

**CITY OF DEER RIVER
MINNESOTA**

FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

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Independent Auditor's Report

To the Honorable Mayor and the
Members of the City Council
City of Deer River, MN

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 Deer River, Minnesota as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Deer River, Minnesota, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and respective budgetary comparison for the general fund and all major special revenue funds 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 on pages 3 through 14 and the schedules of employer's share of net pension liability and employer contributions and notes on pages 51 through 54 and the schedule of changes in net pension asset and related ratio, city contributions and investment returns and notes on pages 55 and 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or prove any assurance.

Other Information

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

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2020 on our consideration of the City of Deer River'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 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 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 Deer River, Minnesota's internal control over financial reporting and compliance.

Steele & Co. Ltd

June 19, 2020

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2019

As management of the City of Deer River, we offer readers of the City of Deer River's basic financial statements this narrative overview and analysis of the financial activities of the City as of and for the fiscal year ended December 31, 2019. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements in the financial section of this report.

FINANCIAL HIGHLIGHTS FOR 2019

- The City continues to plan and design water and sewer infrastructure projects. During 2019, the City expended over \$429,000 in preliminary engineering and construction costs for projects related to these city-wide upgrades. These expenses will be covered through grants and loans as the projects progress. The City has been approved for a Rural Development grant in the amount of \$1,453,000 with an additional loan portion of \$3,664,000. Because of delays in the approval process, the project will be pushed out an extra year. The City is working with an interim 3-year financing construction loan that will cover the costs until the project is completed and closed and Rural Development's financing package will be available. The City also received notification during 2019 of a DEED grant of \$600,000 that will be available for future projects.
- The City's general fund is still experiencing cash flow constraints (deficit cash of \$137,285) as well as a deficit fund balance of \$155,990 as of December 31. Although the City monitored the budget in the current year and the fund experienced an increase of \$112,260 over the prior year deficit, the cash flow constraints are still a critical issue facing the City particularly with the construction projects taking place.
- To assist with the projects, the municipal forest fund has temporarily loaned other funds cash. As of December 31, 2019, the municipal forest fund had loaned out all the cash reserves of \$224,940 to other funds. The sewer fund also assisted with cash flow by temporarily borrowing \$127,190 at the end of the year to other funds for their shortfall. Details on the interfund borrowing can be found in Note 14 to the financial statements.
- The City Council approved the purchase of a new fire tanker truck. \$81,579 was paid out in 2019 for the chassis with the balance due upon deliver anticipated in 2020. Other capital outlay in the fire department fund was for a new heating system in the firehall.
- The City continues to monitor the status of the revolving loan funds. These loans are partially forgiven annually as occupancy requirements are met. During 2019, two of the loans were paid off since occupancy requirements were not met and the City received \$31,385 in revenues that was deposited back into the revolving loan fund accordingly.

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- The City certified special assessments for capital projects. Total special assessments of \$161,639 are reflected in the accompanying financial statements as outstanding as of December 31, 2019 in the debt service fund.
- The City received a \$60,563 DEED Brownfield clean up grant as a fiscal host for a separate organization. A capital projects fund was established by the City during the year to account for this project. The City reported \$37,288 of revenue and the related expenses for 2019 under this grant.
- The City established a capital projects fund for the planned pond expansion. The City continued to work with the Minnesota Legislators on a bonding bill to aid in the necessary expansions of the wastewater pond system. Money was spent on the required wetland studies, MDH permitting requirements and engineering design. For 2019 a total of \$9,321 was transferred from that fund to the sewer fund accordingly.
- The license bureau received \$26,873 in a reimbursement from MNLARS to help cover the additional costs incurred by the City due to the State's licensing software and processing issues. The City applied to the State to become a full driver's license agent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Deer River's basic financial statements. The statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-Wide Financial Statements

These statements are designed to provide readers with a broad overview of the City of Deer River's finances in a manner similar to private sector business.

The *statement of net position* presents information on all of the city's assets and deferred outflows in relation to the liabilities and deferred inflows, 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 is improving or deteriorating.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
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The statement of activities presents information showing how Deer River's net position changed during the 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.

Both of the government-wide financial statements distinguish functions of the City that are mainly 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 Deer River include general government, public safety, highways and streets, interest and other expenses. The major business type activities of the city include water, sewer, and the license bureau.

The government-wide financial statements can be found on pages 15 through 18 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 Deer River utilizes fund accounting to demonstrate compliance with finance-related legal requirements. The funds of the City of Deer River are divided into two types: governmental and proprietary (enterprise) funds. The City's funds are described in more detail in the following paragraphs.

Governmental Funds: These are used to account for general governmental activities as reported in the government-wide financial statements. However, unlike the government-wide financial statements, government 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 the two.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
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The City of Deer River maintains thirteen (13) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Department, Community Development Revolving Fund #2, Debt Service Fund, North/South and the Highway 6 capital projects funds which are considered to be major funds. Data from the other seven 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 as supplementary information.

The City of Deer River adopts a one-year budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund and all major special revenue funds in the basic financial statements.

The governmental funds financial statements can be found on pages 19 through 25 of this report.

Proprietary Funds: The City of Deer River maintains three (3) enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented separately in the proprietary statement of net assets and the proprietary statement of revenues, expense and changes in fund net assets for the Water, Sewer, and License Bureau funds, which are considered major funds.

The proprietary funds financial statements can be found on pages 26 through 29 of this report.

Notes to the Basic 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 the basic financial statements can be found on pages 30 through 50 of this report.

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Management's Discussion and Analysis
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GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City continues to present its financial statements under the reporting model required by GASB 34. The City has provided comparative data to the prior year to assist the readers in assessing the financial position of the city.

	Net Position December 31, 2018 and 2019					
	Govern- mental Activities 2018	Govern- mental Activities 2019	Business- type Activities 2018	Business- type Activities 2019	Total 2018	Total 2019
Current assets	\$ 1,693,505	1,323,660	\$ 160,107	246,711	\$ 1,853,612	1,570,371
Capital assets and other noncurrent assets	3,559,444	3,688,908	4,878,666	5,064,787	8,438,110	8,753,695
Deferred Outflows	<u>360,762</u>	<u>230,945</u>	<u>40,478</u>	<u>6,406</u>	<u>401,240</u>	<u>237,351</u>
Total assets and deferred outflows	5,613,711	5,243,513	5,079,251	5,317,904	10,692,962	10,561,417
Current liabilities	249,318	350,987	192,793	137,312	442,111	488,299
Long-term liabilities	4,227,331	4,356,185	1,264,052	1,140,224	5,491,383	5,496,409
Deferred Inflows	<u>1,156,838</u>	<u>821,173</u>	<u>52,016</u>	<u>11,966</u>	<u>1,208,854</u>	<u>833,139</u>
Total liabilities and deferred inflows	5,633,487	5,528,345	1,508,861	1,289,502	7,142,348	6,817,847
Net position:						
Net investment in capital						
Assets	(1,038,571)	(736,256)	3,593,179	3,870,641	2,554,608	3,134,385
Restricted	999,556	741,766	-	-	999,556	741,766
Unrestricted	<u>19,239</u>	<u>(290,342)</u>	<u>(22,789)</u>	<u>157,761</u>	<u>(3,550)</u>	<u>(132,581)</u>
Total net position	\$ <u>(19,776)</u>	<u>(284,832)</u>	\$ <u>3,570,390</u>	<u>4,028,402</u>	\$ <u>3,550,614</u>	<u>3,743,570</u>

CITY OF DEER RIVER, MINNESOTA
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Changes in Net Assets						
Years Ended December 31, 2018 and 2019						
	Govern- mental	Govern- mental	Business- type	Business- type	Total	Total
	Activities 2018	Activities 2019	Activities 2018	Activities 2019	2018	2019
Revenues						
Program Revenues						
Charges for services	\$ 248,693	413,734	\$ 649,867	587,068	\$ 898,560	1,000,802
Operating grants	118,063	203,365	-	-	118,063	203,365
Capital grants	-	-	-	-	-	-
General Revenues						
Property taxes	760,006	889,213	-	-	760,006	889,213
Intergovernmental aids	316,454	296,615	-	-	316,454	296,615
Investment earnings	3,726	4,982	-	-	3,726	4,982
Miscellaneous/Gain (Loss)	(4,437)	(6,306)	-	-	(4,437)	(6,306)
Total Revenues	1,442,505	1,801,603	649,867	587,068	2,092,372	2,388,671
Expenses						
General government	335,251	378,994	-	-	335,251	378,994
Public Safety	648,503	840,130	-	-	648,503	840,130
Highways and streets	250,673	254,587	-	-	250,673	254,587
Culture and recreation	53,004	58,920	-	-	53,004	58,920
Interest	137,083	138,995	-	-	137,083	138,995
Other	48,139	59,275	-	-	48,139	59,275
Water	-	-	233,611	199,136	233,611	199,136
Sewer	-	-	221,765	200,285	221,765	200,285
License Bureau	-	-	98,685	65,393	98,685	65,393
Total Expenses	1,472,653	1,730,901	554,061	464,814	2,026,714	2,195,715
Change in net position before transfers	\$ (30,148)	70,702	\$ 95,806	122,254	\$ 65,658	192,956

Governmental Activities. As noted earlier, net position serves as a useful indicator of financial position. As of December 31, 2019, liabilities and deferred inflows exceeded assets and deferred outflows by \$284,832. This is a result of the City issuance of debt for infrastructure improvements to the City streets, water and sewer distribution systems. The debt is being carried in the City's governmental funds however the proportionate share of the construction costs are reported in the capital assets within the business-type activities.

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Similar to the prior year, the City transferred the respective costs of the water and sewer line upgrades to the enterprise funds according. As a result, the governmental activities are reporting a deficit of \$736,256 net investment in capital assets.

Other significant noncurrent liabilities that are reported in the governmental activities statement of net position include \$435,384 for net pension liabilities and \$88,836 for compensated absences. Both of these along with the deferred inflows of resources of \$821,173 reduce the overall net position of the City.

Business-Type Activities. Business-type activities increased the City's net position by \$122,254 before the \$335,758 transfer from the governmental activities for the water and sewer portions of the upgrades done on several construction projects. The City raised user rates for both the water and sewer accordingly in prior years to assist with the costs.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

The City of Deer River uses fund accounting to ensure compliance with finance related legal requirements.

Governmental Funds: The purpose of the City's governmental fund financial statements is to provide information on revenues, expenditures and balances of spendable resources. This information is useful in assessing financing requirements. Unassigned fund balance may indicate Deer River's net resources available for spending at the end of the fiscal year.

As of December 31, 2019, the city's governmental funds reported combined ending fund balances of \$1,133,238, which is a decrease of \$361,748 from December 31, 2018. Of this amount \$741,766 are restricted for community development revolving loans, debt service and TIF district dollars. Total committed funds by the Council amounted to \$762,307 for fire and the municipal forest operations. No unassigned funds are available for future operations for the governmental funds as a whole as of the end of 2019. Instead the City is reporting a \$370,835 deficit – an increase in the deficit of \$102,585 from the prior year.

General Fund

The general fund is the city's chief operating fund. At the end of 2019, unassigned fund balance was a deficit of \$155,990. This was a decrease in the deficit of \$112,260 for the year. As discussed in the financial highlights section, the City continued to try and monitor unbudgeted items in 2019 which impact the governmental fund balances.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
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Fire Department Fund

The fire department fund saw an increase of \$1,384 as the City continues to receive fire fees and aids that cover the operational costs of the fire department. The fire department had \$119,505 in capital outlay which includes a down payment on a new fire truck and expenditures for an upgrade to the heating system at the fire hall.

Community Development Revolving Loan #2

The program within this fund was completed back in 2016 and continues to hold the notes receivable only. The City has \$425,896 of deferred loans it is holding that will be potentially forgiven each year as occupancy requirements are met. During 2019, the City received \$31,385 in repayment on two loans that were sold prior to the full forgiveness. This money was deposited back into the loan fund accordingly.

Debt Service Fund

The debt service fund decreased by \$112,318. \$66,893 was realized in taxes and special assessments while \$179,211 was paid out in scheduled debt payments.

North/South Capital Project Fund

The City opened a new capital projects fund in 2018 to account for the proceeds and uses of the \$3,555,000 GO Bond that was issued for the improvements to a section of the City's water, sewer, and street distribution system. For 2019, the City incurred an additional \$177,600 in disbursements from the fund - \$35,521 relating to upgrades to the City streets with the remaining \$142,079 transferred to the water and sewer funds accordingly for their share of the estimated project costs.

Highway 6 Capital Project Fund

The City established a new capital projects fund in 2019 to account for the proceeds and uses of infrastructure projects done in conjunction with Highway 6 improvements. The City incurred a total of \$146,860 in costs during the year with \$6,657 allocated to streets and the remaining \$140,203 transferred to the water and sewer funds accordingly for their share of the estimated project costs.

Other Non-Major Funds

Other non-major funds (consisting of the Municipal Forest Fund, the Community Development Revolving Fund, TIF District 1, Highway 2, Pond expansion, Brownfield project, and South End Phase 2 Capital Projects fund) decreased by \$69,999 primarily due to the total expenditures of \$73,784 for capital outlay disbursements and the transfer to the water and sewer funds of \$58,476 for their respective shares of the project costs for the Highway 2, pond expansion, and South End Phase 2 projects.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2019

Proprietary (Enterprise) Funds: The City's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net position at the end of the year were as follows:

- Water \$ 2,187,881
- Sewer \$ 1,862,594
- License Bureau \$ (22,073) deficit

Generally, the net position in the water and sewer funds are a result of the City's investment in capital assets. The unrestricted, undesignated balances available for future operational costs are:

- Water \$ 33,196
- Sewer \$ 147,264
- License Bureau \$ (22,699) deficit

The City had implemented rate increases in the water and sewer funds in the prior year which directly impacted the operations of each utility. The user fees were adequate to cover depreciation costs as well as absorb the impact of the GASB 68 increase in pension costs for the water and sewer utilities. For the license bureau, the GASB 68 pension adjustments along with a reimbursement from MNLARS of \$26,873, resulted in a net increase of \$56,316 for the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budgeted expenditures for 2019 were \$1,201,485. Actual expenditures were \$1,103,147 therefore reflecting a variance of \$98,338 under the approved budget expenditures primarily due to the close monitoring of the budget as the City is in the midst of substantial infrastructure upgrades and cash flow is impacted.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2019

Summary Analysis of General Fund Budget
Fiscal Year 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 782,012	\$ 782,012	\$ 804,556	\$ 22,544
Special assessments	-	-	-	-
Licenses and permits	15,500	15,500	7,986	(7,514)
Intergovernmental	333,625	333,625	331,727	(1,898)
Charges for services	7,000	7,000	10,283	3,283
Fines and forfeitures	6,000	6,000	9,735	3,735
Other revenues	75,000	75,000	46,120	(28,880)
Total Revenues	1,219,137	1,219,137	1,210,407	(8,730)
Expenditures				
General government	321,446	321,446	298,823	22,623
Public safety	528,516	528,516	500,247	28,269
Highways and streets	241,618	241,618	222,019	19,599
Culture and recreation	51,205	51,205	50,726	479
Capital Outlay	58,700	58,700	31,332	27,368
Total Expenditures	1,201,485	1,201,485	1,103,147	98,338
Expenditures Over Revenues	17,652	17,652	107,260	89,608
Other Financing Sources	-	-	5,000	5,000
Excess of Revenues and Other Financing Sources Over Expenditures	\$ 17,652	\$ 17,652	\$ 112,260	\$ 94,608

The City did not modify the original budgets during the year.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The City's investments in capital assets for its governmental and business-type activities at December 31, 2019 amounts to \$8,168,067 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, distribution lines, automobiles, equipment, roads and infrastructure.

Capital Assets (Net of depreciation)
December 31, 2018 and 2019

	Govern- mental Activities 2018	Govern- mental Activities 2019	Business- type Activities 2018	Business- type Activities 2019	Total 2018	Total 2019
Buildings	\$ 292,945	299,906	\$ 3,476	2,844	\$ 296,421	302,750
Land	437,393	437,393	21,000	21,000	458,393	458,393
Improvements	259,122	250,297	2,525,287	2,429,810	2,784,409	2,680,107
Machinery/Equipment	695,798	638,658	124,792	118,407	820,590	757,065
Infrastructure/ Distribution Systems	198,926	192,518	565,177	518,033	764,103	710,551
Work in process	<u>1,146,244</u>	<u>1,284,508</u>	<u>1,638,934</u>	<u>1,974,693</u>	<u>2,785,178</u>	<u>3,259,201</u>
	<u>\$ 3,030,428</u>	<u>3,103,280</u>	<u>\$ 4,878,666</u>	<u>5,064,787</u>	<u>\$ 7,909,094</u>	<u>8,168,067</u>

Major capital asset additions during 2019 included the following:

- Infrastructure costs in the governmental fund, water, and sewer for the Hwy 2 and Hwy 6 projects
- Dodge Durango – police department
- 2013 Ford Explorer – shared asset with police, street and fire
- Generators – shared asset with streets, water and sewer
- Upgrades to the heating system at the fire hall

Additional information on the City's capital assets can be found in Note 4 of the basic financial statements.

Long Term Debt: As of December 31, 2019, the city had total debt of \$5,261,780. The City had one new debt issue in the sewer fund for \$51,000 and made principal payments of \$177,780. Therefore, debt payable at December 31, 2019 was \$5,135,000.

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Fiscal Year Ending December 31, 2019

Outstanding Debt
December 31, 2018 and 2019

	Governmental	Governmental	Business- type	Business- type		
	Activities 2018	Activities 2019	Activities 2018	Activities 2019	Total 2018	Total 2019
General Obligation	\$ 3,991,365	3,955,490	\$ 1,270,415	1,179,510	\$ 5,261,780	5,135,000

The governmental debt revenues are obtained through residential assessments and property tax. The business-type activity debt repayment funds are obtained through fees for service and property taxes. Additional long-term debt includes compensated absences and net pension liability accruals reflected of \$109,400 and \$483,009 respectively. Additional information on the City's debt can be found in Note 5 of the basic financial statements.

ECONOMIC FACTORS AND BUDGETS

The City of Deer River prepares its budgets on an annual basis. The departments are encouraged to bring future expenditure needs and requirements to the budget table. The City considers the following situations in the development of its budget:

- The City attempts to provide the same services it has to its citizens while being cognizant of keeping property taxes in line despite decreases of its state aid.
- The City continues to review the rate structures for the utilities to try to balance the costs (including depreciation) with the burden on the customers.
- The City also is continuing to work on capital project planning and has been working with the Minnesota Legislature to find possible funding sources for these planned projects. Without additional capital funding the City cannot actively seek developers because of the need for a fourth wastewater pond. The City does not have the funds to build the additional pond without a significant and detrimental impact to the taxpayers.

CONTACTING THE CITY'S FINANCE DEPARTMENT

This management's discussion and analysis is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions or need additional financial information, please contact the City of Deer River's clerk at 218-246-8195.

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF NET POSITION - GOVERNMENT-WIDE

December 31, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash	\$ 1,278,775	\$ 61,977	\$ 1,340,752
Receivables			
Accounts	2,617	42,382	44,999
Unbilled revenues	-	15,162	15,162
Due from other governments	207	-	207
Taxes	11,399	-	11,399
Unremitted taxes	22,017	-	22,017
Special assessments	1,907	-	1,907
Notes	800	-	800
Allowance for uncollectible	(7,000)	-	(7,000)
Prepaid expenses	12,938	-	12,938
Internal balances	-	127,190	127,190
Total Current Assets	1,323,660	246,711	1,570,371
Noncurrent Assets			
Special assessments	159,732	-	159,732
Notes receivable	425,896	-	425,896
Capital assets (net of accumulated depreciation)	3,103,280	5,064,787	8,168,067
Total Noncurrent Assets	3,688,908	5,064,787	8,753,695
Total Assets	5,012,568	5,311,498	10,324,066
Deferred Outflows of Resources			
Related to net pension liability	230,945	6,406	237,351
Total Assets and Deferred Outflows of Resources	\$ 5,243,513	\$ 5,317,904	\$ 10,561,417

(Continued)

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF NET POSITION - GOVERNMENT-WIDE

December 31, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	\$ 123,525	\$ 107,475	\$ 231,000
Accounts payable	22,289	8,797	31,086
Accrued interest	57,084	14,636	71,720
Accrued payroll	5,312	1,575	6,887
Accrued compensated absences	15,587	4,829	20,416
Internal balances	127,190	-	127,190
Total Current Liabilities	350,987	137,312	488,299
Noncurrent liabilities			
Compensated absences	88,836	20,564	109,400
Net pension liability	435,384	47,625	483,009
Bonds and notes	3,831,965	1,072,035	4,904,000
Total Noncurrent Liabilities	4,356,185	1,140,224	5,496,409
Total Liabilities	4,707,172	1,277,536	5,984,708
Deferred Inflows of Resources			
Related to net pension liability	394,477	11,966	406,443
Notes receivable	426,696	-	426,696
Total Deferred Inflows of Resources	821,173	11,966	833,139
Net Position			
Net investment in capital assets	(736,256)	3,870,641	3,134,385
Restricted for			
Revolving Loan Fund	33,370	-	33,370
Debt Service Fund	131,974	-	131,974
TIF District Fund	14,689	-	14,689
North/South Project Fund	561,733	-	561,733
Unrestricted	(290,342)	157,761	(132,581)
Total Net Position	(284,832)	4,028,402	3,743,570
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 5,243,513	\$ 5,317,904	\$ 10,561,417

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF ACTIVITIES - GOVERNMENT-WIDE

For the Year Ended December 31, 2019

	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government							
Governmental activities							
General government	\$ 378,994	\$ 7,395	\$ 7,750	\$ -	\$ (363,849)	\$ -	\$ (363,849)
Public safety	840,130	214,837	163,237	-	(462,056)	-	(462,056)
Highways and streets	254,587	178,272	-	-	(76,315)	-	(76,315)
Culture and recreation	58,920	-	1,720	-	(57,200)	-	(57,200)
Debt service - interest	138,995	-	-	-	(138,995)	-	(138,995)
Other	59,275	13,230	30,658	-	(15,387)	-	(15,387)
Total governmental activities	1,730,901	413,734	203,365	-	(1,113,802)	-	(1,113,802)
Business-type activities							
Water	199,136	212,792	-	-	-	13,656	13,656
Sewer	200,285	252,567	-	-	-	52,282	52,282
License Bureau	65,393	121,709	-	-	-	56,316	56,316
Total business-type activities	464,814	587,068	-	-	-	122,254	122,254
Total Primary Government	\$ 2,195,715	\$ 1,000,802	\$ 203,365	\$ -	(1,113,802)	122,254	(991,548)

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF ACTIVITIES - GOVERNMENT-WIDE

For the Year Ended December 31, 2019

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
(Continued from page 17)	\$ (1,113,802)	\$ 122,254	\$ (991,548)
General Revenues			
Property taxes	889,213	-	889,213
Intergovernmental aids	296,615	-	296,615
Unrestricted interest earnings	4,982	-	4,982
Total general revenues	1,190,810	-	1,190,810
Other item - loss on disposal of capital items	(6,306)	-	(6,306)
Internal transfers	(335,758)	335,758	-
Change in Net Position	(265,056)	458,012	192,956
Net Position - Beginning of the Year	(19,776)	3,570,390	3,550,614
Net Position - End of the Year	\$ (284,832)	\$ 4,028,402	\$ 3,743,570

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2019

	Major Funds							Total Governmental Funds
	General Fund	Fire Department Fund	Community Development Revolving Fund #2	Debt Service Fund	Capital Projects North/South	Capital Projects Highway 6	Total Other Non-Major Funds	
Assets								
Cash	\$ -	\$ 538,764	\$ 31,385	\$ 130,219	\$ 561,733	\$ -	\$ 16,674	\$ 1,278,775
Receivables								
Accounts	1,280	33	-	-	-	-	1,304	2,617
Due from other governments	207	-	-	-	-	-	-	207
Taxes	11,399	-	-	-	-	-	-	11,399
Special assessment	-	-	-	161,639	-	-	-	161,639
Unremitted taxes	19,029	798	-	2,190	-	-	-	22,017
Notes	-	-	425,896	-	-	-	800	426,696
Due from other funds	-	-	-	-	-	-	224,940	224,940
Total Assets	\$ 31,915	\$ 539,595	\$ 457,281	\$ 294,048	\$ 561,733	\$ -	\$ 243,718	\$ 2,128,290
Liabilities, Deferred Inflows of Resources, and Fund Balances								
Liabilities								
Accounts payable	\$ 18,322	\$ 3,532	-	\$ 435	-	-	-	\$ 22,289
Accrued payroll	5,312	-	-	-	-	-	-	5,312
Compensated absences	15,587	-	-	-	-	-	-	15,587
Due to other funds	137,285	-	-	-	-	146,860	67,985	352,130
Total Liabilities	176,506	3,532	-	435	-	146,860	67,985	395,318
Deferred Inflows of Resources								
Property taxes	11,399	-	-	-	-	-	-	11,399
Special assessments	-	-	-	161,639	-	-	-	161,639
Notes receivable	-	-	425,896	-	-	-	800	426,696
Total Deferred Inflows of Resource:	11,399	-	425,896	161,639	-	-	800	599,734
Fund Balances								
Restricted-Debt Service	-	-	-	131,974	-	-	-	131,974
Restricted-Special Revenue (Housing)	-	-	31,385	-	-	-	1,985	33,370
Restricted-Capital Projects	-	-	-	-	561,733	-	14,689	576,422
Committed-Special Revenue (Fire)	-	536,063	-	-	-	-	-	536,063
Committed-Special Revenue (Municipal Forest)	(155,990)	-	-	-	-	(146,860)	226,244	226,244
Unassigned	-	-	-	-	-	-	(67,985)	(370,835)
Total Fund Balances	(155,990)	536,063	31,385	131,974	561,733	(146,860)	174,933	1,133,238
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 31,915	\$ 539,595	\$ 457,281	\$ 294,048	\$ 561,733	\$ -	\$ 243,718	\$ 2,128,290

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

December 31, 2019

Total fund balances - Governmental funds	\$ 1,133,238
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental funds do not generally record prepaid assets, but record the expenditure in the period in which it is due and payable.	12,938
Net delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(7,000)
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	3,103,280
The recognition of net pension liability is effected by timing and treatment of certain items that are not recognized in the governmental funds.	
Deferred outflows of resources as related to net pension liability	230,945
Deferred inflows of resources as related to net pension liability	(394,477)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Property taxes	11,399
Special assessments	161,639
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet.	(57,084)
Long term liabilities are not due and payable in the current period and, therefore they are not reported in the governmental funds balance sheet.	
Related to long term bonds and notes	(3,955,490)
Related to long term compensated absences	(88,836)
Related to net pension liability	(435,384)
Net position of governmental activities - Government-wide	<u>\$ (284,832)</u>

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2019

	Major Funds										Total Governmental Funds
	General Fund	Fire Department Fund	Community Development Revolving Fund #2	Debt Service Fund	Capital Projects North/South	Capital Projects Highway 6	Total Other Non-Major Funds				
Revenues											
Taxes	\$ 804,556	\$ 31,077	\$ -	\$ 46,352	\$ -	\$ -	\$ 9,410	\$ -	\$ -	\$ -	\$ 891,395
Special assessments	-	-	-	20,541	-	-	-	-	-	-	20,541
Licenses and permits	7,986	-	-	-	-	-	-	-	-	-	7,986
Intergovernmental	331,727	39,087	-	-	-	-	37,288	-	-	-	408,102
Charges for services	10,283	192,578	-	-	-	-	13,230	-	-	-	216,091
Fines and forfeitures	9,735	-	-	-	-	-	-	-	-	-	9,735
Interest earnings	-	3,288	-	-	-	-	1,694	-	-	-	4,982
Other revenues	46,120	15,253	31,385	-	-	-	639	-	-	-	93,397
Total Revenues	1,210,407	281,283	31,385	66,893	-	-	62,261	-	-	-	1,652,229
Expenditures											
Current											
General government	298,823	-	-	-	-	-	-	-	-	-	298,823
Public safety	500,247	152,854	-	-	-	-	-	-	-	-	653,101
Highways and streets	213,350	-	-	-	-	-	-	-	-	-	213,350
Culture and recreation	50,726	-	-	-	-	-	-	-	-	-	50,726
Debt service	8,669	7,540	-	179,211	-	-	-	-	-	-	195,420
Other	-	-	-	-	-	-	59,275	-	-	-	59,275
Capital											
Public safety	28,778	119,505	-	-	-	-	14,509	-	-	-	148,283
Highways and streets	2,554	-	-	-	35,521	6,657	-	-	-	-	59,241
Total Expenditures	1,103,147	279,899	-	179,211	35,521	6,657	73,784	-	-	-	1,678,219
Excess of Revenues Over (Under) Expenditures	107,260	1,384	31,385	(112,318)	(35,521)	(6,657)	(11,523)	-	-	-	(25,990)
Other Financing Sources (Uses)											
Transfer from (to) other funds	5,000	-	-	-	(142,079)	(140,203)	(58,476)	-	-	-	(335,758)
	5,000	-	-	-	(142,079)	(140,203)	(58,476)	-	-	-	(335,758)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	112,260	1,384	31,385	(112,318)	(177,600)	(146,860)	(69,999)	-	-	-	(361,748)
Fund Balance - Beginning of Year	(268,250)	534,679	-	244,292	739,333	-	244,932	-	-	-	1,494,986
Fund Balance - End of Year	\$ (155,990)	\$ 536,063	\$ 31,385	\$ 131,974	\$ 561,733	\$ (146,860)	\$ 174,933	\$ -	\$ -	\$ -	\$ 1,133,238

CITY OF DEER RIVER, MINNESOTA

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

For the Year Ended December 31, 2019

Net change in fund balances - Government funds	\$ (361,748)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and gains/losses are recognized in the period of disposal.	
Capital outlay additions	207,523
Loss on disposal of assets	(6,306)
Depreciation	(128,365)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	35,875
In the statement of activities, net pension liability (NPL) is measured considering the change in deferred inflows and outflows under GASB 68. In the governmental funds, pension contribution is measured based on employer contributions. This is the difference between the recognition methods.	(135,968)
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 until due and payable. This is the amount of change in compensated absences	
Compensated absences	(9,925)
Accrued interest	20,550
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds including taxes and special assessments.	153,616
Certain expenses recorded in the governmental funds relate to future economic periods and are not reported as expenses in the statement of activities. This is the amount of the change in prepaids for the year.	(40,308)
Change in net position of governmental activities - Government-wide	<u>\$ (265,056)</u>

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2019

	General Fund				
	Original Budget	Final Budget	Actual	Variance with Final Budget	
Revenues					
Taxes	\$ 782,012	\$ 782,012	\$ 804,556	\$ 22,544	
Licenses and permits	15,500	15,500	7,986	(7,514)	
Intergovernmental	333,625	333,625	331,727	(1,898)	
Charges for services	7,000	7,000	10,283	3,283	
Fines and forfeitures	6,000	6,000	9,735	3,735	
Other revenues	75,000	75,000	46,120	(28,880)	
Total Revenues	1,219,137	1,219,137	1,210,407	(8,730)	
Expenditures					
General government	321,446	321,446	298,823	22,623	
Public safety	528,516	528,516	500,247	28,269	
Highways and streets	232,949	232,949	213,350	19,599	
Debt service	8,669	8,669	-	-	
Culture and recreation	51,205	51,205	50,726	479	
Capital outlay	58,700	58,700	31,332	27,368	
Total Expenditures	1,201,485	1,201,485	1,103,147	98,338	
Excess of Revenues Over Expenditures	17,652	17,652	107,260	89,608	
Other Financing Sources					
Transfer in	-	-	5,000	5,000	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	\$ 17,652	\$ 17,652	112,260	\$ 94,608	
Fund Balance - Beginning of Year			(268,250)		
Fund Balance - End of Year			\$ (155,990)		

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - FIRE DEPARTMENT FUND

For the Year Ended December 31, 2019

Fire Department Fund				
	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 31,000	\$ 31,000	\$ 31,077	\$ 77
Intergovernmental	36,200	36,200	39,087	2,887
Charges for services	178,000	178,000	192,578	14,578
Interest earnings	500	500	3,288	2,788
Other revenues	2,000	2,000	15,253	13,253
Total Revenues	247,700	247,700	281,283	33,583
Expenditures				
Public safety	199,135	199,135	152,854	46,281
Capital outlay	40,775	40,775	119,505	(78,730)
Debt Service	7,790	7,790	7,540	250
Total Expenditures	247,700	247,700	279,899	(32,199)
Excess of Revenues Over Expenditures	\$ -	\$ -	1,384	\$ 1,384
Fund Balance - Beginning of Year			534,679	
Fund Balance - End of Year			\$ 536,063	

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - COMMUNITY DEVELOPMENT REVOLVING FUND #2

For the Year Ended December 31, 2019

	Community Development Revolving Fund #2				
	Original Budget	Final Budget	Actual	Variance with Final Budget	
Revenues					
Other	\$ -	\$ -	\$ 31,385	\$ -	
Expenditures					
Other	-	-	-	-	
Excess of Revenues Over Expenditures	\$ -	\$ -	\$ 31,385	\$ -	
Fund Balance - Beginning of Year					
Fund Balance - End of Year			\$ 31,385		

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2019

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
<i>Assets and Deferred Outflows of Resources</i>				
Current Assets				
Cash	\$ 37,147	\$ 17,525	\$ 7,305	\$ 61,977
Accounts receivable (No allowance deemed necessary)	16,988	24,962	432	42,382
Unbilled revenues	7,200	7,962	-	15,162
Due from other funds	-	127,190	-	127,190
Total Current Assets	61,335	177,639	7,737	246,711
Noncurrent Assets				
Capital assets (Net of accumulated depreciation)	2,639,412	2,424,749	626	5,064,787
Total Assets	2,700,747	2,602,388	8,363	5,311,498
Deferred Outflows of Resources				
Related to pensions	1,755	1,448	3,203	6,406
Total Assets and Deferred Outflows of Resources	\$ 2,702,502	\$ 2,603,836	\$ 11,566	\$ 5,317,904
<i>Liabilities, Deferred Inflows of Resources, and Net Position</i>				
Liabilities				
Current Liabilities				
Current maturities of long-term debt	\$ 47,950	\$ 59,525	\$ -	\$ 107,475
Accounts payable	1,659	6,444	694	8,797
Accrued payroll	432	432	711	1,575
Accrued compensated absences	2,117	2,117	595	4,829
Accrued interest	5,727	8,909	-	14,636
Total Current Liabilities	57,885	77,427	2,000	137,312
Long-term Liabilities				
Accrued compensated absences	9,360	9,360	1,844	20,564
Bonds payable	431,050	640,985	-	1,072,035
Net pension liability	13,048	10,765	23,812	47,625
Total Long-term Liabilities	453,458	661,110	25,656	1,140,224
Total Liabilities	511,343	738,537	27,656	1,277,536
Deferred Inflows of Resources				
Related to pensions	3,278	2,705	5,983	11,966
Net Position				
Net investment in capital asset	2,154,685	1,715,330	626	3,870,641
Unrestricted	33,196	147,264	(22,699)	157,761
Total Net Position	2,187,881	1,862,594	(22,073)	4,028,402
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 2,702,502	\$ 2,603,836	\$ 11,566	\$ 5,317,904

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

For the Year Ended December 31, 2019

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
Operating Revenues				
Charges for services	\$ 212,792	\$ 252,567	\$ 121,709	\$ 587,068
Expenditures				
Salaries and benefits	44,111	41,448	55,895	141,454
Depreciation	70,860	93,079	300	164,239
Materials and supplies	28,064	14,185	4,294	46,543
Other	10,050	9,522	3,878	23,450
Utilities and repairs	31,446	21,112	1,026	53,584
Total Expenditures	184,531	179,346	65,393	429,270
Operating Income	28,261	73,221	56,316	157,798
Nonoperating Income (Expense)				
Interest	(14,605)	(20,939)	-	(35,544)
Net Income Before Transfers	13,656	52,282	56,316	122,254
Transfer From Other Funds	179,894	155,864	-	335,758
Net Income	193,550	208,146	56,316	458,012
Net Position - Beginning of Year	1,994,331	1,654,448	(78,389)	3,570,390
Net Position - End of Year	\$ 2,187,881	\$ 1,862,594	\$ (22,073)	\$ 4,028,402

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended December 31, 2019

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
Cash Flows From Operating Activities				
Cash received from customers and others	\$ 210,029	\$ 251,252	\$ 121,947	\$ 583,228
Cash payments to suppliers for goods and services	(84,450)	(40,674)	(8,782)	(133,906)
Cash payments to employees and for benefits	(67,937)	(66,514)	(90,620)	(225,071)
Net Cash Provided By Operating Activities	57,642	144,064	22,545	224,251
Cash Flows From Noncapital Financing Activities				
Interfund borrowing	-	(111,950)	(15,240)	(127,190)
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(5,154)	(9,447)	-	(14,601)
Proceeds from issuance of debt	-	51,000	-	51,000
Payments on bonds	(53,750)	(88,155)	-	(141,905)
Interest and bond issue costs paid	(15,058)	(20,923)	-	(35,981)
Net Cash Used In Capital and Related Financing Activities	(73,962)	(67,525)	-	(141,487)
Cash Flows From Investing Activities	-	-	-	-
Net Increase (Decrease) in Cash	(16,320)	(35,411)	7,305	(44,426)
Cash - Beginning of Year	53,467	52,936	-	106,403
Cash - End of Year	\$ 37,147	\$ 17,525	\$ 7,305	\$ 61,977
Non-cash transfers of assets	\$ 179,894	155,864	-	335,758

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended December 31, 2019

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
Cash Flows From Operating Activities				
Operating income (loss)	\$ 28,261	\$ 73,221	\$ 56,316	\$ 157,798
Adjustments to reconcile operating income to cash provided by operating activities				
Depreciation	70,860	93,079	300	164,239
Decrease in deferred outflows - related to pensions	10,270	7,571	16,231	34,072
Decrease (increase) in accounts receivable	(3,290)	(2,783)	238	(5,835)
Decrease in unbilled revenue	527	1,468	-	1,995
Decrease in accounts payable	(14,890)	(4,079)	(576)	(19,545)
Increase in accrued payroll	255	233	433	921
Increase (decrease) in compensated absences payable	(430)	(430)	1,011	151
Decrease in net pension liabilities	(21,746)	(15,331)	(32,418)	(69,495)
Decrease in deferred inflows - related to pensions	(12,175)	(8,885)	(18,990)	(40,050)
Net Cash Provided By Operating Activities	\$ 57,642	\$ 144,064	\$ 22,545	\$ 224,251

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the various funds of the City.

Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Government Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*, amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* by clarifying requirements for the reporting of component units. Consideration for inclusion as a component unit include whether the organization is legally separate, the City hold the corporate powers of the organization, the City appoints a voting majority of the board, the City is able to impose its will, whether the organization has the potential to impose a financial burden/benefit on the City and the level of fiscal dependency. GASB 61 expanded the definitions found within Statement 14 as well as clarified many of the criteria used to determine the financial benefit and burden relationships.

Based upon the application of these criteria, there are no component units required to be included in the government's reporting entity.

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

The City segregates transactions relating to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Fire Department

The Fire Department Fund is used to account for the activities of the City's fire department.

Community Development Revolving Fund #2

The Community Development Revolving Fund #2 is used to account for the activities of the housing development grant. Currently the fund holds notes which will potentially be forgiven as time and occupancy requirements are met.

Debt Service Fund

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

North/South Capital Projects Fund

The North/South Capital Projects Fund is used to account for the activities of the capital construction project that includes water, sewer, and street infrastructure upgrades.

Highway 6 Capital Projects Fund

The Highway 6 Capital Projects Fund is used to account for the activities of the capital construction project that includes water, sewer, and street infrastructure upgrades.

Total Other Non-Major Funds

Total Other Non-Major Funds is a summarization of all of the nonmajor governmental funds which include the City's community development revolving fund #1, Municipal Forest, TIF district 1 fund and several capital projects funds for the Highway 2, pond expansion, Brownfield grant and south end phase 2 projects.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds: Water, Sewer, and License Bureau.

All the enterprise funds account for the operation of the City's water and sewer utilities and license bureau. Activities of the funds include administration, operation and maintenance of the license bureau and the water and sewer system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds throughout the year. All costs are financed through established fees with the State of Minnesota and the Department of Natural Resources for the License Bureau. Most costs in the water and sewer funds are financed with charges made to customers with rates reviewed periodically and adjusted if necessary to ensure the integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

GASB 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included in the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable, are accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences which are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts held in a local institution and funds held in a money market fund.

Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds or repurchase agreements. All investments are recorded at fair value based on quoted market prices. Fair value is the amount of which a financial instrument could be exchanged in a current transaction between willing parties. As of December 31, 2019, the City did not hold any investments.

Prepaid Expenses

Prepaid balances are for payments made by the City in the current year for goods or services benefiting subsequent fiscal years.

Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and is therefore deferred until that time. The City recognizes deferred inflows of resources related to pensions. Governmental funds report revenue that are unavailable as deferred inflows of resources as well as unavailable revenue from property taxes, special assessments, and certain loans with forgiveness provisions. These amounts are deferred and recognized as revenue in the period that the amounts become available.

Deferred outflows of resources represent a consumption of net position that applies to a future period, and is therefore deferred until that time. The City also recognized deferred outflows of resources related to pensions.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated assets are valued at acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on the capital assets.

Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over one year of useful life. Infrastructure assets capitalized have varying original costs depending upon the nature of the project. The City has elected to prospectively record infrastructure as of December 31, 2003, the initial date of implementation of GASB 34.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Machinery and equipment	5 -15 years
Improvements	10 - 50 years
Water and sewer lines	40 - 50 years
Infrastructure	50 years

The City reviewed the provisions of GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* and determined no material provision in the current reporting year would apply. The City is required to implement the standard prospectively only.

Compensated Absences

Vacation and sick leave are payable upon termination from the City of Deer River and are based upon contracts. Accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the fund that will pay it.

Property Taxes

Property taxes are recognized as revenue to the extent they are collected in the current period. Property taxes collected by Itasca County, but not paid to the City by December 31, are classified as unremitted taxes. The City maintains an allowance equal to the full amount of delinquent accounts at December 31 for the governmental fund statements.

The City annually adopts a tax levy and certifies it to Itasca County for collection. The County is responsible for collecting all property taxes for the City. Property taxes attach as an enforceable lien on January 1 of each year and are payable on May 15 and October 15 each year.

Portions paid by the State of Minnesota in the form of tax credits or other aids are included in intergovernmental revenues.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget

An annual appropriated budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year end.

A budget of revenues and expenditures, for the following year, is prepared by the City Clerk by December 31 of the current year. Budget amounts are primarily based on requests of department heads. Once prepared, the budget is presented to the City Council for approval. All subsequent budget amendments, if any, are presented to the Council for approval.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

Fund Balance Classifications

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

Nonspendable - consists of amounts that are not in spendable form, such as inventories, prepaids, and long term receivables.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or enabling legislation. Currently the City has restricted funds for debt service under a bond agreement, for a housing grant set by enabling legislation, and for a capital projects funds based on tax increment financing agreements and a major infrastructure upgrades financed through bonds.

Committed - consists of internally imposed constraints. These constraints are established by formal resolution of the city council which is the city's highest level of decision making authority. Committed funds cannot be used for any other purpose unless the City modifies or rescinds the commitment by resolution.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose of which is the City's intended use. The constraints are established by the City and/or management but the council has authorized the city clerk or finance department to establish the assigned amounts.

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

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

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

Minimum Unassigned Fund Balance Policy

The City has approved a general fund balance policy that strives for an unassigned general fund balance of not less than five percent of the budgeted operating expenditures.

Net Position

Net position represent the difference between assets/deferred outflows and liabilities/deferred inflows. Investment in net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations or restrictions imposed by creditors, grantors or laws or regulations of other governments.

Nature and Purpose of Reservations of Fund Equity

The City maintains reservations in its general and special revenue fund that represents accumulated earnings set aside for debt service, housing development and a tax increment district.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

Pensions

The City reports pension costs on the pay-as-you-go basis based on when payroll is paid and pension disbursements are made to the Public Employees Retirement Association. (PERA)

As a participant in PERA, the City is, however, allocated its proportionate share of PERA's net pension liability. (See Note 8) For purposes of measuring that net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of PERA and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

For the City pension costs related to the Deer River Firefighters Relief Association are recorded based on a statutorily calculated annual minimum municipal contribution amount. This amount is certified to the City by August 1 of each year and is payable in the following year.

NOTE 2 CASH AND INVESTMENTS

Deposits

Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value for pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be recovered. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2019, not all deposits were adequately covered by deposit insurance or collateral held in safekeeping in the City's name. The City's total deposits were \$1,407,713 of which only \$939,057 were covered with adequate insurance and pledged collateral.

NOTE 3 NOTES RECEIVABLE/DEFERRED REVENUE

The City maintains a special revenue fund to account for the grants and deferred loans authorized under the Community Development Revolving Loan program. Housing assistance is provided to qualified applicants to help fund home improvement projects. The original proceeds were received under a grant provided to the City of Deer River from the Minnesota Department of Trade and Economic Development. The City worked with a separate management agency to determine eligibility and to oversee the program. As of December 31, 2019, the City has notes receivable of \$800 and a corresponding deferred inflow reported in a special revenue fund in the accompanying governmental fund financial statements.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 3 NOTES RECEIVABLE/DEFERRED REVENUE (Continued)

The City also received funding under a separate housing grant that it records in a special revenue fund. The Community Development Revolving Fund #2 is used by the City to record newly awarded grants which do not have a repayment feature assuming certain restrictions are met. As of December 31, 2019, the City had completed the grant and recorded \$425,896 in notes receivable and corresponding deferred inflows still outstanding. The City does not anticipate receiving cash flow from these notes as they anticipate the loans will be forgiven as the occupancy requirements are met. The loan agreements call for 10% to be forgiven each year through 2025. In 2019, two loans did not meet the occupancy requirements and as a result, the City received \$31,385 in loan repayments.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	Balance January 1	Additions	Retirements	Balance December 31
Governmental activities:				
Land	\$ 437,393	\$ -	\$ -	\$ 437,393
Buildings and structures	667,738	22,230	-	689,968
Improvements	336,180	-	-	336,180
Machinery and equipment	1,898,557	128,608	(32,601)	1,994,564
Infrastructure	275,559	-	-	275,559
Work in process	1,146,243	56,685	-	1,202,928
	<u>4,761,670</u>	<u>207,523</u>	<u>(32,601)</u>	<u>4,936,592</u>
Less: accumulated depreciation				
Buildings and structures	374,793	15,269	-	390,062
Improvements	77,058	8,825	-	85,883
Machinery and equipment	1,202,759	97,861	(26,295)	1,274,325
Infrastructure	76,632	6,410	-	83,042
	<u>1,731,242</u>	<u>128,365</u>	<u>(26,295)</u>	<u>1,833,312</u>
Total Capital Assets, net	<u>\$ 3,030,428</u>	<u>\$ 79,158</u>	<u>\$ (6,306)</u>	<u>\$ 3,103,280</u>

The City of Deer River has elected to prospectively record infrastructure assets effective January 1, 2005.

	Balance January 1	Additions	Retirements	Balance December 31
Business-type activities:				
Buildings	\$ 19,085	\$ -	\$ -	\$ 19,085
Land	21,000	-	-	21,000
Improvements	4,012,754	-	-	4,012,754
Distribution system	1,808,868	-	-	1,808,868
Machinery and equipment	352,065	14,601	-	366,666
Work in process	1,638,934	335,759	-	1,974,693
	<u>7,852,706</u>	<u>350,360</u>	<u>-</u>	<u>8,203,066</u>
Less: accumulated depreciation	<u>(2,974,040)</u>	<u>(164,239)</u>	<u>-</u>	<u>(3,138,279)</u>
Total Capital Assets, net	<u>\$ 4,878,666</u>	<u>\$ 186,121</u>	<u>\$ -</u>	<u>\$ 5,064,787</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 4 CAPITAL ASSETS (Continued)

The following is a summary of enterprise fund type fixed assets at December 31, 2019:

	Water Fund	Sewer Fund	License Bureau Fund	Total
Buildings	\$ 9,052	\$ 8,554	\$ 1,479	\$ 19,085
Land	13,600	7,400	-	21,000
Improvements	2,127,574	1,885,180	-	4,012,754
Distribution system	476,300	1,332,568	-	1,808,868
Machinery and equipment	177,742	186,016	2,908	366,666
Work in process	1,092,706	881,987	-	1,974,693
	<u>3,896,974</u>	<u>4,301,705</u>	<u>4,387</u>	<u>8,203,066</u>
Accumulated depreciation	(1,257,562)	(1,876,956)	(3,761)	(3,138,279)
	<u>\$ 2,639,412</u>	<u>\$ 2,424,749</u>	<u>\$ 626</u>	<u>\$ 5,064,787</u>

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

Governmental activities	
General government	\$ 5,468
Public safety	73,467
Highways and streets	41,236
Culture and recreation	8,194
	<u>\$ 128,365</u>
Business-type activities	
Water	\$ 70,860
Sewer	93,079
License Bureau	300
	<u>\$ 164,239</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 5 LONG-TERM DEBT

General long-term debt at December 31, 2019, is as follows:

	Governmental	Business-type
2009 PFA Loan dated August 2009 in the amount of \$50,193, due in annual installments of \$2,695 to \$3,030 through August 2029; interest rate of 1%.	\$ -	\$ 30,000
\$322,131 2002 State Drinking Water Loan, due in annual installments of \$15,299 to \$19,310, maturing August 20, 2022; interest rate of 1.63%.	-	52,000
\$1,050,000 GO Bonds, Series 2015A, due in annual installments of \$41,300 to \$186,356 through January 1, 2031; interest rate of 1% to 3.25%.	172,490	427,510
\$654,000 GO Utility Revenue Note Series 2017A, due in annual installments of \$33,000 to \$54,000 through February 1, 2033; interest rate of 3.35%.	-	619,000
\$228,000 GO Equipment Certificate of Indebtedness, Series 2018A, due in annual installments of \$22,000 to \$28,000 through February 1, 2028; interest rate of 2.95%.	228,000	-
\$3,555,000 GO Bond, Series 2018B, due in annual installments of \$80,000 to \$145,000 through February 1, 2048; interest rate of 3% to 4%.	3,555,000	-
\$3,664,000 G.O. Temporary Utility Revenue Bonds, Series 2019A. Total draw on available funds of \$51,000 as of December 31, 2019. Interest rate is 2.8%	-	51,000
	3,955,490	1,179,510
Less: Current maturities	(123,525)	(107,475)
	<u>\$ 3,831,965</u>	<u>\$ 1,072,035</u>

Annual requirements to amortize long-term debt at December 31, 2019 are as follows:

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2020	\$ 123,525	\$ 135,320	\$ 107,475	\$ 33,866	\$ 400,186
2021	115,915	131,912	89,085	31,496	368,408
2022	116,915	128,801	142,085	29,291	417,092
2023	124,350	125,771	77,650	25,439	353,210
2024	124,350	122,514	78,650	23,105	348,619
2025 - 2029	639,315	557,622	413,685	78,270	1,688,892
2030 - 2034	571,120	463,446	270,880	16,057	1,321,503
2035 - 2039	640,000	360,613	-	-	1,000,613
2040 - 2044	765,000	226,100	-	-	991,100
2045 - 2048	735,000	60,500	-	-	795,500
	<u>\$ 3,955,490</u>	<u>\$ 2,312,599</u>	<u>\$ 1,179,510</u>	<u>\$ 237,524</u>	<u>\$ 7,685,123</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 5 LONG-TERM DEBT (Continued)

Changes in long-term debt occurred during the year as follows:

Governmental Activities	Balance January 1	Additions	Reductions	Balance December 31
Compensated absences	\$ 78,911	\$ 44,657	\$ 34,732	\$ 88,836
Bonds and notes payable	3,991,365	-	35,875	3,955,490
	<u>\$ 4,070,276</u>	<u>\$ 44,657</u>	<u>\$ 70,607</u>	<u>\$ 4,044,326</u>

Business-type Activities	Balance January 1	Additions	Reductions	Balance December 31
Compensated absences	\$ 18,422	\$ 14,345	\$ 12,203	\$ 20,564
Bonds and notes payable	1,270,415	51,000	141,905	1,179,510
	<u>\$ 1,288,837</u>	<u>\$ 65,345</u>	<u>\$ 154,108</u>	<u>\$ 1,200,074</u>

The City typically finances the debt payments through the debt service fund through tax levies and special assessments and through user fees in the water and sewer funds.

As part of the \$3,555,000 GO Bond, Series 2018B issuance, the principal and interest on the bonds must be paid with respect to the improvement project, from special assessments levied upon the property specifically benefitted by the improvement project in addition to user fees and ad valorem taxes levied.

The City has a reserve line of credit available at the local bank in the amount of \$20,000. The City did not have any advances on the line during the year and the balance was \$-0- as of December 31, 2019.

NOTE 6 CONDUIT DEBT

The City of Deer River was the issuer of several conduit debt obligations issued on behalf of the Deer River Health Care Center, an independent nonprofit corporation. The City has no responsibility for the payment of the debt except for the payments received on the underlying loan agreement. The total amount of all conduit debt outstanding as of December 31, 2019 was \$4,056,816.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 7 SEGMENT INFORMATION - ENTERPRISE FUNDS

The City maintains three enterprise funds which are to be self-supporting through user fees charged for services to the public. Financial segment information as of and for the year ended December 31, 2019, is presented below.

	Water Fund	Sewer Fund	License Bureau Fund	Totals
Assets				
Current	\$ 61,335	\$ 177,639	\$ 7,737	\$ 246,711
Noncurrent	2,639,412	2,424,749	626	5,064,787
Deferred Outflows	1,755	1,448	3,203	6,406
Liabilities				
Current	57,885	77,427	2,000	137,312
Long-term	453,458	661,110	25,656	1,140,224
Deferred Inflows	3,278	2,705	5,983	11,966
Net Position				
Net investment in capital assets	2,154,685	1,715,330	626	3,870,641
Restricted	-	-	-	-
Unrestricted	33,196	147,264	(22,699)	157,761
Operating revenues	212,792	252,567	121,709	587,068
Operating expenses (excl. depreciation)	113,671	86,267	65,093	265,031
Depreciation	70,860	93,079	300	164,239
Operating income (loss)	28,261	73,221	56,316	157,798
Capital grants	-	-	-	-
Other non-operating revenues (expenses)	(14,605)	(20,939)	-	(35,544)
Transfers in (out)	179,894	155,864	-	335,758
Change in net position	193,550	208,146	56,316	458,012
Beginning net position	1,994,331	1,654,448	(78,389)	3,570,390
Ending net position	2,187,881	1,862,594	(22,073)	4,028,402
Net cash provided by:				
Operating activities	57,642	144,064	22,545	224,251
Noncapital financing	-	(111,950)	(15,240)	(127,190)
Capital and related financing activities	(73,962)	(67,525)	-	(141,487)
Investing activities	-	-	-	-
Beginning cash	53,467	52,936	-	106,403
Ending cash	37,147	17,525	7,305	61,977

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS

Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) as well as the employer maintained defined benefit pension plan for its volunteer firefighters. 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 - Multiple Employer Cost Sharing Plan

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

Public Employees Police and Fire Plan - Multiple Employer Cost Sharing Plan

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

Deer River Firefighters Relief Association - Single Employer Plan

Volunteer firefighters of the City of Deer River, Minnesota, are covered by a defined benefit pension plan administered by the Deer River Firefighters Relief Association. The plan has 22 active and 5 deferred members as of December 31, 2019.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefits provisions are established by state statutes 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 provision in effect at the time they last terminated their public service.

General Employees Plan Benefits

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. Membered hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipient that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Police and Fire Plan Benefits

Benefits for these 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 plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Deer River Firefighters Relief Association Benefits

The Association provides retirement benefits as well as disability benefits to members. The defined retirement benefits are based on a member's years of service and become fully vested after 20 years. Members are entitled to lump sum benefits upon retirement equal to \$2,800 per year for each year of service.

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 percent of their annual covered salary in fiscal year 2019 and the City was required to contribute 7.5 percent for Coordinated members. The City's contributions to the General Employees Fund for the year ended December 31, 2019 were \$30,668. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Police and fire member's contribution rates increased from 10.8% of pay to 11.3% and employer rates increased from 16.2% to 16.95% on January 1, 2019. The City's contributions to the Police and Fire Fund for the year ending December 31, 2019 were \$48,404. The City's contributions were equal to the required contributions as set by state statute.

Deer River Firefighters Relief Association Contributions

The City is required to remit the state fire aid along with a statutorily computed minimum municipal aid. For 2019, the City remitted total state fire aid of \$34,870 to the relief association. No minimum municipal contribution was required for 2019.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$326,198 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 2019. The State 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 was \$10,166.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

The net pension liability was measured as of June 30, 2019 and the total 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, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportional share was .0059% which was an increase of .0003% from its proportion measured as of June 30, 2018.

The City's proportional share of the net pension liability	\$ 326,198
State of Minnesota's proportionate share of the net pension liability associated with the City	10,166
	<u>\$ 336,364</u>

For the year ended December 31, 2019, the City recognized pension expense of \$24,470 for its proportionate share of the General Employees Plan's pension expense. The City recognized an additional \$761 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City's proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources related to pensions are as follows from the various sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 8,465	\$ -
Changes in Actuarial Assumptions	-	20,655
Difference between projected and actual investment earnings	19,112	47,092
Changes in proportion	-	14,209
Contributions paid to PERA subsequent to the measurement date	16,298	-
Total	<u>\$ 43,875</u>	<u>\$ 81,956</u>

\$16,298 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2020	(27,090)
2021	(22,593)
2022	(5,221)
2023	525

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Police and Fire Fund Pension Costs

At December 31, 2019, the City has a liability of \$255,504 for its proportionate share of the Fund's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportion was .024% which was an increase of .003% from its proportion measured as of June 30, 2018. The City also recognized \$3,240 for the year ended December 31, 2019 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90% funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$2,503 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2019, the City's proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions are as follows from the various sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 7,711	\$ -
Changes in Actuarial Assumptions	-	149,541
Difference between projected and actual investment earnings	31,210	76,012
Changes in proportion	26,647	29,797
Contributions paid to PERA subsequent to the measurement date	26,473	-
	<hr/>	<hr/>
Total	\$ 92,041	\$ 255,350
	<hr/> <hr/>	<hr/> <hr/>

\$26,473 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2020	(161,554)
2021	(28,809)
2022	(262)
2023	843

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Deer River Firefighters Relief Association Pension Costs

The Deer River Firefighters Relief Association's net pension liability was measured as of December 31, 2018 under the allowable lookback method with a December 31, 2019 reporting date for the City as follows:

Service Cost	\$ 24,696
Interest	23,380
Differences between expected and actual experience	(30,636)
Changes in assumptions	5,238
Changes in benefit terms	86,239
Benefit payments	-
	<hr/>
Net change in total pension liability	108,917
Total Pension Liability - Beginning of the Year	364,972
	<hr/>
Total Pension Liability - End of the Year	473,889
	<hr/>
Fiduciary Net Position	572,582
	<hr/>
Net Pension Asset at end of the year	<u>\$ 98,693</u>

At December 31, 2019, the City's share of the Association's deferred outflows of resources and deferred inflows of resources related to pensions are as follows from the various sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<hr/>	<hr/>
Difference between expected and actual liability	\$ -	\$ 52,876
Change of assumptions	14,328	16,261
Net difference between projected and actual investment earnings	52,237	-
Contributions to the plan subsequent to the measurement date	34,870	-
	<hr/>	<hr/>
Total	<u>\$ 101,435</u>	<u>\$ 69,137</u>

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

Year ended December 31:	Pension Expense Amount
2020	9,104
2021	252
2022	4,370
2023	10,263
2024	(7,062)
Thereafter	(19,499)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2019, was as follows:

General	\$ 24,470
Police and Fire	2,503
Fire Relief	108,995
	<hr/>
	<u>\$ 135,968</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

	<i>GERF and PEPFF</i>	<i>Relief Association</i>
Inflation	2.50% per year	2.50% per year
Active Member Payroll Growth	3.25% per year	-
Investment Rate of Return	7.5%	5.75%

General Employees Plan and Police and Fire Plan

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

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial studies. The most recent six year experience study in the General Employees Plan was completed in 2019. The most recent four year experience study for the Police and Fire plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

- The mortality projection scale was changed from MP-2017 to MP-2018.
- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Fund

- The mortality projection scale was changed from MP-2017 to MP-2018.
- There have been no changes since the prior valuation.

Deer River Firefighters Relief Association

- The discount rate was changed from 6.0% to 5.75% and the expected long-term rate of return on assets was decreased to 5.75%.

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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	75.00%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Deer River Firefighters Relief Association

The long-term expected rate of return on pension plan investments is 5.5%. The Association uses an investment advisor to manage its portfolio. Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of the measurement date are summarized in the following table:

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return
Domestic equity	39.00%	4.95%
International equity	26.00%	5.24%
Fixed income	30.00%	1.99%
Real estate	0.00%	4.19%
Cash and equivalent	5.00%	0.58%

Discount Rate

General and Police/Fire Plans

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from members and employers will be made at the rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position 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.

Deer River Firefighters Relief Association

The discount rate used to measure the total pension liability (asset) was 5.75%.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
City's proportion share of the General Employees Fund	536,252	326,198	152,757
City's proportion share of the Police and Fire Fund	558,485	255,504	5
City's proportion share of the Relief Association's net pension liability (asset)	(83,200)	(98,693)	(113,588)

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

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.

The City reports the following information regarding its pension plans in the government wide financial reports as follows:

	General	Police/Fire	Fire Relief Association	Total
Net pension liability (asset)	\$ 326,198	\$ 255,504	\$ (98,693)	\$ 483,009
Deferred inflows	81,956	255,350	69,137	406,443
Deferred outflows	43,875	92,041	101,435	237,351

NOTE 9 DEFINED CONTRIBUTION PLAN

Council members of the City are covered by the Public Employees Defined Contribution Plan (PEDCP) a multiple-employer deferred compensation plan administered by PERA. The 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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specified plan provision, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributions 5% of salary which is matched by the elected official's employer. 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 of the Minnesota Supplemental Investment Fund. For administering the plan, PERA received 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the City during the fiscal year 2019 were:

Contributions - Employee	\$ 913
Contributions - Employer	\$ 913
Percentage of Covered Payroll - Employee	5%
Percentage of Covered Payroll - Employer	5%
Require Rate	5%

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 10 OTHER POST EMPLOYMENT BENEFITS

Plan Description

Under current contract terms, the City allows retirees to continue to obtain medical insurance through the City's plans with the cost being fully paid by the retiree. As a result, the City has reviewed its other postemployment benefit accruals using the implicit rate subsidy formula.

The City has determined that based on the estimated usage of the retirement benefit and the projected employee retirement rates, that there would be no material impact under the other post employment standards that would impact the financial statements as of December 31, 2019. Accordingly, no provision has been reported in the accompanying financial statements.

NOTE 11 EXPENDITURES IN EXCESS OF BUDGET

The fire fund (a major special revenue fund) exceeded its budget by \$32,199.

NOTE 12 DEFICIT FUND BALANCES

The following funds had deficit fund balances as of December 31, 2019.

Major Funds	
General	\$ 155,990
Highway 6 Capital Projects Fund	146,860
License Bureau	22,073
Nonmajor Funds	
Highway 2 Capital Projects Fund	19,829
Pond expansion Capital Projects Fund	9,321
South End Phase 2 Capital Projects Fund	38,835

NOTE 13 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 14 INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at December 31, 2019 are as follows:

	Due from other funds	Due to other funds
	<u> </u>	<u> </u>
Major Funds		
General Fund	\$ -	\$ 137,285
Highway 6 - Capital Projects Fund	-	146,860
Sewer Fund - Proprietary Fund	127,190	-
Nonmajor Funds		
Municipal Forest - Special Revenue Fund	224,940	-
Highway 2 - Capital Projects Fund	-	19,829
Pond Expansion - Capital Projects Fund	-	9,321
South End Phase 2 - Capital Projects Fund	-	38,835
	<u>\$ 352,130</u>	<u>\$ 352,130</u>

The Municipal Forest Fund and the Sewer Fund temporarily loaned the general and several capital project funds money to assist with cash flow. The interfund loans are anticipated to be paid off with subsequent dollars coming from financing and grants in the upcoming year.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 15 TRANSFERS BETWEEN FUNDS

During the year, the City approved the following interfund transfers:

	Transfer In	Transfer Out
Major Funds		
General	\$ 5,000	\$
North/South Capital Project	-	142,079
Highway 6 Capital Project	-	140,203
Water Fund	179,894	
Sewer Fund	155,864	
Nonmajor Funds		
Municipal Forest Fund	-	5,000
Highway 2 Capital Project	-	13,087
Pond Expansion Capital Project	-	9,321
Phase 2 Capital Project	-	31,068
	<u>\$ 340,758</u>	<u>\$ 340,758</u>

The City approved a \$5,000 transfer from the municipal forest fund to the general fund to assist with cash flow. The remaining funds transferred \$335,758 in capital asset costs for joint infrastructure projects that involved governmental, water and sewer activities.

NOTE 16 SUBSEQUENT EVENTS

COVID-19

Subsequent to year end, the outbreak of COVID-19 resulted in disruptions or restrictions in City operations due to local and national declarations of emergencies and other government ordered restrictions. The impact of such restrictions and shutdowns are unknown at this time.

Debt Issuance

Also subsequent to year end, the City issued a \$226,000 General Obligation Equipment Certificate of Indebtedness in conjunction with the purchase of a new fire truck.

The City also worked with the State of Minnesota for upgrades to a portion of the state highway system that was within the City of Deer River's jurisdiction. As part of that agreement, the City would reimburse the State of Minnesota for the City's portion of lighting, utility work, sidewalk, boulevard and parking lane construction. Subsequent to year end, the City received a bill for it's final settlement with the State of Minnesota in the amount of \$1,865,823. This was part of the overall infrastructure projects done and financed with a combination of grants and loans done in 2020.

CITY OF DEER RIVER, MINNESOTA

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (UNAUDITED)
GENERAL EMPLOYEES RETIREMENT FUND**

December 31, 2019

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

Fiscal Year Ending June 30,	City's Proportion of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City		City's Covered Payroll	City's Proportionate Share of the NPL as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
		City's Proportionate Share of the Net Pension Liability	Total			
2019	0.0059%	\$ 326,198	\$ 336,364	\$ 408,253	79.90%	80.23%
2018	0.0056%	\$ 310,665	\$ 320,884	\$ 377,229	82.35%	79.53%
2017	0.0051%	\$ 325,581	\$ 328,214	\$ 344,707	94.45%	75.90%
2016	0.0058%	\$ 470,931	\$ 472,772	\$ 346,245	136.01%	68.91%
2015	0.0048%	\$ 248,761	\$ 248,761	\$ 279,030	89.15%	78.75%

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution		City's Covered Payroll	Contributions as a Percentage of Covered Payroll
		Statutorily Required Contribution	Contribution Deficiency (Excess)		
2019	\$30,668	\$30,668	-	\$408,901	7.50%
2018	\$31,274	\$31,274	-	\$416,980	7.50%
2017	\$26,740	\$26,740	-	\$356,536	7.50%
2016	\$25,763	\$25,763	-	\$343,509	7.50%
2015	\$23,686	\$23,686	-	\$315,814	7.50%

CITY OF DEER RIVER, MINNESOTA

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (UNAUDITED)
GENERAL EMPLOYEES RETIREMENT FUND**

December 31, 2019

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018

2019 Changes in Actuarial Assumptions - The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017 The State's special funding contribution increased from \$6 million to \$16 million. The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member. The assumed post-retirement benefit increase rate was changed from 1% per year for all years to 1% per year through 2044 and 2.5% per year thereafter.

2016 The assumed post-retirement benefit increase rate was changed from 1% per year through 2035 and 2.5% per year thereafter to 1% per year for all years. The assumed investment return rate was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

2015 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; the State's contribution of \$6 million, which meets the special funding situation was due September 2015. The assumed post-retirement benefit increase rate was changed from 1% per year through 2030 and 2.5% per year thereafter to 1% per year through 2035 and 2.5% per year thereafter.

CITY OF DEER RIVER, MINNESOTA

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (UNAUDITED)
PUBLIC EMPLOYEES POLICE AND FIRE FUND**

December 31, 2019

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

Fiscal Year	City's Proportionate Share of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the NPL as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.0240%	\$ 255,504	\$ (3,240)	\$ 252,264	\$ 252,989	100.99%	89.26%
2018	0.0210%	\$ 223,838	\$ (1,890)	\$ 221,948	\$ 220,913	101.32%	88.84%
2017	0.0220%	\$ 297,026	\$ (1,980)	\$ 295,046	\$ 236,860	125.40%	75.90%
2016	0.0240%	\$ 963,162	\$ (2,160)	\$ 961,002	\$ 218,790	440.22%	63.88%
2015	0.0220%	\$ 249,971	\$ (1,980)	\$ 247,991	\$ 200,024	124.97%	86.61%

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$48,404	\$48,404	-	\$285,571	16.95%
2018	\$38,739	\$38,739	-	\$239,302	16.20%
2017	\$37,514	\$37,514	-	\$231,570	16.20%
2016	\$35,665	\$35,665	-	\$220,157	16.20%
2015	\$33,976	\$33,976	-	\$209,728	16.20%

CITY OF DEER RIVER, MINNESOTA

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) (UNAUDITED)
PUBLIC EMPLOYEES POLICE AND FIRE FUND**

December 31, 2019

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018

2019 Changes in Actuarial Assumptions - The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions - There have been no changes since the prior valuation.

2018 Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2016 to MP-2017.

2017 Changes in Actuarial Assumptions: The assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for health annuitants was changed (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 table to the mortality tables assumed for health retirees. Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing Joint and Survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.

2016 Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1% per year through 2037 and 2.5% thereafter to 1% 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 .25% to 3.25% for payroll growth and 2.5% for inflation.

2015 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% per year through 2030 and 2.5% thereafter to 1% per year through 2037 and 2.5% thereafter.

CITY OF DEER RIVER, MINNESOTA

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIO
FIREFIGHTERS RELIEF ASSOCIATION (UNAUDITED)**

December 31, 2019

SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIO

	2015	2016	2017	2018	2019
Total Pension Liability					
Service Cost	\$ 22,211	\$ 22,822	\$ 20,033	\$ 25,554	\$ 24,696
Interest	20,575	21,683	27,031	21,727	23,380
Differences between expected and actual experience	-	-	(35,227)	-	(30,636)
Changes in assumptions	-	(18,004)	13,386	(6,783)	5,238
Changes in benefit terms	-	-	26,331	-	86,239
Benefit payments	(46,500)	-	(35,000)	(90,000)	-
Net Change in total pension liability	(3,714)	26,501	16,554	(49,502)	108,917
Total Pension Liability - Beginning of the year	375,133	371,419	397,920	414,474	364,972
Total Pension Liability - End of the year	\$ 371,419	\$ 397,920	\$ 414,474	\$ 364,972	\$ 473,889
Plan Fiduciary Net Position					
Contributions - municipal and state	\$ 42,189	\$ 37,372	\$ 38,604	\$ 37,142	\$ 35,339
Contributions - members/donations	-	130	130	-	110
Net investment returns	25,402	(15,958)	54,818	57,069	(51,167)
Benefit payments	(46,500)	-	(35,000)	(90,000)	-
Administrative expenses	(1,775)	(2,050)	(1,000)	(1,300)	(1,125)
Net Change in plan fiduciary net position	19,316	19,494	57,552	2,911	(16,843)
Plan Fiduciary Net Position - Beginning of the year	490,152	509,468	528,962	586,514	589,425
Plan Fiduciary Net Position - End of the year	\$ 509,468	\$ 528,962	\$ 586,514	\$ 589,425	\$ 572,582
Net Pension Liability (Asset) - End of the year	(138,049)	(131,042)	(172,040)	(224,453)	(98,693)
Plan Fiduciary Net Position as % of Total Pension Liability	137.2%	132.9%	141.5%	161.5%	120.8%
Covered Payroll	na	na	na	na	na
Net Pension Liability as a % of Covered Payroll	na	na	na	na	na

Note: This schedule is built prospectively until it contains ten years of data.

CITY OF DEER RIVER, MINNESOTA

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS
FIREFIGHTERS RELIEF ASSOCIATION (UNAUDITED)**

December 31, 2019

SCHEDULE OF CITY'S CONTRIBUTIONS

	Actuarially determined contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Contributions as a Percentage of Employee	
				Covered Payroll	Payroll
2019	na	na	na	na	na
2018	na	na	na	na	na
2017	na	na	na	na	na
2016	na	na	na	na	na
2015	na	na	na	na	na

The City does not have a formal funding policy and does not calculate an ADC.

SCHEDULE OF INVESTMENT RETURNS

2019	(8.7%)
2018	11.40%
2017	10.80%
2016	(3.1%)
2015	5.50%

Note: This schedule is built prospectively until it contains ten years of data. The above relates to the annual money-weighted rate of return, net investment expense.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Significant Plan Provision and Actuarial Methods and Assumption Changes - The entry age normal level percent of pay cost method was used. Under this method, the service cost for an individual participant is the level percentage of pay required to accumulate the funds needed to pay the participant's projected benefits by their assumed retirement age, beginning on the date of entry and ending at the last age before 100% retirement age. The actuarial accrued liability is the accumulated value of those annual services costs on a given date. A straight line amortization method for investment gains and losses was used over a closed 5-year period. Market value of assets were reported as of the measurement date. Liabilities were calculated as of the valuation date and rolled forward to the measurement date using standard actuarial roll-forward techniques per GASB 67 and 68. The liability discount rate was developed using the alternative method described in paragraph 43 of GASB 67. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected inflation.

The following are actuarial assumptions used:

Discount rate	5.75%
Expected long-term rate of return on assets	5.75%
Inflation rate	2.50%

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2019

	Special Revenue Fund	Municipal Forest Fund	Special Revenue Fund	Community Development Revolving Fund #1	Capital Projects Fund	TIF District 1	Capital Projects Fund	Highway 2 Project	Capital Projects Fund	Pond Expansion
Assets										
Cash	\$ -	\$ -	\$ 1,985	\$ -	\$ 14,689	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	1,304	-	-	800	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-	-	-
Due from other funds	224,940	-	-	-	-	-	-	-	-	-
Total Assets	\$ 226,244	\$ 226,244	\$ 2,785	\$ 2,785	\$ 14,689	\$ 14,689	\$ -	\$ -	\$ -	\$ -
Liabilities, Deferred Inflows of Resources, and Fund Balances										
Liabilities										
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,829	\$ -	\$ 9,321
Deferred Inflows of Resources										
Notes receivable	-	-	800	-	-	-	-	-	-	-
Fund balances										
Restricted	-	-	1,985	-	14,689	-	-	-	-	-
Committed	226,244	-	-	-	-	-	-	(19,829)	-	(9,321)
Unassigned	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	226,244	226,244	1,985	1,985	14,689	14,689	(19,829)	(19,829)	(9,321)	(9,321)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 226,244	\$ 226,244	\$ 2,785	\$ 2,785	\$ 14,689	\$ 14,689	\$ -	\$ -	\$ -	\$ -

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2019

(Continued from page 57)

	Capital Projects Fund	Capital Projects Fund	Total Non- Major Governmental Funds
Assets			
Cash	\$ -	\$ -	\$ 16,674
Accounts receivable	-	-	1,304
Notes receivable	-	-	800
Due from other funds	-	-	224,940
Total Assets	\$ -	\$ -	\$ 243,718
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Due to other funds	\$ -	\$ 38,835	\$ 67,985
Deferred Inflows of Resources			
Notes receivable	-	-	800
Fund balances			
Restricted	-	-	16,674
Committed	-	-	226,244
Unassigned	-	(38,835)	(67,985)
Total Fund Balances	-	(38,835)	174,933
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ -	\$ 243,718

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2019

	Special Revenue Fund	Special Revenue Fund	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund
	Municipal Forest Fund	Community Development Revolving Fund #1	TIF District 1	Highway 2 Project	Pond Expansion
Revenues					
Taxes	\$ -	\$ -	9,410	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Charges for services	13,230	-	-	-	-
Interest earnings	1,590	-	104	-	-
Other revenues	-	639	-	-	-
Total Revenues	14,820	639	9,514	-	-
Expenditures					
Other	12,577	-	9,410	-	-
Capital outlay	-	-	-	6,742	-
Excess of Revenues Over (Under) Expenditures	2,243	639	104	(6,742)	-
Other Financing Uses					
Transfers out	(5,000)	-	-	(13,087)	(9,321)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(2,757)	639	104	(19,829)	(9,321)
Fund Balance - Beginning of Year	229,001	1,346	14,585	-	-
Fund Balance - End of Year	\$ 226,244	\$ 1,985	\$ 14,689	\$ (19,829)	\$ (9,321)

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2019

	Capital Projects Fund	Capital Projects Fund	Total Non- Major Governmental Funds
	Brownfield Project	South End Phase 2	
Revenues			
Taxes	\$ -	\$ -	\$ 9,410
Intergovernmental	37,288	-	37,288
Charges for services	-	-	13,230
Interest earnings	-	-	1,694
Other revenues	-	-	639
Total Revenues	37,288	-	62,261
Expenditures			
Other	37,288	-	59,275
Capital outlay	-	7,767	14,509
Excess of Revenues Over (Under) Expenditures	-	(7,767)	(11,523)
Other Financing Uses			
Transfers out	-	(31,068)	(58,476)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	-	(38,835)	(69,999)
Fund Balance - Beginning of Year	-	-	244,932
Fund Balance - End of Year	\$ -	\$ (38,835)	\$ 174,933

(Continued from page 59)

CITY OF DEER RIVER, MINNESOTA

SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2019

	Budget	Actual	Variance
Property Taxes	\$ 782,012	\$ 804,556	\$ 22,544
Licenses and Permits	15,500	7,986	(7,514)
Intergovernmental			
Local government aid	295,625	295,625	-
Other grants and aids	38,000	36,102	(1,898)
Total Intergovernmental	333,625	331,727	(1,898)
Charges for Services	7,000	10,283	3,283
Fines and Forfeitures	6,000	9,735	3,735
Other Revenues			
Contributions and donations	3,000	1,720	(1,280)
Refunds and reimbursements	16,000	3,092	(12,908)
Other revenues	56,000	41,308	(14,692)
Total Other	75,000	46,120	(28,880)
Total Revenues	\$ 1,219,137	\$ 1,210,407	\$ (8,730)

CITY OF DEER RIVER, MINNESOTA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2019

	Budget	Actual	Variance
General Government			
Mayor and council	\$ 44,685	\$ 32,880	\$ 11,805
Administration and finance	240,461	237,074	3,387
Legal	21,000	15,758	5,242
Public buildings	15,300	13,111	2,189
Capital outlay	10,600	-	10,600
Total General Government	332,046	298,823	33,223
Public Safety			
Police protection	518,516	496,650	21,866
Building inspection	9,000	3,538	5,462
Animal control	1,000	59	941
Capital outlay	30,000	28,778	1,222
Total Public Safety	558,516	529,025	29,491
Highways and Streets			
Streets and alleys	211,399	193,510	17,889
Street lighting	21,550	19,840	1,710
Capital outlay	12,100	2,554	9,546
Total Highways and Streets	245,049	215,904	29,145
Debt Service	8,669	8,669	-
Culture and Recreation			
Recreation activities and facilities	51,205	50,726	479
Capital outlay	6,000	-	6,000
	57,205	50,726	6,479
Total Expenditures	\$ 1,201,485	\$ 1,103,147	\$ 98,338

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS

December 31, 2019

	Fire Department	Municipal Forest	Community Development Revolving Fund #1	Community Development Revolving Fund #2	Total
Assets					
Cash	\$ 538,764	\$ -	\$ 1,985	\$ 31,385	\$ 572,134
Accounts receivable	33	1,304	-	-	1,337
Unremitted taxes	798	-	-	-	798
Due from other funds	-	224,940	-	-	224,940
Notes receivable	-	-	800	425,896	426,696
Total Assets	\$ 539,595	\$ 226,244	\$ 2,785	\$ 457,281	\$ 1,225,905

Liabilities, Deferred Inflows of Resources, and Fund Balance

Liabilities	\$ 3,532	\$ -	\$ -	\$ -	\$ 3,532
Accounts payable					
Deferred Inflows of Resources					
Notes receivable	-	-	800	425,896	426,696
Fund Balance					
Restricted	-	-	1,985	31,385	33,370
Committed	536,063	226,244	-	-	762,307
Total Fund Balance	536,063	226,244	1,985	31,385	795,677
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 539,595	\$ 226,244	\$ 2,785	\$ 457,281	\$ 1,225,905

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS

For the Year Ended December 31, 2019

	Fire Department	Municipal Forest	Community Development Revolving Fund #1	Community Development Revolving Fund #2	Total
Revenues					
Property taxes	\$ 31,077	\$ -	\$ -	\$ -	\$ 31,077
Intergovernmental	39,087	-	-	-	39,087
Charges for services	192,578	13,230	-	-	205,808
Interest earnings	3,288	1,590	-	-	4,878
Other revenues	15,253	-	639	31,385	47,277
Total Revenues	281,283	14,820	639	31,385	328,127
Expenditures					
Salaries and benefits	52,423	-	-	-	52,423
Communications	4,390	-	-	-	4,390
Insurance	11,768	-	-	-	11,768
Other	11,854	12,577	-	-	24,431
Professional services	3,350	-	-	-	3,350
Relief Association	34,870	-	-	-	34,870
Repairs and maintenance	7,879	-	-	-	7,879
Supplies	13,829	-	-	-	13,829
Travel and training	5,498	-	-	-	5,498
Utilities	6,993	-	-	-	6,993
Debt service - principal	6,625	-	-	-	6,625
Debt service - interest	915	-	-	-	915
Capital outlay	119,505	-	-	-	119,505
Total Expenditures	279,899	12,577	-	-	292,476
Excess of Revenues Over Expenditures	1,384	2,243	639	31,385	35,651
Other Financing Uses					
Transfers out	-	(5,000)	-	-	(5,000)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	1,384	(2,757)	639	31,385	30,651
Fund Balance - Beginning of Year	534,679	229,001	1,346	-	765,026
Fund Balance - End of Year	\$ 536,063	\$ 226,244	\$ 1,985	\$ 31,385	\$ 795,677

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS

December 31, 2019

	Highway 6 Project	TIF District 1	North/South Project	Highway 2 Project
<i>Assets</i>				
Cash	\$ -	\$ 14,689	\$ 561,733	\$ -
	\$ 146,860	\$ -	\$ -	\$ 19,829
<i>Liabilities, Deferred Inflows of Resources, and Fund Balance</i>				
Liabilities				
Due to other funds	-	-	-	-
Deferred Inflows of Resources	-	-	-	-
Fund Balance				
Restricted	-	14,689	561,733	-
Unassigned	(146,860)	-	-	(19,829)
Total Fund Balance	(146,860)	14,689	561,733	(19,829)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ 14,689	\$ 561,733	\$ -

(Continued)

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS
December 31, 2019

(Continued from page 65)

Assets

	Pond Expansion	Brownfield Project	South End Phase 2	Total
Cash	\$ -	\$ -	\$ -	\$ 576,422
<i>Liabilities, Deferred Inflows of Resources, and Fund Balance</i>				
Liabilities				
Due to other funds	\$ 9,321	\$ -	\$ 38,835	\$ 214,845
Deferred Inflows of Resources	-	-	-	-
Fund Balance				
Restricted	-	-	-	576,422
Unassigned	(9,321)	-	(38,835)	(214,845)
Total Fund Balance	(9,321)	-	(38,835)	361,577
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ -	\$ -	\$ 576,422

CITY OF DEER RIVER, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUNDS

For the Year Ended December 31, 2019

	Highway 6 Project	TIF District 1	North/South Project	Highway 2 Project
Revenues				
Property taxes	\$ -	\$ 9,410	\$ -	\$ -
Intergovernmental	-	-	-	-
Interest earnings	-	104	-	-
Total Revenues	-	9,514	-	-
Expenditures				
Other	-	9,410	-	-
Capital outlay	6,657	-	35,521	6,742
Total Expenditures	6,657	9,410	35,521	6,742
Excess of Revenues Over (Under) Expenditures	(6,657)	104	(35,521)	(6,742)
Financings Uses				
Transfers out	(140,203)	-	(142,079)	(13,087)
Excess of Revenues Over (Under) Expenditures and Other Financings Uses	(146,860)	104	(177,600)	(19,829)
Fund Balance - Beginning of Year	-	14,585	739,333	-
Fund Balance - End of Year	\$ (146,860)	\$ 14,689	\$ 561,733	\$ (19,829)

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - CAPITAL PROJECTS FUNDS**

For the Year Ended December 31, 2019

(Continued from page 67)

	Pond Expansion	Brownfield Project	South End Phase 2	Total
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ 9,410
Intergovernmental	-	37,288	-	37,288
Interest earnings	-	-	-	104
Total Revenues	-	37,288	-	46,802
Expenditures				
Other	-	37,288	-	46,698
Capital outlay	-	-	7,767	56,687
Total Expenditures	-	37,288	7,767	103,385
Excess of Revenues Over (Under) Expenditures	-	-	(7,767)	(56,583)
Financing Uses				
Transfers out	(9,321)	-	(31,068)	(335,758)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(9,321)	-	(38,835)	(392,341)
Fund Balance - Beginning of Year	-	-	-	753,918
Fund Balance - End of Year	\$ (9,321)	\$ -	\$ (38,835)	\$ 361,577



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

To the Honorable Mayor and the Members
Of the City Council
City of Deer River, 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, the aggregate remaining fund information, and the budgetary analysis of the City of Deer River, Minnesota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Deer River, Minnesota's basic financial statements and have issued our report thereon dated June 19, 2020.

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 entity'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the following paragraphs that we consider to be significant deficiencies. (2019-001 and 2019-002)

Finding 2019-001 Lack of segregation of duties

One staff person is primarily responsible for receipting, disbursements, reconciling, and reporting financial information. This same individual has the ability to make entries into the financial records. The individual has access to all general ledger functions. In addition, several staff have access to receipting, depositing and reconciling functions.

Condition: The City does not have an adequate segregation of duties due to a limited number of staff.

Criteria: Internal controls should be in place to provide adequate segregation of duties.

Effect: The lack of segregation of duties is identified as a deficiency in the design or operation of the internal control over financial reporting that could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Prevalence: The situation is common among governments of similar size.

Recommendation: The Council needs to be cognizant of this situation and determine appropriate oversight responsibility as it deems appropriate.

City's response: The City is aware of the situation and the Council members perform reasonable and periodic inquiries over financial operations as they deem appropriate. Selected financial information is presented for review at Council meetings.

Finding 2019-002 The City requested assistance with preparation of the financial statements and related notes

Condition: The City does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under GASB 34 presentation.

Criteria: The City should have a system in place to report all financial data reliably in accordance with generally accepted accounting principles using the presentation model required under GASB 34. Currently there is more than a remote likelihood that a misstatement in the financial statement reporting including footnote disclosures that are more than inconsequential will not be presented accordingly.

Effect: The City requests assistance with the preparation of the draft financial statements and footnotes.

Prevalence: The situation is common in governments of similar size.

Recommendation: The staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models.

City's response: The City is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Deer River, Minnesota's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City of Deer River, Minnesota failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65, insofar as they relate to accounting matters except as described in the following paragraphs as items 2019-003 and 2019-004. 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, insofar as they relate to accounting matters.

Finding 2019-003 Insufficient Collateral Coverage on Deposits

Condition: The City did not have adequate collateral on deposits as of December 31, 2019.

Criteria: Under Minnesota statutes, the City is required to ensure that all deposits of public funds are adequately collateralized. Collateral pledged must equal at least ten percent more than the uninsured and unbonded amount on deposit as of the close of the banking day.

Effect: The City's funds were exposed to credit risk.

Prevalence: The City received additional funds during the year from interim financing that created excess deposits over the FDIC and pledged collateral at year end.

Recommendation: The City review the statutes and work with their financial institutions to obtain adequate collateral coverage.

City's response: The City is aware of the situation and worked with the bank to obtain additional coverage.

Finding 2019-004 Withholding Affidavit/Certificate

Condition: The City did not obtain a withholding certificate from a contractor prior to making a final payment. (IC134)

Criteria: Under Minnesota statutes, the City is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontract has complied with the withholding requirements of MN Statutes 290.92.

Effect: The City was not in compliance with contracting and bid statutes.

Prevalence: The City did not obtain the IC134 for a contractor who did work on the City's fire hall and received another IC134 after issuing final payment to the contractor.

City's response: The City is aware of the situation and worked with the bank to obtain additional coverage.

City of Deer River's Responses to Findings

The City's responses to the internal control and legal compliance findings identified in our audit are described previously. The City of Deer River, Minnesota'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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sterle & Co, Ltd
June 20, 2020