

**City of St. Joseph
Stearns County, Minnesota**

Financial Statements

December 31, 2018

**City of St. Joseph
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**City of St. Joseph
Elected Officials and Administration
December 31, 2018**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Rick Schultz	Mayor	January 2019
Robert Loso	Council Member	January 2021
Troy Goracke	Council Member	January 2021
Dale Wick	Council Member	January 2019
Anne Buckvold	Council Member	January 2019
Matt Killam*	Council Member	January 2019
<u>Administration</u>		
Judy Weyrens	City Administrator	Appointed
Lori Bartlett	Finance Director	Appointed

*Council member Killam resigned May 2018 and was replaced with council member Buckvold

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of St. Joseph
St. Joseph, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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 St. Joseph's basic financial statements. The combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relates 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2019, on our consideration of the City of St. Joseph'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'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 St. Joseph's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

City of St. Joseph Management's Discussion and Analysis

As management of the City of St. Joseph, we offer readers of the City of St. Joseph's financial statements this narrative overview and analysis of the financial activities of the City of St. Joseph for the fiscal year ended December 31, 2018.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 include the following:

- The assets of the City of St. Joseph exceeded its liabilities at the close of the most recent fiscal year by \$34,442,145. Of this amount, \$3,703,661 may be used to meet government's ongoing obligations to citizens and creditors (unrestricted net position).
- The City of St. Joseph's total net position increased by \$792,291 from 2017 to 2018. This is due to paying down bonded debt, increase in development fees, sale of the old city hall, collection of deferred special assessments, and reduction in the pension expense for the City's share of the PERA retirement plans.
- As of the close of the current fiscal year, the City of St. Joseph's governmental funds reported combined ending fund balances of \$6,402,969, an increase of \$384,694. Of this amount \$1,459,560 is unassigned for spending at the City's discretion. The remaining balance of \$4,943,409 is set aside for specific future expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,468,385 or 46% of the total general fund expenditures (\$1,548,661 or 48% excluding the fire and PEG access funds).
- The City of St. Joseph's total long-term debt decreased by \$925,725 during the current fiscal year. The City had three debts paid in full in 2018 and issued two smaller debts. The new debts issued paid for general city equipment and St. Joseph's portion of the St. Cloud biosolids improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of St. Joseph's basic financial statements. The City of St. Joseph's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broader overview of the City of St. Joseph's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City of St. Joseph's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of St. Joseph is improving or deteriorating.

City of St. Joseph Management's Discussion and Analysis

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

Both the government-wide financial statements distinguish functions of the City of St. Joseph that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of St. Joseph include general government, public safety, public works, economic development, culture and recreation, and interest on long-term debt. The business-type activities of the City of St. Joseph include water, sanitary sewer, refuse, storm water, and street light utility services.

The government-wide financial statements include not only the City of St. Joseph itself (known as the primary government), but also a legally separate Economic Development Authority. Financial information for this component unit is blended in the financial information.

The government-wide financial statements can be found on pages 24-25 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of St. Joseph, like other state and local governments, utilized fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of St. Joseph can be divided into one of the following two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide governmental activities. The City of St. Joseph maintains forty-two individual governmental funds.

City of St. Joseph Management's Discussion and Analysis

Governmental Funds (Continued) Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and state collected sales tax special revenue fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The City of St. Joseph adopts an annual appropriated budget for its general and state collected sales tax funds. A budgetary comparison statement has been provided for these funds (pages 30-31) to demonstrate compliance with the budgets. The basic governmental fund financial statements can be found on pages 26 & 28 of this report.

Proprietary Funds. The City of St. Joseph maintains proprietary funds that are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of St. Joseph uses proprietary funds to account for its water, sanitary sewer, refuse, storm water, and street light utility activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sanitary sewer, refuse, storm water and street light utility, all of which are considered to be major funds of the City of St. Joseph.

The basic proprietary fund financial statements can be found on pages 32-36 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 37-74 of this report.

Other Information. The other information and combining statements referred to earlier in connection with non-major governmental funds can be found on pages 76-98 of this report.

Comparative Data. While comparative data is not illustrated in this report, comments throughout this narrative and overview will discuss significant changes from the prior year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of St. Joseph, assets exceeded liabilities by \$34,442,145 at the close of the most recent fiscal year.

By far the largest portion of the City of St. Joseph's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) net accumulated depreciation, less any related debt used to acquire those assets that is still outstanding. The City of St. Joseph utilizes these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of St. Joseph's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of St. Joseph
Management's Discussion and Analysis

NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 8,168,281	\$ 8,228,770	\$ 2,361,022	\$ 1,976,036	\$ 10,529,303	\$ 10,204,806
Capital assets, net	16,315,154	17,472,504	32,961,780	32,381,743	49,276,934	49,854,247
Total assets	24,483,435	25,701,274	35,322,802	34,357,779	59,806,237	60,059,053

**Deferred Outflows
of Resources**

Deferred outflows of resources related to pensions	1,091,570	1,292,782	49,921	78,580	1,141,491	1,371,362
Total deferred outflows	1,091,570	1,292,782	49,921	78,580	1,141,491	1,371,362

Liabilities

Current liabilities	1,416,169	1,587,142	1,571,829	1,410,513	2,987,998	2,997,655
Long-term liabilities	11,182,087	12,280,610	10,814,010	10,877,865	21,996,097	23,158,475
Total liabilities	12,598,256	13,867,752	12,385,839	12,288,378	24,984,095	26,156,130

**Deferred Inflows
of Resources**

Deferred inflows of resources related to lease receivables	132,460	173,356	-	-	132,460	173,356
Deferred inflows of resources related to pensions	1,325,459	1,399,302	63,569	51,773	1,389,028	1,451,075
Total deferred inflows	1,457,919	1,572,658	63,569	51,773	1,521,488	1,624,431

Net Position

Invested in capital assets, net related debt	7,223,470	7,626,612	21,249,153	20,699,611	26,880,985	26,508,482
Restricted	3,857,499	4,173,509	-	-	3,857,499	4,173,509
Unrestricted	437,861	(246,475)	1,674,162	1,396,597	3,703,661	2,967,863
Total net position	\$ 11,518,830	\$ 11,553,646	\$ 22,923,315	\$ 22,096,208	\$ 34,442,145	\$ 33,649,854

An additional portion of the City of St. Joseph's net position (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a surplus of \$3,703,661, or a surplus of \$2,112,023 after removing the unrestricted portion of governmental debt for enterprise assets. The surplus is the result of the change in St. Joseph's realized portion of the Minnesota employee's pension liability. The liability fluctuates significantly with changes in amortization assumptions such as the rate of return. Without the net pension liability, the unrestricted net position would be a surplus of \$5,353,013.

City of St. Joseph Management's Discussion and Analysis

At the end of the current fiscal year, the City of St. Joseph is able to report positive balances in all three categories of net position for the government as a whole, as well as for its separate business-type activities. The governmental activities had positive balances in all, but the unrestricted net position. The governmental activities change in net position balance decreased by less than 1%. The City's governmental operational activity was strong with development activity a key factor. The change in net position would have been an increase if the City had received the full cash amount for selling the old City Hall at the time of closing. In order to facilitate the sale of the former City Hall, the City negotiated a selling price to Bad Habit Brewing Company collecting 25% of the purchase price at closing and issuing a note for the remaining 75%. The old city hall was disposed of and shows a loss until the final loan proceeds are received in five years. In addition, special assessment receivables decreased \$309,116. The revenue on the deferred assessments were realized in previous years. The decrease will affect the net position change negatively as a result.

There was a 4% increase (a little more than 4% increase excluding net pension liability) in the total net position for the business-type activities. The increase is due to paying down bonds, raising utility rates and significant development fees collected. The full value of the assets is netted against the bonds payable. Also, construction in progress includes assets contributed from governmental funds improving the business-type net position.

Governmental Activities. Governmental activities reduced the City of St. Joseph's net position by \$34,816. The decrease is attributable to the collection of significant development fees including building permit revenue of \$271,689 and proceeds for selling the old City Hall for \$400,000 (\$102,500 cash paid down in 2018 and \$297,500 in notes receivable). The loss on the sale of capital assets amounted to \$548,896. This is a difference in proceeds less accumulated depreciation and the capital asset to remove from the financial statements. Reductions in bonded debt accounted for a \$967,351 increase in the overall net position.

Business-Type Activities. Business-type activities increased the City of St. Joseph's net position by \$827,107. The largest contributions were realized in the water and sewer funds. The Street Light Utility Fund also realized a positive change in net position of \$13,543. The Water and Sewer funds are combined with the water access (WAC) and sewer access (SAC) funds in the Government-Wide financial statements. The WAC/SAC is intended to charge new development a proportional fee for the asset that they will be utilizing. The connection fees totaled \$508,984 for 2018. In addition, the City council increased water and sewer rates (4.65% and 6%, respectfully) to help cover the water and sewer debt costs. The Storm Water and Refuse Funds ended the year with a decrease in net position due to the decision of City council to reduce rates to buy down net position in an effort to allow for larger rate increases in the water and sewer funds. The net position decreased \$146,899 in the Storm Water Fund and \$24,000 in the Refuse Fund.

The graph and charts on the following pages summarize and graphically depict the changes in net position for the governmental and business-type activities.

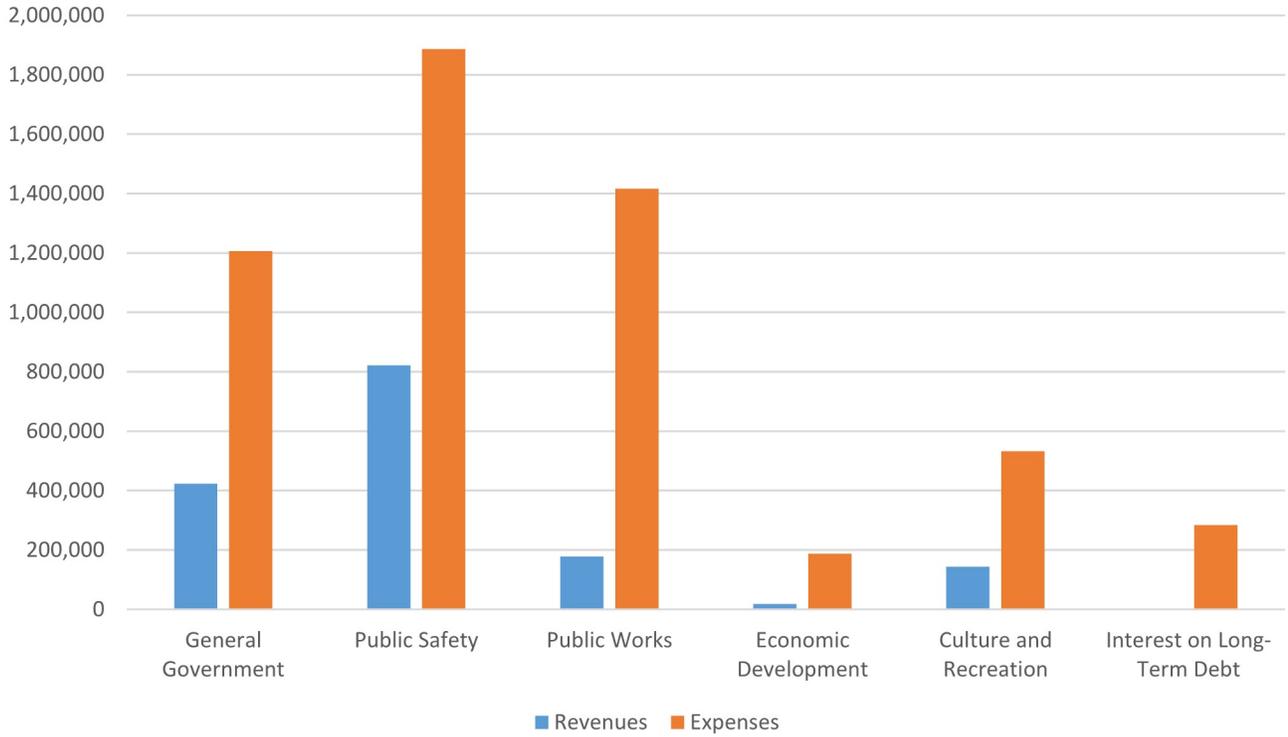
City of St. Joseph
Management's Discussion and Analysis

CHANGE IN NET POSITION

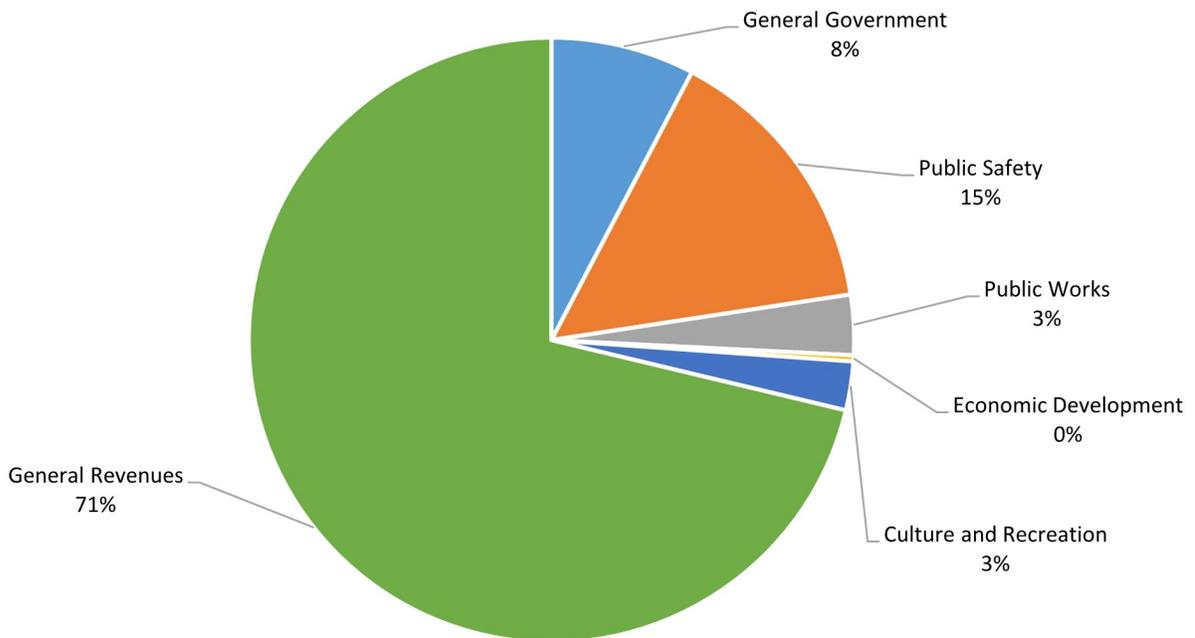
Revenues	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for services	\$ 1,195,623	\$ 892,945	\$ 3,420,138	\$ 3,335,861	\$ 4,615,761	\$ 4,228,806
Operating grants and contributions	176,940	150,126	(35,337)	293	141,603	150,419
Capital grants and contributions	210,562	966,205	84,109	701	294,671	966,906
General Revenues						
Property taxes	2,183,051	1,993,743	22,554	23,893	2,205,605	2,017,636
Tax increments	118,903	85,216	-	-	118,903	85,216
Sales taxes	442,677	437,232	-	-	442,677	437,232
Franchise fees	131,212	12,595	-	-	131,212	12,595
Lodging taxes	15,930	129,242	-	-	15,930	129,242
State aids	1,001,501	927,154	-	-	1,001,501	927,154
Unrestricted investment earnings	33,638	52,710	22,551	23,458	56,189	76,168
Gain on disposal of assets	-	-	473	-	473	-
Total revenues	<u>5,510,037</u>	<u>5,647,168</u>	<u>3,514,488</u>	<u>3,384,206</u>	<u>9,024,525</u>	<u>9,031,374</u>
Expenses						
General government	1,206,414	1,080,879	-	-	1,206,414	1,080,879
Public safety	1,886,542	1,757,471	-	-	1,886,542	1,757,471
Public works	1,415,942	1,284,017	-	-	1,415,942	1,284,017
Economic development	187,355	141,853	-	-	187,355	141,853
Culture and recreation	532,681	472,849	-	-	532,681	472,849
Interest on long-term debt	283,649	299,612	-	-	283,649	299,612
Water	-	-	1,044,241	920,296	1,044,241	920,296
Sanitary sewer	-	-	1,086,230	1,106,664	1,086,230	1,106,664
Storm water	-	-	307,941	289,557	307,941	289,557
Refuse	-	-	210,349	169,389	210,349	169,389
Street light utility	-	-	70,890	64,866	70,890	64,866
Total expenses	<u>5,512,583</u>	<u>5,036,681</u>	<u>2,719,651</u>	<u>2,550,772</u>	<u>8,232,234</u>	<u>7,587,453</u>
Increase (decrease) in net position before transfers	(2,546)	610,487	794,837	833,434	792,291	1,443,921
Transfers	(32,270)	(425,946)	32,270	425,946	-	-
Change in net position	<u>(34,816)</u>	<u>184,541</u>	<u>827,107</u>	<u>1,259,380</u>	<u>792,291</u>	<u>1,443,921</u>
Net Position						
Net position - beginning	<u>11,553,646</u>	<u>11,369,105</u>	<u>22,096,208</u>	<u>20,836,828</u>	<u>33,649,854</u>	<u>32,205,933</u>
Net position - ending	<u>\$ 11,518,830</u>	<u>\$ 11,553,646</u>	<u>\$ 22,923,315</u>	<u>\$ 22,096,208</u>	<u>\$ 34,442,145</u>	<u>\$ 33,649,854</u>

**City of St. Joseph
Management's Discussion and Analysis**

**PROGRAM REVENUES AND EXPENSES
GOVERNMENTAL ACTIVITIES**

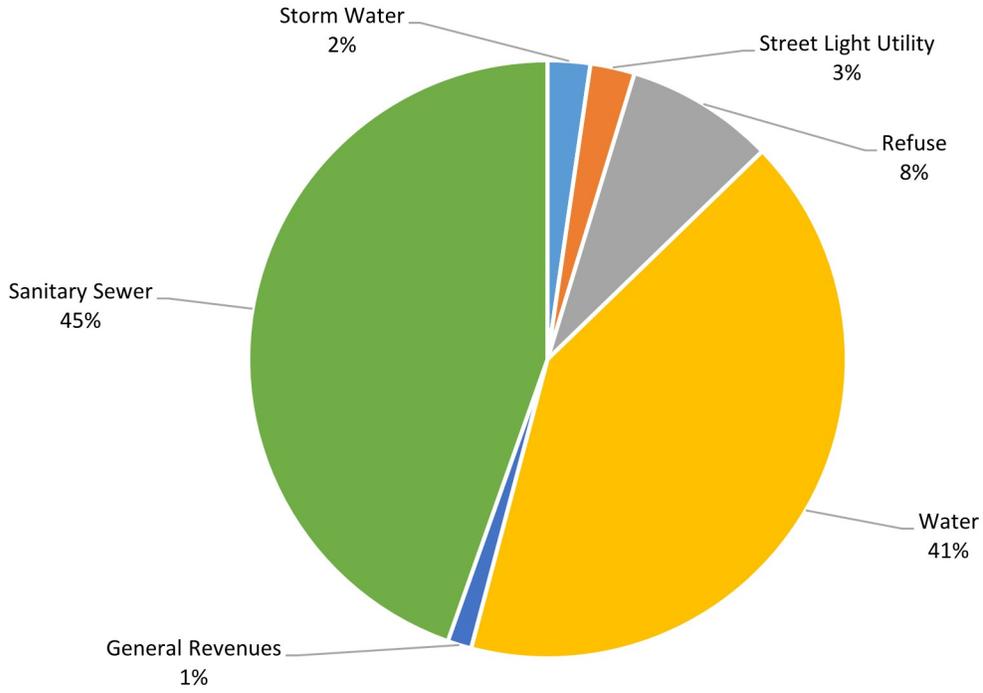


REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES

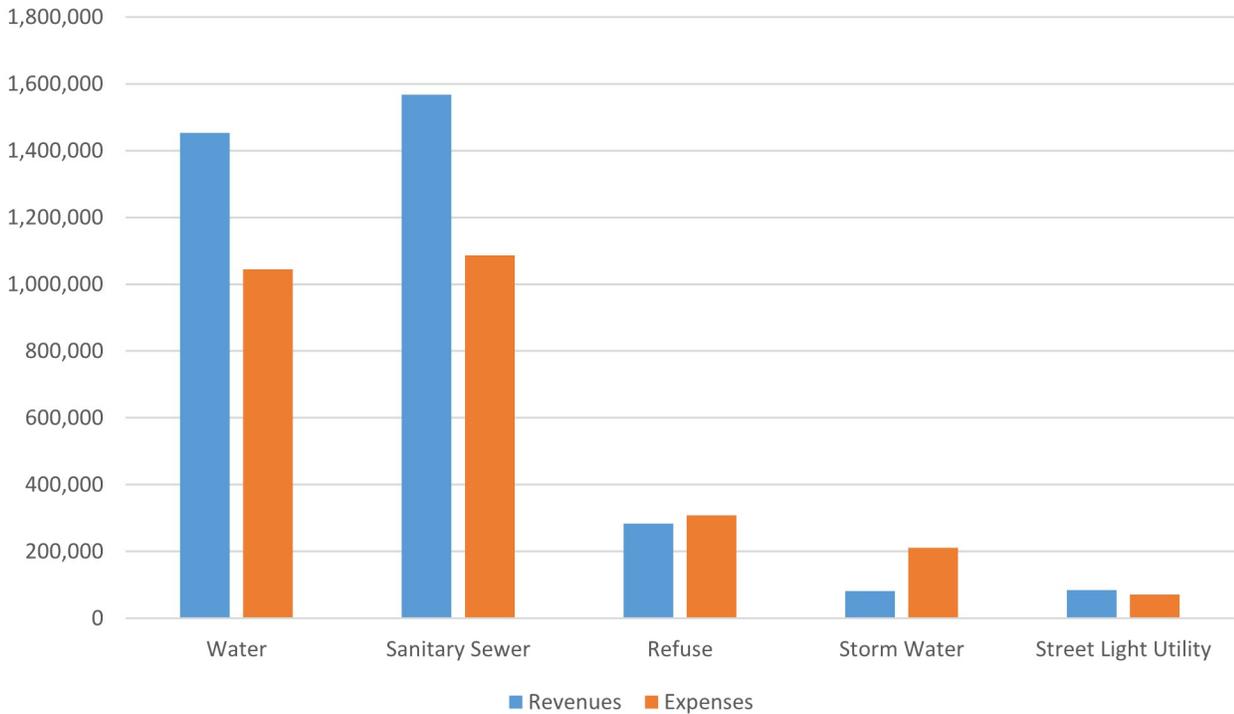


**City of St. Joseph
Management's Discussion and Analysis**

REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



**PROGRAM REVENUES AND EXPENSES
BUSINESS-TYPE ACTIVITIES**



City of St. Joseph Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY'S FUNDS AT THE FUND LEVEL

Governmental Funds. The financial performance of the City of St. Joseph as a whole is reflected in its governmental funds as well. As the City completed the fiscal year 2018, its governmental funds reported a combined fund balance of \$6,402,969, an increase of \$384,694 from 2017. Revenues for the City's governmental funds were \$5,970,093, while expenditures were \$5,775,928. The excess of revenues over expenditures is mainly attributed to substantial development fees collected for new construction, and the decrease in wage expenditures due to staff turnover with new hires at lower pay rates. In addition, two budgeted administrative positions were left unfilled for the last half of the year. Also an impact, the City of St. Joseph sold the old City Hall to Bad Habit Brewing Company. Proceeds from the sale will pay down the 2017A capital improvement bonds.

A summary of financial highlights for each major governmental fund follows.

General Fund. The general fund is the chief operating fund of the City of St. Joseph. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,468,385. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance to total fund expenditures. Unassigned fund balance represents 46%, (just under six months) working capital or 48% after removing fire and PEG access funds. The City Council has adopted a financial policy which includes a goal to maintain the general fund working capital fund balance equal to 4-6 months of expenditures. The excess unassigned fund balance can be attributed to development related revenue. The City experienced an increase in construction projects in 2018 resulting in permit and plan review fees in excess of budgeted amounts by \$156,689. In addition to the building permit revenue, police, fire and municipal street state aids were higher than budgeted, providing a positive variance of \$35,214.

General fund expenditures were less than budgeted by \$95,242. The City of St. Joseph sets funds aside for the street maintenance plan. The street maintenance plan expenditures fluctuate each year, increasing in 2018 by \$11,226. In addition to the general street maintenance, improvement projects are planned over a five-year period. The City council opted to postpone street overlays and reconstructions in 2018 for one year. Even though major improvements were postponed, planning for the 2019 projects began during the budget preparation. The feasibility study for the 2019 street improvements was assigned through the general fund category of public work. However, once the project moves forward, the bond proceeds will reimburse the general fund. General government expenditures were over budgeted amounts mainly due to the completion of the comprehensive plan and costs relating to annexation of a portion of the St. Joseph Township. Administrative and finance expenditures, along with police expenditures ended the year under budget. Staff turnover and the decision to postpone hiring a finance technician reflects in the final amounts. In the police department, staff positions were filled with officers at lower steps. The fire capital outlay includes annual funding for the five-year capital equipment plan where actual expenditures will occur in a future year.

As a result of the prudent financial policies of the City, the general fund remained stable. The schedule below presents a summary of general fund revenues and expenditures.

**City of St. Joseph
Management's Discussion and Analysis**

Revenues	December 31, 2018	December 31, 2017	Increase (Decrease)	Percent Change
Taxes	\$ 1,422,970	\$ 1,255,007	\$ 167,963	13%
Special assessment	5,341	9,127	(3,786)	-41%
Licenses and permits	357,138	356,990	148	0%
Intergovernmental	1,227,716	1,133,362	94,354	8%
Charges for services	396,183	376,946	19,237	5%
Fines and forfeitures	58,620	55,474	3,146	6%
Miscellaneous	59,377	71,131	(11,754)	-17%
Total General fund revenue	\$ 3,527,345	\$ 3,258,037	\$ 269,308	8%

Expenditures	December 31, 2018	December 31, 2017	Increase (Decrease)	Percent Change
General government	\$ 746,022	\$ 749,008	\$ (2,986)	0%
Public safety	1,636,585	1,611,596	24,989	2%
Public works	502,660	397,662	104,998	26%
Culture and recreation	335,306	270,980	64,326	24%
Total General fund expenditures	\$ 3,220,573	\$ 3,029,246	\$ 191,327	6%

General Fund Budgetary Highlights. Over the course of the year, the City of St. Joseph did not amend the annual operating budget. Historically, the City has minimal budget amendments during the budget year.

- Actual revenues were \$215,200 more than expected mainly due to development related charges. In addition, state aids came in higher than budgeted. The City budgets conservatively for revenues not known at the time the budget is set.
- Actual expenditures were \$95,242 less than budget. A couple points on the expenditure budget:
 - To help minimize fluctuations in the budget, the City budgets family insurance coverage for the majority of the employees even though some elect single or no coverage. The City will be faced with a number of retirees in the next five (5) years. Along with that comes the payment of unused accumulated benefit hours. Therefore, health insurance savings between budget and actual is transferred into a retirement reserve account for payment of unused benefit hours. In addition, budgeting for the highest insurance cost alleviates budget spikes when employees change their insurance election and when new hires are made.

City of St. Joseph Management's Discussion and Analysis

- The City manages a five-year capital equipment plan (CEP) and capital improvement plan (CIP). During the budget process each year the plans are reviewed, and the council prioritizes which projects/equipment will be funded. The funds are set aside for future purchases as the useful life of equipment and infrastructure are depleted, or as new equipment needs are warranted. Due to the large costs associated with some of the needed equipment (such as a street sweeper), setting funds aside minimizes the fluctuations in the capital outlay budget.
- Staff changes in both the Police Department and Administration had a significant impact on the expenditures for 2018. The resignation of the Police Chief resulted in the promotion of the Police Sergeant to Police Chief. The position of Sergeant has remained vacant and is expected to be filled in 2019. To bring the Police Department to full staffing, an entry level police officer was hired late in 2018. Both positions experienced lower wages than the level budgeted. A resignation in Administration created a vacancy that left unfilled through the end of 2018. In addition, a part time finance technician was budgeted with an anticipated start date of October but was delayed to 2019. The result reflected in salaries and benefit savings in 2018.
- Culture and recreational expenditures ended 2018 over budget. In 2015 the City of St. Joseph purchased the former Kennedy Elementary (Colts Academy) from Independent School District 742. The building was leased to the school district and a child care center. The school district moved out of the facility in June 2018, turning over the space to the City. The City completed several repairs and upgrades needed to safely occupy the space. The City opened the gym in October for public use. In addition, the St. Joseph Food Shelf and Historical Society moved into vacant rooms. The costs to prepare the spaces to be ready for the public use came in higher than anticipated. In addition, a part time boiler technician was hired for daily boiler checks. A proper license is required for the boiler maintenance. City maintenance staff do not have the boiler operational hours needed to safely operate the boilers. The staff position was not budgeted in 2018.
- Engineering expenditures came in \$31,024 over budget. The engineer completed the feasibility report for the 2019 street improvements at a cost of \$36,765. The expenditures will be reimbursed by the bond funds in 2019.
- Other governmental expenditures were over budget by \$30,455. The expenditures include the completion of the comprehensive plan document (funding provided in previous years; additional budgeted amount was not necessary to cover costs), and professional service expenditures to complete the annexation of a portion of St. Joseph Township.

State Collected Sales Tax Fund. The state collected sales tax fund began in 2006. The State of Minnesota and voters in the St. Cloud area approved a 0.5% local option sales tax to fund regional projects such as a community facilities, transportation needs, and parks and trails. As of December 31, 2018, the City of St. Joseph collected \$4,263,671; \$860,917 more than originally budgeted when legislative authority was granted. The City spent \$5,273,100 since its inception. The fund received bond proceeds and other revenues totaling \$1,916,119. The fund balance at the end of the year was \$906,690. In 2018 the City authorized the construction of phase II/III of the RCR2 trail. The trail extends adjacent to MN St W starting at 4th Avenue NW to CR 2 and then south along CR 2 to CR 51. The funding for the trail includes a combination of federal funds administered through the St. Cloud Area Planning Organization and sales tax revenue. Construction is anticipated to be completed in August 2019.

City of St. Joseph Management's Discussion and Analysis

State Collected Sales Tax Fund Budgetary Highlights. The city council adopts a budget for the state collected sales tax fund through the five-year capital improvement plan. Budgets were not amended during the year. The fund ended the year \$545,501 over budget. Sales tax revenues were \$17,672 over budgeted amount and capital outlay was \$547,829 under budget. Sales tax revenues continue to exceed original expectations when the State approved the St. Cloud area local option collection. The City budgets conservatively to avoid over-committing available funds for project planning. The capital outlay expenditures were under budget by over half. The CR2 trail project was anticipated to start earlier in 2018. Due to State of Minnesota approvals of the design plans, the planning period took longer than anticipated. Construction began in fall 2018 and is expected to finish in 2019.

Proprietary Funds. The City of St. Joseph's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The unrestricted net position of the proprietary funds increased \$568,481 overall. The following five paragraphs provide a brief financial overview of each major proprietary fund.

Water Enterprise Fund. The water fund is used to account for the operations of the City's water utility. In 2018, the water fund's net position increased \$300,032. Before transfers and capital contributions, the operating income reported a \$152,395 surplus. The net position includes depreciation of \$436,325. The water operating revenues are covering over 100% of the depreciation, 69% when including non-operating revenues and expenses. Bonded debt payments in the water fund totaled \$700,961. Debt payments are covered by water rates, debt levy, water connection and trunk fees, and transfers from the sewer fund. Water rates have been incrementally increased over the past few years to cover operational costs as well as water related debt. Future increases are anticipated to be up to 5%, depending upon new connections that help cover the debt costs. Rates are reviewed annually as part of the budget adoption.

Sanitary Sewer Enterprise Fund. The sanitary sewer fund is used to account for the operations of the city's sanitary sewer utility. In 2018, the Sanitary Sewer Fund's net position increased \$425,805 and realized \$444,941 in operating income. User fees are covering 100% of the depreciation, 86% when including non-operating revenues and expenses. As a contract user of the St. Cloud Wastewater Treatment Facility, St. Joseph is obligated to pay a portion of the costs to maintain the plant and conveyance system. St. Joseph issued six (6) notes with the City of St. Cloud for various facility and conveyance projects. In addition, St. Joseph issued three (3) bonds for improvement projects within the City's sanitary sewer system. The large debt costs are partially paid with reserved Sewer Access Charges (SAC), trunk fees and sewer usage rates. The development fees in 2018 greatly assisted in covering debt costs. As a result, rate increases have slowed down to a more average increase (up to 3%) after a few years of significant user rate increases. Rates are reviewed annually as part of the budget adoption.

Refuse Enterprise Fund. The refuse fund is used to account for the contract services to provide residential refuse, recycling and compost services. The refuse fund ended 2018 with a net position of \$251,887. City council opted to reduce the 60-gallon refuse cart fee and maintain the compost rates to allow for larger rate increases in other utility funds. The rate reduction does not cover operating costs, even when excluding depreciation. As expected with the rate decisions, the net position decreased \$24,000. The overall net position is healthy and able to manage the decrease.

**City of St. Joseph
Management's Discussion and Analysis**

Storm Water Enterprise Fund. The storm water fund is used to account for the operations of the City's storm water utility. In 2018, the storm water fund's net position decreased \$146,899, a decrease of \$129,592 before capital contributions and transfers. The Storm Water Fund realized an operating loss of \$23,778 without depreciation. As with the refuse fund, the City council opted to reduce the storm water usage rates by half in order to accommodate increases in other utilities. The net loss was anticipated, and the Storm Water Fund could absorb with the healthy net position balance. In addition, the Storm Water Fund collected \$26,044 in development fees to assist in operational activities of the fund.

Street Light Utility Enterprise Fund. The Street Light Utility Fund is used to account for the operations of the City's street lighting. As of December 31, 2018, the street light utility fund's change in net position increased \$13,543, and an operating income of \$5,735. The City council increased rates slightly to ensure expenses are covered by fees. The Street Light Utility Fund also covers expenses for holiday lights on the street lights and other utility poles along Minnesota Street and College Avenue. The St. Joseph Lion's Club donated \$7,000 to help replace some of the holiday decorations in 2018. Overall, the net position of the street light utility fund has grown to \$34,692 since splitting from the general fund in 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The capital assets include land, intangible assets, buildings, improvements, machinery, and equipment, infrastructure, easements, plant and lines, sewer rights, and construction in progress. The City of St. Joseph's net capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$49,276,934 (net of accumulated depreciation), a decrease of \$577,313. The decrease in net capital assets was attributable to the sale of the old City Hall. The asset removed from the asset listing totaled \$869,924 less accumulated depreciation of \$322,569. Net investment in capital assets increased \$372,503. The increase is attributable to capital asset construction in progress to include the CR2 trail and St. Cloud area sewer improvements, and the decrease in related debt costs. The City of St. Joseph issued two debts and decreased three debts (one paid in full early). The debt issuance amounts were higher than the declined by \$1.3 million. The overall debt related to capital assets decreased \$1.1 million.

The table below is a summary of the City of St. Joseph's capital assets.

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 763,197	\$ 874,133	\$ 377,882	\$ 377,882	\$ 1,141,079	\$ 1,252,015
Easements	200,085	175,873	67,915	67,915	268,000	243,788
Construction in progress	764,136	465,006	1,860,536	705,096	2,624,672	1,170,102
Improvements	20,389,483	1,369,201	-	-	20,389,483	1,369,201
Infrastructure	8,735,795	20,176,666	8,797,686	-	17,533,481	20,176,666
Buildings	1,353,806	9,540,762	289,760	8,797,686	1,643,566	18,338,448
Intangible assets	200,000	200,000	-	-	200,000	200,000
Plant and lines	3,860,682	-	865,445	24,275,118	4,726,127	24,275,118
Sewer rights	-	-	24,190,729	9,068,746	24,190,729	9,068,746
Machinery and equipment	-	3,677,400	9,068,746	778,232	9,068,746	4,455,632
Less: accumulated depreciation	(19,952,030)	(19,006,537)	(12,556,919)	(11,688,932)	(32,508,949)	(30,695,469)
Total net capital assets	\$ 16,315,154	\$ 17,472,504	\$ 32,961,780	\$ 32,381,743	\$ 49,276,934	\$ 49,854,247

**City of St. Joseph
Management's Discussion and Analysis**

Additional information on the City of St. Joseph's capital assets can be found in Note 5 on page 50 of this report. Total depreciation expense for 2018 was \$2,499,944.

Long-Term Liabilities. The City of St. Joseph's long-term liabilities includes bonded debt (including notes payables), compensated absences and net pension liability. Overall the long-term liabilities totaled \$24,469,890 as of December 31, 2018, a decrease of \$1,159,493.

At the end of the current fiscal year, the City of St. Joseph had total net bonded debt outstanding of \$22,461,205, a decrease of \$936,856. Of this amount, \$10,748,578 comprises debt backed by the full faith and credit of the government. The remainder of the City of St. Joseph's debt represents bonds and notes secured by specified revenue sources (i.e. utility bonds). Other long-term debt includes compensated absences payable and net pension liabilities.

Compensated absences increased \$11,131 in 2018. The general increase in wages including step increases and the relatively low turnover rate caused the compensated absences liability to increase.

Net pension liability accounts for the City's portion of the Public Employees Retirement Association of Minnesota (PERA). As per *Minnesota Statutes*, the City is required to participate in the PERA program. The City's share of the liability fluctuates each year based on law changes and funding levels. For 2018, the net pension liability decreased \$233,768.

An illustration of the City's long-term liabilities is included in the table below.

OUTSTANDING LONG-TERM LIABILITIES

	2018	2017	Increase (Decrease)	Percent Change
Governmental Activities				
General obligation bonds	\$ 4,719,469	\$ 4,958,545	\$ (239,076)	-5%
General obligation special assessment bonds	4,490,835	5,107,149	(616,314)	-12%
General obligation abatement bonds	1,538,274	1,650,235	(111,961)	-7%
Compensated absences payable	455,241	452,500	2,741	1%
Net pension liability	1,150,594	1,351,208	(200,614)	-15%
Total governmental activities	<u>\$ 12,354,413</u>	<u>\$ 13,519,637</u>	<u>\$ (1,165,224)</u>	-9%
Business-Type Activities				
General obligation revenue bonds	\$ 6,194,866	\$ 6,959,071	\$ (764,205)	-11%
Notes payable	5,517,761	4,723,061	794,700	17%
Compensated absences payable	151,629	143,239	8,390	6%
Net pension liability	251,221	284,375	(33,154)	-12%
Total business-type activities	<u>\$ 12,115,477</u>	<u>\$ 12,109,746</u>	<u>\$ 5,731</u>	0%

City of St. Joseph Management's Discussion and Analysis

Long-Term Liabilities (Continued). The City of St. Joseph issued \$265,000 general obligation equipment certificate of indebtedness, series 2018A in February 2018. The certificates were used to purchase general equipment under the 5-year capital equipment plan.

In addition, the City of St. Joseph issued a public facilities (PFA) note with the City of St. Cloud for wastewater biosolids treatment improvements in the amount of \$1,251,197. The City of St. Joseph is a part of the St. Cloud Area Wastewater Advisory Commission (SCAWAC). Wastewater treatment is provided by the City of St. Cloud to six area cities. Each city purchases sewer treatment rights in the wastewater treatment facility. Also part of the agreement, the area cities participate in conveyance costs to transport the wastewater to the facility. With the 2018 PFA note addition, the City of St. Joseph has six notes outstanding with the City of St. Cloud for treatment facility and conveyance projects.

As stated earlier, the City of St. Joseph reduced bonded indebtedness by \$936,856. After the two bond issues noted above, the City paid three debts in full in 2018. Bond payments for the year exceeded new bonds issued. The City opted to postpone a major improvement in 2018 in an effort to reduce the bonded debt and required revenues to pay for the debts.

The City of St. Joseph maintained their bond rating AA-/Stable from Standards and Poor's. The 2018 debt issues were under the threshold to receive a bond rating; therefore, a bond rating update was not initiated

Minnesota Statutes limit the amount of net general obligation debt a governmental entity may issue to 3% of its taxable market value. Net general obligation debt is debt solely paid for, with limited exceptions, by ad valorem taxes. The current debt limitation for the City of St. Joseph is \$10,278,591 which significantly exceeds the outstanding pure general obligation debt of \$4,674,000.

Additional information on the City's long-term liabilities can be found in Note 6 beginning on page 52 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The past few years have been exciting in the City of St. Joseph after several years of contracting economies from the 2008 Great Recession. After several years of declining market values and slow development the City's taxable market value increased 11.61% the past four years and development has been encouraging. As a result of improved conditions, the City has been able to keep a stable tax rate while maintaining service levels.

In the development market the City added 25 new single-family homes and two multi-family facilities for residential living units. New development on the commercial side included 13 remodels and additions. Total market value additions in the building department added \$10,911,933 in value. In the past three years, new construction as well as remodels/additions and repairs added over \$55.7 million in market value for the City of St. Joseph.

**City of St. Joseph
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

In addition to new construction, current structures have impacted the net tax capacity. The sale prices have increased along with the assessors estimated market values for existing properties. To stay in compliance with Minnesota Statutes, the sales price ration indicated the need to increase existing market values. This combined with the new buildings; market values increased 5.34% for the 2018 property values.

As stated, single family residential construction included 25 new homes built in 2018; the most since 2009. Nationally and in Minnesota the housing market is improving. In the City of St. Joseph, two developers expanded their developments to provide 34 lots in three subdivisions. In addition, the Country Manor senior development began construction of single-family homes in their first phase development. The first phase includes twelve detached patio homes; two were constructed. St. Joseph is fortunate to have a very low foreclosure rate. In fact, homes that become available for sale do not stay on the market for an extended period of time.

Other new construction in 2018 included the completion of a Kwik Trip convenience store and O'Reilly Auto Parts Store. The St. Joseph downtown continues to see economic development. Bad Habit Brewing Company purchased the former city hall to convert the space to a destination brew pub. The facility will include an outside patio that will be able to seat 200. Immediately across the street from Bad Habit is the development entitled 24 North Lofts on College Ave. While this development started in 2017 the majority of the construction was completed in 2018.

The 24 North Lofts project includes 17 residential lofts and retail space that will be occupied by a New Orleans restaurant named Krewe. The facility will also include a separate building that will house New Orleans Bakery. The Lofts and restaurant will both open in 2019. Late in 2018 the City Council approved the development plan that would allow for two market rate apartment buildings to be constructed on the former Delwin property. Each building will consist of 35 units with the first building starting in 2018 and the second building early 2019. Occupancy is expected in fall 2019.

Remodel projects in 2018 included remodeling a single-family home for an elementary school for grades K-3. The Lillian Leonard Primary is a private school. Students are able to share facilities with Little Saints Academy Daycare for recreational and food service activities. The College of St. Benedict's completed construction of their athletic fields and artisan studios/administrative offices/welcome center buildings. The College also completed several remodel and updates to existing dorms and educational facilities.

**City of St. Joseph
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The City of St. Joseph anticipates commercial/industrial development with the expansion of the Industrial Park in 2019. The City was awarded a \$1,245,000 million BDPI development grant from the Minnesota Department of Employment and Economic Development department (MN DEED) to assist with costs for public streets and utilities to create shovel ready industrial lots. Phase one of the project will begin mid-2019 and will include approximately 22 lots. The plat was designed with the majority of lots one acre in size. Since it is easier to combine lots that it would be to split large lots, the small lots allow for flexibility when selling lots and will be attractive to both small and large industries. The industrial park project is a combined City and private partnership. The City secured the grant for the public improvements and the private developer, CLC Partners LLC, own the property and will cover all costs exceeding the grant amount. The City anticipates the construction of two office buildings adjacent to CR 133 near Coborn's. One office building will house the home office for a construction company and will consist of approximately 8,854 square feet. The other office building is anticipated to submit plans in mid-2019. The City Council approved an application with the Central MN Housing Partnership to secure funding through the Minnesota Small Cities Development Program Grant (SCDP) in the amount of \$178,624 in 2018. The grant provides funding to eligible property owners to complete major repairs on their homes. Participants must meet income level eligibility requirements to receive a loan that is forgivable incrementally over a seven-year period. The rehabilitation projects are anticipated to be completed in 2019.

Besides developments and rehabilitation projects, the City added to their property market value with the annexation of a large portion of the St. Joseph Township. The City of St. Joseph and St. Joseph Township entered into an orderly annexation (OAA) agreement in 1997. In December 2017 the City notified St. Joseph Township of the intent to exercise their right to annex all the properties included in the OAA agreement effective April 2018. After negotiations with the Township, the City agreed to annex a portion of the properties included in the OAA and retain land use controls over the properties not annexed to the City but included in the OAA. The properties that were not annexed included property east of Ridgewood Road to the Sauk River and properties east of the proposed 20th Avenue Extension to the Sauk River. The annexation included approximately 230 properties area with a taxable market value of \$55.6 million. The annexation of the properties will have varied impacts to the City. The City agreed to create a Rural Tax rate which would be equal to the Township Tax rate and be adjusted annually in the same apportion as the City rate is adjusted. Properties zoned Rural Residential qualify for this tax rate. The agreement includes conditions as to when the full city tax rate applies. Therefore, all properties taxed at the Rural Tax rate will receive minimal services, equal to the services received while under the jurisdiction of St. Joseph Township. All commercial and Industrial developed property annexed will be phased into the City tax rate over a six year period in equal increments. The annexation was approved and finalized by the State of Minnesota in January 2019.

**City of St. Joseph
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The City of St. Joseph submitted three bonding requests for State Legislative consideration. The projects include: pedestrian crossing under CSAH 75 (\$1.5 million); Jacob Wetterling Recreation Center (\$2.5 million); and development of the East Park canoe and picnic area (\$300,000). To help facilitate the bonding process the City hired a lobbyist. The City has received hearings on the East Park and Jacob Wetterling Recreation Center projects in the 2019 legislative session. The MN House has included the Jacob Wetterling Recreation Center in their proposed bonding bill. As part of the bonding request, the City agrees to at least match the bonding request. In addition to the bonding requests, the City of St. Joseph hired Four Winds Consulting to conduct a feasibility study on raising funds for the Jacob Wetterling Recreation Center.

In 2018, Independent School District 742 moved out of the Colts Academy facility upon completion of their new building. The community center space was upgraded by the City for open gym, the St. Joseph Historical Society and St. Joseph Food Shelf. Open gym and the Food Shelf began operating out of the new space in 2018. The Historical Society has started moving into the facility with an anticipated opening in 2019. The old spaces used by the Food Shelf and Historical Society will be considered for disposal in 2019. Little Saints Academy also leases space in the community center and in December 2018 they requested the City Council approve an amendment to the lease to allow utilization of additional space for a term of six months. The Little Saints Academy Lease continues until December 2020.

In 2017 the St. Joseph EDA recommended, and the City Council approved the implementation of a lodging tax to help promote tourism. In 2018 the EDA approved the enabling resolution appoint members to create a convention and visitors bureau. It is anticipated the EDA will approve the branding and marketing in early 2019

All the factors were considered in preparing the City of St. Joseph's budget and fee schedule for 2018 and future reporting years. The budget for 2019 was prepared knowing the following projects were anticipated or already in the construction phase: East Park canoe and picnic area design, East Park reforestation and prairie restoration, CR 2 Trail construction from Minnesota Street West to CR 51, industrial park expansion, 2019 street improvement project, public works maintenance shop expansion planning and design, and Jacob Wetterling Recreation Center fundraising.

REQUESTS FOR INFORMATION

The audited financial report is designed to provide a general overview of the City of St. Joseph's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 75 Callaway Street East, St. Joseph, MN 56374.

BASIC FINANCIAL STATEMENTS

**City of St. Joseph
Statement of Net Position
December 31, 2018**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments (including cash equivalents)	\$ 5,905,425	\$ 1,864,482	\$ 7,769,907
Property tax receivable	19,279	272	19,551
Accounts receivable	51,525	459,163	510,688
Interest receivable	16,515	11,261	27,776
Due from other governments	122,671	154	122,825
Notes receivable	290,529	-	290,529
Lease receivable	132,460	-	132,460
Special assessments receivable			
Delinquent	11,738	605	12,343
Deferred	1,396,991	25,085	1,422,076
Prepaid items	24,560	-	24,560
Net pension asset	196,588	-	196,588
Capital assets			
Land	763,197	377,882	1,141,079
Easements	200,085	67,915	268,000
Construction in progress	764,136	1,860,536	2,624,672
Buildings	8,735,795	8,797,686	17,533,481
Infrastructure	20,389,483	-	20,389,483
Improvements	1,353,806	289,760	1,643,566
Intangible asset	200,000	-	200,000
Plant and lines	-	24,190,729	24,190,729
Machinery and equipment	3,860,682	865,445	4,726,127
Sewer rights	-	9,068,746	9,068,746
Less accumulated depreciation	(19,952,030)	(12,556,919)	(32,508,949)
Capital assets (net of accumulated depreciation)	<u>16,315,154</u>	<u>32,961,780</u>	<u>49,276,934</u>
Total assets	<u>24,483,435</u>	<u>35,322,802</u>	<u>59,806,237</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pensions	<u>1,091,570</u>	<u>49,921</u>	<u>1,141,491</u>
Total assets and deferred outflows of resources	<u>\$ 25,575,005</u>	<u>\$ 35,372,723</u>	<u>\$ 60,947,728</u>
Liabilities			
Accounts payable	\$ 74,667	\$ 64,219	\$ 138,886
Contracts payable	12,134	-	12,134
Due to other governments	13,862	136,619	150,481
Salaries and benefits payable	123,769	16,362	140,131
Interest payable	19,411	53,162	72,573
Bond principal payable (net)			
Payable within one year	1,087,000	771,000	1,858,000
Payable after one year	9,661,578	5,423,866	15,085,444
Notes payable (net)			
Payable within one year	-	510,541	510,541
Payable after one year	-	5,007,220	5,007,220
Compensated absences payable			
Payable within one year	85,326	19,926	105,252
Payable after one year	369,915	131,703	501,618
Net pension liability	<u>1,150,594</u>	<u>251,221</u>	<u>1,401,815</u>
Total liabilities	<u>12,598,256</u>	<u>12,385,839</u>	<u>24,984,095</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to lease receivables	132,460	-	132,460
Deferred inflows of resources related to pensions	<u>1,325,459</u>	<u>63,569</u>	<u>1,389,028</u>
Total deferred inflows of resources	<u>1,457,919</u>	<u>63,569</u>	<u>1,521,488</u>
Net Position			
Net investment in capital assets	7,223,470	21,249,153	26,880,985
Restricted for			
Debt service	2,661,219	-	2,661,219
Other purposes	1,196,280	-	1,196,280
Unrestricted	<u>437,861</u>	<u>1,674,162</u>	<u>3,703,661</u>
Total net position	<u>11,518,830</u>	<u>22,923,315</u>	<u>34,442,145</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 25,575,005</u>	<u>\$ 35,372,723</u>	<u>\$ 60,947,728</u>

See notes to financial statements.

City of St. Joseph
Statement of Activities
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 1,206,414	\$ 414,808	\$ 4,991	\$ 3,500	\$ (783,115)	\$ -	\$ (783,115)
Public safety	1,886,542	649,240	171,949	-	(1,065,353)	-	(1,065,353)
Public works	1,415,942	42,686	-	134,446	(1,238,810)	-	(1,238,810)
Economic development	187,355	18,092	-	-	(169,263)	-	(169,263)
Culture and recreation	532,681	70,797	-	72,616	(389,268)	-	(389,268)
Interest on long-term debt	283,649	-	-	-	(283,649)	-	(283,649)
Total governmental activities	<u>5,512,583</u>	<u>1,195,623</u>	<u>176,940</u>	<u>210,562</u>	<u>(3,929,458)</u>	<u>-</u>	<u>(3,929,458)</u>
Business-type activities							
Water	1,044,241	1,452,303	1,152	471	-	409,685	409,685
Sanitary sewer	1,086,230	1,527,911	(37,458)	76,638	-	480,861	480,861
Refuse	307,941	282,589	168	-	-	(25,184)	(25,184)
Storm water	210,349	80,710	184	-	-	(129,455)	(129,455)
Street light utility	70,890	76,625	617	7,000	-	13,352	13,352
Total business-type activities	<u>2,719,651</u>	<u>3,420,138</u>	<u>(35,337)</u>	<u>84,109</u>	<u>-</u>	<u>749,259</u>	<u>749,259</u>
Total governmental and business-type activities	<u>\$ 8,232,234</u>	<u>\$ 4,615,761</u>	<u>\$ 141,603</u>	<u>\$ 294,671</u>	<u>(3,929,458)</u>	<u>749,259</u>	<u>(3,180,199)</u>
General revenues							
Property taxes					2,183,051	22,554	2,205,605
Tax increments					118,903	-	118,903
Sales taxes					442,677	-	442,677
Lodging taxes					15,930	-	15,930
Franchise fees					131,212	-	131,212
State aids					1,001,501	-	1,001,501
Unrestricted investment earnings					33,638	22,551	56,189
Gain on sale of assets					-	473	473
Transfers					(32,270)	32,270	-
Total general revenues and transfers					<u>3,894,642</u>	<u>77,848</u>	<u>3,972,490</u>
Change in net position					(34,816)	827,107	792,291
Net position - beginning					<u>11,553,646</u>	<u>22,096,208</u>	<u>33,649,854</u>
Net position - ending					<u>\$ 11,518,830</u>	<u>\$ 22,923,315</u>	<u>\$ 34,442,145</u>

City of St. Joseph
Balance Sheet - Governmental Funds
December 31, 2018

	<u>Special Revenue</u>			
	General Fund (101, 102, 105, 108)	State Collected Sales Tax (200)	Other Governmental Funds	
Assets				
Cash and investments	\$ 2,485,494	\$ 827,524	\$ 3,090,356	\$ 6,403,374
Taxes receivable - delinquent	11,808	-	7,471	19,279
Special assessments receivable				
Delinquent	-	-	11,738	11,738
Deferred	11,592	-	1,385,399	1,396,991
Accounts receivable	50,870	-	7,955	58,825
Interest receivable	8,916	-	9,055	17,971
Due from other funds	-	-	10,800	10,800
Due from other governments	13,987	92,471	16,213	122,671
Notes receivable	-	-	290,529	290,529
Lease receivable	132,460	-	-	132,460
Prepaid items	24,560	-	-	24,560
	<u>\$ 2,739,687</u>	<u>\$ 919,995</u>	<u>\$ 4,829,516</u>	<u>\$ 8,489,198</u>
Liabilities				
Accounts payable	\$ 61,731	\$ 1,171	\$ 11,765	\$ 74,667
Contracts payable	-	12,134	-	12,134
Due to other funds	-	-	10,800	10,800
Due to other governments	13,862	-	-	13,862
Salaries and benefits payable	122,312	-	1,457	123,769
Total liabilities	<u>197,905</u>	<u>13,305</u>	<u>24,022</u>	<u>235,232</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	11,808	-	7,471	19,279
Unavailable revenue - special assessments	11,592	-	1,397,137	1,408,729
Unavailable revenue - notes receivable	-	-	290,529	290,529
Unavailable revenue - leases receivable	132,460	-	-	132,460
Total deferred inflows of resources	<u>155,860</u>	<u>-</u>	<u>1,695,137</u>	<u>1,850,997</u>
Fund Balances				
Nonspendable	24,560	-	-	24,560
Restricted	5,051	906,690	1,395,835	2,307,576
Committed	-	-	198,716	198,716
Assigned	887,926	-	1,524,631	2,412,557
Unassigned	1,468,385	-	(8,825)	1,459,560
Total fund balances	<u>2,385,922</u>	<u>906,690</u>	<u>3,110,357</u>	<u>6,402,969</u>
	<u>\$ 2,739,687</u>	<u>\$ 919,995</u>	<u>\$ 4,829,516</u>	<u>\$ 8,489,198</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,739,687</u>	<u>\$ 919,995</u>	<u>\$ 4,829,516</u>	<u>\$ 8,489,198</u>

City of St. Joseph
Reconciliation of the Balance Sheet to
The Statement of Net Position - Governmental Funds
Year Ended December 31, 2018

Total fund balances - governmental funds	\$ 6,402,969
Amounts reported for governmental activities in the Statement of Net Position are different because	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	36,267,184
Less accumulated depreciation	(19,952,030)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Bond principal payable, net of premiums and discounts	(10,748,578)
Compensated absences payable	(455,241)
Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Property taxes	19,279
Special assessments	11,738
Other long-term assets are not available to pay for current expenditures and, therefore, are deferred in the funds.	
Deferred special assessments	1,396,991
Notes receivable	290,529
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(1,325,459)
Deferred outflows of resources related to pensions	1,091,570
Fire relief net pension asset	196,588
Net pension liability	(1,150,594)
The water access capital project fund is proprietary in nature and, therefore, included in the business-type activities in the Statement of Net Position.	
	(415,429)
The sewer access capital project fund is proprietary in nature and, therefore, included in the business-type activities in the Statement of Net Position.	
	(91,276)
Governmental funds do not report a liability for accrued interest due and payable.	
	(19,411)
Total net position - governmental activities	\$ 11,518,830

City of St. Joseph
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2018

	General Fund (101, 102, 105, 108)	Special Revenue	Other Governmental Funds	Total
		State Collected Sales Tax (200)		Governmental Funds
Revenues				
Property taxes	\$ 1,291,753	\$ -	\$ 888,153	\$ 2,179,906
Tax increments	-	-	118,903	118,903
Sales taxes	5	442,672	-	442,677
Lodging taxes	-	-	15,930	15,930
Special assessments	5,341	-	364,245	369,586
Franchise fees	131,212	-	-	131,212
Licenses and permits	357,138	-	-	357,138
Intergovernmental	1,227,716	-	-	1,227,716
Charges for services	396,183	-	561,522	957,705
Fines and forfeitures	58,620	-	-	58,620
Miscellaneous				
Investment income	16,160	-	18,098	34,258
Contributions and donations	7,966	-	730	8,696
Revolving loan repayments	-	-	5,098	5,098
Other	35,251	-	27,397	62,648
Total revenues	<u>3,527,345</u>	<u>442,672</u>	<u>2,000,076</u>	<u>5,970,093</u>
Expenditures				
Current				
General government	741,374	-	13,069	754,443
Public safety	1,606,132	-	-	1,606,132
Public works	440,811	-	-	440,811
Culture and recreation	331,861	-	5,584	337,445
Economic development	-	-	183,663	183,663
Debt service				
Principal	-	-	1,218,000	1,218,000
Interest and other charges	-	-	306,003	306,003
Capital outlay				
General government	4,648	-	20,405	25,053
Public safety	30,453	-	2,460	32,913
Public works	61,849	-	254,017	315,866
Culture and recreation	3,445	402,171	149,983	555,599
Total expenditures	<u>3,220,573</u>	<u>402,171</u>	<u>2,153,184</u>	<u>5,775,928</u>
Excess of revenues over (under) expenditures	306,772	40,501	(153,108)	194,165
Other Financing Sources (Uses)				
Insurance recoveries	12,779	-	-	12,779
Sale of property	-	-	135,000	135,000
Bonds issued	-	-	265,000	265,000
Transfers in	4,111	-	599,880	603,991
Transfers out	(293,563)	(180,000)	(352,678)	(826,241)
Total other financing sources (uses)	<u>(276,673)</u>	<u>(180,000)</u>	<u>647,202</u>	<u>190,529</u>
Net change in fund balances	30,099	(139,499)	494,094	384,694
Fund Balances				
Beginning of year	<u>2,355,823</u>	<u>1,046,189</u>	<u>2,616,263</u>	<u>6,018,275</u>
End of year	<u>\$ 2,385,922</u>	<u>\$ 906,690</u>	<u>\$ 3,110,357</u>	<u>\$ 6,402,969</u>

See notes to financial statements.

City of St. Joseph
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement
of Activities - Governmental Funds
Year Ended December 31, 2018

Total net change in fund balances - governmental funds \$ 384,694

Amounts reported for governmental activities in the Statement of Activities are different because

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	867,361
Capital contributions	47,500
Depreciation expense	(1,458,295)
Loss on disposal	(548,896)
Transferred to proprietary funds	(65,020)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net position in the Statement of Activities. 1,218,000

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.

Accrued interest payable	8,003
Amortization of bond discounts, premiums and issuance charges	14,351

Proceeds from long-term debt are recognized as an other financing source in the governmental funds but as a decrease in net position in the Statement of Activities. (265,000)

Compensated absence payments are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (2,741)

Delinquent receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are not revenues in the funds.

Delinquent special assessments	4,415
Delinquent property taxes	3,145

Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred special assessments	(309,116)
Notes receivable	285,504

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

Pension expense	39,905
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The water access capital project fund is proprietary in nature and, therefore, is reported with business-type activities. (173,708)

The sewer access capital project fund is proprietary in nature and, therefore, is reported with business-type activities. (84,918)

Change in net position - governmental activities \$ (34,816)

City of St. Joseph
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	\$ 1,282,660	\$ 1,291,753	\$ 9,093
Sales taxes	-	5	5
Special assessments	3,000	5,341	2,341
Franchise fees	131,480	131,212	(268)
Licenses and permits	194,515	357,138	162,623
Intergovernmental	1,185,105	1,227,716	42,611
Charges for services	386,870	396,183	9,313
Fines and forfeitures	55,500	58,620	3,120
Miscellaneous revenues			
Investment income	27,000	16,160	(10,840)
Contributions and donations	2,600	7,966	5,366
Other	43,415	35,251	(8,164)
Total revenues	3,312,145	3,527,345	215,200
Expenditures			
Current			
General government	726,470	741,374	14,904
Public safety	1,695,740	1,606,132	(89,608)
Public works	415,595	440,811	25,216
Culture and recreation	300,325	331,861	31,536
Capital outlay			
General government	10,435	4,648	(5,787)
Public safety	89,750	30,453	(59,297)
Public works	77,500	61,849	(15,651)
Culture and recreation	-	3,445	3,445
Total expenditures	3,315,815	3,220,573	(95,242)
Excess of revenues over (under) expenditures	(3,670)	306,772	310,442
Other Financing Sources (Uses)			
Insurance recoveries	-	12,779	12,779
Sale of property	200	-	(200)
Transfers in	6,500	4,111	(2,389)
Transfers out	-	(293,563)	(293,563)
Total other financing sources (uses)	6,700	(276,673)	(283,373)
Net change in fund balances	\$ 3,030	30,099	\$ 27,069
Fund Balances			
Beginning of year		2,355,823	
End of year		\$ 2,385,922	

See notes to the financial statements.

City of St. Joseph
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - State Collected Sales Tax
Year Ended December 31, 2018

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
Revenues			
Sales taxes	\$ 425,000	\$ 442,672	\$ 17,672
Expenditures			
Capital outlay			
Culture and recreation	<u>950,000</u>	<u>402,171</u>	<u>(547,829)</u>
Excess of revenues over (under) expenditures	(525,000)	40,501	565,501
Other Financing Sources (Uses)			
Transfers out	<u>(160,000)</u>	<u>(180,000)</u>	<u>(20,000)</u>
Net change in fund balances	<u><u>\$ (685,000)</u></u>	<u>(139,499)</u>	<u><u>\$ 545,501</u></u>
Fund Balances			
Beginning of year		<u>1,046,189</u>	
End of year		<u><u>\$ 906,690</u></u>	

City of St. Joseph
Statement of Net Position - Proprietary Funds
December 31, 2018

	Water (601)	Sanitary Sewer (602)	Refuse (603)	Storm Water (651)	Street Light Utility (652)	Total
Assets						
Current assets						
Cash and investments	\$ 602,019	\$ 232,990	\$ 244,488	\$ 251,993	\$ 35,043	\$ 1,366,533
Taxes receivable - delinquent	272	-	-	-	-	272
Special assessments receivable						
Delinquent	605	-	-	-	-	605
Deferred	24,897	95	76	7	10	25,085
Accounts receivable	144,920	239,541	46,017	8,861	12,524	451,863
Interest receivable	2,492	5,297	922	989	105	9,805
Due from other governments	154	-	-	-	-	154
Total current assets	<u>775,359</u>	<u>477,923</u>	<u>291,503</u>	<u>261,850</u>	<u>47,682</u>	<u>1,854,317</u>
Noncurrent assets						
Capital assets						
Land	372,941	4,941	-	-	-	377,882
Easements	-	-	-	67,915	-	67,915
Construction in progress	58,876	1,686,660	-	115,000	-	1,860,536
Buildings	7,502,432	1,295,254	-	-	-	8,797,686
Improvements	289,760	-	-	-	-	289,760
Plants and lines	10,283,251	8,684,608	-	5,222,870	-	24,190,729
Machinery and equipment	215,942	602,220	45,842	1,441	-	865,445
Sewer rights	-	9,068,746	-	-	-	9,068,746
Total capital assets	<u>18,723,202</u>	<u>21,342,429</u>	<u>45,842</u>	<u>5,407,226</u>	<u>-</u>	<u>45,518,699</u>
Less accumulated depreciation	<u>(5,639,946)</u>	<u>(5,355,359)</u>	<u>(39,336)</u>	<u>(1,522,278)</u>	<u>-</u>	<u>(12,556,919)</u>
Net capital assets	<u>13,083,256</u>	<u>15,987,070</u>	<u>6,506</u>	<u>3,884,948</u>	<u>-</u>	<u>32,961,780</u>
Total assets	<u>13,858,615</u>	<u>16,464,993</u>	<u>298,009</u>	<u>4,146,798</u>	<u>47,682</u>	<u>34,816,097</u>
Deferred Outflows of Resources						
Deferred outflows of resources related to pensions	23,256	18,809	2,360	4,552	944	49,921
Total assets and deferred outflows of resources	<u>\$ 13,881,871</u>	<u>\$ 16,483,802</u>	<u>\$ 300,369</u>	<u>\$ 4,151,350</u>	<u>\$ 48,626</u>	<u>\$ 34,866,018</u>
Liabilities						
Current liabilities						
Accounts payable	\$ 25,959	\$ 13,107	\$ 20,830	\$ 194	\$ 4,129	\$ 64,219
Due to other governments	2,333	131,272	3,014	-	-	136,619
Salaries and benefits payable	7,252	6,250	964	1,560	336	16,362
Interest payable	8,926	44,236	-	-	-	53,162
Long-term liabilities due						
Within one year	589,116	708,657	961	2,349	384	1,301,467
Total current liabilities	<u>633,586</u>	<u>903,522</u>	<u>25,769</u>	<u>4,103</u>	<u>4,849</u>	<u>1,571,829</u>
Noncurrent liabilities						
Compensated absences	63,237	63,237	8,792	12,847	3,516	151,629
Notes payable, net	-	5,517,761	-	-	-	5,517,761
Bonds payable, net	4,666,398	1,528,468	-	-	-	6,194,866
Net pension liability	117,032	94,655	11,877	22,906	4,751	251,221
Less amounts due within one year	<u>(589,116)</u>	<u>(708,657)</u>	<u>(961)</u>	<u>(2,349)</u>	<u>(384)</u>	<u>(1,301,467)</u>
Total noncurrent liabilities	<u>4,257,551</u>	<u>6,495,464</u>	<u>19,708</u>	<u>33,404</u>	<u>7,883</u>	<u>10,814,010</u>
Total liabilities	<u>4,891,137</u>	<u>7,398,986</u>	<u>45,477</u>	<u>37,507</u>	<u>12,732</u>	<u>12,385,839</u>
Deferred Inflows of Resources						
Deferred inflows of resources related to pensions	29,614	23,952	3,005	5,796	1,202	63,569
Net Position						
Net investment in capital assets	8,416,858	8,940,841	6,506	3,884,948	-	21,249,153
Unrestricted	544,262	120,023	245,381	223,099	34,692	1,167,457
Total net position	<u>8,961,120</u>	<u>9,060,864</u>	<u>251,887</u>	<u>4,108,047</u>	<u>34,692</u>	<u>22,416,610</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 13,881,871</u>	<u>\$ 16,483,802</u>	<u>\$ 300,369</u>	<u>\$ 4,151,350</u>	<u>\$ 48,626</u>	<u>\$ 34,866,018</u>

City of St. Joseph
Reconciliation of the Statement
of Net Position - Business-Type Activities
December 31, 2018

Total net position - proprietary funds \$ 22,416,610

Amounts reported for business-type activities in the Statement of Net Position are different because

The water access capital project fund is proprietary in nature and relates to water improvements for the applicable funds. Therefore, it is included as a business-type activity. 415,429

The sewer access capital project fund is proprietary in nature and relates to sewer improvements for the applicable funds. Therefore, it is included as a business-type activity. 91,276

Total net position - business-type activities \$ 22,923,315

City of St. Joseph
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended December 31, 2018

	Water (601)	Sanitary Sewer (602)	Refuse (603)	Storm Water (651)	Street Light Utility (652)	Total
Operating revenues						
Charges for services	\$ 1,030,342	\$ 1,387,894	\$ 280,981	\$ 80,710	\$ 76,625	\$ 2,856,552
Operating Expenses						
Wages and salaries	201,199	139,394	24,028	51,706	8,192	424,519
Materials and supplies	64,383	43,740	2,777	230	-	111,130
Repairs and maintenance	51,429	17,018	2,225	30,622	6,259	107,553
Professional services	30,050	25,133	5,014	19,168	87	79,452
Insurance	11,325	9,152	-	-	-	20,477
Utilities	71,899	18,899	446	-	46,375	137,619
Depreciation	436,325	493,004	6,506	105,814	-	1,041,649
Contracted services	-	195,177	265,818	-	-	460,995
Equipment	-	-	-	-	9,700	9,700
Miscellaneous	11,337	1,436	1,127	2,762	277	16,939
Total operating expenses	<u>877,947</u>	<u>942,953</u>	<u>307,941</u>	<u>210,302</u>	<u>70,890</u>	<u>2,410,033</u>
Operating income (loss)	152,395	444,941	(26,960)	(129,592)	5,735	446,519
Nonoperating revenues						
(expenses)						
Investment income	4,552	9,676	1,684	1,806	191	17,909
Special assessments	726	96	77	8	10	917
Gain on disposal of asset	-	473	-	-	-	473
Loss on disposal of asset	(50,907)	(47)	-	(47)	-	(51,001)
Property taxes	22,554	-	-	-	-	22,554
Interest expense	(121,726)	(146,492)	-	-	-	(268,218)
Amortization of bond premium	6,339	3,262	-	-	-	9,601
Other income	53,161	1,495	1,699	176	7,607	64,138
Total nonoperating revenues						
(expenses)	<u>(85,301)</u>	<u>(131,537)</u>	<u>3,460</u>	<u>1,943</u>	<u>7,808</u>	<u>(203,627)</u>
Income (loss) before capital						
contributions and transfers	67,094	313,404	(23,500)	(127,649)	13,543	242,892
Capital grant	-	38,319	-	-	-	38,319
Capital contributions	32,438	32,582	-	-	-	65,020
Transfers in	207,000	55,000	-	-	-	262,000
Transfers out	(6,500)	(13,500)	(500)	(19,250)	-	(39,750)
Change in net position	300,032	425,805	(24,000)	(146,899)	13,543	568,481
Net position						
Beginning of year	<u>8,661,088</u>	<u>8,635,059</u>	<u>275,887</u>	<u>4,254,946</u>	<u>21,149</u>	<u>21,848,129</u>
End of year	<u>\$ 8,961,120</u>	<u>\$ 9,060,864</u>	<u>\$ 251,887</u>	<u>\$ 4,108,047</u>	<u>\$ 34,692</u>	<u>\$ 22,416,610</u>

City of St. Joseph
Reconciliation of the Statement of Revenues, Expenses,
and Changes in Net Position - Business-Type Activities
Year Ended December 31, 2018

Total net change in fund net position - proprietary funds	\$ 568,481
Amounts reported for business-type activities in the Statement of Activities are different because	
Recognized current year activity from the water access capital project fund with the business-type activities.	173,708
Recognized current year activity from the sewer access capital project fund with the business-type activities.	84,918
Capital contributions from governmental activities	(65,020)
Transfers in of capital assets from governmental activities	<u>65,020</u>
Change in net position - business-type activities	<u><u>\$ 827,107</u></u>

City of St. Joseph
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2018

	Water (601)	Sanitary Sewer (602)	Refuse (603)	Storm Water (651)	Street Light Utility (652)	Total
Cash Flows - Operating Activities						
Receipts from customers and users	\$ 1,045,146	\$ 1,369,641	\$ 284,649	\$ 88,803	\$ 74,624	\$ 2,862,863
Payments to suppliers	(232,807)	(226,403)	(276,871)	(52,597)	(62,815)	(851,493)
Payments to employees	(193,571)	(132,067)	(23,717)	(50,384)	(8,110)	(407,849)
Other miscellaneous receipts	76,156	1,580	1,780	2,991	7,624	90,131
Net cash flows - operating activities	<u>694,924</u>	<u>1,012,751</u>	<u>(14,159)</u>	<u>(11,187)</u>	<u>11,323</u>	<u>1,693,652</u>
Cash Flows - Noncapital Financing Activities						
Transfer from other funds	207,000	55,000	-	-	-	262,000
Transfer to other funds	(6,500)	(13,500)	(500)	(19,250)	-	(39,750)
Net cash flows - noncapital financing Activities	<u>200,500</u>	<u>41,500</u>	<u>(500)</u>	<u>(19,250)</u>	<u>-</u>	<u>222,250</u>
Cash Flows - Capital and Related Financing Activities						
Principal paid on debt	(576,000)	(635,101)	-	-	-	(1,211,101)
Interest paid on debt	(124,961)	(144,878)	-	-	-	(269,839)
Acquisition of capital assets	(266,536)	(51,142)	-	-	-	(317,678)
Net cash flows - capital and related Financing activities	<u>(967,497)</u>	<u>(831,121)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,798,618)</u>
Cash Flows - Investing Activities						
Interest and dividends received	3,710	7,514	1,383	1,466	143	14,216
Net change in cash and cash equivalents	<u>(68,363)</u>	<u>230,644</u>	<u>(13,276)</u>	<u>(28,971)</u>	<u>11,466</u>	<u>131,500</u>
Cash and Cash Equivalents						
Beginning of year	<u>670,382</u>	<u>2,346</u>	<u>257,764</u>	<u>280,964</u>	<u>23,577</u>	<u>1,235,033</u>
End of year	<u>\$ 602,019</u>	<u>\$ 232,990</u>	<u>\$ 244,488</u>	<u>\$ 251,993</u>	<u>\$ 35,043</u>	<u>\$ 1,366,533</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities						
Operating income (loss)	\$ 152,395	\$ 444,941	\$ (26,960)	\$ (129,592)	\$ 5,735	\$ 446,519
Adjustments to reconcile operating income (loss) to net cash flows - operating activities						
Depreciation expense	436,325	493,004	6,506	105,814	-	1,041,649
Pension expense	3,988	3,064	15	229	5	7,301
Other miscellaneous receipts	76,156	1,580	1,780	2,991	7,624	90,131
Accounts receivable	14,890	(18,253)	3,353	8,093	(2,001)	6,082
Due from other governments	(86)	-	315	-	-	229
Accounts payable	7,521	10,451	247	185	(117)	18,287
Due to other governmental units	95	73,701	289	-	-	74,085
Salaries payable	23	646	154	136	20	979
Compensated absences payable	3,617	3,617	142	957	57	8,390
Total adjustments	<u>542,529</u>	<u>567,810</u>	<u>12,801</u>	<u>118,405</u>	<u>5,588</u>	<u>1,247,133</u>
Net cash flows - operating activities	<u>\$ 694,924</u>	<u>\$ 1,012,751</u>	<u>\$ (14,159)</u>	<u>\$ (11,187)</u>	<u>\$ 11,323</u>	<u>\$ 1,693,652</u>
Non-Cash Capital and Financing Activities						
Capital asset contributions from governmental funds	\$ 32,438	\$ 32,582	\$ -	\$ -	\$ -	\$ 65,020
Capital asset contributions from other governments	-	1,289,516	-	-	-	1,289,516
Bond issued through other governments	-	1,251,197	-	-	-	1,251,197
Capital grant	-	38,319	-	-	-	38,319

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of St. Joseph (the "City") is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Unit □ Reported as if they were part of the City.

Joint Ventures □ The relationship of the City with the entity is disclosed.

For the categories above, the specific entities are identified as follows:

1. Blended Component Unit

The St. Joseph Economic Development Authority (EDA) was organized for the purpose of preserving and creating jobs, enhancing the tax base, and promoting the general welfare of the people of the City. The St. Joseph EDA is governed by a five member board appointed by the City Council, two members of which are City Council Members. The St. Joseph EDA is included as a blended component unit of the City because the St. Joseph EDA is financially accountable to the City, as the City Council approves the budget. The St. Joseph EDA provides services almost entirely for the City. The St. Joseph EDA is presented as the Economic Development Authority Special Revenue Fund. Separate financial statements are not prepared for the St. Joseph EDA.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

2. Joint Ventures

The Central Minnesota Major Crime Investigation Unit is a group of local law enforcement officers within the four county surrounding areas that will be available to assist any of the participating entities in the investigation and solution of major crimes. During 2018, the City contributed \$9,958 to the organization. It is reported as a special revenue fund of the City of Sauk Rapids for the first quarter of the year and the City of Sartell for the remaining three quarters. Complete financial statements can be obtained from: City of Sauk Rapids, 250 Summit Avenue North, Sauk Rapids, Minnesota 56379 and City of Sartell, 125 Pine Cone Road North, Sartell, Minnesota 56377.

The City of St. Cloud Human Rights Office is a joint venture between the cities of St. Cloud, St. Joseph, Sauk Rapids, and Sartell, which works to enhance the lives of the citizens of the communities. During 2018, the City contributed \$0 to the organization. It is reported as an agency fund of the City of St. Cloud. Complete financial statements can be obtained from: City of St. Cloud, 400 2nd Street South, St. Cloud, Minnesota 56301.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. 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 segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program 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.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revenues to be available if they are collected within 60 days of the end of the current 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, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current 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.

Description of Funds:

Major Governmental Funds:

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

State Collected Sales Tax □ This fund accounts for the collection of state approved local option sales tax.

Proprietary Funds:

Water Fund □ This fund accounts for the operations of the City's water utility.

Sanitary Sewer Fund □ This fund accounts for the operations of the City's sanitary sewer utility.

Refuse Fund □ This fund accounts for the operations of the City's refuse and compost utility.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Description of Funds: (Continued)

Proprietary Funds: (Continued)

Storm Water Fund □ This fund accounts for the operations of the City's storm water utility.

Street Light Utility Fund □ This fund accounts for the operations of the City's street light utility.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water, sanitary sewer, refuse, storm water, and street light utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 Water, Sanitary Sewer, Refuse, Storm Water, and Street Light Utility 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.

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

D. Assets, Liabilities, Deferred Outflows/ Inflows of Resources, and Net Position or Equity

1. Cash and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/ Inflows of Resources, and Net Position or Equity
(Continued)**

1. Cash and Investments (Continued)

Minnesota Statutes authorizes the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the City are reported at fair value as disclosed in Note 3. 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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

2. Receivables and Payables

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Stearns County is the collecting agency for the levy and remits the collections to the City four times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/ Inflows of Resources, and Net Position or Equity (Continued)

2. Receivables and Payables (Continued)

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

3. 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 at the time of consumption.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), 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 \$1,000 and an estimated useful life in excess of two years. 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 costs 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 City are depreciated using the straight-line full year convention method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-20
Buildings	30-40
Building improvements	15
Infrastructure	10-50
Sewer rights	20-50
Furniture and fixtures	5-10
Vehicles	5-20
Equipment	3-7
Machinery	5-7

5. Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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 that time. The City presents deferred outflows of resources on the Statements of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/ Inflows of Resources, and Net Position or Equity
(Continued)**

5. Deferred Outflows/ Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report 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 City has two items that qualify for reporting in this category. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from four sources: property taxes, special assessments, notes receivable, and leases receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City presents deferred inflows of resources on the Statements of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years. The City presents deferred inflows of resources related to lease receivables that will be recognized in future years.

6. Compensated Absences

The City compensates employees who leave City service in good standing for all earned, unused vacation. Employees can accrue up to 200 hours of vacation depending on years of service. The maximum amount of carryover from year-to-year is 100 hours or the amount of the current vacation accrual rate. In addition, employees are compensated for unused sick leave (up to a maximum of 720 hours or 960 hours for LELS and AFSCME employees) at various rates depending on the employee type and years of service, provided the City's notice of termination policy has been complied with.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**D. Assets, Liabilities, Deferred Outflows/ Inflows of Resources, and Net Position or Equity
(Continued)**

8. Pensions

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

9. Fund Equity

a) Classification

In the fund financial statements, governmental funds report fund classifications that comprise a Hierarchy based primarily on the extent to which the City is bond to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Nonspendable Fund Balance** □ These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include amounts set aside for prepaid items.
- **Restricted Fund Balance** □ These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through enabling legislation.
- **Committed Fund Balance** □ These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution. The City Council must also pass a resolution to remove the constraint of committed resources.
- **Assigned Fund Balance** □ These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City's Finance Director based on the City Council's direction.
- **Unassigned Fund Balance** □ These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, committed, and assigned fund balances exceed the total net resources of that fund.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/ Inflows of Resources, and Net Position or Equity (Continued)

9. Fund Equity (Continued)

a) Classification (Continued)

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, and unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned, and unassigned.

b) Minimum Fund Balance

The City's target General Fund balance is to maintain working capital, a portion of the unassigned balance, in the amount of four to six months of the next year's budgeted expenditures of the General Fund, excluding the fire department and PEG Access Fees.

10. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and 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. A reclassification of \$1,591,638 between the net position and unrestricted net position on the total column in the Statement of Net Position to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net position is reported as restricted in the government-wide financial statement when there are limitations on use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The restricted for other purposes restriction of net position for governmental activities of \$1,196,280 includes \$30,307 for tax incrementing financing, \$906,690 in state collected sales tax restricted by enabling legislation, \$31,052 restricted for lodging tax, \$111,757 in park dedication fees, \$2,104 restricted by donors for future projects, \$35,009 DEED Funds, \$74,310 in revolving loan funds restricted for EDA projects and \$5,051 of restricted PEG access fees.

11. Use of Estimates

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

E. Budgetary Information

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.

City of St. Joseph
Notes to Financial Statements

NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information (Continued)

2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments.
4. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General Fund and the Economic Development Authority, State Collected Sales Tax and Park Dedication special revenue funds and debt service funds. Budgetary control for the remaining special revenue fund is done through the use of project controls when the council authorizes the project. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted by the City Council. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

NOTE 2 □ STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance

The following fund had a deficit fund balance at December 31, 2018.

Nonmajor governmental funds	
Special Revenue	
TIF 2-2 St. Joseph Meat Market	\$ 2
TIF 2-3 Bayou Blues/Alley Flat	8,522
TIF 3-1 Central Minnesota Credit Union	301

This deficit will be eliminated with future tax increment revenues.

NOTE 3 □ DEPOSITS AND INVESTMENTS

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed in the financial statements as "cash and cash equivalents" or "investments." For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized on the following page.

City of St. Joseph
Notes to Financial Statements

NOTE 3 □ DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits

Custodial Credit Risk □ Deposits: This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy that requires the City's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of December 31, 2018, the City's bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC or NCUA and fully collateralized with securities held by the pledging financial institutions trust department or agent and in the City's name. As of December 31, 2018, the City's deposits had a carrying value as shown below.

Certificates of deposit	\$ 3,755,528
Checking	877,230
Savings	<u>826,693</u>
Total	<u><u>\$ 5,459,451</u></u>

B. Investments

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

Investment Type	Fair Value	Weighted Average Maturity (Years)	Moody's Rating
Brokered certificates of deposit	\$ 957,935	0.55	N/A
Brokered money market	3,099	N/A	N/A
4M Fund	1,051,693	N/A	N/A
U.S. government securities	<u>297,504</u>	6.01	AA+
Total	<u><u>\$ 2,310,231</u></u>		

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits the allowable investments in accordance with these statutes. As of December 31, 2018, the City's investments were rated as listed in the table above.

Interest Rate Risk: The City should try to minimize the risk that arises from over investing in specific instruments, individual financial institutions, or maturities. The City's investment policy states the investment portfolio will be structured so that securities mature to meet cash flow requirements and avoiding the need to sell securities prior to maturity, investing in short-term securities, investing in long-term securities if the market rate is favorable.

City of St. Joseph
Notes to Financial Statements

NOTE 3 □ DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The City's investment policy states the City will attempt to diversify its investments according to type, issuer, and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields. No more than 20% of the total investments should extend beyond five years and the weighted average maturity of the portfolio shall never exceed five years. As of December 31 2018, the City's investments of CD's, As of December 31 2018, the City's investment in CD's: Community Bank Jumbo (8.2%), Sona Bank (5.5%), Eagle Bank (10.0%), Financial Federal Bank (10.4%), AMEX □Centurion Sale Lake City UT (7.4%) and the government security □Fed Home Ln MTG Corp Med Tern Note Step (12.9%), exceeded 5% of the City's total investment portfolio. Money market accounts are not subject to concentration of credit risk.

Custodial Credit Risk □Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy addresses this risk and states the City will permit investments only to the extent that there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available.

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

- \$1,258,538 of investments are valued using a matrix pricing model (Level 2 inputs)

C. Deposits and Investments

The following is a summary of deposits and investments as of December 31, 2018:

Deposits (Note 3.A.)	\$ 5,459,451
Investments (Note 3.B.)	2,310,231
Petty cash	225
Total	\$ 7,769,907

Deposits and investments are presented in the December 31, 2018, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 7,769,907

City of St. Joseph
Notes to Financial Statements

NOTE 4 □ INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

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

	Amounts Due to Other Funds
Amounts Due from Other Funds	Other Governmental Funds
Other Governmental Funds	\$ 10,800

The due from/due to other funds balances represent loans made to cover tax increment financing (TIF) consulting costs to establish the TIF districts.

B. Transfers

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

Transfer In	Transfer Out	Description	Amount
General Fund	Water	Transfer retirement reserve funding	\$ 500
General Fund	Sanitary Sewer	Transfer retirement reserve funding	500
General Fund	Refuse	Transfer retirement reserve funding	500
General Fund	Other Governmental Funds	Transfer to close fund	2,611
Other Governmental Funds	General Fund	Transfer of residual funds for project costs	250,000
Other Governmental Funds	General Fund	Excess building permit revenue to fund 2018 DEED Grant	7,563
Other Governmental Funds	General Fund	Transfer to help fund cable access equipment updates	36,000
Other Governmental Funds	State Collected Sales Tax	Transfer sales tax revenue committed for bond payment	20,000
Other Governmental Funds	State Collected Sales Tax	Transfer sales tax revenue committed for bond payment	160,000
Other Governmental Funds	Other Governmental Funds	Transfer of residual project funds to cover debt payment	26,127
Other Governmental Funds	Other Governmental Funds	Transfer to reimburse costs from prior years	40
Other Governmental Funds	Other Governmental Funds	Transfer of funds for bond payment	60,000
Other Governmental Funds	Other Governmental Funds	Transfer of residual funds for future debt payments	8,900
Other Governmental Funds	Water	Annual transfer for bond payment	6,000
Other Governmental Funds	Sanitary Sewer	Annual transfer for bond payment	6,000
Other Governmental Funds	Storm Water	Annual transfer for bond payment	19,250
Water	Other Governmental Funds	Annual transfer of WAC fees for debt payments	200,000
Water	Sanitary Sewer	Annual transfer for bond payment	7,000
Sanitary Sewer	Other Governmental Funds	Annual transfer for debt payments	55,000
			\$ 865,991

City of St. Joseph
Notes to Financial Statements

NOTE 5 □ CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 874,133	\$ -	\$ 110,936	\$ 763,197
Easements	175,873	24,212	-	200,085
Construction in progress	465,006	487,606	188,476	764,136
Total capital assets not being depreciated	<u>1,515,012</u>	<u>511,818</u>	<u>299,412</u>	<u>1,727,418</u>
Capital assets being depreciated				
Buildings	9,540,762	-	804,967	8,735,795
Infrastructure	20,176,666	212,817	-	20,389,483
Improvements	1,369,201	8,485	23,880	1,353,806
Intangible Assets	200,000	-	-	200,000
Machinery and equipment	3,677,400	305,198	121,916	3,860,682
Total capital assets being depreciated	<u>34,964,029</u>	<u>526,500</u>	<u>950,763</u>	<u>34,539,766</u>
Less accumulated depreciation for				
Buildings	1,564,451	232,062	368,551	1,427,962
Infrastructure	14,358,618	872,317	-	15,230,935
Improvements	598,719	53,393	23,880	628,232
Intangible assets	10,000	10,000	-	20,000
Machinery and equipment	2,474,749	290,523	120,371	2,644,901
Total accumulated depreciation	<u>19,006,537</u>	<u>1,458,295</u>	<u>512,802</u>	<u>19,952,030</u>
Total capital assets being depreciated, net	<u>15,957,492</u>	<u>(931,795)</u>	<u>437,961</u>	<u>14,587,736</u>
Governmental activities capital assets, net	<u>\$ 17,472,504</u>	<u>\$ (419,977)</u>	<u>\$ 737,373</u>	<u>\$ 16,315,154</u>

City of St. Joseph
Notes to Financial Statements

NOTE 5 □ CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 377,882	\$ -	\$ -	\$ 377,882
Easements	67,915	-	-	67,915
Construction in progress	705,096	1,289,516	134,076	1,860,536
Total capital assets not being depreciated	1,150,893	1,289,516	134,076	2,306,333
Capital assets being depreciated				
Buildings	8,797,686	-	-	8,797,686
Improvements other than buildings	-	289,760	-	289,760
Plant and lines	24,275,118	97,381	181,770	24,190,729
Machinery and equipment	778,232	129,632	42,419	865,445
Sewer rights	9,068,746	-	-	9,068,746
Total capital assets being depreciated	42,919,782	516,773	224,189	43,212,366
Less accumulated depreciation for				
Buildings	2,182,252	214,143	-	2,396,395
Improvements other than buildings	-	14,488	-	14,488
Plant and lines	6,956,644	500,521	131,384	7,325,781
Machinery and equipment	572,308	58,678	42,278	588,708
Sewer rights	1,977,728	253,819	-	2,231,547
Total accumulated depreciation	11,688,932	1,041,649	173,662	12,556,919
Total capital assets being depreciated, net	31,230,850	(524,876)	50,527	30,655,447
Business-type activities capital assets, net	\$ 32,381,743	\$ 764,640	\$ 184,603	\$ 32,961,780

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

Governmental activities	
General government	\$ 152,746
Public safety	164,544
Public works	932,217
Culture and recreation	208,554
Economic development	234
Total depreciation expense - governmental activities	\$ 1,458,295
Business-type activities	
Water	\$ 436,325
Sanitary sewer	493,004
Refuse	6,506
Storm sewer	105,814
Total depreciation expense - business-type activities	\$ 1,041,649

City of St. Joseph
Notes to Financial Statements

NOTE 6 □ LONG-TERM DEBT

A. General Obligation Bonds

The City issues General Obligation (G.O.) bonds to provide for financing improvement, development, and street improvement projects.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 5 to 20 year serial bonds with equal debt service payments each year.

Revenue bonds are issued by the City where the City pledges income derived from the acquired or constructed assets to pay debt service including access and trunk charges and utility user fees.

B. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Governmental Activities						
G.O. Bonds, including Refunding Bonds						
G.O. Certificates of Indebtedness of 2011A	11/10/11	2.00%-2.40%	390,000	10/01/21	125,000	40,000
G.O. Capital Improvement Plan						
G.O. Certificates of Indebtedness 2015A	08/13/15	1.20%-2.00%	165,000	12/01/20	70,000	35,000
G.O. Certificates of Indebtedness 2016A	07/07/16	2.00%-2.875%	4,275,000	12/15/36	3,920,000	180,000
G.O. Certificates of Indebtedness 2017A	08/30/17	2.75%	337,000	12/15/25	294,000	42,000
G.O. Certificates of Indebtedness 2018A	02/28/18	2.50%	265,000	12/15/23	265,000	50,000
Total G.O. Bonds					<u>4,674,000</u>	<u>347,000</u>
G.O. Special Assessment Bonds						
G.O. Improvement Refunding Bonds of 2010B	09/28/10	2.00%-3.25%	1,035,000	12/01/20	270,000	135,000
G.O. Improvement Bonds of 2010B	09/28/10	2.00%-3.25%	790,000	12/01/25	405,000	55,000
G.O. Improvement Crossover Refunding Bonds of 2011A	11/10/11	2.00%-2.40%	1,040,000	10/01/21	410,000	135,000
G.O. Improvement Bonds of 2013A	09/01/13	2.00%-3.00%	405,000	12/01/24	275,000	40,000
G.O. Improvement Bonds of 2014A	06/15/14	2.00%-3.40%	2,010,000	12/01/30	1,675,000	115,000
G.O. Improvement Bonds of 2015A	08/13/15	1.20%-3.00%	595,000	12/01/25	425,000	60,000
G.O. Improvement Bonds of 2016B	11/03/16	1.00%-3.00%	740,000	12/15/32	690,000	50,000
G.O. Improvement Bonds of 2017B	08/30/17	2.25%-3.00%	344,000	12/15/27	309,000	35,000
Total G.O. Special Assessment Bonds					4,459,000	625,000
G.O. Abatement Bonds						
G.O. Tax Abatement Bonds of 2015B	08/13/15	2.00%-3.05%	1,840,000	12/01/30	1,525,000	115,000
Unamortized premiums/discounts					90,578	-
Compensated absences					455,241	85,326
Total long-term liabilities, governmental activities					<u>\$ 11,203,819</u>	<u>\$ 1,172,326</u>

City of St. Joseph
Notes to Financial Statements

NOTE 6 □ LONG-TERM DEBT (CONTINUED)

B. Components of Long-Term Liabilities (Continued)

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Business-type activities						
G.O. Revenue Bonds						
G.O. Sewer Revenue Crossover Refunding Bonds of 2009A	03/19/09	1.25%-3.85%	455,000	12/01/21	\$ 130,000	\$ 45,000
G.O. Sewer Revenue Bonds of 2011A	11/10/11	2.00-2.40%	225,000	10/01/21	75,000	25,000
G.O. Water Revenue Crossover Refunding Bonds of 2012A	04/19/12	1.00-2.85%	4,860,000	12/01/28	3,825,000	475,000
G.O. Sewer Revenue Bonds of 2013A	09/01/13	2.00-3.70%	1,875,000	12/01/28	1,315,000	120,000
G.O. Utility Improvement Bonds of 2014A	06/15/14	2.00%-3.40%	660,000	12/01/32	530,000	35,000
G.O. Water Improvement Bonds of 2017B	08/30/17	2.25%	353,000	12/15/22	282,000	71,000
Total G.O. Revenue Bonds					<u>6,157,000</u>	<u>771,000</u>
Utility Revenue Notes Payable						
City of St. Cloud SIS						
Phases 1 and 2 (2009B Bonds)	10/26/09	2.00%-4.0%	835,000	08/01/19	95,000	95,000
City of St. Cloud SIS						
Phase 3 (2010 Bonds)	10/28/10	2.00%-2.5%	180,000	08/01/20	40,000	20,000
City of St. Cloud SIS						
Phase 4 (2013B Bonds)	11/01/13	3.00%-4.00%	650,000	02/01/29	515,000	40,000
City of St. Cloud RUE Project PFA Loan	08/01/10	1.77%	4,527,703	08/20/30	2,985,190	225,461
City of St. Cloud Lift Station Improvements	08/24/16	1.00%	469,263	08/20/26	404,596	48,857
City of St. Cloud NR2 Biosolids	10/09/17	1.10%	1,517,380	08/20/37	1,477,183	81,223
Total notes payable					<u>5,516,969</u>	<u>510,541</u>
Unamortized premium					38,658	-
Compensated absences					151,629	19,926
Total business-type activities					<u>11,864,256</u>	<u>1,301,467</u>
Total all long-term liabilities					<u>\$ 23,068,075</u>	<u>\$ 2,473,793</u>

Long-term bonded indebtedness listed on the previous page and above were issued to finance acquisition and construction of capital assets or to refinance (refund) previous bond issues.

City of St. Joseph
Notes to Financial Statements

NOTE 6 □ LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities				
Bonds payable				
General obligation	\$ 4,907,000	\$ 265,000	\$ 498,000	\$ 4,674,000
G.O. special assessment bonds	5,069,000	-	610,000	4,459,000
G.O. abatement bonds	1,635,000	-	110,000	1,525,000
Total bonds payable	<u>11,611,000</u>	<u>265,000</u>	<u>1,218,000</u>	<u>10,658,000</u>
Unamortized premiums/discounts	104,929	-	14,351	90,578
Compensated absences	452,500	206,053	203,312	455,241
Total governmental activities	<u>12,168,429</u>	<u>471,053</u>	<u>1,435,663</u>	<u>11,203,819</u>
Business-type activities				
Bonds payable				
G.O. utility revenue bonds	6,913,000	-	756,000	6,157,000
Notes payable				
City of St. Cloud notes	4,720,873	1,251,197	455,101	5,516,969
Unamortized premiums	48,259	-	9,601	38,658
Compensated absences	143,239	50,126	41,736	151,629
Total business-type activities	<u>11,825,371</u>	<u>1,301,323</u>	<u>1,262,438</u>	<u>11,864,256</u>
Total long-term liabilities	<u>\$ 23,993,800</u>	<u>\$ 1,772,376</u>	<u>\$ 2,698,101</u>	<u>\$ 23,068,075</u>

For governmental activities, the General Fund typically liquidates the liability related to compensated absences. For Business-Type Activities, the Water, Sanitary Sewer, Refuse, Storm Water, and Street Light Utility Funds typically liquidates the liability related to the compensated absences.

City of St. Joseph
Notes to Financial Statements

NOTE 6 □ LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities:

Year Ended December 31,	Governmental Activities			
	G.O. Government Activities		G.O. Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 347,000	\$ 108,338	\$ 625,000	\$ 112,880
2020	354,000	101,008	635,000	100,483
2021	330,000	93,273	510,000	86,950
2022	291,000	85,912	374,000	75,740
2023	293,000	79,507	389,000	67,062
2024-2028	1,129,000	316,177	1,411,000	186,450
2029-2033	1,160,000	197,075	515,000	29,840
2034-2036	770,000	44,269	-	-
Total	<u>\$ 4,674,000</u>	<u>\$ 1,025,559</u>	<u>\$ 4,459,000</u>	<u>\$ 659,405</u>

Year Ended December 31,	Governmental Activities		
	Abatement Bonds		
	Principal	Interest	Total
2019	\$ 115,000	\$ 39,935	\$ 1,348,153
2020	115,000	37,635	1,343,126
2021	120,000	35,335	1,175,558
2022	120,000	32,935	979,587
2023	125,000	30,535	984,104
2024-2028	660,000	100,700	3,803,327
2029-2030	270,000	12,353	2,184,268
Total	<u>\$ 1,525,000</u>	<u>\$ 289,428</u>	<u>\$ 11,818,123</u>

City of St. Joseph
Notes to Financial Statements

NOTE 6 □ LONG-TERM DEBT (CONTINUED)

D. Minimum Debt Payments (Continued)

Year Ended December 31,	Business-Type Activities				
	Utility Revenue Bonds		Notes Payable		Total
	Principal	Interest	Principal	Interest	
2019	\$ 771,000	\$ 155,785	\$ 510,541	\$ 96,614	\$ 1,533,940
2020	771,000	139,235	420,903	86,858	1,417,996
2021	775,000	122,635	406,256	79,301	1,383,192
2022	725,000	105,340	416,950	72,059	1,319,349
2023	670,000	88,688	422,537	64,628	1,245,853
2024-2028	2,275,000	200,902	2,118,505	212,647	4,807,054
2029-2033	170,000	14,710	1,059,846	52,072	1,296,628
2034-2037	-	-	388,786	10,700	399,486
Total	<u>\$ 6,157,000</u>	<u>\$ 827,295</u>	<u>\$ 5,744,324</u> *	<u>\$ 674,879</u>	<u>\$ 13,403,498</u>

* Balance does not agree to amounts listed in Note 6.C. due to payment schedule including estimated PFA draw that is scheduled to occur in July 2019.

E. Conduit Debt

Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued various revenue bonds to provide funding to private sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

City of St. Joseph
Notes to Financial Statements

NOTE 7 □ FUND BALANCE

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General	State Collected Sales Tax	Nonmajor Governmental Fund	Total
Nonspendable				
Prepaid items	\$ 24,560	\$ -	\$ -	\$ 24,560
Restricted				
PEG access fees	5,051	-	-	5,051
Debt service	-	-	1,111,296	1,111,296
Tax increments	-	-	30,307	30,307
State collected sales tax projects	-	906,690	-	906,690
Park dedication fees	-	-	111,757	111,757
Charitable gambling	-	-	2,104	2,104
Lodging tax	-	-	31,052	31,052
DEED CDAP	-	-	35,009	35,009
Revolving loan	-	-	74,310	74,310
Total restricted	<u>5,051</u>	<u>906,690</u>	<u>1,395,835</u>	<u>2,307,576</u>
Committed				
Economic development	-	-	198,716	198,716
Assigned				
Elections	5,300	-	-	5,300
Street seal coating /crack filling	126,870	-	-	126,870
Loader tires	6,388	-	-	6,388
Fire operations	20,000	-	-	20,000
Fire debt service	129,452	-	-	129,452
Fire capital	470,973	-	-	470,973
Police forfeiture	6,600	-	-	6,600
Severance pay	122,343	-	-	122,343
Capital outlay reserves	-	-	984,484	984,484
Debt service relief	-	-	540,147	540,147
Total assigned	<u>887,926</u>	<u>-</u>	<u>1,524,631</u>	<u>2,412,557</u>
Unassigned	<u>1,468,385</u>	<u>-</u>	<u>(8,825)</u>	<u>1,459,560</u>
Total	<u>\$ 2,385,922</u>	<u>\$ 906,690</u>	<u>\$ 3,110,357</u>	<u>\$ 6,402,969</u>

City of St. Joseph
Notes to Financial Statements

NOTE 8 □ RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state, which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2018 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2018, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 9 □ PENSION PLANS

The City participates in various pension plans. Total pension expense for the year ended December 31, 2018, was \$149,093. The components of pension expense are noted in the following plan summaries.

For governmental activities, the General Fund typically liquidates the liability related to pensions. For Business-Type Activities, the Water, Sanitary Sewer, Refuse, Storm Water, and Street Light Utility Funds typically liquidates the liability related to pensions.

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan, accounted for in the General Employees Fund)

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

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

Public Employees Police and Fire Plan (Police and Fire Plan, accounted for in the Police and Fire Fund)

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

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

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

Police and Fire Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the post-retirement benefit increase will be lowered to 1%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in calendar year 2018. The City was required to contribute 7.5% for Coordinated Plan members in calendar year 2018. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$71,452. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary and the City was required to contribute 16.2% of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$97,377. The City's contributions were equal to the required contributions as set by state statute.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$787,758 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$25,900. 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 share was 0.0142%, which was the same as its proportion measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$ 787,758
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>25,900</u>
Total	<u><u>\$ 813,658</u></u>

For the year ended December 31, 2018, the City recognized pension expense of \$86,989 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$6,040 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 20,851	\$ 21,843
Changes in actuarial assumptions	71,541	88,513
Difference between projected and actual investment earnings	-	85,094
Changes in proportion	28,418	3,887
Contributions paid to PERA subsequent to the measurement date	<u>35,726</u>	<u>-</u>
Total	<u><u>\$ 156,536</u></u>	<u><u>\$ 199,337</u></u>

\$35,726 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ 32,286
2020	(30,451)
2021	(63,920)
2022	<u>(16,442)</u>
Total	<u><u>\$ (78,527)</u></u>

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$614,057 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's 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 0.0581%, which was an increase of 0.0041% from its proportion measured as of June 30, 2017. The City also recognized \$5,229 for the year ended December 31, 2018 as revenue and an offsetting reduction of the net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the City recognized pension expense of \$63,609 for its proportionate share of the Police and Fire Fund pension expense.

At December 31, 2018, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the sources below and on the following page.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 23,941	\$ 143,417
Changes in actuarial assumptions	715,596	848,797
Difference between projected and actual investment earnings	-	126,592
Changes in proportion	46,130	17,043
Contributions paid to PERA subsequent to the measurement date	<u>48,688</u>	<u>-</u>
Total	<u><u>\$ 834,355</u></u>	<u><u>\$ 1,135,849</u></u>

\$48,688 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ (12,067)
2020	(40,277)
2021	(81,904)
2022	(223,118)
2023	<u>7,184</u>
Total	<u><u>\$ (350,182)</u></u>

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

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

Inflation	2.50 %	Per year
Active member payroll growth	3.25	Per year
Investment rate of return	7.50	

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

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Police and Fire Fund

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

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36 %	5.10 %
International stock	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
	<hr/>	
Total	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5%. 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 those assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following table 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 General Employees Fund net pension liability	\$ 1,280,207	\$ 787,758	\$ 381,255
	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
City's proportionate share of the Police and Fire Fund net pension liability	\$ 1,322,559	\$ 614,057	\$ 28,155

H. Pension Plan Fiduciary Net Position

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

Public Employees Defined Contribution Plan (Defined Contribution Plan)

All of the City's council members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**City of St. Joseph
Notes to Financial Statements**

NOTE 9 □ PENSION PLANS (CONTINUED)

Public Employees Defined Contribution Plan (Defined Contribution Plan) (Continued)

The defined contribution plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses; therefore, there is not future liability to the employer. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Pension expense for the year is equal to contributions made. Total contributions made by the City during fiscal year 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 1,599	\$ 1,599	5%	5%	5%

Defined Benefit Pension Plan □ Volunteer Fire Fighter's Relief Association

A. Plan Description

The City of St. Joseph Volunteer Fire Department Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Relief Association per *Minnesota State Statutes*.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the St. Joseph Volunteer Fire Department Relief Association, 75 Callaway St E, St. Joseph, MN 56374.

B. Benefits Provided

Volunteer firefighters of the City are member of Joseph Volunteer Fire Department Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 20 years of service for lump sum service pension. Partial benefits are payable to members who have reached 50 years and have completed 10 years of service. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan □ Volunteer Fire Fighter's Relief Association

C. Employees Covered by Benefit Terms

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>29</u>
 Total	 <u><u>31</u></u>

D. Contributions.

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aids are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers: therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on behalf payment of \$53,565 made by the State of Minnesota for the Relief Association.

E. Net Pension Liability

The City's net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Salary increase	0 %, average, including inflation
Investment rate of return	5.25 %, net of pensions plan investment expense including inflation

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the table on the following page.

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan □ Volunteer Fire Fighter's Relief Association (Continued)

E. Net Pension Liability (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	9.09 %	0.58 %
Fixed income	41.42	1.99
Real estate and alternatives	0.40	4.19
Domestic equity	40.13	4.95
International equity	8.96	5.24
 Total	 <u>100 %</u>	

Discount rate:

The discount rate used to measure the total pension liability was 5.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

F. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2018	\$ 555,598	\$ 785,526	\$ (229,928)
Changes for the year			
Service cost	27,172	-	27,172
Interest cost	32,052	-	32,052
Differences between expected and actual experience	(35,760)	-	(35,760)
Change in assumptions, changes in benefit terms	8,441	-	8,441
Contributions - state and local	-	56,565	(56,565)
Net investment income	-	(50,418)	50,418
Administrative expense	-	(7,582)	7,582
Net charges	<u>31,905</u>	<u>(1,435)</u>	<u>33,340</u>
Balances at December 31, 2018	<u>\$ 587,503</u>	<u>\$ 784,091</u>	<u>\$ (196,588)</u>

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan □ Volunteer Fire Fighter's Relief Association (Continued)

F. Changes in the Net Pension Liability (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.25%) or 1-percentage-point higher (6.25%) than the current rate:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
City's net pension liability	\$ (176,638)	\$ (196,588)	\$ (216,081)

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.

G. Pension Expense and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the City recognized pension expense of \$3,104. 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 expected and actual experience	\$ -	\$ 53,842
Changes of assumptions	87,306	-
Net difference between projected and actual earnings on pension plan investments	63,294	-
Total	\$ 150,600	\$ 53,842

City of St. Joseph
Notes to Financial Statements

NOTE 9 □ PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan □ Volunteer Fire Fighter's Relief Association (Continued)

G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Total
2019	\$ 30,189
2020	12,524
2021	17,338
2022	23,975
2023	5,183
Therafter	7,549
Total	\$ 96,758

NOTE 10 □ COMMITMENTS

The City has entered into contracts for construction as follows:

Project	Contract Amount	Expended through 12/31/18	Commitment
CR2 Trail, Phase II/III	\$ 1,172,954	\$ 242,875	\$ 930,079

City of St. Joseph
Notes to Financial Statements

NOTE 11 TAX INCREMENT FINANCING

The City has entered into five Tax Increment Financing agreements which meet the criteria for disclosure under *Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures*. The City's authority to enter into these agreements comes from *Minnesota Statute 469*. The City entered into these agreements for the purpose of economic development.

Under each agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs.

During the year ended December 31, 2018, the City generated \$118,903 in tax increment revenue and made \$107,228 in payments to developers.

In addition, the City had an abatement of \$8,821 relating to a development agreement.

NOTE 12 □NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. This statement will be effective for the year ending December 31, 2018.

City of St. Joseph
Notes to Financial Statements

NOTE 12 □ NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)

GASB Statement No. 86, Certain Debt Extinguishment Issues improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. This statement will be effective for the year ending December 31, 2018.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements improves the information that is disclosed in the notes to the financial statements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement will be effective for the year ending December 31, 2020.

GASB Statement No. 90, Majority Equity Interests improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement will be effective for the year ending December 31, 2019.

NOTE 13 □ CONTINGENCIES AND LITIGATION

The City is currently involved in various pending litigation cases. After evaluation by the City's attorney, it is unknown if the resolution of these cases will have a material impact on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**City of St. Joseph
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0138%	\$ 715,188	\$ -	\$ 715,188	\$ 799,773	89.42%	78.19%
2016	0.0135%	1,096,133	14,341	1,110,474	839,240	130.61%	68.91%
2017	0.0142%	906,519	11,418	917,937	916,373	98.92%	75.90%
2018	0.0142%	787,758	25,900	813,658	955,440	82.45%	79.53%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of City's Proportionate Share
of Net Pension Liability
Public Employees Police and Fire Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0570%	\$ 647,653	\$ 505,160	128.21%	86.61%
2016	0.0540%	2,167,114	518,580	417.89%	63.88%
2017	0.0540%	729,064	554,975	131.37%	85.43%
2018	0.0581%	614,057	612,154	100.31%	88.84%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of St. Joseph
Schedule of City Contributions -
General Employees Retirement Fund
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 57,804	\$ 57,804	\$ -	\$ 770,720	7.5%
2016	66,294	66,294	-	883,920	7.5%
2017	69,820	69,820	-	930,933	7.5%
2018	71,452	71,452	-	952,693	7.5%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of City Contributions -
Public Employees Police and Fire Retirement Fund
Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 85,925	\$ 85,925	\$ -	\$ 530,401	16.2%
2016	89,587	89,587	-	553,006	16.2%
2017	93,325	93,325	-	576,080	16.2%
2018	97,377	97,377	-	601,093	16.2%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

City of St. Joseph
Schedule of Changes in Net Pension Liability
and Related Ratios - Fire Relief Association

	Measurement Date			
	2015	2016	2017	2018
Total Pension Liability (TPL)				
Service cost	\$ 20,898	\$ 25,691	\$ 25,641	\$ 27,172
Interest	29,709	35,786	33,188	32,052
Differenced between expected and actual experience	-	(29,935)	-	(35,760)
Changes of assumptions	55,033	56,691	4,299	8,441
Changes of benefit terms	31,883	-	-	-
Benefit payments, including refunds, or member contributions	(41,168)	(49,000)	(118,151)	-
Net change in total pension liability	<u>96,355</u>	<u>39,233</u>	<u>(55,023)</u>	<u>31,905</u>
Beginning of year	<u>475,033</u>	<u>571,388</u>	<u>610,621</u>	<u>555,598</u>
End of Year	<u>\$ 571,388</u>	<u>\$ 610,621</u>	<u>\$ 555,598</u>	<u>\$ 587,503</u>
Plan Fiduciary Net Pension (FNP)				
Contributions - employer	\$ 52,164	\$ 63,111	\$ 58,310	\$ 56,565
Net investment income	(41,979)	68,585	77,946	(50,418)
Benefit payments, including refunds of member contributions	(41,168)	(49,000)	(118,151)	-
Administrative expense	(8,121)	(7,724)	(8,546)	(7,582)
Net change in plan fiduciary net position	<u>(39,104)</u>	<u>74,972</u>	<u>9,559</u>	<u>(1,435)</u>
Beginning of year	<u>740,099</u>	<u>700,995</u>	<u>775,967</u>	<u>785,526</u>
End of year	<u>\$ 700,995</u>	<u>\$ 775,967</u>	<u>\$ 785,526</u>	<u>\$ 784,091</u>
Net pension liability (NPL)	<u>\$ (129,607)</u>	<u>\$ (165,346)</u>	<u>\$ (229,928)</u>	<u>\$ (196,588)</u>
Plan fiduciary net position as a percentage of the total pension liability	122.7%	127.1%	141.4%	133.5%
Covered employee payroll	n/a	n/a	n/a	n/a
Net pension liability as a percentage of covered payroll	n/a	n/a	n/a	n/a

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten year presentation, but does not require retroactive reporting. Information prior to 2015 is not available. Additional years will be reported as they become available.

City of St. Joseph
Schedule of Employer Contributions
and Non-Employer Contributing
Entities - Fire Relief Association

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer				
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the SDC	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Contribution deficiency (excess)	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>
Non-employer				
2% aid	<u>\$ 52,164</u>	<u>\$ 60,111</u>	<u>\$ 55,310</u>	<u>\$ 53,565</u>
Covered employee payroll	n/a	n/a	n/a	n/a
Contributions as a percentage of covered employee payroll	n/a	n/a	n/a	n/a

The Association implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten year presentation, but does not require retroactive reporting. Information prior to 2015 is not available. Additional years will be reported as they become available.

City of St. Joseph
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017 Changes

Changes in Actuarial Assumptions

- The 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% for vested deferred member liability and 3% 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

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, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

City of St. Joseph
Notes to Required Supplementary Information

POLICE AND FIRE FUND

2018 Changes

Changes in Actuarial Assumptions

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

2017 Changes

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be 3 years younger) and female members (husbands assumed to be 4 years older) to the assumption that males are 2 years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% 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 changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

City of St. Joseph
Notes to Required Supplementary Information

POLICE AND FIRE FUND (CONTINUED)

2015 Changes

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

City of St. Joseph
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues			
Property taxes	\$ 1,282,660	\$ 1,291,753	\$ 9,093
Sales taxes	-	5	5
Special assessments	3,000	5,341	2,341
Franchise fees	131,480	131,212	(268)
Licenses and permits	194,515	357,138	162,623
Intergovernmental revenue			
Local government aid	989,464	989,464	-
PERA aid	1,541	1,541	-
Fire aid	49,000	57,865	8,865
Police aid	65,500	85,751	20,251
Federal grants	12,000	7,545	(4,455)
State grants	51,100	57,251	6,151
Other grants and aids	16,500	28,299	11,799
Total intergovernmental revenue	<u>1,185,105</u>	<u>1,227,716</u>	<u>42,611</u>
Charges for services			
General government	33,495	33,225	(270)
Public safety	286,495	287,663	1,168
Public works	3,930	9,007	5,077
Culture and recreation	62,950	66,288	3,338
Total charges for services	<u>386,870</u>	<u>396,183</u>	<u>9,313</u>
Fines and forfeitures	55,500	58,620	3,120
Miscellaneous revenues			
Investment income	27,000	16,160	(10,840)
Contributions and donations	2,600	7,966	5,366
Other	43,415	35,251	(8,164)
Total miscellaneous revenues	<u>73,015</u>	<u>59,377</u>	<u>(13,638)</u>
Total revenues	<u>3,312,145</u>	<u>3,527,345</u>	<u>215,200</u>
Expenditures			
General government			
Mayor and council	84,995	83,887	(1,108)
Administrative and finance	439,550	425,107	(14,443)
Other general government	201,925	232,380	30,455
Capital outlay	10,435	4,648	(5,787)
Total general government	<u>736,905</u>	<u>746,022</u>	<u>9,117</u>

City of St. Joseph
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended December 31, 2018

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Expenditures			
Public safety			
Police			
Current	\$ 1,207,630	\$ 1,111,840	\$ (95,790)
Capital outlay	-	2,243	2,243
Total police	1,207,630	1,114,083	(93,547)
Fire			
Current	391,120	391,691	571
Capital outlay	89,750	28,210	(61,540)
Total fire	480,870	419,901	(60,969)
Other			
Current	96,990	102,601	5,611
Total public safety	1,785,490	1,636,585	(148,905)
Public works			
Streets and highways			
Street maintenance and storm sewers	260,360	271,586	11,226
Snow and ice removal	120,235	103,201	(17,034)
Street engineering	35,000	66,024	31,024
Capital outlay	77,500	61,849	(15,651)
Total public works	493,095	502,660	9,565
Culture and recreation			
Current	300,325	331,861	31,536
Capital outlay	-	3,445	3,445
Total culture and recreation	300,325	335,306	34,981
Total expenditures	3,315,815	3,220,573	(95,242)
Excess of revenues over (under) expenditures	(3,670)	306,772	310,442
Other Financing Sources (Uses)			
Insurance recoveries	-	12,779	12,779
Sale of property	200	-	(200)
Transfers in	6,500	4,111	(2,389)
Transfers out	-	(293,563)	(293,563)
Total other financing sources (uses)	6,700	(276,673)	(283,373)
Net change in fund balances	\$ 3,030	30,099	\$ 27,069
Fund Balances			
Beginning of year		2,355,823	
End of year		\$ 2,385,922	

**City of St. Joseph
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2018**

	Special Revenue			
	Economic Development Authority (150)	TIF 2-1 Millstream Shops and Lofts (157)	TIF 2-2 St. Joseph Meat Market (158)	TIF 2-3 Bayou Blues/Alley Flat (159)
Assets				
Cash and investments	\$ 58,897	\$ 25,642	\$ 496	\$ 1,278
Taxes receivable - delinquent	922	-	-	-
Special assessments receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts receivable	-	-	-	-
Interest receivable	56	91	2	-
Due from other funds	10,800	-	-	-
Due from other governments	705	341	-	-
Notes receivable	-	-	-	-
Total assets	<u>\$ 71,380</u>	<u>\$ 26,074</u>	<u>\$ 498</u>	<u>\$ 1,278</u>
Liabilities				
Accounts payable	\$ 8,110	\$ 307	\$ -	\$ -
Due to other funds	-	-	500	9,800
Salaries and benefits payable	1,457	-	-	-
Total liabilities	<u>9,567</u>	<u>307</u>	<u>500</u>	<u>9,800</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	922	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Unavailable revenue - notes receivable	-	-	-	-
Total deferred inflows of resources	<u>922</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted	-	25,767	-	-
Committed	60,891	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	(2)	(8,522)
Total fund balances	<u>60,891</u>	<u>25,767</u>	<u>(2)</u>	<u>(8,522)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 71,380</u>	<u>\$ 26,074</u>	<u>\$ 498</u>	<u>\$ 1,278</u>

**City of St. Joseph
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2018**

	Debt Service			
	G.O. Improvement Bonds of 2005B/2010B (333)	G.O. Improvement Bonds of 2013A (348)	G.O. Improvement Bonds of 2011A/2006C (338)	G.O. Improvement Bonds of 2010B (345)
Assets				
Cash and investments	\$ 132,426	\$ 86,921	\$ 81,909	\$ 150,571
Taxes receivable - delinquent	262	80	435	63
Special assessments receivable				
Delinquent	8,056	-	1,002	1,549
Deferred	94,582	37,269	109,310	92,944
Accounts receivable	-	-	-	-
Interest receivable	452	402	325	627
Due from other funds	-	-	-	-
Due from other governments	240	68	620	41
Notes receivable	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 236,018</u>	<u>\$ 124,740</u>	<u>\$ 193,601</u>	<u>\$ 245,795</u>
Liabilities				
Accounts payable	\$ 128	\$ 128	\$ 128	\$ 128
Due to other funds	-	-	-	-
Salaries and benefits payable	-	-	-	-
Total liabilities	<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	262	80	435	63
Unavailable revenue - special assessments	102,638	37,269	110,312	94,493
Unavailable revenue - notes receivable	-	-	-	-
Total deferred inflows of resources	<u>102,900</u>	<u>37,349</u>	<u>110,747</u>	<u>94,556</u>
Fund Balances				
Restricted	132,990	87,263	82,726	151,111
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>132,990</u>	<u>87,263</u>	<u>82,726</u>	<u>151,111</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 236,018</u>	<u>\$ 124,740</u>	<u>\$ 193,601</u>	<u>\$ 245,795</u>

Debt Service

G.O. Certificates of Indebtedness of 2011A (346)	G.O. Improvement Bonds of 2014A (350)	G.O. Improvement Bonds of 2015A (351)	G.O. Certificates of Indebtedness 2015A (352)	G.O. Tax Abatement Bonds of 2015B (353)	G.O. Capital Improvement Plan Bonds of 2016A (301)	G.O. Improvement Bonds of 2016B (304)
\$ 40	\$ 205,032	\$ 134,913	\$ 1,045	\$ 28,351	\$ 48,948	\$ 67,219
125	661	830	896	-	1,771	-
-	996	-	-	-	-	-
-	100,945	130,460	-	-	-	620,613
-	-	-	-	-	-	-
23	929	618	157	319	224	412
-	-	-	-	-	-	-
143	8,201	1,731	1,030	-	1,843	34
-	-	-	-	-	-	-
<u>\$ 331</u>	<u>\$ 316,764</u>	<u>\$ 268,552</u>	<u>\$ 3,128</u>	<u>\$ 28,670</u>	<u>\$ 52,786</u>	<u>\$ 688,278</u>
\$ 128	\$ 128	\$ 128	\$ 128	\$ 128	\$ 128	\$ 1,034
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>	<u>1,034</u>
125	661	830	896	-	1,771	-
-	101,941	130,460	-	-	-	620,613
-	-	-	-	-	-	-
<u>125</u>	<u>102,602</u>	<u>131,290</u>	<u>896</u>	<u>-</u>	<u>1,771</u>	<u>620,613</u>
78	214,034	137,134	2,104	28,542	50,887	66,631
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>78</u>	<u>214,034</u>	<u>137,134</u>	<u>2,104</u>	<u>28,542</u>	<u>50,887</u>	<u>66,631</u>
<u>\$ 331</u>	<u>\$ 316,764</u>	<u>\$ 268,552</u>	<u>\$ 3,128</u>	<u>\$ 28,670</u>	<u>\$ 52,786</u>	<u>\$ 688,278</u>

City of St. Joseph
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2018

	Debt Service			
	Capital Improvement Bonds of 2017A (303)	G.O. Improvement Bonds of 2017B (305)	2018A Equipment Certificate (306)	Debt Service Relief Fund (390)
Assets				
Cash and investments	\$ 104,072	\$ 52,970	\$ 50	\$ 539,508
Taxes receivable - delinquent	-	45	-	1,381
Special assessments receivable				
Delinquent	-	-	-	135
Deferred	-	75,911	-	123,365
Accounts receivable	-	-	-	-
Interest receivable	665	362	471	77
Due from other funds	-	-	-	-
Due from other governments	-	61	-	562
Notes receivable	290,529	-	-	-
Total assets	<u>\$ 395,266</u>	<u>\$ 129,349</u>	<u>\$ 521</u>	<u>\$ 665,028</u>
Liabilities				
Accounts payable	\$ 128	\$ 599	\$ 128	\$ -
Due to other funds	-	-	-	-
Salaries and benefits payable	-	-	-	-
Total liabilities	<u>128</u>	<u>599</u>	<u>128</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	45	-	1,381
Unavailable revenue - special assessments	-	75,911	-	123,500
Unavailable revenue - notes receivable	290,529	-	-	-
Total deferred inflows of resources	<u>290,529</u>	<u>75,956</u>	<u>-</u>	<u>124,881</u>
Fund Balances				
Restricted	104,609	52,794	393	-
Committed	-	-	-	-
Assigned	-	-	-	540,147
Unassigned	-	-	-	-
Total fund balances	<u>104,609</u>	<u>52,794</u>	<u>393</u>	<u>540,147</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 395,266</u>	<u>\$ 129,349</u>	<u>\$ 521</u>	<u>\$ 665,028</u>

Capital Projects

Jacob Wetterling Recreation Center (402)	2018 Equipment Certificate (406)	General Capital Outlay (490)	Water Access Fund (501)	Sewer Access Fund (502)	Total Governmental Funds
\$ 2,469	\$ 65,256	\$ 409,574	\$ 409,129	\$ 88,820	\$ 3,090,356
-	-	-	-	-	7,471
-	-	-	-	-	11,738
-	-	-	-	-	1,385,399
-	-	-	5,000	2,300	7,955
9	-	-	1,300	156	9,055
-	-	-	-	-	10,800
-	-	471	-	-	16,213
-	-	-	-	-	290,529
<u>\$ 2,478</u>	<u>\$ 65,256</u>	<u>\$ 410,045</u>	<u>\$ 415,429</u>	<u>\$ 91,276</u>	<u>\$ 4,829,516</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,765
-	-	-	-	-	10,800
-	-	-	-	-	1,457
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,022</u>
-	-	-	-	-	7,471
-	-	-	-	-	1,397,137
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,529</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,695,137</u>
-	-	-	-	-	1,395,835
-	-	-	-	-	198,716
2,478	65,256	410,045	415,429	91,276	1,524,631
-	-	-	-	-	(8,825)
<u>2,478</u>	<u>65,256</u>	<u>410,045</u>	<u>415,429</u>	<u>91,276</u>	<u>3,110,357</u>
<u>\$ 2,478</u>	<u>\$ 65,256</u>	<u>\$ 410,045</u>	<u>\$ 415,429</u>	<u>\$ 91,276</u>	<u>\$ 4,829,516</u>

City of St. Joseph
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Special Revenue			
	Economic Development Authority (150)	TIF 2-1 Millstream Shops and Lofts (157)	TIF 2-2 St. Joseph Meat Market (158)	TIF 2-3 Bayou Blues/Alley Flat (159)
Revenues				
Property taxes	\$ 116,152	\$ -	\$ -	\$ -
Tax increments	-	36,094	4,298	172
Lodging taxes	-	-	-	-
Special assessments	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous				
Investment income	102	165	3	-
Contributions and donations	-	-	-	-
Revolving loan repayments	-	-	-	-
Other	-	-	-	-
Total revenues	<u>116,254</u>	<u>36,259</u>	<u>4,301</u>	<u>172</u>
Expenditures				
Current				
General government	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	63,290	33,903	4,177	1,574
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	31,847	-	-	-
Culture and recreation	-	-	-	-
Total expenditures	<u>95,137</u>	<u>33,903</u>	<u>4,177</u>	<u>1,574</u>
Excess of revenues over (under) expenditures	21,117	2,356	124	(1,402)
Other Financing Sources (Uses)				
Sale of property	-	-	-	-
Bonds issued	-	-	-	-
Transfers in	-	-	40	-
Transfers out	-	-	-	(40)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>40</u>	<u>(40)</u>
Net change in fund balances	21,117	2,356	164	(1,442)
Fund Balances				
Beginning of year	<u>39,774</u>	<u>23,411</u>	<u>(166)</u>	<u>(7,080)</u>
End of year	<u>\$ 60,891</u>	<u>\$ 25,767</u>	<u>\$ (2)</u>	<u>\$ (8,522)</u>

Special Revenue

TIF 3-1 Central Minnesota Credit Union (152)	TIF 4-1 Fortitude Senior Housing (153)	Park Dedication (205)	Charitable Gambling (215)	Lodging Tax (220)	Revolving Loan (250)	Deed Housing (225)
\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ -	\$ -
43,270	35,069	-	-	-	-	-
-	-	-	-	15,930	-	-
-	-	29,594	-	-	-	-
27	21	754	14	167	1,417	115
-	-	155	-	-	-	-
-	-	-	-	-	5,098	-
-	-	-	-	-	-	18,019
<u>43,297</u>	<u>35,090</u>	<u>50,503</u>	<u>14</u>	<u>16,097</u>	<u>6,515</u>	<u>18,134</u>
-	-	-	-	-	-	-
-	-	5,584	-	-	-	-
40,362	32,689	-	-	5,800	35	1,833
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	54,544	-	-	-	-
<u>40,362</u>	<u>32,689</u>	<u>60,128</u>	<u>-</u>	<u>5,800</u>	<u>35</u>	<u>1,833</u>
2,935	2,401	(9,625)	14	10,297	6,480	16,301
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	7,563
-	-	-	-	-	-	-
-	-	-	-	-	-	7,563
2,935	2,401	(9,625)	14	10,297	6,480	23,864
(3,236)	2,139	121,382	2,090	20,755	205,655	11,145
<u>\$ (301)</u>	<u>\$ 4,540</u>	<u>\$ 111,757</u>	<u>\$ 2,104</u>	<u>\$ 31,052</u>	<u>\$ 212,135</u>	<u>\$ 35,009</u>

City of St. Joseph
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Debt Service			
	G.O. Improvement Bonds of 2005B/2010B (333)	G.O. Improvement Bonds of 2013A (348)	G.O. Certificates of Indebtedness of 2013A (349)	G.O. Improvement Bonds of 2011A/2006C (338)
Revenues				
Property taxes	\$ 36,381	\$ 9,986	\$ 56,602	\$ 49,984
Tax increments	-	-	-	-
Lodging taxes	-	-	-	-
Special assessments	131,248	8,497	-	55,388
Charges for services	-	-	-	-
Miscellaneous				
Investment income	825	735	78	594
Contributions and donations	-	-	-	-
Revolving loan repayments	-	-	-	-
Other	-	-	-	-
Total revenues	<u>168,454</u>	<u>19,218</u>	<u>56,680</u>	<u>105,966</u>
Expenditures				
Current				
General government	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	135,000	35,000	60,000	130,000
Interest and other charges	9,374	7,898	1,200	12,254
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Total expenditures	<u>144,374</u>	<u>42,898</u>	<u>61,200</u>	<u>142,254</u>
Excess of revenues over (under) expenditures	24,080	(23,680)	(4,520)	(36,288)
Other Financing Sources (Uses)				
Sale of property	-	-	-	-
Bonds issued	-	-	-	-
Transfers in	-	-	-	18,000
Transfers out	-	-	(2,610)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(2,610)</u>	<u>18,000</u>
Net change in fund balances	24,080	(23,680)	(7,130)	(18,288)
Fund Balances				
Beginning of year	<u>108,910</u>	<u>110,943</u>	<u>7,130</u>	<u>101,014</u>
End of year	<u>\$ 132,990</u>	<u>\$ 87,263</u>	<u>\$ -</u>	<u>\$ 82,726</u>

Debt Service

G.O. Capital Improvement Plan Bonds of 2009B (343)	G.O. Improvement Bonds of 2010B (345)	G.O. Certificates of Indebtedness of 2011A (346)	G.O. Capital Improvement Plan Bonds of 2011A (347)	G.O. Improvement Bonds of 2014A (350)	G.O. Improvement Bonds of 2015A (351)	G.O. Certificates of Indebtedness 2015A (352)
\$ 56,634	\$ 5,984	\$ 20,806	\$ 22,847	\$ 79,927	\$ 14,877	\$ 36,881
-	-	-	-	-	-	-
-	23,239	-	-	46,806	44,483	-
-	-	22,944	-	-	-	-
91	1,189	60	25	1,697	1,128	287
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>56,725</u>	<u>30,412</u>	<u>43,810</u>	<u>22,872</u>	<u>128,430</u>	<u>60,488</u>	<u>37,168</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
60,000	50,000	40,000	80,000	115,000	60,000	35,000
2,250	12,781	3,688	2,469	49,563	11,077	1,878
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>62,250</u>	<u>62,781</u>	<u>43,688</u>	<u>82,469</u>	<u>164,563</u>	<u>71,077</u>	<u>36,878</u>
(5,525)	(32,369)	122	(59,597)	(36,133)	(10,589)	290
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	13,250	-	60,000	-	-	-
(5,213)	-	-	(3,688)	-	-	-
<u>(5,213)</u>	<u>13,250</u>	<u>-</u>	<u>56,312</u>	<u>-</u>	<u>-</u>	<u>-</u>
(10,738)	(19,119)	122	(3,285)	(36,133)	(10,589)	290
10,738	170,230	(44)	3,285	250,167	147,723	1,814
<u>\$ -</u>	<u>\$ 151,111</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 214,034</u>	<u>\$ 137,134</u>	<u>\$ 2,104</u>

City of St. Joseph
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Debt Service			
	G.O. Tax Abatement Bonds of 2015B (353)	G.O. Capital Improvement Plan Bonds of 2016A (301)	G.O. Improvement Bonds of 2016B (304)	Capital Improvement Bonds of 2017A (303)
Revenues				
Property taxes	\$ -	\$ 269,122	\$ 5,000	\$ -
Tax increments	-	-	-	-
Lodging taxes	-	-	-	-
Special assessments	-	-	24,278	-
Charges for services	-	-	-	-
Miscellaneous				
Investment income	583	408	753	524
Contributions and donations	-	-	-	-
Revolving loan repayments	-	-	-	-
Other	-	-	-	9,378
Total revenues	<u>583</u>	<u>269,530</u>	<u>30,031</u>	<u>9,902</u>
Expenditures				
Current				
General government	-	-	-	6,669
Culture and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	110,000	180,000	50,000	43,000
Interest and other charges	42,262	93,370	13,979	13,023
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	29,053	-
Culture and recreation	-	-	-	-
Total expenditures	<u>152,262</u>	<u>273,370</u>	<u>93,032</u>	<u>62,692</u>
Excess of revenues over (under) expenditures	(151,679)	(3,840)	(63,001)	(52,790)
Other Financing Sources (uses)				
Sale of property	-	-	-	102,500
Bonds issued	-	-	-	-
Transfers in	160,000	36,000	20,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>160,000</u>	<u>36,000</u>	<u>20,000</u>	<u>102,500</u>
Net change in fund balances	8,321	32,160	(43,001)	49,710
Fund Balances				
Beginning of year	<u>20,221</u>	<u>18,727</u>	<u>109,632</u>	<u>54,899</u>
End of year	<u>\$ 28,542</u>	<u>\$ 50,887</u>	<u>\$ 66,631</u>	<u>\$ 104,609</u>

Debt Service			Capital Projects		
G.O. Improvement Bonds of 2017B (305)	2018A Equipment Certificate (306)	Debt Service Relief Fund (390)	Jacob Wetterling Recreation Center (402)	CBD Alley Improvement Project (405)	2018 Equipment Certificate (406)
\$ 8,955	\$ -	\$ 695	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
19,297	-	11,009	-	-	-
-	-	-	-	-	-
661	1,017	-	16	-	-
-	-	-	575	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>28,913</u>	<u>1,017</u>	<u>11,704</u>	<u>591</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
35,000	-	-	-	-	-
11,773	17,164	-	-	-	-
-	-	-	-	-	20,340
-	-	-	-	-	-
471	-	62,810	-	26,169	98,864
-	-	-	-	-	87,000
<u>47,244</u>	<u>17,164</u>	<u>62,810</u>	<u>-</u>	<u>26,169</u>	<u>206,204</u>
(18,331)	(16,147)	(51,106)	591	(26,169)	(206,204)
-	-	-	-	-	23,000
-	16,540	-	-	-	248,460
26,127	-	258,900	-	-	-
-	-	(60,000)	-	(26,127)	-
<u>26,127</u>	<u>16,540</u>	<u>198,900</u>	<u>-</u>	<u>(26,127)</u>	<u>271,460</u>
7,796	393	147,794	591	(52,296)	65,256
44,998	-	392,353	1,887	52,296	-
<u>\$ 52,794</u>	<u>\$ 393</u>	<u>\$ 540,147</u>	<u>\$ 2,478</u>	<u>\$ -</u>	<u>\$ 65,256</u>

City of St. Joseph
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2018

	Capital Projects			Total Other Governmental Funds
	General Capital Outlay (490)	Water Access Fund (501)	Sewer Access Fund (502)	
Revenues				
Property taxes	\$ 77,320	\$ -	\$ -	\$ 888,153
Tax increments	-	-	-	118,903
Lodging taxes	-	-	-	15,930
Special assessments	-	-	-	364,245
Charges for services	-	369,697	139,287	561,522
Miscellaneous				
Investment income	-	4,011	631	18,098
Contributions and donations	-	-	-	730
Revolving loan repayments	-	-	-	5,098
Other	-	-	-	27,397
Total revenues	77,320	373,708	139,918	2,000,076
Expenditures				
Current				
General government	6,400	-	-	13,069
Culture and recreation	-	-	-	5,584
Economic development	-	-	-	183,663
Debt service				
Principal	-	-	-	1,218,000
Interest and other charges	-	-	-	306,003
Capital outlay				
General government	65	-	-	20,405
Public safety	2,460	-	-	2,460
Public works	4,803	-	-	254,017
Culture and recreation	8,439	-	-	149,983
Total expenditures	22,167	-	-	2,153,184
Excess of revenues over (under) expenditures	55,153	373,708	139,918	(153,108)
Other Financing Sources (uses)				
Sale of property	9,500	-	-	135,000
Bonds issued	-	-	-	265,000
Transfers in	-	-	-	599,880
Transfers out	-	(200,000)	(55,000)	(352,678)
Total other financing sources (uses)	9,500	(200,000)	(55,000)	647,202
Net change in fund balances	64,653	173,708	84,918	494,094
Fund Balances				
Beginning of year	345,392	241,721	6,358	2,616,263
End of year	\$ 410,045	\$ 415,429	\$ 91,276	\$ 3,110,357

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of St. Joseph
St. Joseph, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Joseph, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 18, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, as described in the accompanying Schedule of Finding and Response on Internal Control that we consider to be a material weakness, listed as audit finding 2018-001.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response on Internal Control. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

Minnesota Legal Compliance

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of St. Joseph
St. Joseph, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Joseph, Minnesota, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 18, 2019.

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

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

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

**City of St. Joseph
Schedule of Finding and Response on
Internal Control**

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING

Material Weakness

Audit Finding 2018-001 Improve Segregation of Accounting Duties

Adequate segregation of accounting duties is in place when the four areas of a transaction have been separated: authorization, custody, recording, and reconciliation.

As part of this year's audit, we reviewed the City's documentation of its internal control over significant areas including: cash receipts, cash disbursements, capital assets, payroll, and utility billing. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Some of the areas in which we noticed a lack of segregation or an overlap in duties are as follows:

Cash Receipts

The Office Specialist or City Administrator enters cash and checks into the point of sale system, reconciles the entries, and prepares the deposit. The Police Records Specialist records police receipts, receives payments, and reconciles the collections.

Cash Disbursements

The Finance Director approves some invoices for payment, enters invoices into the system, generates checks, and a check register. The Finance Director is also an authorized signer and has access to the Mayor's electronic signature. The Administrator reviews and approves checks for payment. At year-end, the Finance Director reconciles and records accounts and contracts payable.

Capital Assets

The Finance Director records, processes, reconciles, and posts journal entries related to capital assets. The department heads review their listing for accuracy.

Payroll

The Finance Director enters employees' time, processes, and posts payroll, generates a payroll report, distributes paystubs to employees, and posts the journal entries related to payroll. In addition, this same employee reconciles payroll accruals and time off balances. The City Administrator does review payroll reports, time off balances, and calculated compensated absences balances for the audit.

City of St. Joseph
Schedule of Finding and Response on
Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING (CONTINUED)

Material Weakness (Continued)

Audit Finding 2018-001 Improve Segregation of Accounting Duties (Continued)

Utility Billing

The Utility Billing Clerk enters new accounts into the utility billing system and uploads meter readings via interfacing with electronic readers. The Utility Billing Clerk enters any rate changes to the system and can enter manual adjustments. The Utility Billing Clerk calculates and enters final bills, prints, and mails utility bills, reconciles receipts to billed amounts, and enters receipts batches.

Cash Reconciliation and Access

The Finance Director performs the above noted responsibilities, while also reconciling cash, and generating manual journal entries.

City's Response

The City Council and City staff are aware of the limited personnel handling the City's financial matters. The processes and internal controls are reviewed frequently to look for ways to improve internal controls. The department heads, City Administrator and City Council each have active roles in monitoring the financial matters of the City to provided additional oversight. It is unlikely complete segregation of accountings duties will be achieved due to the cost of hiring several additional staff.



City of St. Joseph
Communications Letter
December 31, 2018

bergankDV

**City of St. Joseph
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**Report on Matters Identified as a Result of
the Audit of the Financial Statements**

Honorable Mayor, Members
of the City Council and Management
City of St. Joseph
St. Joseph, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Joseph, Minnesota, as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible the chance of the future event or events occurring is more than remote but less than likely; probable the future event or events are likely to occur. The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The City's written response to the material weakness identified in our audit has not been subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated April 18, 2019, on such statements.

This communication is intended solely for the information and use of the City Council, management, others within the City and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Bergan KDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

**City of St. Joseph
Material Weakness**

IMPROVE SEGREGATION OF ACCOUNTING DUTIES

Adequate segregation of accounting duties is in place when the four areas of a transaction have been separated: authorization, custody, recording, and reconciliation.

As part of this year's audit, we reviewed the City's documentation of its internal control over significant areas including: cash receipts, cash disbursements, capital assets, payroll, and utility billing. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Some of the areas in which we noticed a lack of segregation or an overlap in duties are as follows:

Cash Receipts

The Office Specialist or City Administrator enter cash and checks into the point of sale system, reconcile the entries, and prepare the deposit. The Police Records Specialist records police receipts, receives payments, and reconciles the collections.

Cash Disbursements

The Finance Director approves some invoices for payment, enters invoices into the system, and generates checks and a check register. The Finance Director also is an authorized signer and has access to the Mayor's electronic signature. At year-end, the Finance Director reconciles and records accounts and contracts payable. The City Administrator reviews and approves checks for payment.

Capital Assets

The Finance Director records, processes, reconciles, and posts journal entries related to capital assets. Department heads review their listing for accuracy.

Payroll

The Finance Director enters employee's time, processes and posts payroll, generates a payroll report, distributes paystubs to employees, and posts the journal entries related to payroll. In addition, this same employee reconciles payroll accruals and time off balances. The City Administrator does review payroll reports and time off balances and calculates compensated absences balances for the audit.

Utility Billing

The Utility Billing Clerk enters new accounts into the utility billing system and uploads meter readings via interfacing with electronic readers. The Utility Billing Clerk enters any rate changes to the system. The Utility Billing Clerk can enter manual adjustments, calculates, and enters final bills, prints, and mails utility bills, reconciles receipts to billed amounts, and enters receipts batches.

Cash Reconciliation and Access

The Finance Director performs the above noted responsibilities, while also reconciling cash and generating manual journal entries.

**City of St. Joseph
Material Weakness**

IMPROVE SEGREGATION OF ACCOUNTING DUTIES (CONTINUED)

We recommend management and the City Council review the above deficiencies and improve segregation of accounting duties where possible to build upon the control environment. We also recommend the City closely follow its internal control plan and follow through with the control activities that have been designed.

City of St. Joseph Required Communication

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018. Professional standards require that we advise you of the following matters related to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City.

**City of St. Joseph
Required Communication**

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation □The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity, and Deferred Inflows of Resources relating to Pension Activity □These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

UNCORRECTED AND CORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements.

**City of St. Joseph
Required Communication**

UNCORRECTED AND CORRECTED MISSTATEMENTS (CONTINUED)

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We requested certain written representations from management, which are included in the management representation letter.

MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the City, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

OTHER MATTERS

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

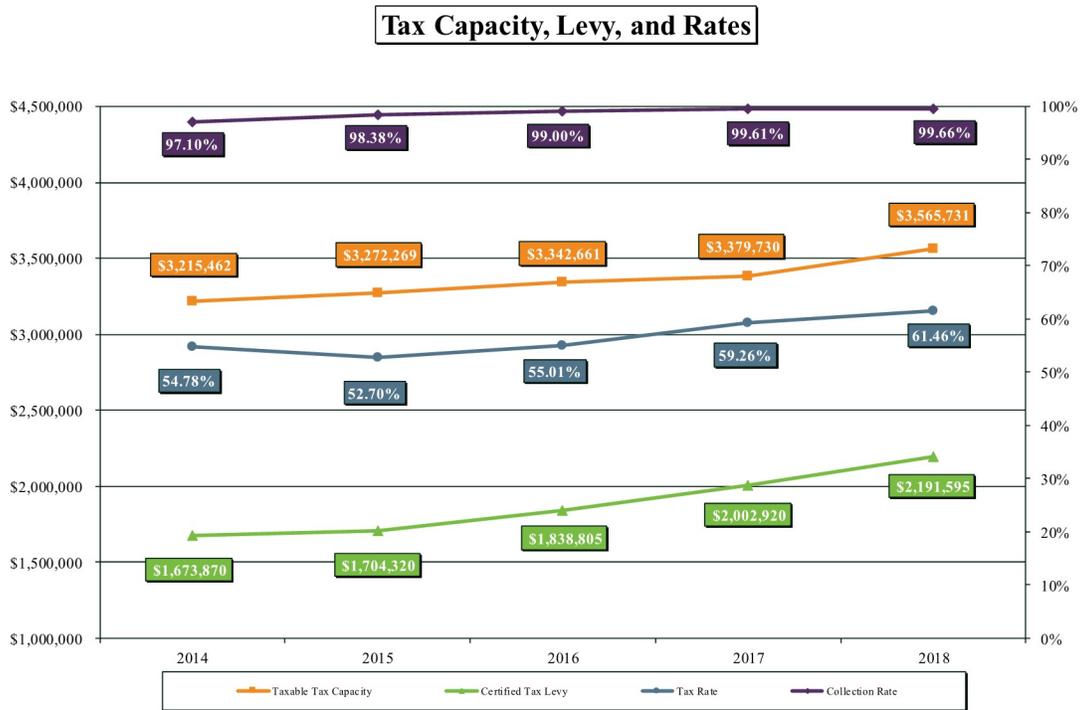
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

City of St. Joseph Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

TAX CAPACITY, LEVY, AND RATES

The certified levy increased more than the taxable tax capacity increased in 2018 causing the tax rate to increase.



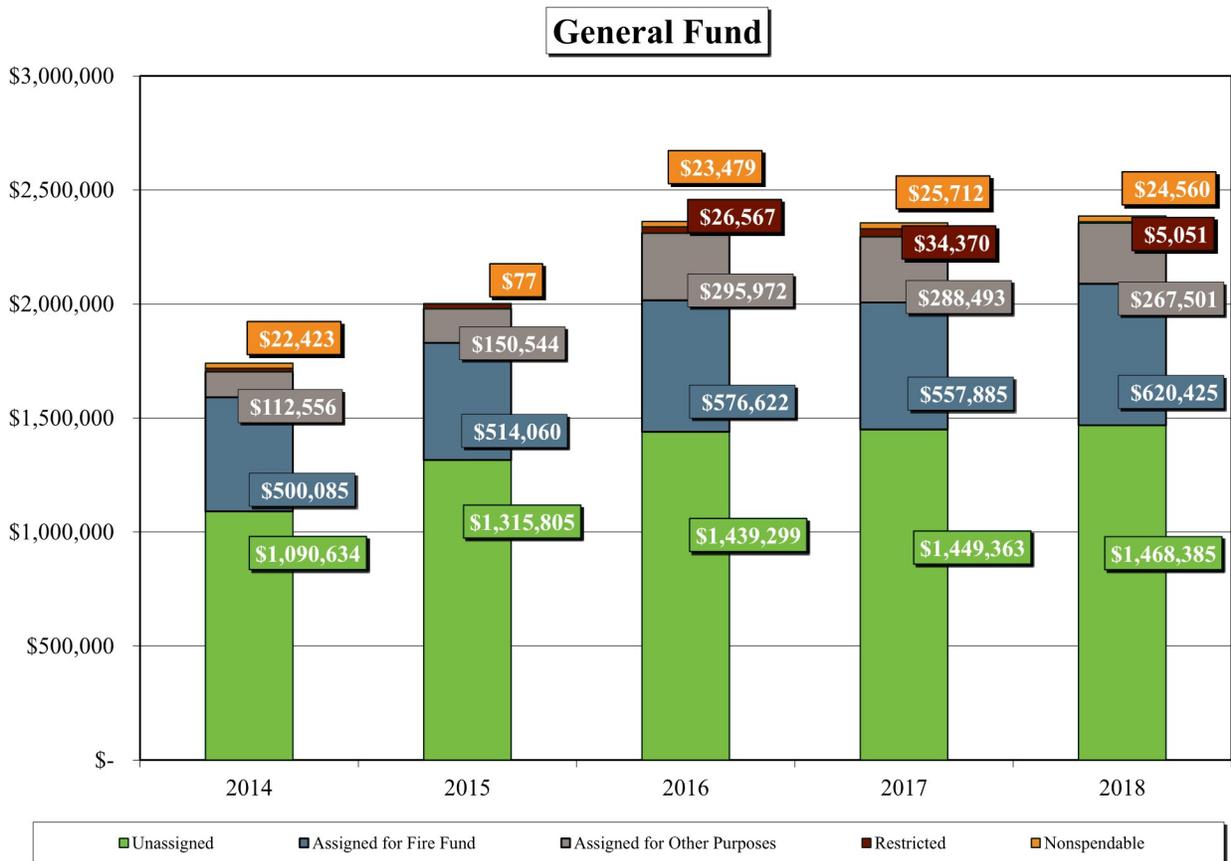
GENERAL FUND

For the year ended December 31, 2018, General Fund revenues exceeded expenditures by \$306,772. In addition to this, \$12,779 of insurance recoveries, transfer out of \$293,563 to other funds and transfers in of \$4,111 from other funds resulted in an increase in the General Fund balance of \$30,099. Of the City's General Fund balance at December 31, 2018, \$887,926 was assigned for specific expenditures, such as the fire department, elections, and a City structure/facility study. An additional \$5,051 was restricted by PEG access fees restricted for future cable access expenditures. The City also has \$24,560 of its fund balance in nonspendable form as the funds have already been spent on prepaid insurance. The unassigned portion of the fund balance, which includes monies set aside for working capital, totaled \$1,468,385 represents approximately five months of 2018 General Fund expenditures. The City's target General Fund balance is to maintain working capital, a portion of the unassigned balance, in the amount of four to six months of the next year's budgeted expenditures of the General Fund, excluding the fire department.

City of St. Joseph Financial Analysis

GENERAL FUND

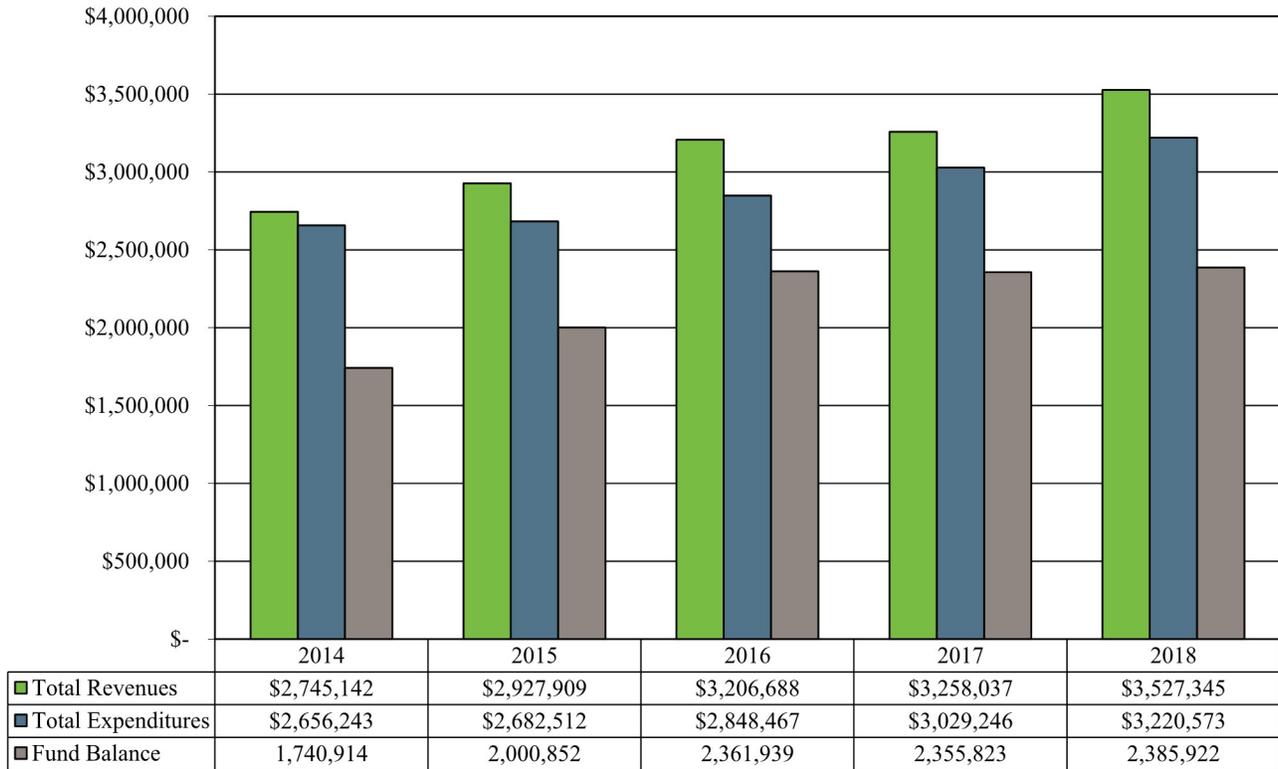
The graphs below and on the following page show the City's General Fund balance and the General Fund revenues and expenditures for the last five years.



**City of St. Joseph
Financial Analysis**

GENERAL FUND (CONTINUED)

General Fund



During the year ended December 31, 2018, the City's General Fund revenues increased \$269,308, or 8.3%, from 2017, while expenditures increased by \$191,327, or 6.3%. These changes in revenues and expenditures will be discussed by source and function, respectively, on the following pages.

As discussed earlier, fund balance did increase \$30,999 from 2017 to 2018. Fund balance has increased \$645,008 or 37.0% since 2014.

**City of St. Joseph
Financial Analysis**

GENERAL FUND REVENUES

	2014	2015	2016	2017	2018
Taxes	\$ 1,124,594	\$ 1,107,058	\$ 1,083,067	\$ 1,125,765	\$ 1,291,758
Special assessments	7,302	3,590	3,740	9,127	5,341
Franchise fees	124,940	124,283	126,817	129,242	131,212
Licenses and permits	105,929	152,158	270,780	356,990	357,138
Intergovernmental	1,018,932	1,107,840	1,212,746	1,133,362	1,227,716
Charges for services	243,067	270,508	345,321	376,946	396,183
Fines and forfeitures	38,330	50,489	46,747	55,474	58,620
Miscellaneous	82,048	111,983	117,470	71,131	59,377
Total Revenues	\$ 2,745,142	\$ 2,927,909	\$ 3,206,688	\$ 3,258,037	\$ 3,527,345

As discussed earlier, the City's revenue increased \$269,308 from 2017 to 2018. The most significant variance was an increase in property taxes of \$165,993. This increase was due to an increase in the tax levy. Intergovernmental revenues increased \$94,354 from 2017, due primarily to the City receiving an increase in local government aid funding. Other revenues stayed consistent with the prior year.

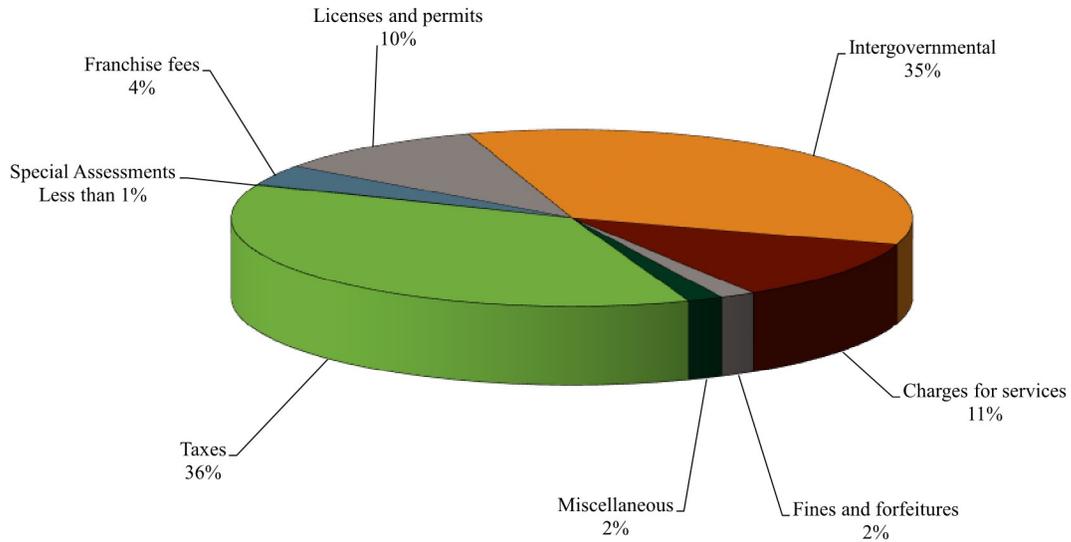
Total revenues have grown \$782,203 since 2014, an increase of 28.5%. The largest variances between the types of revenue have been the increases in licenses and permits and intergovernmental revenues.

The pie charts on the following page show the General Fund sources of revenue for 2018 and 2017 as a percentage of total revenues. The allocation of sources of revenue fluctuates minimally from year-to-year. Intergovernmental revenue and Taxes account for the two largest components of revenues, each making up 35% and 37% of the total. The total of these two categories accounts for approximately 72% and 69% of General Fund revenues in 2018 and 2017.

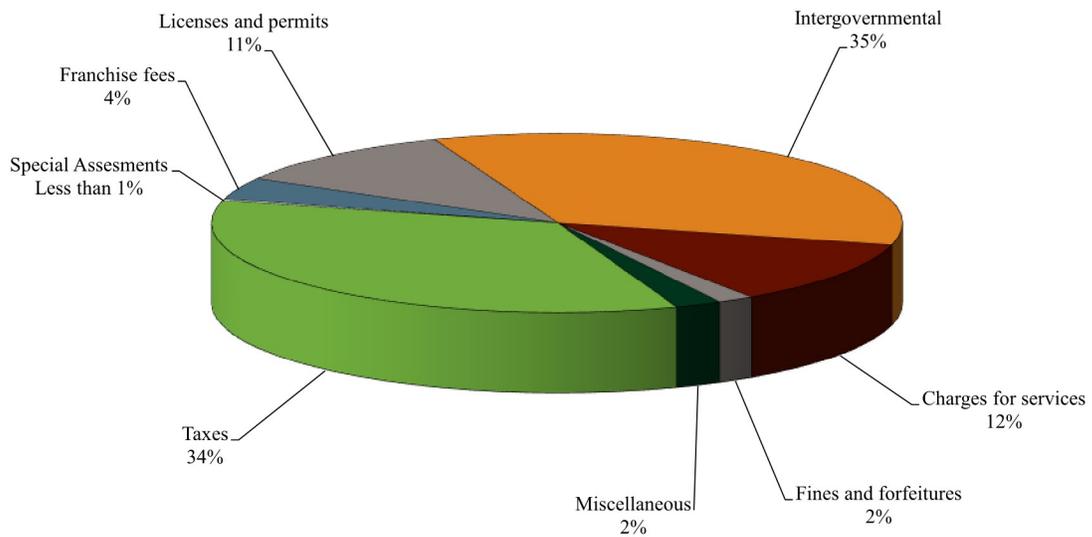
City of St. Joseph Financial Analysis

GENERAL FUND REVENUES (CONTINUED)

2018 General Fund Revenues



2017 General Fund Revenues



**City of St. Joseph
Financial Analysis**

GENERAL FUND EXPENDITURES

	2014	2015	2016	2017	2018
General government	\$ 552,559	\$ 582,258	\$ 617,764	\$ 749,008	\$ 741,374
Public safety	1,419,890	1,376,624	1,459,196	1,537,183	1,606,132
Public works	403,435	329,004	353,421	342,806	440,811
Culture and recreation	199,011	264,168	317,839	270,555	331,861
Capital outlay	81,348	130,458	100,247	129,694	100,395
Total Expenditures	\$ 2,656,243	\$ 2,682,512	\$ 2,848,467	\$ 3,029,246	\$ 3,220,573

As discussed earlier, General Fund expenditures increased \$191,327, or 6.3%, from 2017 to 2018. The most significant increases in expenditures occurred in public works, public safety, and culture and recreation. Public works increased \$98,005 due to a feasibility study that was done for the 2019 project as well as an increase in supplies due to the City purchasing more salt in 2018. Public safety increased due to increases in salaries, insurance costs and legal fees. Culture and recreation increased due to an increase in repairs and insurance costs. All other expenses remained consistent with the prior year.

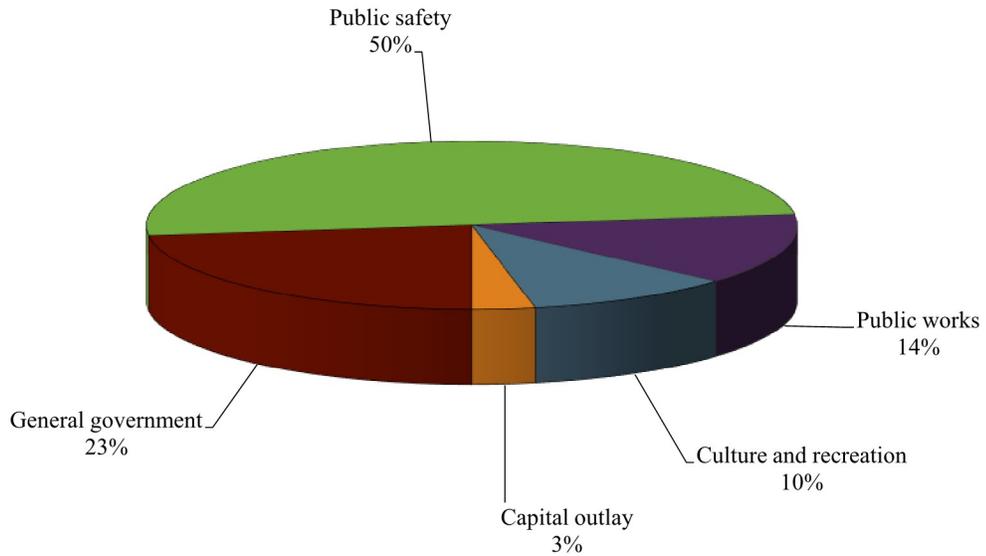
Partially offsetting these increases was a decrease in capital outlay expenditures of \$29,299, which was the result of the City not having major projects ongoing in 2018.

The pie charts on the following page show the General Fund expenditures by function for 2018 and 2017 as a percentage of total expenditures. The allocation of expenditures by function was fairly consistent from 2017 to 2018. Public safety remains the largest component of General Fund expenditures, representing 50% and 51% of total expenditures for 2018 and 2017, respectively.

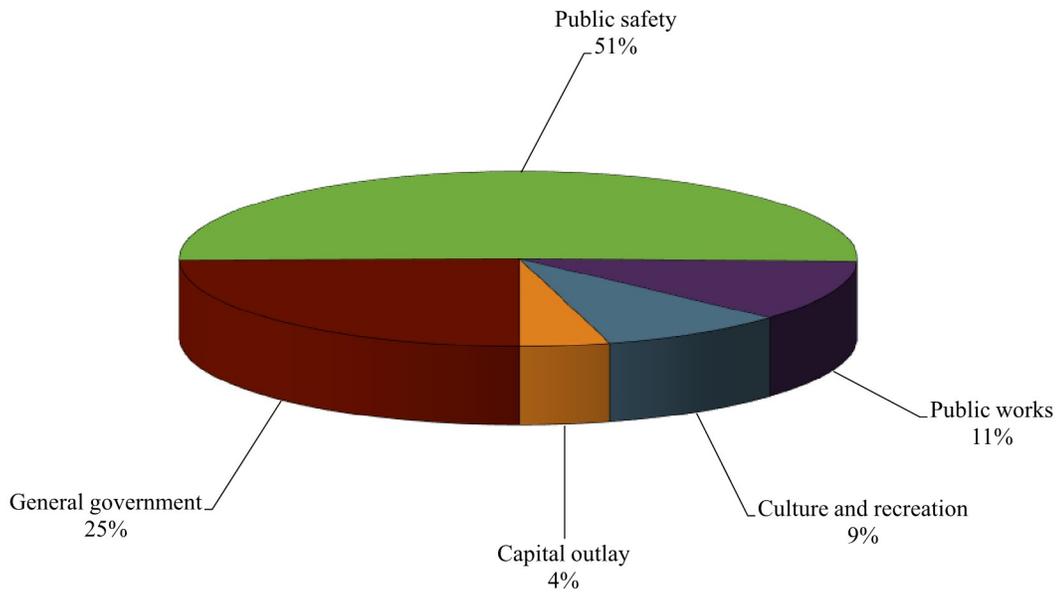
City of St. Joseph Financial Analysis

GENERAL FUND EXPENDITURES (CONTINUED)

2018 General Fund Expenditures



2017 General Fund Expenditures



**City of St. Joseph
Financial Analysis**

GENERAL FUND BUDGET

The table below illustrates the General Fund budget and actual for 2018 revenues and expenditures by function.

	Original and Final Budget	Actual Amounts	Variance With Final Budget - Over (under)
Revenues			
Taxes	\$ 1,282,660	\$ 1,291,758	\$ 9,098
Special assessments	3,000	5,341	2,341
Franchise fees	131,480	131,212	(268)
Licenses and permits	194,515	357,138	162,623
Intergovernmental	1,185,105	1,227,716	42,611
Charges for services	386,870	396,183	9,313
Fines and forfeitures	55,500	58,620	3,120
Miscellaneous	73,015	59,377	(13,638)
Total revenues	3,312,145	3,527,345	215,200
Expenditures			
General government	726,470	741,374	14,904
Public safety	1,695,740	1,606,132	(89,608)
Public works	415,595	440,811	25,216
Culture and recreation	300,325	331,861	31,536
Capital outlay	177,685	100,395	(77,290)
Total expenditures	3,315,815	3,220,573	(95,242)
Excess of receipts over (under) disbursements	(3,670)	306,772	310,442
Other Financing Sources (Uses)			
Insurance recoveries	-	12,779	12,779
Sale of property	200	-	(200)
Transfers in	6,500	4,111	(2,389)
Transfers out	-	(293,563)	(293,563)
Total other financing sources	6,700	(276,673)	(283,373)
Net change in fund balance	\$ 3,030	\$ 30,099	\$ 27,069

**City of St. Joseph
Financial Analysis**

GENERAL FUND BUDGET (CONTINUED)

General Fund revenues were over budget by \$215,200 or 6.5% in 2018. The area with the largest budget variance was licenses and permits, which exceeded budget by \$162,623. Licenses and permits were over budget due to the City budgeting conservatively for them as they can vary from year to year, 2018 was a year of increased development resulting in revenues exceeding the budget.

Intergovernmental revenues were over budget \$42,611. This was due receiving more police and fire aids than budgeted. The remaining areas were on budget, with a total variance between them of \$12,067 over budget.

Public safety expenditures were under budget by \$87,365, primarily due to the City's police being understaffed during the year as a result of turnover at key positions. Capital outlay was \$77,290 under budget, primarily due to budgeting for the purchase of fire equipment that was not purchased in 2018. General government, public works, and culture and recreation all came in slightly over budget by \$14,904, \$25,216, and \$31,536, respectively.

ENTERPRISE FUNDS

Enterprise funds are used to account for operations financed and operated in a manner, similar to private business enterprises, where the City intends the cost of providing goods or services to the public be financed or recovered primarily through user charges. The City's Enterprise Funds include the Water, Sanitary Sewer, Refuse, Storm Water, and Street Light Utility Funds.

**City of St. Joseph
Financial Analysis**

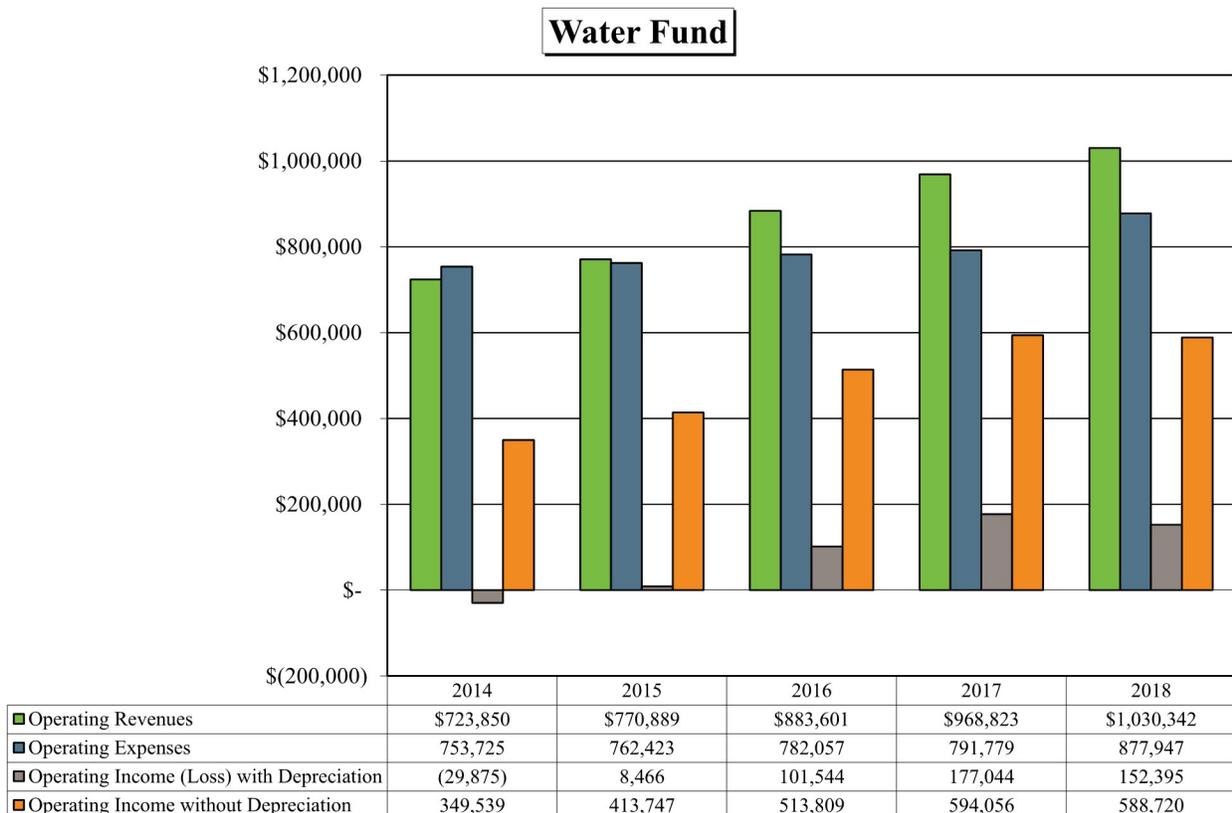
ENTERPRISE FUNDS

Water Fund

The Water Fund showed operating income for the fourth consecutive year, with its only loss in the five years presented occurring in 2014. Operating revenues increased \$61,519, or 6.3%, from 2017 due to rate increases, while operating expenses increased \$86,168, or 10.9%, from 2017 to 2018, due to well repairs during the year.

Operations produced operating income of \$152,395, which is the second highest in the five years presented. With the exclusion of \$436,325 in depreciation expense, the Fund experienced operating income of \$588,720. However, depreciation should be considered as a true expense in operations, being that most equipment and facilities will eventually need upgrades or replacement. The operations of the Water Fund covered 100% of depreciation expense.

In addition to the operating revenues and expenses of the Water Fund, there were net non-operating expenses of \$85,301, which is comprised of property taxes and other income, offset by interest expense on the outstanding bond debt. The operating and non-operating activities netted with capital contributions and transfers resulted in an increase in net position of \$300,032 to \$8,961,120 at December 31, 2018. The cash and investments balance at December 31, 2018, totaled \$602,019, a decrease of \$68,363. A large portion of this decrease was attributed to principal and interest payments on debt and the acquisition costs of capital assets.



**City of St. Joseph
Financial Analysis**

ENTERPRISE FUNDS (CONTINUED)

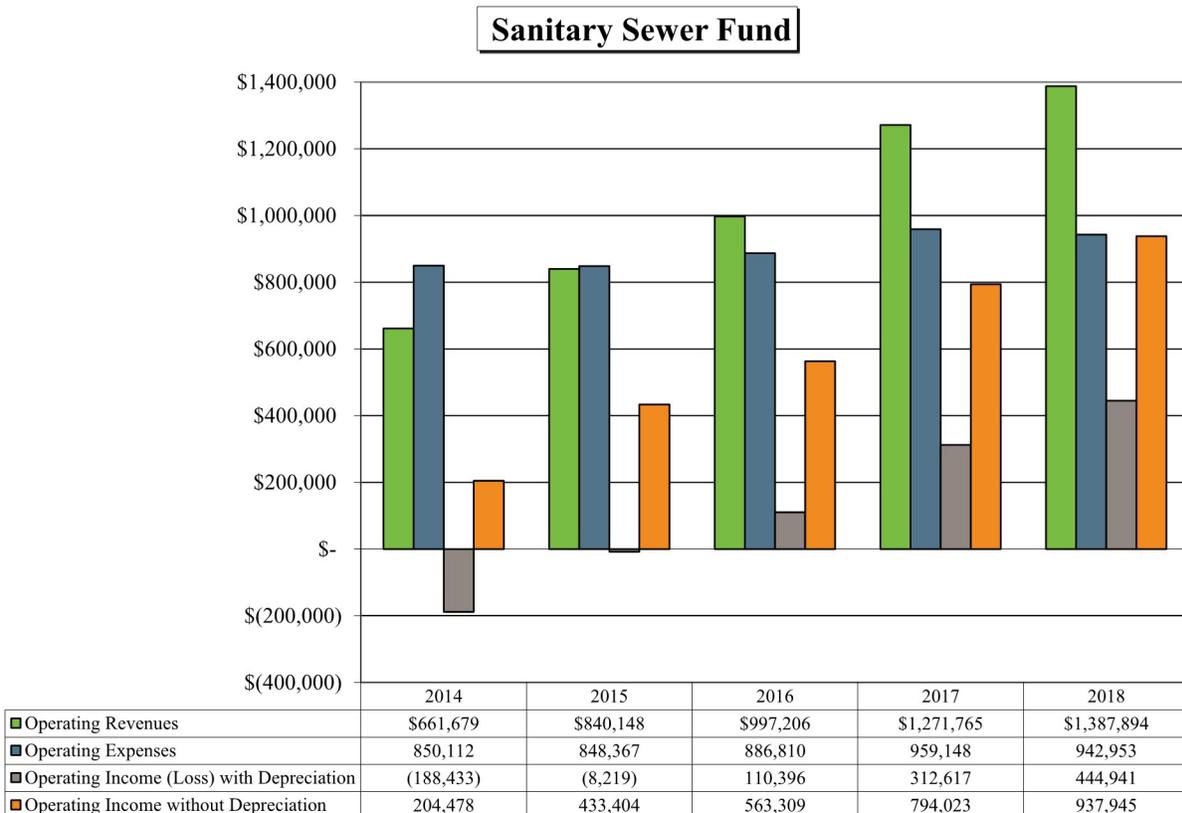
Sanitary Sewer Fund

Operating revenues increased \$116,129, or 9.1%, from 2017 to 2018, while operating expenses decreased \$16,195, or 1.7%. The increase in revenue is due to the City raising rates. Expenses on the other hand stayed relatively consistent with the previous year.

The Sewer Fund produced operating income for the third time in the five years presented. Due to the nature and cost of the Sewer Fund's assets, it is difficult to establish sewer rates sufficient to cover replacement of the assets represented by depreciation expense. Ideally, sewer revenues should cover all operating expenses, including depreciation. However, depreciation of Sewer Fund assets is a difficult cost to recover from system users since there are relatively few users in relation to the cost of asset replacement. The operations of the Sewer Fund covered 100% of depreciation expense for three consecutive years.

The graph below indicates the Sewer Fund did generate operating income each year when depreciation expense is not considered, indicated by the orange bar.

In addition to the operating revenues and expenses of the Sewer Fund, there were net non-operating expenses of \$93,218, which is mainly due to \$146,492 of interest expense paid on outstanding debt. Capital contributions and transfers along with the operating and non-operating activities resulted in an increase in net position of \$425,805 to \$9,060,864 at December 31, 2018. The cash balance at December 31, 2018, totaled \$232,990, an increase of \$230,644.



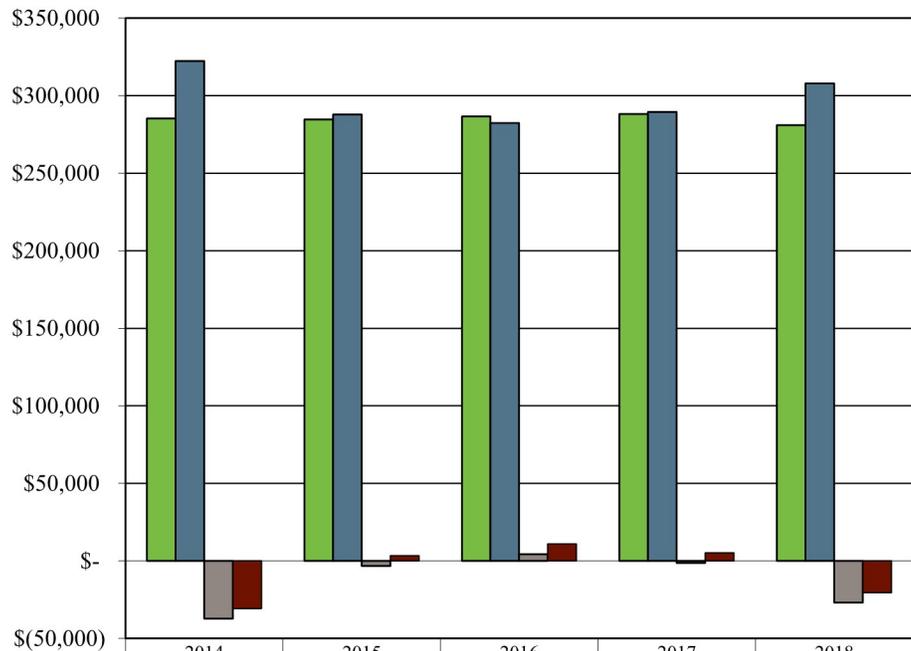
**City of St. Joseph
Financial Analysis**

ENTERPRISE FUNDS (CONTINUED)

Refuse Fund

The following graph displays selected financial data for the Refuse Fund for the past five years. The Fund consistently showed an operating loss each year, except for 2016. Operating revenues decreased \$7,170, or 2.5%, while operating expenses increased \$18,384, or 6.3%, from 2017 to 2018. This increase in expenses was a result of an increase in refuse fees. These changes resulted in an operating loss of \$26,960 for 2018. The Fund produced an operating loss of \$20,454 when depreciation is not factored in. The cash balance decreased \$13,276 in 2018 and totaled \$244,488 at December 31, 2018.

Refuse Fund



	2014	2015	2016	2017	2018
■ Operating Revenues	\$285,197	\$284,585	\$286,603	\$288,151	\$280,981
■ Operating Expenses	322,397	287,877	282,280	289,557	307,941
■ Operating Income (Loss) with Depreciation	(37,200)	(3,292)	4,323	(1,406)	(26,960)
■ Operating Income (Loss) without Depreciation	(30,694)	3,314	10,929	5,200	(20,454)

**City of St. Joseph
Financial Analysis**

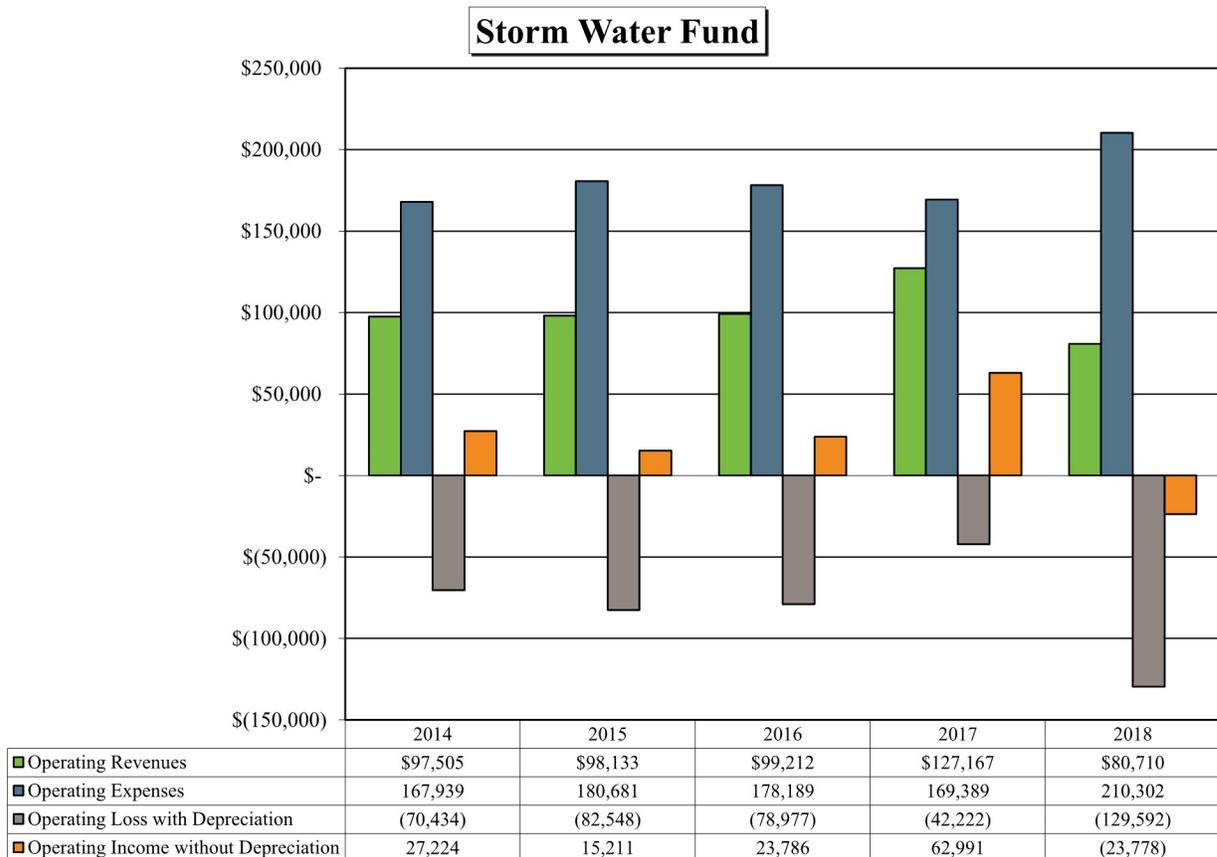
ENTERPRISE FUNDS (CONTINUED)

Storm Water Fund

The Storm Water Fund showed operating losses in all five years presented. Operating revenues decreased \$46,457, or 36.5%, from 2017 to 2018, due to the City cutting rates in half. Operating expenses increased \$40,913, or 24.2% due to costs of repairs and a pension adjustment.

The Storm Water Fund produced an operating loss of \$129,592 with depreciation and operating loss of \$23,778 without depreciation expense. The operations of the Storm Water Fund did not cover the depreciation expense. The Storm Water Fund also had a transfer out totaling \$19,250. Fund activity resulted in a decrease in net position of \$146,899. The cash balance decreased \$28,971 in 2018 and totaled \$251,993 at December 31, 2018.

We recommend the City continue to monitor rates as well as operating expenses to ensure the Fund's profitability in the future.



**City of St. Joseph
Financial Analysis**

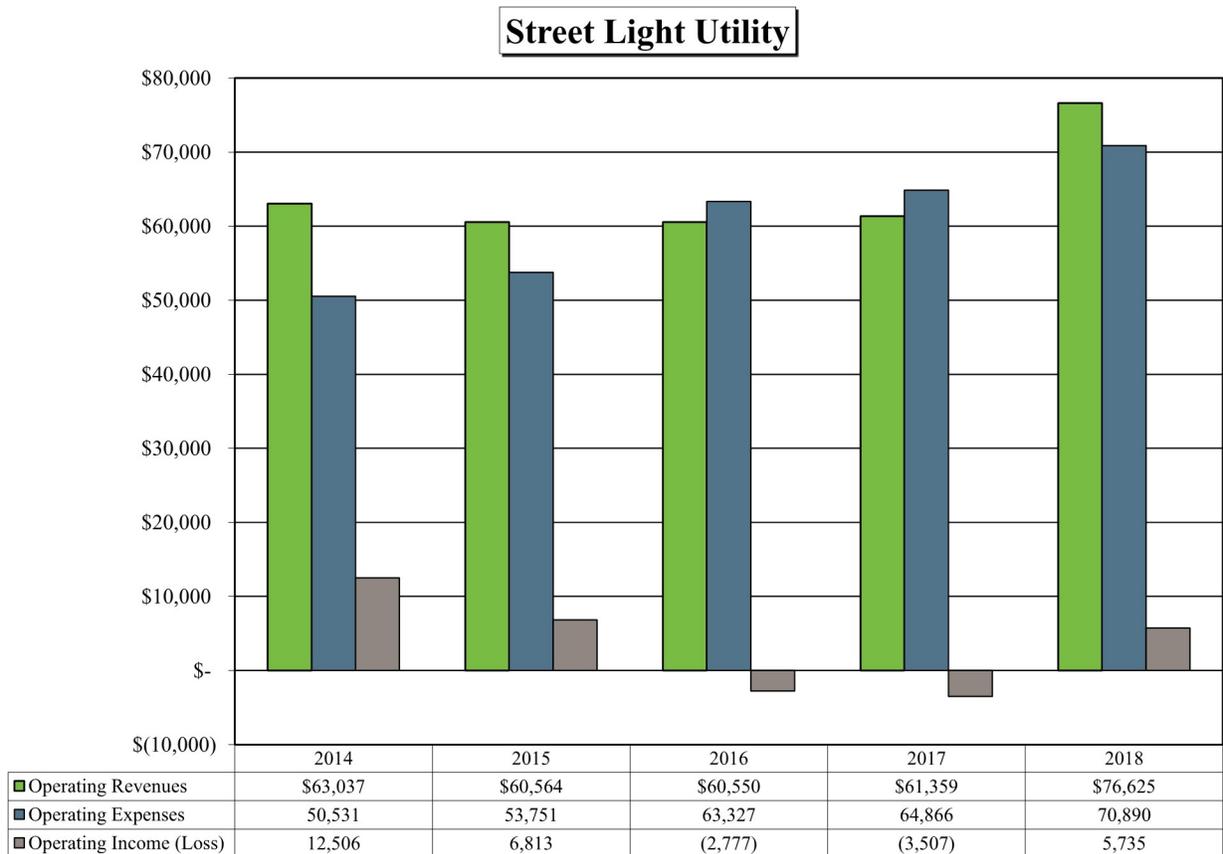
ENTERPRISE FUNDS (CONTINUED)

Street Light Utility

The Street Light Utility Fund was opened during 2013 to track activity relating to the street light utility. The Street Light Utility Fund showed an operating income for the first time in three years. Operating revenues increased \$15,266, from 2017 to 2018 due to a rate increase; while operating expenses increased \$6,024, or 9.3%.

The Street Light Utility Fund produced operating income of \$5,735. The fund also reported non-operating income including investment income, special assessments, and other income totaling \$7,808, which resulted in an increase in net position of \$13,543. The cash balance increased \$11,466 in 2018 and totaled \$35,043 at December 31, 2018.

We recommend the City continue to monitor rates as well as operating expenses to ensure the Fund's profitability in the future.



City of St. Joseph Emerging Issues

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update** □ **GASB Statement No. 84** □ **Fiduciary Activities** □ GASB has issued GASB Statement No. 84 relating to accounting and financial reporting for fiduciary activities. This new statement establishes clarity to determine when a government has fiduciary responsibility for a certain activity.
- **Accounting Standard Update** □ **GASB Statement No. 87** □ **Leases** □ GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

ACCOUNTING STANDARD UPDATE □ GASB STATEMENT NO. 84 □ FIDUCIARY ACTIVITIES

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

**City of St. Joseph
Emerging Issues**

**ACCOUNTING STANDARD UPDATE □ GASB STATEMENT NO. 84 □ FIDUCIARY
ACTIVITIES (CONTINUED)**

GASB Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

ACCOUNTING STANDARD UPDATE □ GASB STATEMENT NO. 87 □ LEASES

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

§ **DEFINITION OF LEASE** (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

**City of St. Joseph
Emerging Issues**

**ACCOUNTING STANDARD UPDATE □ GASB STATEMENT NO. 87 □ LEASES
(CONTINUED)**

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.