

**CITY OF DEER RIVER
MINNESOTA**

FINANCIAL STATEMENTS

For the Year Ended December 31, 2020

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (unaudited)	3
Basic Financial Statements	
<i>Government-Wide Financial Statements</i>	
Statement of Net Position	15
Statement of Activities	17
<i>Fund Financial Statements</i>	
Governmental Funds	
Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and Major Special Revenue Funds	
General Fund	23
Fire Department Fund	24
Community Development Revolving Fund #2	25
Proprietary Funds	
Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Net Position	27
Statement of Cash Flows	28
Notes to Financial Statements	30
Required Supplemental Information (RSI) (unaudited)	
Schedule of Employer's Share of Net Pension Liability and Employer Contribution and Notes - General Employees Fund	52
Schedule of Employer's Share of Net Pension Liability and Employer Contribution and Notes - Police and Fire Fund	54
Schedule of Changes in Net Pension Asset and Related Ratio - Firefighters Relief Association	56
Schedule of City Contributions and Investment Returns and Notes - Firefighters Relief Association	57
Combining and Individual Fund Statements and Schedules	
<i>Combining Financial Statements - Non-major Governmental Funds</i>	
Combining Balance Sheet	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	60
Schedule of Revenues - Budget and Actual - General Fund	62
Schedule of Expenditures - Budget and Actual - General Fund	63
Combining Balance Sheet - Special Revenue Funds	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds	65
Combining Balance Sheet - Capital Projects Funds	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Capital Projects Funds	68
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	70



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, 2020 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, 2020, 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

Emphasis of Matter

The City continued to experience significant financial stress due to the pandemic and city-wide infrastructure projects. The City's evaluation of the events and conditions and management's plans to mitigate those matters are described in Note 17. Our opinion is not modified with respect to that matter.

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 52 through 55 and the schedule of changes in net pension asset and related ratio, city contributions and investment returns and notes on pages 56 and 57 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 25, 2021 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.

Sterle & Co, Ltd

June 25, 2021

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

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, 2020. 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 2020

COVID-19/Pandemic

One of the major economic impacts during 2020 was a result of the global ramifications from COVID-19. The City experienced financial stress due to the pandemic. The schools, hospital, motel, casino, restaurants, city offices and other businesses utility users were all ordered to close. With many of these businesses remaining closed or at limited capacity for an extended time, the utility revenue collections were slowed down. The city council implemented a policy to not disconnect utility customers for non-payment and to stop interest and penalties from accruing. The city council implemented an emergency leave policy for all employees equal to their hours worked. The State of Minnesota implemented mandates that required the city to develop a response plan and address the requirement that would allow the office and license bureau to remain open. Though there was money for businesses to apply for help to offset additional expenses, the city did not qualify for any direct revenue reimbursements. The City did receive \$74,305 in federal CARES dollars that were used to fund \$38,142 in operational costs incurred as a result of the pandemic and \$36,163 in capital improvements and technology upgrades allowable under the grant. The second half of tax apportionments showed that the City received less property tax revenue than anticipated that impacts the general fund as a result of the pandemic.

City-Wide Infrastructure Projects

The City also experienced financial stress due to several city-wide ongoing infrastructure projects. The city remains committed to replacing utilities and streets which are over 60 years old. The City continues to plan and budget for a positive general fund balance but with the expenses of preplanning for several street, storm water, sewer and water utility replacement projects, building such reserve continues to be difficult. During 2020, the City incurred nearly \$2.9 million in new capital asset additions with \$2 million coming from additional financing. The remaining amount came from the City's cash balances and included temporary interfund borrowing from the municipal forest fund and fire fund. Some of these expenses may be covered with grant money or additional financing once the projects are completed to help replace the financial strains the City is experiencing but as of December 31, 2020 no final agreements are in place. The city submitted a bonding bill request of \$5 million and was awarded \$4 million in October along with \$600,000 in a DEED grant. Once finalized, these funds will help to finance the replacement of the city's infrastructure.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

Other Items

- The city is also exploring new development opportunities to help increase the tax base.
- The city did implement a utility service fee which is collected and goes directly to help subsidize debt repayments. In addition to implementing this fee, the city also raised rates to account help increase net position.
- The city purchased wetlands to mitigate the impact for the proposed waste water pond anticipated in the upcoming year. The city is currently working on a finance package to include possible grants and aids to help offset some of these costs.
- The City incurred \$215,326 as interest expense on the interim construction project as well as debt issued for the fire truck and street sweeper.
- The City's general fund is still experiencing cash flow constraints (deficit cash of \$21,702) as well as a deficit fund balance of \$73,813 as of December 31, 2020. Although the City monitored the budget in the current year and the fund experienced an increase of \$82,177 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, 2020, the municipal forest fund had loaned out all the cash reserves of \$232,907 to other funds. The sewer fund also assisted with cash flow by temporarily borrowing \$76,293 and the North/South capital projects fund had loaned out \$560,277 of funds drawn on the interim financing to other projects for their shortfall. Details on the interfund borrowing can be found in Note 14 to the financial statements.

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.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

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.

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.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

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.

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 51 of this report.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

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, 2020 and 2019					
	Govern- mental Activities 2020	Govern- mental Activities 2019	Business- type Activities 2020	Business- type Activities 2019	Total 2020	Total 2019
Current assets	\$ 949,607	1,323,660	\$ 167,393	246,711	\$ 1,117,000	1,570,371
Capital assets and other noncurrent assets	3,910,251	3,688,908	7,250,529	5,064,787	11,160,780	8,753,695
Deferred Outflows	153,890	230,945	5,498	6,406	159,388	237,351
Total assets and deferred outflows	5,013,748	5,243,513	7,423,420	5,317,904	12,437,168	10,561,417
Current liabilities	285,029	350,987	170,889	137,312	455,918	488,299
Long-term liabilities	2,650,227	2,329,835	4,866,825	3,166,574	7,517,052	5,496,409
Deferred Inflows	456,886	821,173	1,836	11,966	458,722	833,139
Total liabilities and deferred inflows	3,392,142	3,501,995	5,039,550	3,315,852	8,431,692	6,817,847
Net position:						
Net investment in capital						
Assets	1,373,213	1,290,094	2,321,854	1,844,291	3,695,067	3,134,385
Restricted	738,039	741,766	-	-	738,039	741,766
Unrestricted	(489,646)	(290,342)	62,016	157,761	(427,630)	(132,581)
Total net position	\$ 1,621,606	1,741,518	\$ 2,383,870	2,002,052	\$ 4,005,476	3,743,570

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

	Changes in Net Assets					
	Years Ended December 31, 2020 and 2019					
	Govern- mental Activities 2020	Govern- mental Activities 2019	Business- type Activities 2020	Business- type Activities 2019	Total 2020	Total 2019
Revenues						
Program Revenues						
Charges for services	\$ 240,597	413,734	\$ 676,755	587,068	\$ 917,352	1,000,802
Operating grants	181,452	203,365	-	-	181,452	203,365
Capital grants	66,789	-	-	-	66,789	-
General Revenues						
Property taxes	967,165	889,213	-	-	967,165	889,213
Intergovernmental aids	295,625	296,615	-	-	295,625	296,615
Investment earnings	1,475	4,982	-	-	1,475	4,982
Miscellaneous/Gain (Loss)	9,789	(6,306)	-	-	9,789	(6,306)
Total Revenues	1,762,892	1,801,603	676,755	587,068	2,439,647	2,388,671
Expenses						
General government	390,316	378,994	-	-	390,316	378,994
Public Safety	689,967	840,130	-	-	689,967	840,130
Highways and streets	231,650	254,587	-	-	231,650	254,587
Culture and recreation	49,939	58,920	-	-	49,939	58,920
Interest	39,676	138,995	-	-	39,676	138,995
Other	17,803	59,275	-	-	17,803	59,275
Water	-	-	310,206	199,136	310,206	199,136
Sewer	-	-	323,345	200,285	323,345	200,285
License Bureau	-	-	124,839	65,393	124,839	65,393
Total Expenses	1,419,351	1,730,901	758,390	464,814	2,177,741	2,195,715
Change in net position before transfers	\$ 343,541	70,702	\$ (81,635)	122,254	\$ 261,906	192,956

The City transferred \$463,453 in 2020 and \$335,758 in 2019 from the governmental activities to the business type activities for the allocation of costs for city-wide infrastructure projects. As described further in Note 16 to the financial statements, the City transferred \$2,026,350 in related debt outstanding as of December 31, 2019 to the business type activities. The transfer is recorded as an opening adjustment to the January 1, 2020 net position accordingly to more accurately reflect the outstanding debt from the funds that will ultimately be responsible for repayment. This resulted in an adjustment of the net position between the governmental and business type activities only. The total net position remained unchanged.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

Governmental Activities. As noted earlier, net position serves as a useful indicator of financial position. As of December 31, 2020, total net position was \$1,621,606 in the governmental funds compared to \$1,741,518 in the prior year. As described in note 16 to the financial statements, the City transferred the \$2,026,350 in debt over to the water and sewer funds.

Of the \$1,621,606 in governmental net position, the majority of it is investment in capital assets (\$1,373,213) or 85%. The City has \$738,039 in restricted funds for revolving loans, debt service or other capital projects restricted under agreements. As a result, the City is left with an unrestricted deficit in the governmental activities of \$489,646. This unrestricted net position increased from a deficit of \$290,342 as of December 31, 2019 to a deficit of \$489,646 as of December 31, 2020. The City is aware of this situation and as described more fully in Note 17 continue to review options.

Other significant noncurrent liabilities that are reported in the governmental activities statement of net position include \$539,607 for net pension liabilities and \$103,720 for compensated absences. Both of these along with the deferred inflows of resources of \$456,886 reduce the overall net position of the city.

Business-Type Activities. Business-type activities decreased the City's net position by \$81,635 before the \$463,453 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, 2020, the city's governmental funds reported combined ending fund balances of \$653,627, which is a decrease of \$479,611 from December 31, 2019. Of this amount \$738,039 are restricted for community development revolving loans, debt service and TIF district dollars. Total committed funds by the Council amounted to \$911,072 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 2020. Instead, the city is reporting a \$995,484 deficit – an increase in the deficit of \$624,649 from the prior year.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

General Fund

The general fund is the city's chief operating fund. At the end of 2020, unassigned fund balance was a deficit of \$73,813. This was a decrease in the deficit of \$82,177 for the year. As discussed in the financial highlights section, the City continued to try and monitor unbudgeted items in 2020 which impact the governmental fund balances.

Fire Department Fund

The fire department fund saw an increase of \$142,791 as the City continues to receive fire fees and aids that cover the operational costs of the fire department. In addition, the City issued \$219,100 in debt for the purchase of a new fire truck. The fire department had \$189,929 in capital outlay which includes a final payment on a new fire truck.

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 \$359,202 of deferred loans it is holding that will be potentially forgiven each year as occupancy requirements are met. During 2020, \$66,694 was forgiven in loans as occupancy requirements were met.

Debt Service Fund

The debt service fund increased by \$11,638. \$133,194 was realized in taxes and special assessments while \$121,556 was paid out in scheduled debt payments.

North/South Capital Project Fund

The City established a capital projects fund 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 infrastructure distribution system. For 2020, the City incurred an additional \$1,456 in disbursements from the fund. The project involved street, water and sewer component. As discussed in Note 16, although the assets had been transferred to the respective funds in the prior year, the City had reported the draws on the financing related to this project as general fund debt based on the originally financing plan. As of December 31, 2020, the City has accumulated resources remaining in the fund of \$560,277. The City has temporarily utilized these funds to help finance other projects within the City and as such is reporting \$560,277 in interfund borrowing as of December 31, 2020.

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 \$380,149 in costs during the year with \$110,631 allocated to streets and the remaining \$245,390 transferred to the water fund accordingly for its share of the estimated project costs.

CITY OF DEER RIVER, MINNESOTA
Management's Discussion and Analysis
Fiscal Year Ending December 31, 2020

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, CARES/Covid 19, and South End Phase 2 Capital Projects fund) decreased by \$334,612 primarily due to the total expenditures of \$155,600 for capital outlay disbursements and the transfer to the water and sewer funds of \$232,752 for their respective shares of the project costs for the Highway 2, pond expansion, and South End Phase 2 projects.

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 \$ 1,391,134
- Sewer \$ 999,177
- License Bureau \$ (6,441) 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 \$ (7,752) deficit
- Sewer \$ 80,729
- License Bureau \$ (10,961) 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. As reported in Note 16 to the financial statements, the net assets of the water and sewer fund were impacted by the transfer of debt as of December 31, 2019 as a prior period adjustment for \$1,208,700 for the water and \$817,650 for the sewer fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund budgeted expenditures for 2020 were \$1,282,392. Actual expenditures were \$1,159,427 therefore reflecting a variance of \$122,965 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, 2020

Summary Analysis of General Fund Budget
 Fiscal Year 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 739,030	\$ 739,030	\$ 789,817	\$ 50,787
Special assessments	-	-	-	-
Licenses and permits	15,500	15,500	9,371	(6,129)
Intergovernmental	333,625	333,625	334,210	585
Charges for services	55,000	55,000	14,338	(40,662)
Fines and forfeitures	6,000	6,000	13,484	7,484
Other revenues	110,000	110,000	53,288	(56,712)
Total Revenues	1,259,155	1,259,155	1,214,508	(44,647)
Expenditures				
General government	340,157	340,157	343,993	(3,836)
Public safety	542,841	542,841	528,455	14,386
Highways and streets	264,597	264,597	191,111	73,486
Culture and recreation	51,695	51,695	43,099	8,596
Debt service	28,402	28,402	28,402	-
Capital Outlay	54,700	54,700	24,367	30,333
Total Expenditures	1,282,392	1,282,392	1,159,427	122,965
Expenditures Over Revenues	(23,237)	(23,237)	55,081	78,318
Other Financing Sources	-	-	27,096	27,096
Excess of Revenues and Other Financing Sources Over Expenditures	\$ (23,237)	\$ (23,237)	\$ 82,177	\$ 105,414

The city did modify the original budgets during the year by approving transfer of capital outlay dollars from the council and administration departments to the police department to help finance a new vehicle. The overall capital outlay budget of \$54,700 did not change. No other budget modifications were done during the year.

CITY OF DEER RIVER, MINNESOTA
 Management's Discussion and Analysis
 Fiscal Year Ending December 31, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The City's investments in capital assets for its governmental and business-type activities at December 31, 2020 amounts to \$10,715,129 (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, 2020 and 2019

	Govern- mental Activities 2020	Govern- mental Activities 2019	Business- type Activities 2020	Business- type Activities 2019	Total 20120	Total 2019
Buildings	\$ 283,403	299,906	\$ 2,212	2,844	\$ 285,615	302,750
Land	437,143	437,393	21,000	21,000	458,143	458,393
Improvements	241,942	250,297	2,339,511	2,429,810	2,581,453	2,680,107
Machinery/Equipment	945,310	638,658	113,463	118,407	1,058,773	757,065
Infrastructure/ Distribution Systems	186,107	192,518	474,890	518,033	660,997	710,551
Work in process	<u>1,370,695</u>	<u>1,284,508</u>	<u>4,299,453</u>	<u>1,974,693</u>	<u>5,670,148</u>	<u>3,259,201</u>
	\$ 3,464,600	3,103,280	\$ 7,250,529	5,064,787	\$ 10,715,129	8,168,067

Major capital asset additions during 2020 included the following:

- Infrastructure costs in the governmental fund, water, and sewer for the Hwy 2 and Hwy 6 projects in excess of \$2.57 million
- Police vehicle for \$16,100
- Lawn mower for \$8,535 (split with general, water and sewer funds)
- New fencing at Moose Beach for \$4,000
- New fire truck and equipment for the fire department totaling \$214,666
- New electronic message center for \$11,426

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, 2020, the city had total long-term debt of \$6,950,823. The City had one new debt issue in the fire fund for a new fire truck of \$226,000 and additional draws for the infrastructure projects of \$1,865,823. Principal payments made were \$276,000.

CITY OF DEER RIVER, MINNESOTA
 Management's Discussion and Analysis
 Fiscal Year Ending December 31, 2020

Outstanding Debt
 December 31, 2020 and 2019

	Governmental	Governmental	Business- type	Business- type		
	Activities 2020	Activities 2019	Activities 2020	Activities 2019	Total 2020	Total 2019
General Obligation	\$ 2,064,300	1,929,140	\$ 4,886,523	3,205,860	\$ 6,950,823	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 \$133,226 and \$593,003 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, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash	\$ 752,672	\$ 30,185	\$ 782,857
Receivables			
Accounts	1,828	48,194	50,022
Unbilled revenues	-	16,098	16,098
Due from other governments	80,970	-	80,970
Taxes	21,505	-	21,505
Unremitted taxes	18,699	-	18,699
Notes	66,735	-	66,735
Allowance for uncollectible	(7,000)	-	(7,000)
Prepaid expenses	14,198	-	14,198
Internal balances	-	72,916	72,916
Total Current Assets	949,607	167,393	1,117,000
Noncurrent Assets			
Special assessments	153,143	-	153,143
Notes receivable	292,508	-	292,508
Capital assets (net of accumulated depreciation)	3,464,600	7,250,529	10,715,129
	3,910,251	7,250,529	11,160,780
Total Assets	4,859,858	7,417,922	12,277,780
Deferred Outflows of Resources			
Related to net pension liability	153,890	5,498	159,388
Total Assets and Deferred Outflows of Resources	\$ 5,013,748	\$ 7,423,420	\$ 12,437,168

(Continued)

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF NET POSITION - GOVERNMENT-WIDE

December 31, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities and Net Assets			
Current liabilities			
Current portion of long-term debt	\$ 57,400	\$ 102,600	\$ 160,000
Accounts payable	91,625	14,453	106,078
Accrued interest	27,087	42,152	69,239
Accrued payroll	9,957	2,700	12,657
Accrued compensated absences	26,044	8,984	35,028
Internal balances	72,916	-	72,916
Total Current Liabilities	285,029	170,889	455,918
Noncurrent liabilities			
Compensated absences	103,720	29,506	133,226
Net pension liability	539,607	53,396	593,003
Bonds and notes	2,006,900	4,783,923	6,790,823
Total Noncurrent Liabilities	2,650,227	4,866,825	7,517,052
Total Liabilities	2,935,256	5,037,714	7,972,970
Deferred Inflows of Resources			
Related to net pension liability	97,643	1,836	99,479
Notes receivable	359,243	-	359,243
Total Deferred Inflows of Resources	456,886	1,836	458,722
Net Position			
Net investment in capital assets	1,373,213	2,321,854	3,695,067
Restricted for			
Revolving Loans	34,150	-	34,150
Debt Service	143,612	-	143,612
Capital Projects	560,277	-	560,277
Unrestricted	(489,646)	62,016	(427,630)
Total Net Position	1,621,606	2,383,870	4,005,476
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 5,013,748	\$ 7,423,420	\$ 12,437,168

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF ACTIVITIES - GOVERNMENT-WIDE

For the Year Ended December 31, 2020

	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	\$ 390,316	\$ 24,215	\$ 43,263	\$ 36,163	\$ (286,675)	\$ -	\$ (286,675)
Public safety	689,967	216,382	133,367	30,626	(309,592)	-	(309,592)
Highways and streets	231,650	-	-	-	(231,650)	-	(231,650)
Culture and recreation	49,939	-	4,800	-	(45,139)	-	(45,139)
Debt service - interest	39,676	-	-	-	(39,676)	-	(39,676)
Other	17,803	-	22	-	(17,781)	-	(17,781)
Total governmental activities	1,419,351	240,597	181,452	66,789	(930,513)	-	(930,513)
Business-type activities							
Water	310,206	263,224	-	-	-	(46,982)	(46,982)
Sewer	323,345	277,578	-	-	-	(45,767)	(45,767)
License Bureau	124,839	135,953	-	-	-	11,114	11,114
Total business-type activities	758,390	676,755	-	-	-	(81,635)	(81,635)
Total Primary Government	\$ 2,177,741	\$ 917,352	\$ 181,452	\$ 66,789	(930,513)	(81,635)	(1,012,148)

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF ACTIVITIES - GOVERNMENT-WIDE

For the Year Ended December 31, 2020

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
(Continued from page 17)	\$ (930,513)	\$ (81,635)	\$ (1,012,148)
General Revenues			
Property taxes	967,165	-	967,165
Intergovernmental aids	295,625	-	295,625
Unrestricted interest earnings	1,475	-	1,475
Total general revenues	1,264,265	-	1,264,265
Other item - gain on sale of capital items	9,789	-	9,789
Internal transfers	(463,453)	463,453	-
Change in Net Position	(119,912)	381,818	261,906
Net Position - Beginning of the Year (As restated, see note 16)	1,741,518	2,002,052	3,743,570
Net Position - End of the Year	\$ 1,621,606	\$ 2,383,870	\$ 4,005,476

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2020

	Major 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	Total Governmental Funds		
Assets										
Cash	\$ -	\$ 577,456	\$ 31,385	\$ 141,066	\$ -	\$ -	\$ 2,765	\$ 752,672		
Receivables										
Accounts	201	36	-	-	-	-	1,591	1,828		
Due from other governments	965	80,005	-	-	-	-	-	80,970		
Taxes	21,505	-	-	-	-	-	-	21,505		
Special assessment	-	-	-	153,143	-	-	-	153,143		
Unremitted taxes	15,534	619	-	2,546	-	-	-	18,699		
Notes	-	-	359,202	-	-	-	41	359,243		
Due from other funds	-	62,587	-	-	560,277	-	232,907	855,771		
Total Assets	\$ 38,205	\$ 720,703	\$ 390,587	\$ 296,755	\$ 560,277	\$ -	\$ 237,304	\$ 2,243,831		
Liabilities, Deferred Inflows of Resources, and Fund Balances										
Liabilities										
Accounts payable	\$ 32,810	\$ 41,849	\$ -	\$ -	\$ -	\$ 6,508	\$ 10,458	\$ 91,625		
Accrued payroll	9,957	-	-	-	-	-	-	9,957		
Compensated absences	26,044	-	-	-	-	-	-	26,044		
Due to other funds	21,702	-	-	-	-	520,501	386,484	928,687		
Total Liabilities	90,513	41,849	-	-	-	527,009	396,942	1,056,313		
Deferred Inflows of Resources										
Property taxes	21,505	-	-	-	-	-	-	21,505		
Special assessments	-	-	-	153,143	-	-	-	153,143		
Notes receivable	-	-	359,202	-	-	-	41	359,243		
Total Deferred Inflows of Resources	21,505	-	359,202	153,143	-	-	41	533,891		
Fund Balances										
Restricted-Debt Service	-	-	-	143,612	-	-	-	143,612		
Restricted-Special Revenue (Housing)	-	-	31,385	-	-	-	2,765	34,150		
Restricted-Capital Projects	-	-	-	-	560,277	-	-	560,277		
Committed-Special Revenue (Fire)	-	678,854	-	-	-	-	-	678,854		
Committed-Special Revenue (Municipal Forest)	-	-	-	-	-	-	232,218	232,218		
Unassigned	(73,813)	-	-	-	-	(527,009)	(394,662)	(995,484)		
Total Fund Balances	(73,813)	678,854	31,385	143,612	560,277	(527,009)	(159,679)	653,627		
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 38,205	\$ 720,703	\$ 390,587	\$ 296,755	\$ 560,277	\$ -	\$ 237,304	\$ 2,243,831		

CITY OF DEER RIVER, MINNESOTA

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

December 31, 2020

Total fund balances - Governmental funds	\$ 653,627
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.	14,198
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.	14,505
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.	3,464,600
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	153,890
Deferred inflows of resources as related to net pension liability	(97,643)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Special assessments	153,143
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.	(27,087)
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	(2,064,300)
Related to long term compensated absences	(103,720)
Related to net pension liability	(539,607)
Net position of governmental activities - Government-wide	<u>\$ 1,621,606</u>

CITY OF DEER RIVER, MINNESOTA

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

For the Year Ended December 31, 2020

	Major 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	Total Governmental Funds		
Revenues										
Taxes	\$ 789,817	\$ 30,819	\$ -	\$ 124,625	\$ -	\$ -	\$ 10,965	\$ 956,226		
Special assessments	-	-	-	8,569	-	-	-	8,569		
Licenses and permits	9,371	-	-	-	-	-	-	9,371		
Intergovernmental	334,210	44,000	-	-	-	-	84,410	462,620		
Charges for services	14,338	190,365	-	-	-	-	13,039	217,742		
Fines and forfeitures	13,484	-	-	-	-	-	-	13,484		
Interest earnings	-	985	-	-	-	-	490	1,475		
Other revenues	53,288	30,626	-	-	-	-	780	84,694		
Total Revenues	1,214,508	296,795	-	133,194	-	-	109,684	1,754,181		
Expenditures										
Current										
General government	343,993	-	-	-	-	-	38,142	382,135		
Public safety	528,455	172,312	-	-	-	-	-	700,767		
Highways and streets	191,111	-	-	-	-	-	-	191,111		
Culture and recreation	43,099	-	-	-	-	-	-	43,099		
Debt service	28,402	10,863	-	121,556	-	-	-	160,821		
Other	-	-	-	-	-	-	17,802	17,802		
Capital										
General government	-	-	-	-	-	-	31,548	31,548		
Public safety	16,100	189,929	-	-	-	-	4,615	210,644		
Highways and streets	-	-	-	-	1,456	134,759	119,437	255,652		
Culture and recreation	8,267	-	-	-	-	-	-	8,267		
Total Expenditures	1,159,427	373,104	-	121,556	1,456	134,759	211,544	2,001,846		
Excess of Revenues Over (Under) Expenditures	55,081	(76,309)	-	11,638	(1,456)	(134,759)	(101,860)	(247,665)		
Other Financing Sources (Uses)										
Proceeds from the sale of assets	12,407	-	-	-	-	-	-	12,407		
Proceeds from the issuance of debt	-	219,100	-	-	-	-	-	219,100		
Transfer from (to) other funds	14,689	-	-	-	-	(245,390)	(232,752)	(463,453)		
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	27,096	219,100	-	-	-	(245,390)	(232,752)	(231,946)		
Fund Balance - Beginning of Year	82,177	142,791	-	11,638	(1,456)	(380,149)	(334,612)	(479,611)		
Fund Balance - End of Year	(155,990)	536,063	31,385	131,974	561,733	(146,860)	174,933	1,133,238		
Fund Balance - End of Year	\$ - (73,813)	\$ 678,854	\$ 31,385	\$ 143,612	\$ 560,277	\$ (527,009)	\$ (159,679)	\$ 653,627		

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, 2020

Net change in fund balances - Government funds	\$ (479,611)
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	499,806
Capital asset disposals - basis	(2,618)
Depreciation	(135,868)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	91,148
Proceeds of bond issuance is an other financing source in the governmental funds, but are considered an increase to long-term liabilities in the statement of net assets.	(219,100)
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.	115,556
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	(22,093)
Accrued interest	29,997
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.	1,611
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.	1,260
Change in net position of governmental activities - Government-wide	<u>\$ (119,912)</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, 2020

	General Fund				Variance
	Original Budget	Final Budget	Actual		with Final Budget
Revenues					
Taxes	\$ 739,030	\$ 739,030	\$ 789,817	\$	50,787
Licenses and permits	15,500	15,500	9,371		(6,129)
Intergovernmental	333,625	333,625	334,210		585
Charges for services	55,000	55,000	14,338		(40,662)
Fines and forfeitures	6,000	6,000	13,484		7,484
Other revenues	110,000	110,000	53,288		(56,712)
Total Revenues	1,259,155	1,259,155	1,214,508		(44,647)
Expenditures					
General government	340,157	340,157	343,993		(3,836)
Public safety	542,841	542,841	528,455		14,386
Highways and streets	264,597	264,597	191,111		73,486
Debt service	28,402	28,402	28,402		-
Culture and recreation	51,695	51,695	43,099		8,596
Capital outlay	54,700	54,700	24,367		30,333
Total Expenditures	1,282,392	1,282,392	1,159,427		122,965
Excess of Revenues Over (Under) Expenditures	(23,237)	(23,237)	55,081		78,318
Other Financing Sources					
Proceeds from the sale of assets	-	-	12,407		12,407
Transfer to other funds	-	-	14,689		14,689
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	-	-	27,096		27,096
Fund Balance - Beginning of Year	\$ (23,237)	\$ (23,237)	82,177		\$ 105,414
Fund Balance - End of Year			(155,990)		
			\$ (73,813)		

See accompanying notes and auditor's report.

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, 2020

Fire Department Fund				
	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 31,000	\$ 31,000	\$ 30,819	\$ (181)
Intergovernmental	40,200	40,200	44,000	3,800
Charges for services	174,000	174,000	190,365	16,365
Interest earnings	500	500	985	485
Other revenues	2,000	2,000	30,626	28,626
Total Revenues	247,700	247,700	296,795	49,095
Expenditures				
Public safety	198,235	198,235	172,312	25,923
Capital outlay	44,415	44,415	189,929	(145,514)
Debt Service	5,050	5,050	10,863	(5,813)
Total Expenditures	247,700	247,700	373,104	(125,404)
Excess of Expenditures Over Revenues	-	-	(76,309)	(76,309)
Other Financing Sources				
Proceeds from issuance of debt	-	-	219,100	219,100
Excess of Revenues and Other Financing Sources Over Expenditures	-	-	142,791	\$ 142,791
Fund Balance - Beginning of Year			536,063	
Fund Balance - End of Year			\$ 678,854	

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, 2020

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

Note: The City did not adopt a formal budget for the Community Development Revolving Fund #2.

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2020

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
<i>Assets and Deferred Outflows of Resources</i>				
Current Assets				
Cash	\$ -	\$ -	\$ 30,185	\$ 30,185
Accounts receivable (No allowance deemed necessary)	22,553	25,053	588	48,194
Unbilled revenues	7,758	8,340	-	16,098
Due from other funds	-	76,293	-	76,293
Total Current Assets	30,311	109,686	30,773	170,770
Noncurrent Assets				
Capital assets (Net of accumulated depreciation)	4,421,510	2,824,499	4,520	7,250,529
Total Assets	4,451,821	2,934,185	35,293	7,421,299
Deferred Outflows of Resources				
Related to pensions	1,506	1,243	2,749	5,498
Total Assets and Deferred Outflows of Resources	\$ 4,453,327	\$ 2,935,428	\$ 38,042	\$ 7,426,797
<i>Liabilities, Deferred Inflows of Resources, and Net Position</i>				
Liabilities				
Current Liabilities				
Current maturities of long-term debt	\$ 65,700	\$ 36,900	\$ -	\$ 102,600
Due to other funds	3,377	-	-	3,377
Accounts payable	8,709	5,365	379	14,453
Accrued payroll	437	437	1,826	2,700
Accrued compensated absences	2,453	2,453	4,078	8,984
Accrued interest	25,067	17,085	-	42,152
Total Current Liabilities	105,743	62,240	6,283	174,266
Long-term Liabilities				
Accrued compensated absences	9,461	9,461	10,584	29,506
Bonds payable	2,931,857	1,852,066	-	4,783,923
Net pension liability	14,629	12,069	26,698	53,396
Total Long-term Liabilities	2,955,947	1,873,596	37,282	4,866,825
Total Liabilities	3,061,690	1,935,836	43,565	5,041,091
Deferred Inflows of Resources				
Related to pensions	503	415	918	1,836
Net Position				
Net investment in capital asset	1,398,886	918,448	4,520	2,321,854
Unrestricted	(7,752)	80,729	(10,961)	62,016
Total Net Position	1,391,134	999,177	(6,441)	2,383,870
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 4,453,327	\$ 2,935,428	\$ 38,042	\$ 7,426,797

CITY OF DEER RIVER, MINNESOTA

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

For the Year Ended December 31, 2020

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
Operating Revenues				
Charges for services	\$ 263,224	\$ 277,578	\$ 135,953	\$ 676,755
Expenditures				
Salaries and benefits	85,102	69,855	116,023	270,980
Depreciation	70,549	94,722	624	165,895
Materials and supplies	40,088	14,045	5,469	59,602
Other	7,550	22,475	1,537	31,562
Utilities and repairs	30,106	24,747	1,186	56,039
Total Expenditures	233,395	225,844	124,839	584,078
Operating Income	29,829	51,734	11,114	92,677
Nonoperating Income (Expense)				
Interest	(76,811)	(97,501)	-	(174,312)
Net Income (Loss) Before Transfers	(46,982)	(45,767)	11,114	(81,635)
Transfer From Other Funds	458,935	-	4,518	463,453
Net Income (Loss)	411,953	(45,767)	15,632	381,818
Net Position - Beginning of Year				
As restated - See Note 16	979,181	1,044,944	(22,073)	2,002,052
Net Position - End of Year	\$ 1,391,134	\$ 999,177	\$ (6,441)	\$ 2,383,870

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended December 31, 2020

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
Cash Flows From Operating Activities				
Cash received from customers and others	\$ 257,101	\$ 293,789	\$ 135,797	\$ 686,687
Cash payments to suppliers for goods and services	(70,694)	(62,346)	(8,507)	(141,547)
Cash payments to employees and for benefits	(85,605)	(86,874)	(104,410)	(276,889)
Net Cash Provided By Operating Activities	100,802	144,569	22,880	268,251
Cash Flows From Noncapital Financing Activities				
Interfund borrowing	3,377	50,897	-	54,274
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(1,393,712)	(494,472)	-	(1,888,184)
Proceeds from issuance of debt	1,391,577	474,246	-	1,865,823
Payments on bonds	(81,720)	(103,440)	-	(185,160)
Interest and bond issue costs paid	(57,471)	(89,325)	-	(146,796)
Net Cash Used In Capital and Related Financing Activities	(141,326)	(212,991)	-	(354,317)
Cash Flows From Investing Activities	-	-	-	-
Net Increase (Decrease) in Cash	(37,147)	(17,525)	22,880	(31,792)
Cash - Beginning of Year	37,147	17,525	7,305	61,977
Cash - End of Year	\$ -	\$ -	\$ 30,185	\$ 30,185
Non-cash transfers of assets	\$ 458,935	-	4,518	463,453

CITY OF DEER RIVER, MINNESOTA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended December 31, 2020

	Major (All) Funds			
	Water	Sewer	License Bureau	Total
Cash Flows From Operating Activities				
Operating income (loss)	\$ 29,829	\$ 51,734	\$ 11,114	\$ 92,677
Adjustments to reconcile operating income to cash provided by operating activities				
Depreciation	70,549	94,722	624	165,895
Decrease in deferred outflows - related to pensions	249	205	454	908
Increase in accounts receivable	(5,565)	(91)	(156)	(5,812)
Increase in unbilled revenue	(558)	(378)	-	(936)
Increase (decrease) in accounts payable	7,050	(1,079)	(315)	5,656
Increase in accrued payroll	5	5	1,115	1,125
Increase in compensated absences payable	437	437	12,223	13,097
Increase in net pension liabilities	1,581	1,304	2,886	5,771
Decrease in deferred inflows - related to pensions	(2,775)	(2,290)	(5,065)	(10,130)
Net Cash Provided By Operating Activities	\$ 100,802	\$ 144,569	\$ 22,880	\$ 268,251

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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, 2020

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, CARES and several capital projects funds for the Highway 2, pond expansion, 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, 2020

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, 2020, 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, 2020

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, 2020

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 or through the formal approval of the city's budget.

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, 2020

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, 2020, the City's total deposits were \$842,824 all of which were covered with adequate insurance and pledged collateral.

NOTE 3 NOTES RECEIVABLE/DEFERRED INFLOWS

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, 2020, the City has notes receivable of \$41 and a corresponding deferred inflow reported in a special revenue fund in the accompanying governmental fund financial statements. The City anticipates final payment on this note subsequent to year end.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 3 NOTES RECEIVABLE/DEFERRED INFLOWS (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 grants which do not have a repayment feature assuming certain restrictions are met. As of December 31, 2020, the City had recorded \$359,202 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. Total amount of loans forgiven in 2020 was \$66,694.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	Balance January 1	Additions	Retirements	Balance December 31
Governmental activities:				
Land	\$ 437,393	\$ -	\$ (250)	\$ 437,143
Buildings and structures	689,968	-	-	689,968
Improvements	336,180	-	-	336,180
Machinery and equipment	1,994,564	332,039	(19,181)	2,307,422
Infrastructure	275,559	-	-	275,559
Work in process	1,202,928	167,767	-	1,370,695
	<u>4,936,592</u>	<u>499,806</u>	<u>(19,431)</u>	<u>5,416,967</u>
Less: accumulated depreciation				
Buildings and structures	390,062	16,503	-	406,565
Improvements	85,883	8,355	-	94,238
Machinery and equipment	1,274,325	104,600	(16,813)	1,362,112
Infrastructure	83,042	6,410	-	89,452
	<u>1,833,312</u>	<u>135,868</u>	<u>(16,813)</u>	<u>1,952,367</u>
Total Capital Assets, net	<u>\$ 3,103,280</u>	<u>\$ 363,938</u>	<u>\$ (2,618)</u>	<u>\$ 3,464,600</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	366,666	26,877	-	393,543
Work in process	1,974,693	2,324,760	-	4,299,453
	<u>8,203,066</u>	<u>2,351,637</u>	<u>-</u>	<u>10,554,703</u>
Less: accumulated depreciation	<u>(3,138,279)</u>	<u>(165,895)</u>	<u>-</u>	<u>(3,304,174)</u>
Total Capital Assets, net	<u>\$ 5,064,787</u>	<u>\$ 2,185,742</u>	<u>\$ -</u>	<u>\$ 7,250,529</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 4 CAPITAL ASSETS (Continued)

The following is a summary of enterprise fund type fixed assets at December 31, 2020:

	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	179,876	206,241	7,426	393,543
Work in process	2,943,219	1,356,234	-	4,299,453
	<u>5,749,621</u>	<u>4,796,177</u>	<u>8,905</u>	<u>10,554,703</u>
Accumulated depreciation	(1,328,111)	(1,971,678)	(4,385)	(3,304,174)
	<u>\$ 4,421,510</u>	<u>\$ 2,824,499</u>	<u>\$ 4,520</u>	<u>\$ 7,250,529</u>

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

Governmental activities	
General government	\$ 6,557
Public safety	81,932
Highways and streets	40,539
Culture and recreation	6,840
	<u>\$ 135,868</u>
Business-type activities	
Water	\$ 70,549
Sewer	94,722
License Bureau	624
	<u>\$ 165,895</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 5 LONG-TERM DEBT

General long-term debt at December 31, 2020, 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%.	\$ -	\$ 27,000
\$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%.	-	35,000
\$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%.	138,050	341,950
\$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%.	-	585,000
\$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%.	206,000	-
\$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%.	1,494,250	1,980,750
\$3,664,000 G.O. Temporary Utility Revenue Bonds, Series 2019A. Total draw on available funds of \$1,916,823 as of December 31, 2020. Interest rate is 2.8% Matures June 1, 2022.	-	1,916,823
\$226,000 GO Equipment Certificate of Indebtedness, due in annual installments of \$26,000 to \$31,000 through February 1, 2029. Interest rate of 2.65%.	226,000	-
	2,064,300	4,886,523
Less: Current maturities	(57,400)	(102,600)
	\$ 2,006,900	\$ 4,783,923

Annual requirements to amortize long-term debt at December 31, 2020 are as follows:

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2021	\$ 57,400	\$ 66,206	\$ 102,600	\$ 148,021	\$ 374,227
2022	97,315	66,109	2,053,508	118,563	2,335,495
2023	101,900	63,519	126,100	92,646	384,165
2024	102,900	60,771	127,100	89,102	379,873
2025	104,900	57,945	129,100	85,458	377,403
2026 - 2030	478,715	244,415	692,285	365,853	1,781,268
2031 - 2035	252,570	191,100	504,430	261,525	1,209,625
2036 - 2040	283,800	144,840	376,200	191,998	996,838
2041 - 2045	341,850	83,807	453,150	111,093	989,900
2046 - 2048	242,950	14,835	322,050	19,665	599,500
	\$ 2,064,300	\$ 993,547	\$ 4,886,523	\$ 1,483,924	\$ 9,428,294

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 5 LONG-TERM DEBT (Continued)

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

	Balance January 1, restated	Additions	Reductions	Balance December 31
Governmental Activities				
Compensated absences	\$ 88,836	\$ 29,769	\$ 14,885	\$ 103,720
Bonds and notes payable	1,929,140	226,000	90,840	2,064,300
	<u>\$ 2,017,976</u>	<u>\$ 255,769</u>	<u>\$ 105,725</u>	<u>\$ 2,168,020</u>
Business-type Activities				
Compensated absences	\$ 20,564	\$ 8,942	\$ -	\$ 29,506
Bonds and notes payable	3,205,860	1,865,823	185,160	4,886,523
	<u>\$ 3,226,424</u>	<u>\$ 1,874,765</u>	<u>\$ 185,160</u>	<u>\$ 4,916,029</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. During 2020, the City determined that due to statutory limitations on assessments, the City would not be able to finance as much of the debt from special assessments as originally anticipated at the time of the debt issuance. The City determined that a portion of this outstanding debt issuance as of December 31, 2019 should be transferred to the water and sewer funds accordingly to accurately reflect the repayment activity. As a result, the City is reflecting a prior period adjustment for the water and sewer funds to report their respective share of the outstanding debt issuance as of December 31, 2019. See Note 16.

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, 2020.

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, 2020 was \$3,654,736.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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, 2020, is presented below.

	Water Fund	Sewer Fund	License Bureau Fund	Totals
Assets				
Current	\$ 30,311	\$ 109,686	\$ 30,773	\$ 170,770
Noncurrent	4,421,510	2,824,499	4,520	7,250,529
Deferred Outflows	1,506	1,243	2,749	5,498
Liabilities				
Current	105,743	62,240	6,283	174,266
Long-term	2,955,947	1,873,596	37,282	4,866,825
Deferred Inflows	503	415	918	1,836
Net Position				
Net investment in capital assets	1,398,886	918,448	4,520	2,321,854
Restricted	-	-	-	-
Unrestricted	(7,752)	80,729	(10,961)	62,016
Operating revenues	263,224	277,578	135,953	676,755
Operating expenses (excl. depreciation)	162,846	131,122	124,215	418,183
Depreciation	70,549	94,722	624	165,895
Operating income (loss)	29,829	51,734	11,114	92,677
Capital grants	-	-	-	-
Other non-operating revenues (expenses)	(76,811)	(97,501)	-	(174,312)
Transfers in (out)	458,935	-	4,518	463,453
Change in net position	411,953	(45,767)	15,632	381,818
Beginning net position	979,181	1,044,944	(22,073)	2,002,052
Ending net position	1,391,134	999,177	(6,441)	2,383,870
Net cash provided by:				
Operating activities	100,802	144,569	22,880	268,251
Noncapital financing	3,377	50,897	-	54,274
Capital and related financing activities	(141,326)	(212,991)	-	(354,317)
Investing activities	-	-	-	-
Beginning cash	37,147	17,525	7,305	61,977
Ending cash	-	-	30,185	30,185

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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 17 active and 6 deferred members as of December 31, 2020.

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.

Benefit increases are provided to benefit recipients each January.

The postretirement increase will be equal to 50% of the cost-of-living (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients 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 a 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, 2020

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.

Benefit increases are provided to benefit recipients each January. The postretirement increase will be fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. 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 2020 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, 2020 were \$32,600. 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 11.3% of pay to 11.8% and employer rates increased from 16.95% to 17.70% on January 1, 2020. The City's contributions to the Police and Fire Fund for the year ending December 31, 2020 were \$54,009. 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 2020, the City remitted total state fire aid of \$36,742 to the relief association. No minimum municipal contribution was required for 2020.

Pension Costs

General Employees Fund Pension Costs

At December 31, 2020, the City reported a liability of \$365,723 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. 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 \$11,299.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

The net pension liability was measured as of June 30, 2020 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, 2019 through June 30, 2020 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the City's proportional share was .0061% which was an increase of .0002% from its proportion measured as of June 30, 2019.

The City's proportional share of the net pension liability	\$ 365,723
State of Minnesota's proportionate share of the net pension liability associated with the City	11,299
	<u>\$ 377,022</u>

For the year ended December 31, 2020, the City recognized pension expense of \$32,477 for its proportionate share of the General Employees Plan's pension expense. The City recognized an additional \$983 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, 2020, 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	\$ 3,218	\$ 1,384
Changes in Actuarial Assumptions	-	11,189
Difference between projected and actual investment earnings	10,131	-
Changes in proportion	8,293	-
Contributions paid to PERA subsequent to the measurement date	16,018	-
Total	<u>\$ 37,660</u>	<u>\$ 12,573</u>

\$16,018 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, 2021. 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
2021	(13,418)
2022	3,953
2023	9,699
2024	8,835

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Police and Fire Fund Pension Costs

At December 31, 2020, the City has a liability of \$363,798 for its proportionate share of the Fund's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers.

The City's proportionate share was .0276% at the end of the measurement period and .024% for the beginning of the period.

The State of Minnesota contributed \$13.5 million to the Police and Fire fund in the plan fiscal year ended June 30, 2020. The contribution consisted of \$4.5 million in direct state aid that does meet the definition of a special funding situation and \$9.0 million in supplemental state aid that does not meet the definition of a special funding situation. The \$4.5 million direct state was paid October 1, 2019. Thereafter, by October 1 of each year, the state will pay \$9 million to the fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90% funded or, until the state patrol plan is 90% funded, whichever occurs later.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire retirement plan schedule of employer allocations and schedule of pension amounts by employer, current reporting period only (pension allocation schedules) for the \$4.5 million in direct state aid. Police and Fire plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2020, the City recognized pension expense of \$62,894 for its proportionate share of pension expense. The City recognized \$2,632 as grant revenue for its proportionate share of the State's pension expense for the contribution of \$4.5 million to the fund.

The State of Minnesota is not included as a non-employer contributing entity in the fund allocations scheduled for the \$9 million in supplemental state aid. The City recognized \$2,484 for the year ended December 31, 2020 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 fund.

The City's proportional share of the net pension liability	\$ 363,798
State of Minnesota's proportionate share of the net pension liability associated with the City	8,555
	<u>\$ 372,353</u>

At December 31, 2020, 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	\$ 10,179	\$ -
Changes in Actuarial Assumptions	-	10,851
Difference between projected and actual investment earnings	22,723	-
Changes in proportion	49,742	3,751
Contributions paid to PERA subsequent to the measurement date	26,536	-
Total	<u>\$ 109,180</u>	<u>\$ 14,602</u>

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

\$26,536 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
2021	(1,969)
2022	26,578
2023	27,681
2024	15,752

Deer River Firefighters Relief Association Pension Costs

The Deer River Firefighters Relief Association's net pension liability was measured as of December 31, 2019 under the allowable lookback method with a December 31, 2020 reporting date for the City as follows:

Service Cost	\$ 28,505
Interest	28,255
Changes in benefit terms	32,515
Benefit payments	(22,000)
Net change in total pension liability	67,275
Total Pension Liability - Beginning of the Year	473,889
Total Pension Liability - End of the Year	541,164
Fiduciary Net Position	677,682
Net Pension Asset at end of the year	\$ 136,518

At December 31, 2020, 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
Difference between expected and actual liability	\$ -	\$ 46,511
Change of assumptions	12,548	13,784
Net difference between projected and actual investment earnings		12,010
Contributions to the plan subsequent to the measurement date	-	-
Total	\$ 12,548	\$ 72,305

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	(11,768)
2021	(7,650)
2022	(1,757)
2023	(19,083)
2024	(7,062)
Thereafter	(12,437)

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2020, was as follows:

General	\$	32,477
Police and Fire		62,894
Fire Relief		67,275
	\$	<u>162,646</u>

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

	<i>GERF</i>	<i>Police and Fire</i>	<i>Relief Association</i>
Inflation	2.25% per year	2.50% per year	2.50% per year
Active Member Payroll Growth	3.00% per year	3.25% per year	-
Investment Rate of Return	7.5%	7.5%	5.75%

General Employees Plan and Police and Fire Plan

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Publ-2010 general employee mortality table for the general plan and RP 2014 tables for the police and fire plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the general plan. For the police and fire plan, cost of living benefit increases for retirees are 1% per year as set by state statute.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the general employees plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The four year experience study used for the police and fire was completed in 2016. Inflation and investment return assumptions for the police and fire are based on the general employees retirement plan experience study completed in 2019. The most recent four year experience studies for the police and fire plan were completed in 2020. The recommended assumptions for those plans were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the legislature.

The following changes in actuarial assumptions occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub 2010 general mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB 2010 general/teacher disabled annuitant mortality table, with adjustments.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

- The mortality improvement scale was changed from scale MP 2018 to scale MP 2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% joint and survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% joint and survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0% after. Augmentation was eliminated for privatization occurring after June 30, 2020.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2018 to MP-2019.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

Deer River Firefighters Relief Association

- No changes since the prior valuation.

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 stocks	35.5%	5.10%
International stocks	17.5%	5.30%
Bonds (fixed income)	20.0%	0.75%
Alternative assets	25.0%	5.90%
Cash	2.0%	0.0%
Total	100%	

Deer River Firefighters Relief Association

The long-term expected rate of return on pension plan investments is 5.75%. 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%

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

General and Police/Fire Plans

The discount rate used to measure the total pension liability in 2020 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	586,127	365,723	183,907
City's proportion share of the Police and Fire Fund	725,101	363,798	64,882
City's proportion share of the Relief Association's net pension liability (asset)	(120,430)	(136,518)	(151,927)

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)	\$ 365,723	\$ 363,798	\$ (136,518)	\$ 593,003
Deferred inflows	12,573	14,601	72,305	99,479
Deferred outflows	37,660	109,180	12,548	159,388

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.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 9 DEFINED CONTRIBUTION PLAN (Continued)

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 2020 were:

Contributions - Employee	\$	1,144
Contributions - Employer	\$	1,144
Percentage of Covered Payroll - Employee		5%
Percentage of Covered Payroll - Employer		5%
Require Rate		5%

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, 2020. 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 \$125,404.

NOTE 12 DEFICIT FUND BALANCES

The following funds had deficit fund balances as of December 31, 2020.

Major Funds		
General	\$	(73,813)
Highway 6 Capital Projects Fund		(527,009)
License Bureau		(6,441)
Nonmajor Funds		
Highway 2 Capital Projects Fund		(14,744)
Pond expansion Capital Projects Fund		(126,143)
South End Phase 2 Capital Projects Fund		(253,775)

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 exceed coverage in the past three years.

NOTE 14 INTERFUND RECEIVABLES AND PAYABLES

The Municipal Forest Fund, Fire Fund, and the Sewer Fund temporarily loaned the general and several capital project funds money to assist with cash flow. In addition funds drawn on the temporary financing and placed in the Highway 6 capital projects funds also helped finance various construction projects. The City anticipates interfund borrowing to be repaid with additional bond proceeds in the subsequent year.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 14 INTERFUND RECEIVABLES AND PAYABLES (Continued)

Interfund receivables and payables at December 31, 2020 are as follows:

		Due from other funds	Due to other funds
Major	General Fund	\$ -	\$ 21,702
	Fire Department - Special Revenue Fund	62,587	-
	North/South - Capital Projects Fund	560,277	-
	Highway 6 - Capital Projects Fund	-	520,501
	Water Fund - Proprietary Fund	-	3,377
	Sewer Fund - Proprietary Fund	76,293	-
Nonmajor	Municipal Forest - Special Revenue Fund	232,907	-
	Highway 2 - Capital Projects Fund	-	14,744
	Pond Expansion - Capital Projects Fund	-	124,445
	South End Phase 2 - Capital Projects Fund	-	247,295
		<u>\$ 932,064</u>	<u>\$ 932,064</u>

NOTE 15 TRANSFERS BETWEEN FUNDS

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

	Transfer In	Transfer Out
Major Funds		
General	\$ 14,689	\$ -
North/South Capital	-	-
Highway 6 Capital	-	245,390
Water Fund	458,935	-
License Bureau	4,518	-
Nonmajor Funds		
Municipal Forest Fund	-	4,518
TIF District 1 Capital Project	-	14,689
South End Phase 2 Capital	-	96,723
Pond Expansion Capital Project	-	116,822
	<u>\$ 478,142</u>	<u>\$ 478,142</u>

The City approved the transfer of \$14,689 for administrative costs incurred by the general fund after the decertification of the TIF capital projects fund. The City also approved transfers of \$4,518 to the license bureau for office improvements and \$458,935 to the enterprise funds for upgrades to the city wide infrastructure system.

CITY OF DEER RIVER, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 16 PRIOR PERIOD ADJUSTMENT

	Governmental Activities	Business-Type Activities			Total
		Water	Sewer	License Bureau	
Net Position - December 31, 2019					
As originally stated	\$ (284,832)	\$ 2,187,881	\$ 1,862,594	\$ (22,073)	\$ 4,028,402
Transfer debt	2,026,350	(1,208,700)	(817,650)	-	(2,026,350)
As restated	\$ 1,741,518	\$ 979,181	\$ 1,044,944	\$ (22,073)	\$ 2,002,052

Provisions of the \$3,555,000 GO Bond, Series 2018B issuance, required that principal and interest 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. As such, the City had originally recorded the entire principal amount outstanding on the debt issuance in the City's general long term debt account group since it was anticipated that the repayment would come from special assessments against respective property owners and not entirely from user fees.

However during 2020 the City determined that due to statutory limitations on assessments, the City would not be able to finance as much of the debt from special assessments as originally anticipated at the time of the debt issuance. Accordingly the City determined that a portion of the outstanding debt issuance as of December 31, 2019 should be transferred to the water and sewer for their proportionate share to more accurately reflect the financing the infrastructure projects.

NOTE 17 EMPHASIS OF MATTER

As of December 31, 2020, the City's general fund reflects a deficit of \$73,813. In addition, the fund also has temporarily borrowed \$21,702 from other funds due to cash flow constraints. Several funds incurred interfund borrowing for capital purposes depleting the municipal forest fund's cash balance. The City currently has several city-wide infrastructure projects involving street and utility upgrades in which they are working on multiple financing packages that may include a combination of grants and loans. However none of these were finalized as of December 31, 2020 and as a result, the City utilized interim financing and interfund borrowing in order to pay for these projects in 2020. The City continues to carefully monitor budgets and is evaluating rate and fee structures in order to improve the cash flow situation.

NOTE 18 CONTINGENCIES

Recently the Minnesota Tax Court ruled in favor of a taxpayer in how the taxpayer's pipeline system was valued for property taxes across Northern Minnesota. The total settlement is estimated to exceed \$30 million. The taxpayer's system does pass through the City of Deer River, and accordingly, the City would be a party to the settlement. A large portion of the affected governmental entities have relatively small budgets and payment of the settlement would be very detrimental to the overall financial health of many of those entities. Accordingly, those governmental entities are asking for the State of Minnesota to pay the settlement. At this time it is not known how much of the settlement, if any, the City of Deer River will ultimately be required to pay.

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, 2020

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

Fiscal Year Ending June 30,	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability		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
			Associated with the City	Total			
2020	0.0061%	\$ 365,723	\$ 11,299	\$ 377,022	\$ 438,379	83.43%	79.06%
2019	0.0059%	\$ 326,198	\$ 10,166	\$ 336,364	\$ 408,253	79.90%	80.23%
2018	0.0056%	\$ 310,665	\$ 10,219	\$ 320,884	\$ 377,229	82.35%	79.53%
2017	0.0051%	\$ 325,581	\$ 2,633	\$ 328,214	\$ 344,707	94.45%	75.90%
2016	0.0058%	\$ 470,931	\$ 1,841	\$ 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)		
2020	\$32,600	\$32,600	-	\$434,650	7.50%
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, 2020

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING DECEMBER 31, 2020

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.

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.

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.

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.

2019 The mortality projection scale was changed from MP-2017 to MP-2018. The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2020 Changes in actuarial assumptions included (1) the price inflation assumption was decreased from 2.5% to 2.25% (2) the payroll growth assumption was decreased from 3.25% to 3% (3) assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates (4) assumed rates of retirement were changed as recommended by the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements (5) assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter (6) Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females (7) the base mortality table for healthy annuitants and employees were changed from the RP-2014 table to the PUB-2010 general mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-210 General/teacher disabled annuitant mortality table, with adjustments. (8) the mortality improvement scale was changed from Scale MP-2018 to MP-2019 (9) the assumed spouse age difference was changed from two years older for females to one year older (10) the assumed number of married male new retirees electing the 100% joint & survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% joint & survivor option changed from 1.5% to 30%. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly. Changes in plan provisions included augmentation for current privatized members was reduced from 2% for the period July 1, 2020 through December 31, 2023 and 0% after. Augmentation was eliminated for privatizations occurring after June 30, 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)
PUBLIC EMPLOYEES POLICE AND FIRE FUND**

December 31, 2020

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

Fiscal Year Ending June 30,	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability		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
			Associated with the City	Total			
2020	0.0276%	\$ 363,798	\$ 8,555	\$ 372,353	\$ 311,397	116.83%	87.19%
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 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)		
2020	\$54,009	\$54,009	-	\$305,136	17.70%
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, 2020

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING DECEMBER 31, 2020

- 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.
- 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.
- 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.
- 2018 Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2016 to MP-2017.
- 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.
- 2020 Changes in Actuarial Assumptions - The mortality projection scale was changed from MP-2018 to MP-2019.
Changes in Plan Provisions - There have been no changes since the prior valuation.

CITY OF DEER RIVER, MINNESOTA

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

December 31, 2020

SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIO

	2015	2016	2017	2018	2019	2020
Total Pension Liability						
Service Cost	\$ 22,211	\$ 22,822	\$ 20,033	\$ 25,554	\$ 24,696	\$ 28,505
Interest	20,575	21,683	27,031	21,727	23,380	28,255
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	32,515
Benefit payments	(46,500)	-	(35,000)	(90,000)	-	(22,000)
Net Change in total pension liability	(3,714)	26,501	16,554	(49,502)	108,917	67,275
Total Pension Liability - Beginning of the year	375,133	371,419	397,920	414,474	364,972	473,889
Total Pension Liability - End of the year	\$ 371,419	\$ 397,920	\$ 414,474	\$ 364,972	\$ 473,889	\$ 541,164
Plan Fiduciary Net Position						
Contributions - municipal and state	\$ 42,189	\$ 37,372	\$ 38,604	\$ 37,142	\$ 35,339	\$ 36,290
Contributions - members/donations	-	130	130	-	110	-
Net investment returns	25,402	(15,958)	54,818	57,069	(51,167)	92,785
Benefit payments	(46,500)	-	(35,000)	(90,000)	-	(22,000)
Administrative expenses	(1,775)	(2,050)	(1,000)	(1,300)	(1,125)	(1,975)
Net Change in plan fiduciary net position	19,316	19,494	57,552	2,911	(16,843)	105,100
Plan Fiduciary Net Position - Beginning of the year	490,152	509,468	528,962	586,514	589,425	572,582
Plan Fiduciary Net Position - End of the year	\$ 509,468	\$ 528,962	\$ 586,514	\$ 589,425	\$ 572,582	\$ 677,682
Net Pension Liability (Asset) - End of the year	\$ (138,049)	\$ (131,042)	\$ (172,040)	\$ (224,453)	\$ (98,693)	\$ (136,518)
Plan Fiduciary Net Position as % of Total Pension Liability	137.2%	132.9%	141.5%	161.5%	120.8%	125.2%
Covered Payroll	na	na	na	na	na	na
Net Pension Liability as a % of Covered Payroll	na	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, 2020

SCHEDULE OF CITY'S CONTRIBUTIONS

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

SCHEDULE OF INVESTMENT RETURNS

2020	16.32%
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, 2020

	Special Revenue Fund	Special Revenue Fund	Special Revenue Fund	Capital Projects Fund	Capital Projects Fund
	Municipal Forest Fund	Community Development Revolving Fund #1	CARES Covid 19	TIF District 1	Highway 2 Project
Assets					
Cash	\$ -	\$ 2,765	\$ -	\$ -	\$ -
Due from other governments	1,591	-	-	-	-
Notes receivable	-	41	-	-	-
Due from other funds	232,907	-	-	-	-
Total Assets	\$ 234,498	\$ 2,806	\$ -	\$ -	\$ -
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 2,280	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	14,744
Deferred Inflows of Resources	2,280	-	-	-	14,744
Notes receivable	-	41	-	-	-
Fund balances					
Restricted	-	2,765	-	-	-
Committed	232,218	-	-	-	(14,744)
Unassigned	-	-	-	-	(14,744)
Total Fund Balances	232,218	2,765	-	-	(14,744)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 234,498	\$ 2,806	\$ -	\$ -	\$ -

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2020

(Continued from page 58)

	Capital Projects Fund	Capital Projects Fund	Total Non- Major Governmental Funds
Assets			
Cash	-	\$ -	\$ 2,765
Accounts receivable	-	-	1,591
Notes receivable	-	-	41
Due from other funds	-	-	232,907
Total Assets	\$ -	\$ -	\$ 237,304
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	1,698	\$ 6,480	\$ 10,458
Due to other funds	124,445	247,295	386,484
	126,143	253,775	396,942
Deferred Inflows of Resources			
Notes receivable	-	-	41
Fund balances			
Restricted	-	-	2,765
Committed	-	-	232,218
Unassigned	(126,143)	(253,775)	(394,662)
Total Fund Balances	(126,143)	(253,775)	(159,679)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ -	\$ 237,304

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, 2020

	Special Revenue Fund	Special Revenue Fund	Special Revenue Fund	Special Revenue Fund	Capital Projects Fund	Capital Projects Fund
	Municipal Forest Fund	Community Development Revolving Fund #1	CARES Covid 19	TIF District 1	Highway 2 Project	
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ 10,965	\$ -	
Intergovernmental	3,800	-	74,305	-	6,305	
Charges for services	13,039	-	-	-	-	
Interest earnings	490	-	-	-	-	
Other revenues	-	780	-	-	-	
Total Revenues	17,329	780	74,305	10,965	6,305	
Expenditures						
General government	-	-	38,142	-	-	
Other	6,837	-	-	10,965	-	
Capital outlay	-	-	36,163	-	1,220	
Total Expenditures	6,837	-	74,305	10,965	1,220	
Excess of Revenues Over (Under) Expenditures	10,492	780	-	-	5,085	
Other Financing Uses						
Transfers out	(4,518)	-	-	(14,689)	-	
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	5,974	780	-	(14,689)	5,085	
Fund Balance - Beginning of Year	226,244	1,985	-	14,689	(19,829)	
Fund Balance - End of Year	\$ 232,218	\$ 2,765	\$ -	\$ -	\$ (14,744)	

(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, 2020

(Continued from page 60)

	Capital Projects Fund	Capital Projects Fund	Total Non- Major Governmental Funds
	Pond Expansion	South End Phase 2	
Revenues			
Taxes	\$ -	\$ -	\$ 10,965
Intergovernmental	-	-	84,410
Charges for services	-	-	13,039
Interest earnings	-	-	490
Other revenues	-	-	780
Total Revenues	-	-	109,684
Expenditures			
General government	-	-	38,142
Other	-	-	17,802
Capital outlay	-	118,217	155,600
Total Expenditures	-	118,217	211,544
Excess of Revenues Over (Under) Expenditures	-	(118,217)	(101,860)
Other Financing Uses			
Transfers out	(116,822)	(96,723)	(232,752)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(116,822)	(214,940)	(334,612)
Fund Balance - Beginning of Year	(9,321)	(38,835)	174,933
Fund Balance - End of Year	\$ (126,143)	\$ (253,775)	\$ (159,679)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

SCHEDULE OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2020

	Budget	Actual	Variance
Property Taxes	\$ 739,030	\$ 789,817	\$ 50,787
Licenses and Permits	15,500	9,371	(6,129)
Intergovernmental			
Local government aid	295,625	295,625	-
Other grants and aids	38,000	38,585	585
Total Intergovernmental	333,625	334,210	585
Charges for Services	55,000	14,338	(40,662)
Fines and Forfeitures	6,000	13,484	7,484
Other Revenues			
Contributions and donations	3,000	14,150	11,150
Refunds and reimbursements	46,000	39,047	(6,953)
Other revenues	61,000	91	(60,909)
Total Other	110,000	53,288	(56,712)
Total Revenues	<u>\$ 1,259,155</u>	<u>\$ 1,214,508</u>	<u>\$ (44,647)</u>

CITY OF DEER RIVER, MINNESOTA

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2020

	Budget	Actual	Variance
General Government			
Mayor and council	\$ 44,085	\$ 42,882	\$ 1,203
Administration and finance	255,272	276,337	(21,065)
Elections	2,500	1,524	976
Legal	21,000	10,028	10,972
Public buildings	17,300	13,222	4,078
Capital outlay	15,500	-	15,500
Total General Government	355,657	343,993	11,664
Public Safety			
Police protection	532,141	522,015	10,126
Building inspection	9,000	5,738	3,262
Civil defense	700	600	100
Animal control	1,000	102	898
Capital outlay	16,100	16,100	-
Total Public Safety	558,941	544,555	14,386
Highways and Streets			
Streets and alleys	243,047	171,865	71,182
Street lighting	21,550	19,246	2,304
Capital outlay	14,100	-	14,100
Total Highways and Streets	278,697	191,111	87,586
Debt Service	28,402	28,402	-
Culture and Recreation			
Recreation activities and facilities	51,695	43,099	8,596
Capital outlay	9,000	8,267	733
	60,695	51,366	9,329
Total Expenditures	\$ 1,282,392	\$ 1,159,427	\$ 122,965

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS

December 31, 2020

	Fire Department	Municipal Forest	CARES Covid 19	Community Development Revolving Fund #1	Community Development Revolving Fund #2	Total
Assets						
Cash	\$ 577,456	\$ -	\$ -	\$ 2,765	\$ 31,385	\$ 611,606
Accounts receivable	36	1,591	-	-	-	1,627
Due from other governments	80,005	-	-	-	-	80,005
Unremitted taxes	619	-	-	-	-	619
Due from other funds	62,587	232,907	-	-	-	295,494
Notes receivable	-	-	-	41	359,202	359,243
Total Assets	\$ 720,703	\$ 234,498	\$ -	\$ 2,806	\$ 390,587	\$ 1,348,594

Liabilities, Deferred Inflows of Resources, and Fund Balance

Liabilities						
Accounts payable	\$ 41,849	\$ 2,280	\$ -	\$ -	\$ -	\$ 44,129
Deferred Inflows of Resources						
Notes receivable	-	-	-	41	359,202	359,243
Fund Balance						
Restricted	-	-	-	2,765	31,385	34,150
Committed	678,854	232,218	-	-	-	911,072
Total Fund Balance	678,854	232,218	-	2,765	31,385	945,222
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 720,703	\$ 234,498	\$ -	\$ 2,806	\$ 390,587	\$ 1,348,594

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, 2020

	Fire Department	Municipal Forest	CARES Covid 19	Community Development Revolving Fund #1	Community Development Revolving Fund #2	Total
Revenues						
Property taxes	\$ 30,819	\$ -	\$ -	\$ -	\$ -	\$ 30,819
Intergovernmental	44,000	3,800	74,305	-	-	122,105
Charges for services	190,365	13,039	-	-	-	203,404
Interest earnings	985	490	-	-	-	1,475
Other revenues	30,626	-	-	780	-	31,406
Total Revenues	296,795	17,329	74,305	780	-	389,209
Expenditures						
Salaries and benefits	67,400	-	15,080	-	-	82,480
Communications	1,884	-	-	-	-	1,884
Insurance	11,172	-	-	-	-	11,172
Other	1,523	6,837	-	-	-	8,360
Professional services	5,232	-	-	-	-	5,232
Relief Association	36,742	-	-	-	-	36,742
Repairs and maintenance	12,148	-	-	-	-	12,148
Supplies	17,859	-	23,062	-	-	40,921
Travel and training	11,896	-	-	-	-	11,896
Utilities	6,456	-	-	-	-	6,456
Debt service - principal	6,360	-	-	-	-	6,360
Debt service - interest	4,503	-	-	-	-	4,503
Capital outlay	189,929	-	36,163	-	-	226,092
Total Expenditures	373,104	6,837	74,305	-	-	454,246
Excess of Revenues Over (Under) Expenditures	(76,309)	10,492	-	780	-	(65,037)
Other Financing Uses						
Proceeds from the issuance of debt	219,100	-	-	-	-	219,100
Transfers out	-	(4,518)	-	-	-	(4,518)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	142,791	5,974	-	780	-	149,545
Fund Balance - Beginning of Year	536,063	226,244	-	1,985	31,385	795,677
Fund Balance - End of Year	\$ 678,854	\$ 232,218	\$ -	\$ 2,765	\$ 31,385	\$ 945,222

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA
COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS
 December 31, 2020

	Highway 6 Project	TIF District 1	North/South Project	Highway 2 Project
<i>Assets</i>				
Cash	-	-	-	-
Due from other funds	-	-	560,277	-
	\$ -	\$ -	\$ 560,277	\$ -
	-	-	560,277	-
	\$ -	\$ -	\$ 560,277	\$ -
<i>Liabilities, Deferred Inflows of Resources, and Fund Balance</i>				
Liabilities				
Accounts payable	6,508	-	-	-
Due to other funds	520,501	-	-	14,744
	527,009	-	-	14,744
Total Liabilities	-	-	-	-
Deferred Inflows of Resources	-	-	-	-
Fund Balance				
Restricted	-	-	560,277	-
Unassigned	(527,009)	-	-	(14,744)
	(527,009)	-	560,277	(14,744)
Total Fund Balance	-	-	560,277	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ -	\$ 560,277	\$ -

(Continued)

See accompanying notes and auditor's report.

CITY OF DEER RIVER, MINNESOTA

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS

December 31, 2020

	Pond Expansion	South End Phase 2	Total
<i>Assets</i>			
Cash	\$ -	\$ -	\$ -
Due from other funds	-	-	560,277
	\$ -	\$ -	\$ 560,277
<i>Liabilities, Deferred Inflows of Resources, and Fund Balance</i>			
<i>Liabilities</i>			
Accounts payable	\$ 1,698	\$ 6,480	\$ 14,686
Due to other funds	124,445	247,295	906,985
	126,143	253,775	921,671
Deferred Inflows of Resources	-	-	-
<i>Fund Balance</i>			
Restricted	-	-	560,277
Unassigned	(126,143)	(253,775)	(921,671)
Total Fund Balance	(126,143)	(253,775)	(361,394)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ -	\$ 560,277

See accompanying notes and auditor's report.

CITY OF DER RIVER, MINNESOTA

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

For the Year Ended December 31, 2020

	Highway 6 Project	TIF District 1	North/South Project	Highway 2 Project
Revenues				
Property taxes	\$ -	\$ 10,965	\$ -	\$ -
Intergovernmental	-	-	-	6,305
Total Revenues	-	10,965	-	6,305
Expenditures				
Other	-	10,965	-	-
Capital outlay	134,759	-	1,456	1,220
Total Expenditures	134,759	10,965	1,456	1,220
Excess of Revenues Over (Under) Expenditures	(134,759)	-	(1,456)	5,085
Financings Uses				
Transfers out	(245,390)	(14,689)	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(380,149)	(14,689)	(1,456)	5,085
Fund Balance - Beginning of Year	(146,860)	14,689	561,733	(19,829)
Fund Balance - End of Year	\$ (527,009)	\$ -	\$ 560,277	\$ (14,744)

(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, 2020

(Continued from page 68)

	Pond Expansion	South End Phase 2	Total
Revenues			
Property taxes	\$ -	\$ -	\$ 10,965
Intergovernmental	-	-	6,305
Total Revenues	-	-	17,270
Expenditures			
Other	-	-	10,965
Capital outlay	-	118,217	255,652
Total Expenditures	-	118,217	266,617
Excess of Revenues Over (Under) Expenditures	-	(118,217)	(249,347)
Financing Uses			
Transfers out	(116,822)	(96,723)	(473,624)
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(116,822)	(214,940)	(722,971)
Fund Balance - Beginning of Year	(9,321)	(38,835)	361,577
Fund Balance - End of Year	\$ (126,143)	\$ (253,775)	\$ (361,394)



**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, 2020, 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 25, 2021.

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. (2020-001, 2020-002 and 2020-003)

Finding 2020-001 Lack of segregation of duties

Two individuals are primarily responsible for all receipting, disbursements, reconciling, and reporting functions within the City's financial processes. One of the individuals also has the ability to make journal entries into the general ledger without additional approval.

Condition: The City does not have an adequate number of staff in order to segregate all financial duties for optimum internal control purposes.

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 should be cognizant of this situation and determine appropriate oversight responsibility as it deems appropriate for the size and complexity of the City's financial processes.

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 2020-002 The City requested assistance with preparation of the financial statements and related notes

Condition: The City does not have staff available 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.

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 whenever possible in order to assist with the preparation of the financial reports and notes.

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.

Finding 2020-003 Significant Proposed Audit Entries

Condition: The City did not have accrual entries recording in the financial statements prior to the onset of the audit.

Criteria: The City should make every effort to have all accrual entries in the system prior to the onset of the audit.

Effect: The entries along with other proposed audit entries created a significant change to the City's financial statements from the unaudited balances.

Prevalence: The situation was enhanced in the current year due to multiple infrastructure projects and the impacts of COVID-19 on the city's resources.

Recommendation: The staff make every effort to complete the accrual entries prior to the onset of the audit.

City's response: The City is aware of the situation and will make every effort in the upcoming year to minimize significant year end entries.

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 deposits and investments section 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 item 2020-004. Also, 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, conflict of interest, public indebtedness, claims and disbursements, miscellaneous provision, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. 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 2019-004 Insufficient Collateral Coverage on Deposits

Condition: The City did not have adequate collateral on deposits at times during the year.

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.

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 25, 2021