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

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

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

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

Statement 21

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

Statement 22

CITY OF PINE CITY, MINNESOTA
SPECIAL REVENUE FUND - 201 ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Year Ended December 31, 2018
With Comparative Actual Amounts For The Year Ended December 31, 2017

Statement 23

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

	2018		2017	
	407 2017 Street Improvement	410 2019 Street Projects	425 Park Dedication	Total Nonmajor Capital Project Funds
406 2015 Street Improvement				
\$	-	-	\$	\$32,751
	2,082	-	-	2,082
785	279	4	85	1,540
	-	-	-	-
785	2,361	4	85	36,373
				51,769
	646	-	-	646
	-	-	-	750
	-	-	-	31,149
	8,377	20,122	-	28,499
	9,023	20,122	8,238	8,238
0	(6,662)	4	(8,153)	68,532
785				(32,159)
	-	-	-	33,108
	(6,662)	(20,122)	(8,153)	949
785	(79,815)	-	21,884	117,423
168,112	(79,815)	-	21,884	117,423
168,112	(86,477)	0	0	302,132
\$ 168,897				\$113,930

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

Prior year ending fund balance reported above \$113,930

Fund balance of fund 409 reported as nonmajor in prior year, major in current year 3,493

Current year beginning fund balance \$117,423

CITY OF PINE CITY, MINNESOTA

SPECIAL REVENUE FUND - 204 CEMETERY FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For The Year Ended December 31, 2018

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

Statement 24

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

CITY OF PINE CITY, MINNESOTA

SPECIAL REVENUE FUND - 213 HOUSING OPERATIONS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For The Year Ended December 31, 2018

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

Statement 25

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

FORM OF LEGAL OPINION

(See following pages)



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PROPOSED FORM OF LEGAL OPINION

\$ _____
GENERAL OBLIGATION BONDS, SERIES 2019B
CITY OF PINE CITY
PINE COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Pine City, Pine County, Minnesota (the "Issuer"), of its \$ _____ General Obligation Bonds, Series 2019B, bearing a date of original issue of November 21, 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 the Official Statement or other offering material relating to the Bonds, and we express no opinion relating 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.

(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

PROPOSED FORM OF LEGAL OPINION

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 UNDERTAKING

(See following pages)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Pine City, Minnesota (the "Issuer"), in connection with the issuance of its \$_____ General Obligation Bonds, Series 2019B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on November 6, 2019 (the "Resolution"). Pursuant to the Resolution and this 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: _____, 2019.

CITY OF PINE CITY, MINNESOTA

By _____
Its Mayor

By _____
Its City Administrator/Treasurer

APPENDIX E

TERMS OF PROPOSAL

\$7,255,000* GENERAL OBLIGATION BONDS, SERIES 2019B CITY OF PINE CITY, MINNESOTA

Proposals for the purchase of \$7,255,000* General Obligation Bonds, Series 2019B (the "Bonds") of the City of Pine City, 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 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on November 6, 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 authorized pursuant to Minnesota Statutes, Chapters 429, 444 and 475, and Section 475.67, by the City, for the purposes of (i) financing the City's 2019 improvement project; and (ii) effecting a current refunding of certain outstanding general obligations of the City as more fully described herein. 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 November 21, 2019, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2021	\$600,000	2027	\$680,000	2033	\$205,000
2022	805,000	2028	740,000	2034	215,000
2023	825,000	2029	190,000	2035	220,000
2024	650,000	2030	195,000	2036	220,000
2025	650,000	2031	195,000		
2026	665,000	2032	200,000		

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

Interest will be payable on February 1 and August 1 of each year, commencing August 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. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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 or after February 1, 2030 shall be subject to optional redemption prior to maturity on February 1, 2029 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 November 21, 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 \$7,167,940 plus accrued interest on the principal sum of \$7,255,000 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 10:00 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 \$145,100 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 Pine City, Minnesota

PROPOSAL FORM

The City Council
City of Pine City, Minnesota

November 6, 2019

RE: \$7,255,000* General Obligation Bonds, Series 2019B (the "Bonds")
DATED: November 21, 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 \$7,167,940) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2021	_____ % due	2027	_____ % due	2033
_____ % due	2022	_____ % due	2028	_____ % due	2034
_____ % due	2023	_____ % due	2029	_____ % due	2035
_____ % due	2024	_____ % due	2030	_____ % due	2036
_____ % due	2025	_____ % due	2031		
_____ % due	2026	_____ % due	2032		

* 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 rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2021 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A good faith deposit ("Deposit") in the amount of \$145,100 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 November 21, 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 November 21, 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 Pine City, Minnesota, on November 6, 2019.

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