

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
CITY OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-4
REQUIRED SUPPLEMENTARY INFORMATION		
Management's Discussion and Analysis		5-10
BASIC FINANCIAL STATEMENTS		
Government-wide Financial Statements:		
Statement of Net Position	A-1	11
Statement of Activities	A-2	12
Fund Financial Statements:		
Balance Sheet – Governmental Funds	A-3	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	A-4	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	A-5	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	A-6	16
Statement of Net Position – Proprietary Funds	A-7	17-18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	A-8	19
Statement of Cash Flows – Proprietary Funds	A-9	20-21
Notes to the Financial Statements		22-38
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General Fund		39-40
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Community and Economic Development Fund		41
Schedule of City Contributions		42
Schedule of City's Share of Net Pension Liability		43
Notes to the Required Supplementary Information		44-46

TABLE OF CONTENTS - Page 2

	<u>Exhibit</u>	<u>Page</u>
SUPPLEMENTARY INFORMATION		
Combining Balance Sheet – Nonmajor Governmental Funds	B-1	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	B-2	48
Schedule of Changes in Fund Balances and Net Position		49
Schedule of Indebtedness		50
OTHER REPORTS		
Independent Auditor’s Report on Minnesota Legal Compliance		51
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 <i>Government Auditing Standards</i>		52-53
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance		54-55
Schedule of Expenditures of Federal Awards		56
Notes to the Schedule of Expenditures of Federal Awards		57
Schedule of Findings and Questioned Costs		58-59
Summary Schedule of Prior Audit Findings		60
Corrective Action Plan		61

**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2019**

Mayor	Jeff Pelowski
Council	Patrick Novacek
Council	Amy Bassingthwaite
Council	Jane Evans
Council	Brady Johnson
City Clerk/Treasurer	Beth Carlson
Community Development Coordinator	Todd Peterson

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on Governmental Activities

Management has not adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* for the Fire Relief Association. Accounting principles generally accepted in the United States of America require that GASB Statement No. 68 be adopted for governmental activities, including Fire Relief Associations. The amount by which this departure would affect the assets, net position, and revenues of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Roseau, Minnesota, as of December 31, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roseau's basic financial statements. The combining statements, schedule of changes in fund balances and net position, and schedule of indebtedness as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2020, on our consideration of the City of Roseau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Roseau's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

April 2, 2020

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**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

As management of the City of Roseau, we offer readers of the City of Roseau's financial statements this narrative overview and analysis of the financial activities of the City of Roseau for the fiscal year ended December 31, 2019.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$58,496,755 (net position). Of this amount, \$8,232,915 may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, the unrestricted fund balance for the general fund was \$484,966 or 16% of the total general fund expenditures.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference 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 the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, economic development, and airport. The business-type activities of the City include, liquor, water, electric, sewer service, townhomes, and garbage.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains eight 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

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

general fund, community and economic development fund, and capital projects fund, all of which are considered major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and community and economic development fund to demonstrate compliance with this budget.

Proprietary Funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its liquor operations, water, electric, sewer service, townhomes, and garbage collection.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for all proprietary funds all of which are considered major funds, except for the garbage collection fund.

Notes to the 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 combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budgetary comparisons.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$58,496,755 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 2,705,123	\$ 2,627,127	\$ 8,484,329	\$ 8,461,493	\$ 11,189,452	\$ 11,088,620
Capital Assets	44,999,528	43,652,979	7,456,195	7,923,854	52,455,723	51,576,833
Total Assets	<u>47,704,651</u>	<u>46,280,106</u>	<u>15,940,524</u>	<u>16,385,347</u>	<u>63,645,175</u>	<u>62,665,453</u>
Deferred Outflows of Resources	455,420	674,161	29,195	67,644	484,615	741,805
Long-term Liabilities	1,182,682	1,215,784	2,992,444	2,997,040	4,175,126	4,212,824
Other Liabilities	204,644	171,080	434,516	424,014	639,160	595,094
Total Liabilities	<u>1,387,326</u>	<u>1,386,864</u>	<u>3,426,960</u>	<u>3,421,054</u>	<u>4,814,286</u>	<u>4,807,918</u>
Deferred Inflows of Resources	738,728	967,313	80,021	110,822	818,749	1,078,135
Net Position						
Net Investment in						
Capital Assets	44,831,928	43,432,215	4,929,829	5,386,127	49,761,757	48,818,342
Restricted	176,027	155,801	326,056	278,145	502,083	433,946
Unrestricted	1,026,062	1,012,074	7,206,853	7,256,843	8,232,915	8,268,917
Total Net Position	<u>\$ 46,034,017</u>	<u>\$ 44,600,090</u>	<u>\$ 12,462,738</u>	<u>\$ 12,921,115</u>	<u>\$ 58,496,755</u>	<u>\$ 57,521,205</u>

A portion of the City's net position (85%) reflects its investment in capital assets (e.g., land, construction in process, buildings, improvements other than buildings, machinery and equipment), less any related debt used to acquire assets

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Charges for Services	\$ 283,206	\$ 257,238	\$ 7,395,692	\$ 7,486,100	\$ 7,678,898	\$ 7,743,338
Operating Grants and Contributions	182,460	251,101			182,460	251,101
Capital Grants and Contributions	2,222,710	640,497			2,222,710	640,497
General Revenues						
Taxes	1,234,598	1,217,658		6	1,234,598	1,217,664
Unrestricted State Aid	689,786	712,234			689,786	712,234
Unrestricted Investment Earnings	70,360	51,455	6,639	4,653	76,999	56,108
Sale of Capital Asset		76,800				76,800
Other General Revenue	138,425	218,497	17,508	20,219	155,933	238,716
Total Revenues	<u>4,821,545</u>	<u>3,425,480</u>	<u>7,419,839</u>	<u>7,510,978</u>	<u>12,241,384</u>	<u>10,936,458</u>
Expenses						
General Government	538,481	472,553			538,481	472,553
Public Safety	1,152,682	1,055,431			1,152,682	1,055,431
Public Works	1,213,438	1,179,615			1,213,438	1,179,615
Culture and Recreation	918,798	903,028			918,798	903,028
Economic Development	278,813	286,275			278,813	286,275
Airport	115,957	186,875			115,957	186,875
Interest on Long-term Debt	5,520	2,881			5,520	2,881
Municipal Liquor Store			1,638,894	1,616,887	1,638,894	1,616,887
Water			607,596	491,066	607,596	491,066
Electric			3,644,623	3,673,137	3,644,623	3,673,137
Sewer Service			541,913	446,845	541,913	446,845
Roseau Court Townhomes			196,783	192,923	196,783	192,923
Garbage			412,336	422,084	412,336	422,084
Total Expenses	<u>4,223,689</u>	<u>4,086,658</u>	<u>7,042,145</u>	<u>6,842,942</u>	<u>11,265,834</u>	<u>10,929,600</u>
Change in Net Position Before Transfers	597,856	(661,178)	377,694	668,036	975,550	6,858
Transfers	<u>836,071</u>	<u>836,071</u>	<u>(836,071)</u>	<u>(836,071)</u>		
Change in Net Position	1,433,927	174,893	(458,377)	(168,035)	975,550	6,858
Net Position - January 1,	<u>44,600,090</u>	<u>44,425,197</u>	<u>12,921,115</u>	<u>13,089,150</u>	<u>57,521,205</u>	<u>57,514,347</u>
Net Position - December 31	<u>\$ 46,034,017</u>	<u>\$ 44,600,090</u>	<u>\$ 12,462,738</u>	<u>\$ 12,921,115</u>	<u>\$ 58,496,755</u>	<u>\$ 57,521,205</u>

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Governmental Activities. The change in net position before transfers was an increase of \$597,856. The governmental activities received \$836,071 from the business-type activities during 2019, resulting in an increase in net position of \$1,433,927.

Business-type Activities. The change in net position before transfers was an increase of \$377,694. The business-type activities transferred \$836,071 to the governmental activities, resulting in a decrease in net position of \$458,377.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Major Funds

	Fund Balance / Net Position		Increase (Decrease)	Percentage
	12/31/2019	12/31/2018		Increase (Decrease)
Governmental Funds				
General	\$ 484,966	\$ 290,194	\$ 194,772	67%
Community and Economic Development	373,826	445,358	(71,532)	-16%
Capital Projects	(334,312)	(123,168)	(211,144)	-171%
Proprietary Funds				
Municipal Liquor Store	1,273,762	1,242,020	31,742	3%
Water	2,308,069	2,529,374	(221,305)	-9%
Electric	5,509,784	5,534,362	(24,578)	0%
Sewer Service	3,313,818	3,593,248	(279,430)	-8%
Roseau Court Townhomes	(592,777)	(583,221)	(9,556)	-2%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues over the budgeted amounts of \$109,301 and expended \$64,828 more than the budget.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2019, amounts to \$52,455,723 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings, and machinery and equipment.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 12,339,014	\$ 12,339,014	\$ 292,613	\$ 292,613	\$ 12,631,627	\$ 12,631,627
Construction in Process	2,240,853	1,014,149			2,240,853	1,014,149
Buildings	10,064,099	9,599,465	2,112,261	2,189,165	12,176,360	11,788,630
Improvements Other Than Buildings	19,034,659	19,351,055	33,568	42,553	19,068,227	19,393,608
Plant and Equipment			4,909,513	5,269,901	4,909,513	5,269,901
Machinery and Equipment	1,320,903	1,349,296	108,240	129,622	1,429,143	1,478,918
Total	<u>\$ 44,999,528</u>	<u>\$ 43,652,979</u>	<u>\$ 7,456,195</u>	<u>\$ 7,923,854</u>	<u>\$ 52,455,723</u>	<u>\$ 51,576,833</u>

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-term Debt. At the end of the current fiscal year, the City had \$2,693,966 in loans and other long-term obligations.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Loans Payable	\$	\$	\$ 2,526,366	\$ 2,537,727	\$ 2,526,366	\$ 2,537,727
Capital Lease	167,600	220,764			167,600	220,764
Total	<u>\$ 167,600</u>	<u>\$ 220,764</u>	<u>\$ 2,526,366</u>	<u>\$ 2,537,727</u>	<u>\$ 2,693,966</u>	<u>\$ 2,758,491</u>

Additional information on the City's long-term debt can be found in Note 9 of this report.

Economic Factors

Strong national economic conditions in 2019 carried over into Roseau's local economy. The City's largest employer, Polaris Industries, experienced increasing sales for locally produced products leading to increasing levels of production and need for additional labor throughout 2019. However, a limited local workforce continues to restrict the amount of growth Polaris Industries can reasonably achieve in this region. Thus, the City of Roseau through its Economic Development Authority continues to work with our area employers to develop a comprehensive marketing plan to market and grow our region's population, labor force and housing supply in the coming years.

Stable State and Federal budgets have resulted in consistent aids for local government units, including the City of Roseau. While State and Federal operational aides do not constitute a significant portion of the City of Roseau's budget, those aides do help provide additional improvements otherwise unaffordable to the community. The City of Roseau currently carries no general long-term debt obligations, maintains healthy fund balances, and enjoys newer infrastructure, placing the community in a good position to maintain existing services without significantly increasing tax or fee levels to local residents and businesses. In addition, the City of Roseau maintains a lean workforce and an overall streamlined operation. The City's on-going efforts to reduce costs of services along with its ability to supplement funding for general city operations with revenues generated from local enterprise operations keeps our community less dependent on State LGA for critical services. LGA represents less than 10% of the City's total operating revenue.

The City of Roseau's employment and tax base is largely dependent upon two major employers, Polaris Industries and LifeCare Medical Center. Both entities continue to show commitment to Roseau through significant investments in local facilities. Polaris continues to design and manufacture new products in Roseau including its entire snowmobile line, all of its ATV models and its military fit-up division. Many of Polaris' newest market entries have been designed and/or manufactured in the Roseau facility. In 2019 Polaris continued its' investment into the Roseau facility with major renovations and expansions to accommodate future growth.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

LifeCare Medical Center continues to invest in new improvements to its facility, purchase new equipment and add staff. In 2019 LifeCare Medical Center and Altru Clinic continued its facility expansion and renovations to house new services and patient care facilities. Altru Clinic and LifeCare MC also continue to add doctors and specialists to the local Roseau clinic to improve care services for local residents and reduce the number of transfers to other health care facilities.

A traditional barrier to growth in Roseau has been a lack of available housing for new residents. In 2019 the City and community partners began an initiative to increase the supply of workforce rental housing and single family housing lots. The lack of construction capacity in the region still continues to be a hurdle to rapid increases in housing stock.

The city of Roseau witnessed the loss of a major big box discount retailer in 2019, Shopko. The impacts of the closure of this store on the community have been significant as Shopko provided a local option for many daily consumer products not otherwise available at other outlets. There is concern that the closure of Shopko may lead to changing shopping patterns that could negatively impact other local retailers.

Agriculture continues to provide diversification and stability for the overall local economy. However, untimely and excessive rains in the fall of 2019 had impacts on the 2019 crops. While not as severe as the losses in the greater Red River Valley, some areas farmers experienced crop losses as a result flooded fields and the inability to remove crops in a timely manner.

In 2018 the U.S. Customs and Border Protection Agency instituted a new policy reducing the hours of operation of the Roseau Port of Entry from 8 am – 12 pm to 8 am – 8 pm. This U.S. port of entry provides the most direct access to Canada and the Northwest Angle of Minnesota for local residents and travelers to Lake of the Woods. It is believed by Roseau officials that this change has had negative impacts on the Roseau community by restricting access for residents of Canada and the NW Angle who work, shop and recreate in the Roseau area. Additionally, the Roseau border crossing witnessed a significant decline in truck traffic in 2019 versus previous years, decreasing traffic to local businesses catering to the transport industry. The City continues to work with its congressional delegation to restore the reduced hours and expand the port accessibility through remote processing technology.

The greatest issues of concern for the City's on-going operations include many of the following:

- Significant reductions or the elimination of aids and grants from the State and Federal Government for on-going city operations.
- Slowing economy or changing market forces resulting in reduced hours and/or major layoffs at area employers.
- Additional changes that would further restrict entry at the Roseau Port of Entry from Canada.
- Inability to provide sufficient workforce and housing supply in the community for local employers.
- Changing retail trends negatively impacting local retail businesses.
- Poor economic conditions resulting in increased tax delinquencies and reduced enterprise sales.
- Increasing costs of providing employee pensions and health benefits.
- Increasing costs of on-going operations as a result of unfunded State and Federal mandates.
- Changing political attitudes and regulations involving power generation from fossil fuels, of which, the City of Roseau is a coal-fired power generation owner and provider.
- Increased regulations related to sanitary sewer effluent, storm water discharge, and other environmental regulations on day-to-day city operations that would dramatically increase costs of service with limited ability to recapture those costs through improved service.
- State or Federal legislation restricting or eliminating the City's ability to operate various revenue generating enterprises and the transfer of those profits to the general fund.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk-Treasurer, City of Roseau, 121 Center Street East, Suite 202, Roseau, MN 56751.

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Exhibit A-1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 1,076,328	\$ 6,999,891	\$ 8,076,219
Receivables			
Accounts (Net of Allowance)	26,591	534,354	560,945
Delinquent Taxes	78,000		78,000
Special Assessments	555,700		555,700
Notes Receivable (Net of Allowance)	1,149,721		1,149,721
Internal Balances	(393,512)	393,512	
Due from Other Governments	212,295		212,295
Inventory		246,090	246,090
Restricted: Funded Reserves		291,083	291,083
Restricted: Tenant Security Deposits, Cash		19,399	19,399
Capital Assets			
Land	12,339,014	292,613	12,631,627
Construction in Process	2,240,853		2,240,853
Buildings	14,575,254	3,109,520	17,684,774
Improvements Other than Buildings	27,651,453	103,975	27,755,428
Plant and Equipment		16,924,151	16,924,151
Machinery and Equipment	3,477,115	709,727	4,186,842
Less: Accumulated Depreciation	(15,284,161)	(13,683,791)	(28,967,952)
Total Capital Assets, Net of Depreciation	<u>44,999,528</u>	<u>7,456,195</u>	<u>52,455,723</u>
TOTAL ASSETS	<u>47,704,651</u>	<u>15,940,524</u>	<u>63,645,175</u>
DEFERRED OUTFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	455,420	29,195	484,615
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>455,420</u>	<u>29,195</u>	<u>484,615</u>
LIABILITIES			
Accounts Payable	200,624	316,224	516,848
Accrued Payroll Expenses		881	881
Due to Other Governments	4,020	59,072	63,092
Consumer Deposits		52,999	52,999
Accrued Interest Payable		1,616	1,616
Prepaid Rent		1,255	1,255
Unearned Revenue		2,469	2,469
Noncurrent Liabilities			
Net Pension Liability	804,924	383,478	1,188,402
Due Within One Year	107,033	32,678	139,711
Due in More than One Year	270,725	2,576,288	2,847,013
TOTAL LIABILITIES	<u>1,387,326</u>	<u>3,426,960</u>	<u>4,814,286</u>
DEFERRED INFLOWS OF RESOURCES			
Cost Sharing Defined Benefit Pension Plan	738,728	80,021	818,749
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>738,728</u>	<u>80,021</u>	<u>818,749</u>
NET POSITION			
Net Investment in Capital Assets	44,831,928	4,929,829	49,761,757
Restricted for:			
Funded Reserves		291,083	291,083
MHFA - Residual Receipts		34,973	34,973
Economic Development	176,027		176,027
Unrestricted	<u>1,026,062</u>	<u>7,206,853</u>	<u>8,232,915</u>
TOTAL NET POSITION	<u>\$ 46,034,017</u>	<u>\$ 12,462,738</u>	<u>\$ 58,496,755</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

Exhibit A-3

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ 503,095	\$ 373,826	\$	\$ 199,407	\$ 1,076,328
Receivables					
Accounts	14,402		3,998	8,191	26,591
Tax Receivable - Delinquent	78,000				78,000
Special Assessments					
Delinquent	45,200				45,200
Noncurrent	510,500				510,500
Notes Receivable	674,521	880,200			1,554,721
Due from Other Funds	14,858				14,858
Due from Other Governments			212,295		212,295
TOTAL ASSETS	\$ 1,840,576	\$ 1,254,026	\$ 216,293	\$ 207,598	\$ 3,518,493
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 43,369	\$	\$ 157,093	\$ 162	\$ 200,624
Due to Other Funds			393,512	14,858	408,370
Due to Other Governments	4,020				4,020
Total Liabilities	<u>47,389</u>		<u>550,605</u>	<u>15,020</u>	<u>613,014</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	78,000				78,000
Unavailable Revenue - Notes Receivable	674,521	880,200			1,554,721
Unavailable Revenue - Special Assessments	555,700				555,700
Total Deferred Inflows of Resources	<u>1,308,221</u>	<u>880,200</u>			<u>2,188,421</u>
FUND BALANCES					
Restricted for:					
Economic Development				176,027	176,027
Committed for:					
Economic Development		373,826			373,826
Birding Trail				1,459	1,459
Roseau P.D.				8,878	8,878
Assigned for Economic Development				6,214	6,214
Unassigned	484,966		(334,312)		150,654
Total Fund Balances	<u>484,966</u>	<u>373,826</u>	<u>(334,312)</u>	<u>192,578</u>	<u>717,058</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,840,576	\$ 1,254,026	\$ 216,293	\$ 207,598	\$ 3,518,493

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 DECEMBER 31, 2019**

Exhibit A-4

Total fund balances - governmental funds	\$ 717,058
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	60,283,689
Less: accumulated depreciation	(15,284,161)
Deferred outflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	455,420
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Net pension liability	(804,924)
Capital Lease	(167,600)
Compensated absences	(210,158)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(738,728)
An allowance has been set up for notes receivable in the government-wide financial statements.	(405,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>2,188,421</u>
Net position - governmental activities	<u>\$ 46,034,017</u>

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Exhibit A-5

	<u>General</u>	<u>Community and Economic Development</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property Taxes	\$ 1,045,699	\$	\$	\$ 121,429	\$ 1,167,128
Hotel / Motel Tax				62,299	62,299
Franchise Fee	40,369				40,369
Special Assessments	98,644				98,644
Licenses and Permits	38,751				38,751
Intergovernmental					
Federal			1,764,047		1,764,047
State	829,139		404,818	1,447	1,235,404
Charges for Services	190,033				190,033
Fines and Forfeitures	13,491				13,491
Interest on Investments	51,011	1,348			52,359
Miscellaneous	87,610	93,600	10,638	43,062	234,910
Total Revenues	<u>2,394,747</u>	<u>94,948</u>	<u>2,179,503</u>	<u>228,237</u>	<u>4,897,435</u>
EXPENDITURES					
Current					
General Government	494,119		228		494,347
Public Safety	1,047,254			897	1,048,151
Public Works	435,216				435,216
Culture and Recreation	570,960			11,364	582,324
Economic Development	38,134	166,480		167,808	372,422
Airport	66,861				66,861
Capital Outlay					
Public Safety	18,950				18,950
Public Works	94,274				94,274
Culture and Recreation	155,111				155,111
Economic Development	56,483			1,267	57,750
Airport			2,390,419		2,390,419
Debt Service					
Principal	53,164				53,164
Interest	5,520				5,520
Total Expenditures	<u>3,036,046</u>	<u>166,480</u>	<u>2,390,647</u>	<u>181,336</u>	<u>5,774,509</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(641,299)</u>	<u>(71,532)</u>	<u>(211,144)</u>	<u>46,901</u>	<u>(877,074)</u>
OTHER FINANCING SOURCES					
Transfers In	<u>836,071</u>				<u>836,071</u>
Total Other Financing Sources	<u>836,071</u>				<u>836,071</u>
NET CHANGE IN FUND BALANCES	194,772	(71,532)	(211,144)	46,901	(41,003)
FUND BALANCE, JANUARY 1	<u>290,194</u>	<u>445,358</u>	<u>(123,168)</u>	<u>145,677</u>	<u>758,061</u>
FUND BALANCE, DECEMBER 31	<u>\$ 484,966</u>	<u>\$ 373,826</u>	<u>\$ (334,312)</u>	<u>\$ 192,578</u>	<u>\$ 717,058</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2019**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ (41,003)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,701,232
Depreciation expense	(1,354,683)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	53,164
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	85,435
Change in net pension liability	3,438
Change in deferred outflows and inflows of resources related to net pension liability	9,844
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).	
Compensated absences	<u>(23,500)</u>
Change in net position - governmental activities	<u>\$ 1,433,927</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
ASSETS							
CURRENT ASSETS							
Cash and Investments	\$ 535,870	\$ 341,804	\$ 4,907,254	\$ 484,924	\$ 78,651	\$ 651,388	\$ 6,999,891
Accounts Receivable (Net of Allowance)	10,820	32,706	404,495	35,446	173	50,714	534,354
Due From Other Funds			393,512				393,512
Inventory	189,982		56,108				246,090
Total Current Assets	<u>736,672</u>	<u>374,510</u>	<u>5,761,369</u>	<u>520,370</u>	<u>78,824</u>	<u>702,102</u>	<u>8,173,847</u>
NONCURRENT ASSETS							
Restricted: Funded Reserves					291,083		291,083
Restricted: Tenant Security Deposits, Cash					19,399		19,399
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Improvements Other than Buildings					103,975		103,975
Buildings	684,697				2,424,823		3,109,520
Plant and Equipment		7,039,915	2,775,689	7,108,547			16,924,151
Machinery and Equipment	290,462				49,373	369,892	709,727
Less: accumulated depreciation	<u>(312,601)</u>	<u>(5,016,321)</u>	<u>(2,662,267)</u>	<u>(4,336,049)</u>	<u>(1,082,132)</u>	<u>(274,421)</u>	<u>(13,683,791)</u>
Total Capital Assets	<u>682,558</u>	<u>2,039,844</u>	<u>175,307</u>	<u>2,891,976</u>	<u>1,571,039</u>	<u>95,471</u>	<u>7,456,195</u>
Total Noncurrent Assets	<u>682,558</u>	<u>2,039,844</u>	<u>175,307</u>	<u>2,891,976</u>	<u>1,881,521</u>	<u>95,471</u>	<u>7,766,677</u>
Total Assets	<u>1,419,230</u>	<u>2,414,354</u>	<u>5,936,676</u>	<u>3,412,346</u>	<u>1,960,345</u>	<u>797,573</u>	<u>15,940,524</u>
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	<u>7,443</u>	<u>5,152</u>	<u>3,147</u>	<u>5,152</u>		<u>8,301</u>	<u>29,195</u>
Total Deferred Outflows of Resources	<u>7,443</u>	<u>5,152</u>	<u>3,147</u>	<u>5,152</u>		<u>8,301</u>	<u>29,195</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2019

Exhibit A-7

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
LIABILITIES							
CURRENT LIABILITIES							
Accounts Payable	1,826	8,361	299,535	1,751	4,736	15	316,224
Accrued Expenses	235	923	(687)	434		(24)	881
Due to Other Governments	16,639	658	32,854			8,921	59,072
Consumer Deposits			33,850		19,149		52,999
Interest Payable					1,616		1,616
Prepaid Rent					1,255		1,255
Unearned Revenue	766		1,703				2,469
Current Portion - Long Term Liabilities	3,825	4,925	3,200	4,925	12,028	3,775	32,678
Total Current Liabilities	<u>23,291</u>	<u>14,867</u>	<u>370,455</u>	<u>7,110</u>	<u>38,784</u>	<u>12,687</u>	<u>467,194</u>
NONCURRENT LIABILITIES							
Loans Payable					2,526,366		2,526,366
Compensated Absences	15,300	19,700	12,800	19,700		15,100	82,600
Net Pension Liability	97,748	67,673	41,356	67,673		109,028	383,478
Less: Current Portion of Long Term Liabilities	(3,825)	(4,925)	(3,200)	(4,925)	(12,028)	(3,775)	(32,678)
Total Noncurrent Liabilities	<u>109,223</u>	<u>82,448</u>	<u>50,956</u>	<u>82,448</u>	<u>2,514,338</u>	<u>120,353</u>	<u>2,959,766</u>
Total Liabilities	<u>132,514</u>	<u>97,315</u>	<u>421,411</u>	<u>89,558</u>	<u>2,553,122</u>	<u>133,040</u>	<u>3,426,960</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	20,397	14,122	8,628	14,122		22,752	80,021
Total Deferred Inflows of Resources	<u>20,397</u>	<u>14,122</u>	<u>8,628</u>	<u>14,122</u>		<u>22,752</u>	<u>80,021</u>
NET POSITION							
Net Investment in Capital Assets	682,558	2,039,844	175,307	2,891,976	(955,327)	95,471	4,929,829
Restricted for Funded Reserves					291,083		291,083
Restricted for MHFA - Residual Receipts					34,973		34,973
Unrestricted	591,204	268,225	5,334,477	421,842	36,494	554,611	7,206,853
Total Net Position	<u>\$ 1,273,762</u>	<u>\$ 2,308,069</u>	<u>\$ 5,509,784</u>	<u>\$ 3,313,818</u>	<u>\$ (592,777)</u>	<u>\$ 650,082</u>	<u>\$ 12,462,738</u>

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 1,869,376	\$	\$	\$	\$	\$	\$ 1,869,376
Cost of Sales	1,370,118						1,370,118
Gross Profit	499,258						499,258
Charges for Services		371,241	4,096,154	360,347		454,344	5,282,086
Other Services		4,011	20,551	2,136	216,659		243,357
Total Operating Revenues	499,258	375,252	4,116,705	362,483	216,659	454,344	6,024,701
OPERATING EXPENSES							
Production Expense		180,307	3,147,907				3,328,214
Distribution Expense		31,590	242,119	44,246			317,955
General Expense	248,704	134,766	217,789	226,907	114,619	390,955	1,333,740
Depreciation	20,072	260,933	36,807	270,760	65,819	21,381	675,772
Total Operating Expenses	268,776	607,596	3,644,622	541,913	180,438	412,336	5,655,681
Operating Income (Loss)	230,482	(232,344)	472,083	(179,430)	36,221	42,008	369,020
NONOPERATING REVENUE (EXPENSE)							
Interest on Investments					6,639		6,639
Other Income	1,260	11,039	3,339			2,742	18,380
Interest Expense					(16,345)		(16,345)
Total Nonoperating Revenue (Expense)	1,260	11,039	3,339		(9,706)	2,742	8,674
Net Income (Loss) before Transfers	231,742	(221,305)	475,422	(179,430)	26,515	44,750	377,694
TRANSFERS OUT	(200,000)		(500,000)	(100,000)	(36,071)		(836,071)
Change in Net Position	31,742	(221,305)	(24,578)	(279,430)	(9,556)	44,750	(458,377)
TOTAL NET POSITION, JANUARY 1	1,242,020	2,529,374	5,534,362	3,593,248	(583,221)	605,332	12,921,115
TOTAL NET POSITION, DECEMBER 31	\$ 1,273,762	\$ 2,308,069	\$ 5,509,784	\$ 3,313,818	\$ (592,777)	\$ 650,082	\$ 12,462,738

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Exhibit A-9

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	\$ 1,873,788	\$ 372,006	\$ 4,163,915	\$ 359,709	\$ 222,342	\$ 454,266	\$ 7,446,026
Payments to Suppliers	(1,438,544)	(178,006)	(3,469,242)	(105,965)	(115,111)	(167,493)	(5,474,361)
Payments to Employees	(170,331)	(158,496)	(103,087)	(158,499)		(232,074)	(822,487)
Net Cash Provided by Operating Activities	<u>264,913</u>	<u>35,504</u>	<u>591,586</u>	<u>95,245</u>	<u>107,231</u>	<u>54,699</u>	<u>1,149,178</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	1,261	11,638	3,341			2,742	18,982
Transfers to Other Funds	(200,000)		(500,000)	(100,000)	(36,071)		(836,071)
Due From Other Funds			(17,947)				(17,947)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(198,739)</u>	<u>11,638</u>	<u>(514,606)</u>	<u>(100,000)</u>	<u>(36,071)</u>	<u>2,742</u>	<u>(835,036)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchase of Capital Asset		(163,203)	(29,940)	(14,970)			(208,113)
Payment of Long-Term Debt					(11,361)		(11,361)
Interest on Long-Term Debt					(16,345)		(16,345)
Net Cash Used by Capital and Related Financing Activities		<u>(163,203)</u>	<u>(29,940)</u>	<u>(14,970)</u>	<u>(27,706)</u>		<u>(235,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Tax and Insurance Escrow, Net - MN Housing					(2,076)		(2,076)
Deposits into Reserve Accounts - MN Housing					(43,366)		(43,366)
Withdrawals from Reserves - MN Housing					3,809		3,809
Interest Earnings					104		104
Net Cash Used by Investing Activities					<u>(41,529)</u>		<u>(41,529)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	66,174	(116,061)	47,040	(19,725)	1,925	57,441	36,794
CASH AND CASH EQUIVALENTS, JANUARY 1	469,696	457,865	4,860,214	504,649	96,125	593,947	6,982,496
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 535,870	\$ 341,804	\$ 4,907,254	\$ 484,924	\$ 98,050	\$ 651,388	\$ 7,019,290
Reconciliation of Cash, Cash Equivalents, and Restricted Cash							
Cash and Investments	\$ 535,870	\$ 341,804	\$ 4,907,254	\$ 484,924	\$ 78,651	\$ 651,388	\$ 6,999,891
Restricted Cash - Tenant Security Deposits					19,399		19,399
Total Cash, Cash Equivalents, and Restricted Cash	\$ 535,870	\$ 341,804	\$ 4,907,254	\$ 484,924	\$ 98,050	\$ 651,388	\$ 7,019,290

See Notes to the Financial Statements

cont.

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Exhibit A-9

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating Income (Loss)	\$ 230,482	\$ (232,344)	\$ 472,083	\$ (179,430)	\$ 36,221	\$ 42,008	\$ 369,020
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	20,072	260,933	36,807	270,760	65,819	21,381	675,772
Bad Debt Expense					1,765		1,765
Change in:							
Accounts Receivable	4,086	(3,244)	50,525	(2,774)	1,494	(77)	50,010
Inventory	12,195		15,479				27,674
Deferred Outflows	9,801	6,785	4,146	6,785		10,932	38,449
Accounts Payable	(6,248)	4,034	16,403	70	(492)	(1,378)	12,389
Prepaid Expenses	25						25
Prepaid Rent					361		361
Due to Other Governments	279	(494)	(1,438)			(235)	(1,888)
Other Current Liabilities			763		2,063	(200)	2,626
Unearned Revenue	326		(3,315)				(2,989)
Compensated Absences	2,800	6,000	3,900	6,000		(7,800)	10,900
Net Pension Liability	(1,054)	(730)	(446)	(730)		(1,175)	(4,135)
Deferred Inflows	(7,851)	(5,436)	(3,321)	(5,436)		(8,757)	(30,801)
Total Adjustments	<u>34,431</u>	<u>267,848</u>	<u>119,503</u>	<u>274,675</u>	<u>71,010</u>	<u>12,691</u>	<u>780,158</u>
Net Cash Provided by Operating Activities	<u>\$ 264,913</u>	<u>\$ 35,504</u>	<u>\$ 591,586</u>	<u>\$ 95,245</u>	<u>\$ 107,231</u>	<u>\$ 54,699</u>	<u>\$ 1,149,178</u>

See Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification). The City's significant accounting policies are described below.

A. Financial Reporting Entity

For financial reporting purposes, the City of Roseau's primary government includes all funds, elected officials, departments, boards, commissions, and authorities that make up the City's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit or is fiscally dependent upon by the potential component unit.

Based on these criteria, there is one organization considered to be a component unit of the City.

BLENDED COMPONENT UNIT – Economic Development Authority

The Authority's governing board is appointed by the government's governing body.

Complete financial statements for the individual component unit may be obtained at the City's administrative office.

Economic Development Authority
121 Center Street East, Suite 202
Roseau, Minnesota 56751

DISCRETELY PRESENTED COMPONENT UNITS – None.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The government reports the following major governmental funds:

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

The *community and economic development fund* accounts, primarily, for monies loaned at low interest rates to individuals or businesses, specifically for the purpose of economic development.

The *capital projects fund* accounts for financial resources to be used for acquisition or construction of major capital facilities.

The government reports the following major proprietary funds:

The *municipal liquor store fund* is used to account for revenues and expenses to operate the municipal liquor store.

The *water fund* is used to account for revenues and expenses to operate the water utility.

The *electric fund* is used to account for revenues and expenses to operate the electric utilities.

The *sewer service fund* is used to account for revenues and expenses to operate the sewer facility.

The *Roseau Court Townhome fund* is used to account for revenues and expenses to operate the townhomes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

D. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund and the special revenue funds. All annual appropriations lapse at fiscal year-end.

E. Cash and Cash Equivalents

Cash balances from all funds are combined and invested to the extent available in authorized investments.

The City considers cash equivalents to be certificates of deposits, money market funds, and other highly liquid investments with original maturities of three months or less. They are carried at cost.

F. Accounts Receivable

Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable was \$10,000. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 11 days. A late fee is charged on receivables that are outstanding for more than 11 days, and the late charge is 10%.

G. Property Taxes

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

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

Property taxes are payable in equal installments by property owners to the county as follows: personal property - February 28 and June 30; and real property - May 15 and October 15. The county remits the collections to the City and other taxing districts three times a year, in April, July, and December.

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

H. Special Assessments Receivable

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

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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Special assessments receivable includes the following components:

Delinquent - amounts billed to property owners but not paid.

Noncurrent - assessment installments that will be billed to property owners in future years.

Special assessments receivables not expected to be collected within one year are \$370,000.

I. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

J. Inventories

The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in proprietary funds when used. Proprietary fund inventories for the electric fund and the municipal liquor store fund are presented at lower of cost or market.

K. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The government reports infrastructure assets on a network basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. General infrastructure assets acquired prior to January 1, 2004, are not reported in the basic financial statements.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred. In the case of donations, the government values these capital assets at the acquisition value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements other than Buildings	20-30 years
Machinery and Equipment	5-20 years
Plant and Equipment	5-60 years

L. Sales Tax

Sales taxes collected from customers and remitted to taxing authorities are excluded from revenues and cost of sales, respectively.

M. Compensated Absences

Vacation leave is recognized as an expenditure or expense when earned. Full-time City employees are granted from 7 to 28 days of vacation per year depending upon their years of service. Vacation that is earned as of December 31, 2019, and is expected to be taken by December 31, 2019, is considered a current liability and is accrued in the December 31, 2019 financial statements. Unused vacation leave can be accrued up to twice the employees annual earned vacation amount and can be carried over to the succeeding year, however once the maximum is reached, no vacation time will accrue until vacation time is used. No more than the maximum can ever be accrued.

Compensatory time is earned by full-time City employees working hours in excess of their regularly scheduled shift or a forty-hour week. Compensatory time is accrued as a current liability as it is to be used within one year.

All full-time City employees earn sick leave at the rate of one day per month to a maximum of 120 days.

Any full-time employee who has rendered at least five years of service and is in good standing is entitled upon retirement or termination, a portion of their accumulated sick leave balance. Due to the uncertainty as to when employees will terminate or retire, and payment of sick leave benefits will be required, the liability is considered to be long-term.

N. Unearned Revenue

The City reports a liability in connection with resources that have been received, but not yet earned.

O. Long-term Obligations

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

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

P. Pensions

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

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/ expenditure) until then. The City has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

The City has two items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, special assessments and notes receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item that qualifies for reporting in this category is named *Cost Sharing Defined Benefit Pension Plan*, which represents actuarial differences within PERA pension plans.

R. Fund Equity

The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

Nonspendable - consists of amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

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

Committed - consists of amounts constrained to specific purposes by the government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned - consists of amounts a government intends to use for a specific purpose. These constraints are established by the Council and/or management. The Council delegates the power to assign fund balances to the City Clerk.

Unassigned – consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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.

The City will strive to maintain an unrestricted general fund balance of 35% of next year's expenditures.

S. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital asset, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

T. Use of Estimates

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

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2. DEFICIT FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2019, is as follows:

Capital Projects Fund	\$334,312
Roseau Court Townhomes	592,777

The deficit of the Capital Projects Fund is expected to be eliminated through receipt of donations or a transfer from another fund. The deficit of the Roseau Court Townhomes is expected to be eliminated upon the forgiveness of \$2,246,824 of mortgage payable in 2023.

NOTE 3. DEPOSITS AND INVESTMENTS

The City maintains a cash account at its depository bank. The City considers certificates of deposit to be cash.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

- (a) Direct obligations or obligations guaranteed or insured issues by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers’ acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

As of December 31, 2019, the City held no investments.

Custodial Credit Risk – Deposits – The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of December 31, 2019, the City was not exposed to custodial credit risk.

NOTE 4. NOTES RECEIVABLE

At December 31, 2019, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$1,554,721. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$405,000.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,339,014	\$	\$	\$ 12,339,014
Construction In Process	1,014,149	2,240,853	1,014,149	2,240,853
Total Capital Assets, Not Being Depreciated	<u>13,353,163</u>	<u>2,240,853</u>	<u>1,014,149</u>	<u>14,579,867</u>
Capital Assets, Being Depreciated:				
Buildings	13,757,730	817,524		14,575,254
Improvements Other Than Buildings	27,155,163	496,290		27,651,453
Machinery and Equipment	3,316,401	160,714		3,477,115
Total Capital Assets, Being Depreciated	<u>44,229,294</u>	<u>1,474,528</u>		<u>45,703,822</u>
Less: Accumulated Depreciation For:				
Buildings	4,158,265	352,890		4,511,155
Improvements Other Than Buildings	7,804,108	812,686		8,616,794
Machinery and Equipment	1,967,105	189,107		2,156,212
Total Accumulated Depreciation	<u>13,929,478</u>	<u>1,354,683</u>		<u>15,284,161</u>
Total Capital Assets, Being Depreciated, Net	<u>30,299,816</u>	<u>119,845</u>		<u>30,419,661</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,652,979</u>	<u>\$ 2,360,698</u>	<u>\$ 1,014,149</u>	<u>\$ 44,999,528</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 292,613	\$	\$	\$ 292,613
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	103,975			103,975
Buildings	3,109,520			3,109,520
Plant and Equipment	16,716,038	208,113		16,924,151
Machinery and Equipment	709,727			709,727
Total Capital Assets, Being Depreciated	<u>20,639,260</u>	<u>208,113</u>		<u>20,847,373</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	65,209	5,198		70,407
Buildings	916,566	80,693		997,259
Plant and Equipment	11,446,138	568,500		12,014,638
Machinery and Equipment	580,106	21,381		601,487
Total Accumulated Depreciation	<u>13,008,019</u>	<u>675,772</u>		<u>13,683,791</u>
Total Capital Assets, Being Depreciated, Net	<u>7,631,241</u>	<u>(467,659)</u>		<u>7,163,582</u>
Business-type Activities Capital Assets, Net	<u>\$ 7,923,854</u>	<u>\$ (467,659)</u>	<u>\$</u>	<u>\$ 7,456,195</u>

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

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

Governmental Activities:	
General Government	\$ 39,229
Public Safety	103,348
Public Works, including depreciation of general infrastructure assets	733,724
Culture and Recreation	359,650
Economic Development	9,350
Airport	109,382
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,354,683</u>
Business-type Activities:	
Municipal Liquor Store	\$ 20,072
Water	260,933
Electric	36,807
Sewer Service	270,760
Roseau Court Townhomes	65,819
Garbage Collections	21,381
Total Depreciation Expense - Business-type Activities	<u>\$ 675,772</u>

NOTE 6. CONTINGENT LIABILITIES

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2019, significant amounts of grant expenditures have not been audited, but the City believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City.

NOTE 7. DEFINED BENEFIT PENSION PLANS

The financial statements of the City of Roseau have been prepared in accordance with accounting principles generally accepted in the United States of America as described in Note 1. This note disclosure includes the proportionate share of the net pension liability, deferred inflows of resources, and deferred outflows of resources for both governmental and proprietary funds.

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

General Employees Retirement 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

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

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

General Employees Plan Benefits

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

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

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

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

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 6.50%, of their annual covered salary in fiscal year 2019, and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019, were \$72,387. The City's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.8 percent of pay to 11.3 percent and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$72,777. The City's contributions were equal to the required contributions as set by state statute.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

Pension Costs – At December 31, 2019, the City reported a liability of \$751,914 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$23,332. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2019, the City’s proportion was 0.0136% which was a decrease of 0.0001% from its proportion measured as of June 30, 2018.

City's proportionate share of net pension liability	\$	751,914
State of Minnesota's proportionate share of the net pension liability associated with the City		<u>23,332</u>
Total	\$	<u><u>775,246</u></u>

For the year ended December 31, 2019, the City recognized pension expense of \$79,817 for its proportionate share of General Employee Plan’s pension expense. In addition, the City recognized an additional \$1,747 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 21,052	\$
Difference between projected and actual investment earnings		75,254
Changes in actuarial assumptions		59,874
Changes in proportion		21,776
Contributions paid to PERA subsequent to the measurement date	<u>36,194</u>	
Total	<u>\$ 57,246</u>	<u>\$ 156,904</u>

\$36,194 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>Pension Expense Amount</u>
2020	\$ (54,046)
2021	(66,294)
2022	(16,724)
2023	1,212

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

At December 31, 2019, the City reported a liability of \$436,486 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0410% which was an increase of 0.0001% from its proportion measured as of June 30, 2018. The City also recognized \$5,535 for the year ended December 31, 2019 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized a pension expense of \$62,572 for its proportionate share of Police and Fire Plan's pension expense.

At December 31, 2019, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 18,516	\$ 68,428
Difference between projected and actual investment earnings		89,611
Changes in actuarial assumptions	371,054	490,013
Changes in proportion	1,410	13,793
Contributions paid to PERA subsequent to the measurement date	36,389	
Total	\$ 427,369	\$ 661,845

\$36,389 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31	Pension Expense Amount
2020	\$ (30,405)
2021	(63,277)
2022	(176,704)
2023	(391)
2024	(88)

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

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

Police and Fire Fund

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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
International Equity	17.50%	5.90%
Cash	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

	City Proportionate Share of NPL		
	1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
General Employees Plan	\$ 1,236,105	\$ 751,914	\$ 352,117
Police and Fire Fund	954,078	436,486	8

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

NOTE 8. CAPITAL LEASE

The City entered into a lease agreement as a lessee for financing the acquisition of a fire truck in 2018. As of December 31, 2019, the total value of this capital asset was \$452,646. This year, \$22,632 was included as depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been calculated at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2019, is as follows:

<u>Year Ending December 31,</u>	<u>Governmental Fund</u>
2020	\$ 58,684
2021	58,684
2022	58,684
Less: amount representing interest	<u>(8,452)</u>
Present value of minimum lease payments	<u>\$ 167,600</u>

NOTE 9. LONG-TERM DEBT

Loans Payable. The City has entered into various loan agreements.

The City has the following loans:

<u>Business-type Activities</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
MN Housing Finance Agency	5.72%	2020/35	\$ 279,542
MN Housing Finance Agency (*)		2023	<u>2,246,824</u>
			<u>\$ 2,526,366</u>

* The debt service requirements to maturity are not disclosed because the loan will be forgiven after 20 years. There are no interest or principal payments due on an annual basis.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

Annual debt service requirements to maturity for loans payable are as follows:

Year Ending December 31	Business-type Activities	
	Principal	Interest
2020	\$ 12,028	\$ 15,678
2021	12,734	14,971
2022	13,482	14,224
2023	14,273	13,432
2024	15,112	12,594
2025-2029	89,958	48,568
2030-2034	119,661	18,866
2035	2,294	15
	<u>\$ 279,542</u>	<u>\$ 138,348</u>

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Capital Lease	\$ 220,764	\$	\$ 53,164	\$ 167,600	\$ 54,493
Compensated Absences	186,658	92,900	69,400	210,158	52,540
Governmental Activity					
Long-term Liabilities	<u>\$ 407,422</u>	<u>\$ 92,900</u>	<u>\$ 122,564</u>	<u>\$ 377,758</u>	<u>\$ 107,033</u>
<u>Business-type Activities</u>					
Other Long-term Obligations					
Loans Payable	\$ 2,537,727	\$	\$ 11,361	\$ 2,526,366	\$ 12,028
Compensated Absences	71,700	58,000	47,100	82,600	20,650
Business-type Activity					
Long-term Liabilities	<u>\$ 2,609,427</u>	<u>\$ 58,000</u>	<u>\$ 58,461</u>	<u>\$ 2,608,966</u>	<u>\$ 32,678</u>

In the governmental activities, compensated absences are generally liquidated by the general fund.

NOTE 10. CONDUIT DEBT (NO COMMITMENT DEBT)

The City has issued Senior Housing Revenue Bonds Series 2006 to provide financial assistance to a nonprofit corporation for the construction of an existing facility deemed to be in the public interest. The bonds are secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. The original issue amount totaled \$2,645,000. In 2015, the issue was refinanced to \$3,529,681.

As of December 31, 2019, the aggregate principal amount payable of the Series 2006 was \$2,208,851.

The City has issued a Municipal Industrial Development Revenue Act Bond to provide financial assistance to a corporation for the construction of a facility deemed to be in the public interest. This Bond is secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

As of December 31, 2019, the aggregate principal amount payable of the one series issued was \$1,451,248.

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2019, is as follows:

Due from / to other funds:

Receivable	Payable	Amount
Electric	Capital Projects	\$ 393,512
General	Nonmajor Governmental	14,858
		<u>\$ 408,370</u>

The amount payable is to cover cash deficits on December 31, 2019.

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Electric	\$ 500,000
General	Sewer	100,000
General	Liquor Store	200,000
General	Roseau Court Townhomes	36,071
		<u>\$ 836,071</u>

Transfers are used to move unrestricted revenues to finance various programs that the governmental must account for in other funds.

NOTE 12. DEFERRED COMPENSATION PLAN AND TRUST

The City of Roseau offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employees. Accordingly, the plan/trust assets have been excluded from the City's reported assets.

NOTE 13. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters. The City participates with other cities in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its liability, property, automobile, and workers' compensation coverage. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There were no significant reductions in the City's insurance coverage in 2019.

NOTE 14. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 18% of the water utility billings.

NOTE 15. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Roseau Court Townhomes' sole asset is a 24-unit townhome project. Roseau Court Townhomes' operations are concentrated in the multifamily real estate market. In addition, Roseau Court Townhomes operates in a heavily regulated environment. The operations of Roseau Court Townhomes are subject to the administrative directives, rules, and

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

regulations of federal, state, and local regulatory agencies, including, but not limited to, MHFA. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by MHFA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE 16. COMMITTED CONSTRUCTION

At December 31, 2019, there was approximately \$995,000 in committed construction for airport projects.

NOTE 17. NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

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**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,049,242	\$ 1,045,699	\$ (3,543)
Franchise Fee	45,000	40,369	(4,631)
Special Assessments	70,000	98,644	28,644
Licenses and Permits	29,350	38,751	9,401
Intergovernmental			
State			
Local Government Aid	708,668	684,825	(23,843)
Market Value Credit		141	141
Police Aid	45,000	61,916	16,916
Fire Aid	40,000	43,555	3,555
PERA Rate Increase Aid	4,820	4,820	
Aviation Maintenance Aid	34,843	33,882	(961)
	<u>833,331</u>	<u>829,139</u>	<u>(4,192)</u>
Charges for Services			
General Government	32,500	40,598	8,098
Public Safety	60,273	62,277	2,004
Culture and Recreation	59,500	78,603	19,103
Airport	12,000	8,555	(3,445)
	<u>164,273</u>	<u>190,033</u>	<u>25,760</u>
Fines and Forfeitures	16,750	13,491	(3,259)
Miscellaneous			
Interest on Investments	25,000	51,011	26,011
Contributions	2,500	10,872	8,372
Reimbursements	50,000	58,656	8,656
Other Receipts		18,082	18,082
	<u>77,500</u>	<u>138,621</u>	<u>61,121</u>
Total Revenues	<u>2,285,446</u>	<u>2,394,747</u>	<u>109,301</u>
EXPENDITURES			
General Government			
Mayor and Council	35,477	34,790	687
Finance / Administration	84,423	79,296	5,127
Independent Auditors	12,000	11,529	471
Assessor	15,000	14,390	610
Legal Services	68,798	66,106	2,692
Planning, Zoning, Economic Development	127,263	157,085	(29,822)
Municipal Building	84,863	91,364	(6,501)
Miscellaneous	42,100	39,559	2,541
	<u>469,924</u>	<u>494,119</u>	<u>(24,195)</u>

cont.

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND - Continued
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	852,725	799,789	52,936
Fire	214,889	218,924	(4,035)
Building Inspector	27,605	20,991	6,614
Emergency Services	9,450	7,550	1,900
Capital Outlay	12,000	18,950	(6,950)
	<u>1,116,669</u>	<u>1,066,204</u>	<u>50,465</u>
Public Works			
Streets and Highways	330,311	365,319	(35,008)
Snow and Ice Removal	36,515	38,566	(2,051)
Street Lighting and Signals	35,000	31,331	3,669
Capital Outlay	108,000	94,274	13,726
	<u>509,826</u>	<u>529,490</u>	<u>(19,664)</u>
Culture and Recreation			
Library and Museum	99,504	93,841	5,663
Parks and Recreation	504,343	477,119	27,224
Capital Outlay - Parks and Recreation	95,000	155,111	(60,111)
	<u>698,847</u>	<u>726,071</u>	<u>(27,224)</u>
Economic Development			
Current Expenditures	35,630	38,134	(2,504)
Capital Outlay		56,483	(56,483)
	<u>35,630</u>	<u>94,617</u>	<u>(58,987)</u>
Airport			
Current Expenditures	79,638	66,861	12,777
Capital Outlay	2,000		2,000
	<u>81,638</u>	<u>66,861</u>	<u>14,777</u>
Debt Service			
Principal	53,164	53,164	
Interest	5,520	5,520	
	<u>58,684</u>	<u>58,684</u>	
Total Expenditures	<u>2,971,218</u>	<u>3,036,046</u>	<u>(64,828)</u>
REVENUES UNDER EXPENDITURES	<u>(685,772)</u>	<u>(641,299)</u>	<u>44,473</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	836,071	800,071
Sale of Land	1,000		(1,000)
Transfers Out	(5,000)		5,000
Total Other Financing Sources (Uses)	<u>32,000</u>	<u>836,071</u>	<u>804,071</u>
NET CHANGE IN FUND BALANCE	<u>(653,772)</u>	<u>194,772</u>	<u>848,544</u>
FUND BALANCE, JANUARY 1	<u>290,194</u>	<u>290,194</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (363,578)</u>	<u>\$ 484,966</u>	<u>\$ 848,544</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
COMMUNITY AND ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Interest on Investments	\$	\$ 1,348	\$ 1,348
Program Income	1,000	86,360	85,360
Contributions	2,500	3,580	1,080
Other Receipts		3,660	3,660
	<u>3,500</u>	<u>94,948</u>	<u>91,448</u>
EXPENDITURES			
Economic Development	<u>2,500</u>	<u>166,480</u>	<u>(163,980)</u>
	<u>2,500</u>	<u>166,480</u>	<u>(163,980)</u>
NET CHANGE IN FUND BALANCE	1,000	(71,532)	(72,532)
FUND BALANCE, JANUARY 1	<u>445,358</u>	<u>445,358</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 446,358</u>	<u>\$ 373,826</u>	<u>\$ (72,532)</u>

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST 10 YEARS**

	Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
General Employees Plan	2015	\$ 65,772	\$ 65,772	\$	876,961	7.50 %
	2016	68,194	68,194		909,571	7.50
	2017	68,877	68,877		918,263	7.50
	2018	69,742	69,742		929,900	7.50
	2019	72,387	72,387		965,159	7.50
Police and Fire Fund	2015	\$ 65,215	\$ 65,215	\$	402,563	16.20 %
	2016	67,860	67,860		418,888	16.20
	2017	67,828	67,828		418,694	16.20
	2018	69,997	69,997		432,080	16.20
	2019	72,777	72,777		429,366	16.95

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

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS**

	Fiscal Year Ended 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 Associated with the City	Total	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Plan	2015	0.0149 %	\$ 772,196	\$	\$ 772,196	\$ 879,546	87.79 %	78.19 %
	2016	0.0146	1,185,448	15,492	1,200,940	893,266	134.44	68.90
	2017	0.0139	887,369	11,136	898,505	913,917	98.31	75.90
	2018	0.0137	760,023	25,019	785,042	924,082	84.95	79.53
	2019	0.0136	751,914	23,332	775,246	947,530	81.82	80.23
Police and Fire Fund	2015	0.0430 %	\$ 488,581	\$	\$ 488,581	\$ 398,812	122.51 %	86.61 %
	2016	0.0420	1,685,533		1,685,533	410,725	410.38	63.90
	2017	0.0410	553,549		553,549	418,791	132.18	85.40
	2018	0.0409	435,952		435,952	425,387	102.48	88.84
	2019	0.0410	436,486		436,486	430,723	101.34	89.26

The amounts presented for each year were determined as of the measurement date of the collective net pension liability, which is June 30.

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

See Notes to the Required Supplementary Information

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

NOTE 1. LEGAL COMPLIANCE-BUDGETS

The City is required by state statutes to adopt an annual budget for its general fund. There is no legal restriction on expenditures in excess of appropriations.

Annual budgets are adopted for the general and the special revenue funds. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Formal budgetary policies are not employed for debt service funds and capital projects funds because effective budgetary control is alternatively achieved by bond requirements or by council approval of individual projects and expenditures.

Appropriations are authorized by the city council at the function and activity level within an individual fund, which are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. The city clerk may transfer budgeted amounts between line items. All unexpended appropriations lapse at year-end. Encumbrances outstanding at year-end expire and are not reported in the financial statements. Any changes in the total budget of each fund must be approved by a majority vote of the city council. No material supplemental appropriations were made during 2019.

NOTE 2. EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

The general and community and economic development funds had \$64,828 and \$163,980, respectively, of expenditures in excess of budget for the year ended December 31, 2019. No remedial action is required for this expense.

NOTE 3. DEFINED BENEFIT PLANS

PERA

General Employees Fund

2019 Changes

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

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

2018 Changes

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

Changes in Plan Provisions: The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2019

2017 Changes

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

Changes in Plan Provisions: The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

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

2015 Changes

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

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Police and Fire Fund

2019 Changes

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

2018 Changes

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

Changes in Plan Provisions:

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
DECEMBER 31, 2019

2017 Changes

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 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 healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent 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 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The Single Discount Rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions: The post-retirement benefit increases to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

CITY OF ROSEAU, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2019

Exhibit B-1

	<u>Special Revenue</u>					Total Nonmajor Governmental Funds Exhibit A-3
	<u>Lodging Tax</u>	<u>T.I.F.</u>	<u>EDA Building</u>	<u>Pine To Prairie Birding Trail</u>	<u>Roseau P.D.</u>	
ASSETS						
Cash and Investments	\$ 98,954	\$ 83,740	\$ 6,376	\$ 1,459	\$ 8,878	\$ 199,407
Accounts Receivable	<u>8,191</u>					<u>8,191</u>
TOTAL ASSETS	<u>\$ 107,145</u>	<u>\$ 83,740</u>	<u>\$ 6,376</u>	<u>\$ 1,459</u>	<u>\$ 8,878</u>	<u>\$ 207,598</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$	\$	\$ 162	\$	\$	\$ 162
Due to Other Funds		<u>14,858</u>				<u>14,858</u>
Total Liabilities		<u>14,858</u>	<u>162</u>			<u>15,020</u>
Fund Balances						
Restricted for						
Economic Development	107,145	68,882				176,027
Committed for Birding Trail				1,459		1,459
Committed for Public Safety					8,878	8,878
Assigned for Economic Development			<u>6,214</u>			<u>6,214</u>
Total Fund Balances	<u>107,145</u>	<u>68,882</u>	<u>6,214</u>	<u>1,459</u>	<u>8,878</u>	<u>192,578</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 107,145</u>	<u>\$ 83,740</u>	<u>\$ 6,376</u>	<u>\$ 1,459</u>	<u>\$ 8,878</u>	<u>\$ 207,598</u>

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2019**

Exhibit B-2

	<u>Special Revenue</u>					Total Nonmajor Governmental Funds Exhibit A-5
	<u>Lodging Tax</u>	<u>T.I.F.</u>	<u>EDA Building</u>	<u>Pine To Prairie Birding Trail</u>	<u>Roseau P.D.</u>	
REVENUES						
Property Taxes	\$	\$ 121,429	\$	\$	\$	\$ 121,429
Hotel / Motel Tax	62,299					62,299
Intergovernmental - State				1,447		1,447
Miscellaneous				8,000		8,000
Contributions			30,787			30,787
Rents					4,000	4,275
Miscellaneous	275				4,000	4,275
Total Revenues	<u>62,574</u>	<u>121,429</u>	<u>30,787</u>	<u>9,447</u>	<u>4,000</u>	<u>228,237</u>
EXPENDITURES						
Current						
Police					897	897
Culture and Recreation				11,364		11,364
Economic Development	51,857	111,920	4,031			167,808
Capital Outlay						
Economic Development			1,267			1,267
Total Expenditures	<u>51,857</u>	<u>111,920</u>	<u>5,298</u>	<u>11,364</u>	<u>897</u>	<u>181,336</u>
NET CHANGE IN FUND BALANCES						
	10,717	9,509	25,489	(1,917)	3,103	46,901
FUND BALANCE, JANUARY 1						
	<u>96,428</u>	<u>59,373</u>	<u>(19,275)</u>	<u>3,376</u>	<u>5,775</u>	<u>145,677</u>
FUND BALANCE, DECEMBER 31						
	<u>\$ 107,145</u>	<u>\$ 68,882</u>	<u>\$ 6,214</u>	<u>\$ 1,459</u>	<u>\$ 8,878</u>	<u>\$ 192,578</u>

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Beginning Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Ending Balance</u>
Governmental Funds						
General	\$ 290,194	\$ 2,394,747	\$ 3,036,046	\$ 836,071		\$ 484,966
Special Revenue						
Community and Economic Development	445,358	94,948	166,480			373,826
Lodging Tax	96,428	62,574	51,857			107,145
T.I.F.	59,373	121,429	111,920			68,882
EDA Building	(19,275)	30,787	5,298			6,214
Pine To Prairie Birding Trail	3,376	9,447	11,364			1,459
Roseau PD	5,775	4,000	897			8,878
Capital Projects	(123,168)	2,179,503	2,390,647			(334,312)
Total Governmental Funds	<u>758,061</u>	<u>4,897,435</u>	<u>5,774,509</u>	<u>836,071</u>		<u>717,058</u>
Proprietary Funds						
Municipal Liquor Store	1,242,020	1,870,636	1,638,894		200,000	1,273,762
Water	2,529,374	386,291	607,596			2,308,069
Electric	5,534,362	4,120,044	3,644,622		500,000	5,509,784
Sewer Service	3,593,248	362,483	541,913		100,000	3,313,818
Roseau Court Townhomes	(583,221)	223,298	196,783		36,071	(592,777)
Garbage Collection	605,332	457,086	412,336			650,082
Total Proprietary Funds	<u>12,921,115</u>	<u>7,419,838</u>	<u>7,042,144</u>		<u>836,071</u>	<u>12,462,738</u>
Total Primary Government	<u>\$ 13,679,176</u>	<u>\$ 12,317,273</u>	<u>\$ 12,816,653</u>	<u>\$ 836,071</u>	<u>\$ 836,071</u>	<u>\$ 13,179,796</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2019**

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Amount of Issue</u>	<u>Balance 12/31/2018</u>	<u>Issued 2019</u>	<u>Retired 2019</u>	<u>Balance 12/31/2019</u>	<u>Principal 2020</u>	<u>Interest 2020</u>
Capital Lease		1/8/2018	6/1/2022	\$ 402,646	\$ 220,764		\$ 53,164	\$ 167,600	\$ 54,493	4,191
Loans										
MHFA Flood EDHC Loan	0.0%	8/13/2003	8/13/2023	1,246,824	1,246,824			1,246,824		
MHFA - POPR Loan	0.0%	8/13/2003	8/13/2023	1,000,000	1,000,000			1,000,000		
Mortgage Note	5.72%	8/1/2004	7/1/2035	396,923	290,903		11,361	279,542	12,028	15,678
Total					<u>2,537,727</u>		<u>11,361</u>	<u>2,526,366</u>	<u>12,028</u>	<u>15,678</u>
Total Indebtedness					<u>\$ 2,758,491</u>		<u>\$ 64,525</u>	<u>\$ 2,693,966</u>	<u>\$ 66,521</u>	<u>\$ 19,869</u>

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated April 2, 2020. The governmental activities has a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

Legal Compliance

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

Purpose of the Report

This report is intended solely for the information and use of those charged with governance and management of the City of Roseau and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

April 2, 2020

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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
Members of the City Council
City of Roseau
Roseau, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 2, 2020. The governmental activities had a qualified report because the City did not adopt the provisions of GASB Statement No. 68 for the Fire Relief Association.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questions costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

April 2, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Roseau's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Roseau complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the City of Roseau is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*. However, material weaknesses may exist that have not been identified.

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

April 2, 2020

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
<u>U.S. Department of Transportation</u>			
Passed-Through MN Department of Transportation:			
Airport Improvement Program	20.106	SP 6801-37	\$ 1,625,256
Airport Improvement Program	20.106	SP 6801-39	<u>138,791</u>
Total U.S. Department of Transportation			<u>1,764,047</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,764,047</u>

See accompanying notes to the schedule of expenditures of federal awards.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards (the Schedule) are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Roseau under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 4 SUBRECIPIENTS

During 2019, the City did not pass any federal money to subrecipients.

**CITY OF ROSEAU, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2019**

Section I-Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Community & Economic Development Fund	Unmodified
Capital Projects Fund	Unmodified
Municipal Liquor Store Fund	Unmodified
Water Fund	Unmodified
Electric Fund	Unmodified
Sewer Service Fund	Unmodified
Roseau Court Townhomes	Unmodified
Aggregate Remaining Funds	Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no
 Significant deficiency(s) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal Control over major federal programs:

Material weakness(es) identified? yes no
 Significant deficiency(s) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2019**

Section II- Financial Statement Findings

2019-001 FINDING

Criteria

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

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2019, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

Cause

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

Effect

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

Recommendation

We recommend the City review its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The City agrees with the recommendation and will review on an annual basis.

Section III-Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

**CITY OF ROSEAU, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2019**

2018-001 FINDING

Criteria

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

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. For the year ended December 31, 2018, the City's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the City does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by GAAP for external reporting. The City is aware of this significant deficiency, and obtains our assistance in the preparation of the City's annual financial statements.

Cause

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

Effect

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

Recommendation

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

Corrective Action Taken

No action taken. See current year finding 2019-001 and Corrective Action Plan



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April 9, 2020

2019-001 FINDING

Contact Person – Todd Peterson, Community Development Coordinator

Corrective Action Plan - Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date - Ongoing

Mayor
Jeff Pelowski

Council
Jane Evans
Pat Novacek
Brady Johnson
Amy Bassingthwaite

City Attorney
Michelle E. Moren

**Community
Development Coordinator**
Todd Peterson

Police Chief
Ward Anderson

Superintendent
David Drown

Manager Liquor Store
Linda Roseborough

Parks & Rec Director
Sara Hammann