

**CITY OF ROSEAU
ROSEAU, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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**CITY OF ROSEAU, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2021**

Mayor	Dan Fabian
Council	Patrick Novacek
Council	Amy Bassingthwaite
Council	Mary Hayes
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 Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Qualified Opinion on Governmental Activities

In our opinion, except for the effects of the matter described in the "Basis for Qualified and Unmodified Opinions" section of our report, the accompanying 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, 2021, 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 on Business-Type Activities, Discretely Presented Component Unit, each Major Fund, and Aggregate Remaining Fund Information

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of December 31, 2021, 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.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Roseau, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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. Such information is 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. The 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, and schedule of indebtedness are fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2022, 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 11, 2022

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**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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, 2021.

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 \$57,997,176 (net position). Of this amount, \$7,500,367 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 \$639,171 or 14% 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, 2021**

general fund and capital projects fund, all of which are considered major funds. Data from the other six 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 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 \$57,997,176 at the close of the most recent fiscal year.

Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 1,367,817	\$ 2,359,771	\$ 8,900,895	\$ 8,672,060	\$ 10,268,712	\$ 11,031,831
Capital Assets	45,865,738	46,385,142	7,171,888	6,822,382	53,037,626	53,207,524
Total Assets	<u>47,233,555</u>	<u>48,744,913</u>	<u>16,072,783</u>	<u>15,494,442</u>	<u>63,306,338</u>	<u>64,239,355</u>
Deferred Outflows of Resources	<u>787,984</u>	<u>319,917</u>	<u>240,651</u>	<u>55,637</u>	<u>1,028,635</u>	<u>375,554</u>
Long-term Liabilities	1,373,311	1,292,503	2,897,240	3,054,704	4,270,551	4,347,207
Other Liabilities	101,877	85,150	604,631	445,586	706,508	530,736
Total Liabilities	<u>1,475,188</u>	<u>1,377,653</u>	<u>3,501,871</u>	<u>3,500,290</u>	<u>4,977,059</u>	<u>4,877,943</u>
Deferred Inflows of Resources	<u>1,063,976</u>	<u>404,651</u>	<u>296,762</u>	<u>20,803</u>	<u>1,360,738</u>	<u>425,454</u>
Net Position						
Net Investment in						
Capital Assets	45,245,671	46,272,035	4,670,283	4,308,043	49,915,954	50,580,078
Restricted	165,332	186,387	415,523	376,337	580,855	562,724
Unrestricted	71,372	824,104	7,428,995	7,344,606	7,500,367	8,168,710
Total Net Position	<u>\$ 45,482,375</u>	<u>\$ 47,282,526</u>	<u>\$ 12,514,801</u>	<u>\$ 12,028,986</u>	<u>\$ 57,997,176</u>	<u>\$ 59,311,512</u>

A portion of the City's net position (86%) 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 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.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues						
Charges for Services	\$ 365,069	\$ 218,702	\$ 7,719,019	\$ 7,527,395	\$ 8,084,088	\$ 7,746,097
Operating Grants and Contributions	1,405,867	321,684			1,405,867	321,684
Capital Grants and Contributions	271,350	1,736,247	287,373		558,723	1,736,247
General Revenues						
Taxes	1,245,197	1,230,987			1,245,197	1,230,987
Unrestricted State Aid	744,920	727,574			744,920	727,574
Unrestricted Investment Earnings	39,479	67,491	1,728	3,066	41,207	70,557
Sale of Capital Asset	119,762	135,914			119,762	135,914
Other General Revenue	205,588	194,202	63,999	19,434	269,587	213,636
Total Revenues	<u>4,397,232</u>	<u>4,632,801</u>	<u>8,072,119</u>	<u>7,549,895</u>	<u>12,469,351</u>	<u>12,182,696</u>
Expenses						
General Government	498,808	501,932			498,808	501,932
Public Safety	1,150,389	1,258,257			1,150,389	1,258,257
Public Works	1,102,392	1,068,603			1,102,392	1,068,603
Culture and Recreation	1,258,760	874,487			1,258,760	874,487
Economic Development	1,172,438	292,005			1,172,438	292,005
Airport	316,014	220,888			316,014	220,888
Interest on Long-term Debt	3,731	4,191			3,731	4,191
Municipal Liquor Store			1,880,293	1,884,453	1,880,293	1,884,453
Water			526,673	594,687	526,673	594,687
Electric			3,611,781	3,506,472	3,611,781	3,506,472
Sewer Service			459,424	512,056	459,424	512,056
Roseau Court Townhomes			199,967	192,016	199,967	192,016
Garbage			426,146	457,892	426,146	457,892
Total Expenses	<u>5,502,532</u>	<u>4,220,363</u>	<u>7,104,284</u>	<u>7,147,576</u>	<u>12,606,816</u>	<u>11,367,939</u>
Change in Net Position						
Before Transfers	(1,105,300)	412,438	967,835	402,319	(137,465)	814,757
Transfers	<u>482,020</u>	<u>836,071</u>	<u>(482,020)</u>	<u>(836,071)</u>		
Change in Net Position	<u>(623,280)</u>	<u>1,248,509</u>	<u>485,815</u>	<u>(433,752)</u>	<u>(137,465)</u>	<u>814,757</u>
Net Position - January 1	47,282,526	46,034,017	12,028,986	12,462,738	59,311,512	58,496,755
Restatement - See Note 2	<u>(1,176,871)</u>				<u>(1,176,871)</u>	
Net Position - January 1 - as restated	<u>46,105,655</u>	<u>46,034,017</u>	<u>12,028,986</u>	<u>12,462,738</u>	<u>58,134,641</u>	<u>58,496,755</u>
Net Position - December 31	<u>\$ 45,482,375</u>	<u>\$ 47,282,526</u>	<u>\$ 12,514,801</u>	<u>\$ 12,028,986</u>	<u>\$ 57,997,176</u>	<u>\$ 59,311,512</u>

Governmental Activities. The change in net position before transfers was a decrease of \$1,105,300. The governmental activities received \$482,020 from the business-type activities during 2021, resulting in a decrease in net position of \$623,280.

Business-type Activities. The change in net position before transfers was an increase of \$967,835. The business-type activities transferred \$482,020 to the governmental activities, resulting in an increase in net position of \$485,815.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 Increase (Decrease)
	12/31/2021	12/31/2020		
Governmental Funds				
General	\$ 639,171	\$ 685,779	\$ (46,608)	-7%
Capital Projects	(852,481)	(756,754)	(95,727)	-13%
Proprietary Funds				
Municipal Liquor Store	1,434,045	1,358,294	75,751	6%
Water	2,407,503	2,102,192	305,311	15%
Electric	5,506,363	5,447,274	59,089	1%
Sewer Service	3,084,781	3,065,254	19,527	1%
Roseau Court Townhomes	(600,070)	(595,052)	(5,018)	-1%

General Fund Budgetary Highlights

During the year the City did not amend the budget.

The City received revenues over the budgeted amounts of \$1,300,313 and expended \$1,298,975 over 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, 2021, amounts to \$53,037,626 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings, and machinery and equipment.

**Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 12,613,502	\$ 12,506,912	\$ 292,613	\$ 292,613	\$ 12,906,115	\$ 12,799,525
Construction in Process	425,070	991,343			425,070	991,343
Buildings	12,771,582	13,035,134	1,957,241	2,031,568	14,728,823	15,066,702
Improvements Other Than Buildings	18,767,386	18,511,515	31,565	28,370	18,798,951	18,539,885
Plant and Equipment			4,665,060	4,379,216	4,665,060	4,379,216
Machinery and Equipment	1,288,198	1,340,238	225,409	90,615	1,513,607	1,430,853
Total	\$ 45,865,738	\$ 46,385,142	\$ 7,171,888	\$ 6,822,382	\$ 53,037,626	\$ 53,207,524

Additional information on the City's capital assets can be found in Note 6 of this report.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Long-term Debt. At the end of the current fiscal year, the City had \$3,026,479 in loans and other long-term obligations.

Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Loans Payable	\$ 467,623	\$	\$ 2,501,605	\$ 2,514,339	\$ 2,969,228	\$ 2,514,339
Capital Lease	57,251	113,107			57,251	113,107
Total	\$ 524,874	\$ 113,107	\$ 2,501,605	\$ 2,514,339	\$ 3,026,479	\$ 2,627,446

Additional information on the City's long-term debt can be found in Note 10 of this report.

Economic Factors

COVID presented less challenges to business operations in 2021 than it did in 2020. Overall, the Roseau economy was very strong with very little disruption to the area's main manufacturing employers, despite COVID induced supply challenges worldwide. 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 2021. 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 assistance and COVID relief aids 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 local government aid (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.

The on-going COVID pandemic presented some challenges for LifeCare Medical Center and Altru Clinic with restricted services, employee shortages and lower revenues.

A traditional barrier to growth in Roseau has been a lack of available housing for new residents. In 2021 the City through its EDA arm initiated the construction of a new 37-unit market rate workforce housing apartment complex. The EDA will be the owner of this complex and the project was financed through the issuance of \$4.2 million in revenue bonds. Additionally in 2021, the City developed 17 lots in a new subdivision on the south side of Roseau for additional single-family housing. Five of the lots were sold in the first year. However, the lack of construction capacity in the region still continues to be a hurdle to rapid increases in housing stock as well as the increasing costs of construction.

The city of Roseau witnessed a dramatic increase in interest in its Industrial Park with the sale of 7 lots for the construction of a new county highway garage, new meat processing facility, warehouse, and small fabricator.

Agriculture continues to provide diversification and stability for the overall local economy. The area was fortunate that drought conditions that hampered crops across the region had less impact on crops in the Roseau area. However, lingering 2021 drought conditions could have impacts on 2022 crops.

**CITY OF ROSEAU, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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. Furthermore, in 2020 as a result of the COVID pandemic the U.S./Canadian border was closed completely to non-essential traffic. 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 these border restrictions have 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. The City continues to work with its congressional delegation to reopen the border, 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 and overall rising costs.
- Evolving 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.

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Exhibit A-1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 931,015	\$ 6,400,448	\$ 7,331,463	\$ 731,363
Receivables				
Accounts (Net of Allowance)	4,165	528,050	532,215	
Delinquent Taxes	52,000		52,000	
Special Assessments	575,600		575,600	
Notes Receivable (Net of Allowance)	335,621		335,621	783,270
Internal Balances	(1,139,043)	1,139,043		
Due From Other Governments	336,455	141,372	477,827	
Inventory		293,051	293,051	
Restricted: Funded Reserves		379,687	379,687	
Restricted: Tenant Security Deposits, Cash		19,244	19,244	
Due From Component Unit	272,004		272,004	
Capital Assets				
Land	12,613,502	292,613	12,906,115	
Construction in Process	425,070		425,070	3,015,932
Buildings	18,097,500	3,109,520	21,207,020	
Improvements Other than Buildings	29,031,182	112,475	29,143,657	
Plant and Equipment		17,712,841	17,712,841	
Machinery and Equipment	3,782,611	724,243	4,506,854	
Less: Accumulated Depreciation	(18,084,127)	(14,779,804)	(32,863,931)	
Total Capital Assets, Net of Depreciation	<u>45,865,738</u>	<u>7,171,888</u>	<u>53,037,626</u>	<u>3,015,932</u>
TOTAL ASSETS	<u>47,233,555</u>	<u>16,072,783</u>	<u>63,306,338</u>	<u>4,530,565</u>
DEFERRED OUTFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	<u>787,984</u>	<u>240,651</u>	<u>1,028,635</u>	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>787,984</u>	<u>240,651</u>	<u>1,028,635</u>	
LIABILITIES				
Accounts Payable	101,877	467,382	569,259	612,128
Accrued Payroll Expenses		551	551	
Due to Other Governments		62,112	62,112	
Consumer Deposits		52,518	52,518	
Accrued Interest Payable		1,616	1,616	
Prepaid Rent		454	454	
Unearned Revenue		19,998	19,998	
Noncurrent Liabilities				
Due to Primary Government				272,004
Net Pension Liability	617,679	322,335	940,014	
Due Within One Year	162,439	31,807	194,246	
Due in More than One Year	<u>593,193</u>	<u>2,543,098</u>	<u>3,136,291</u>	<u>1,311,668</u>
TOTAL LIABILITIES	<u>1,475,188</u>	<u>3,501,871</u>	<u>4,977,059</u>	<u>2,195,800</u>
DEFERRED INFLOWS OF RESOURCES				
Cost Sharing Defined Benefit Pension Plan	<u>1,063,976</u>	<u>296,762</u>	<u>1,360,738</u>	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,063,976</u>	<u>296,762</u>	<u>1,360,738</u>	
NET POSITION				
Net Investment in Capital Assets	45,245,671	4,670,283	49,915,954	820,132
Restricted for:				
Construction				527,523
Funded Reserves		379,687	379,687	
MHFA - Residual Receipts		35,836	35,836	
Economic Development	165,332		165,332	
Unrestricted	<u>71,372</u>	<u>7,428,995</u>	<u>7,500,367</u>	<u>987,110</u>
TOTAL NET POSITION	<u>\$ 45,482,375</u>	<u>\$ 12,514,801</u>	<u>\$ 57,997,176</u>	<u>\$ 2,334,765</u>

See Notes to the Financial Statements

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**CITY OF ROSEAU, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Exhibit A-2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
General Government	\$ 498,808	\$ 84,329	\$ 20,100	\$	\$ (394,379)	\$	\$ (394,379)	\$
Public Safety	1,150,389	73,193	1,205,303		128,107		128,107	
Public Works	1,102,392	17,814		165,001	(919,577)		(919,577)	
Culture and Recreation	1,258,760	33,656	13,631	32,900	(1,178,573)		(1,178,573)	
Economic Development	1,172,438	30,334	130,772		(1,011,332)		(1,011,332)	
Airport	316,014	125,743	36,061	73,449	(80,761)		(80,761)	
Interest on Long-term Debt	3,731				(3,731)		(3,731)	
Total Governmental Activities	5,502,532	365,069	1,405,867	271,350	(3,460,246)		(3,460,246)	
Business-type Activities:								
Municipal Liquor Store	1,880,293	2,155,511				275,218	275,218	
Water	526,673	403,555		287,373		164,255	164,255	
Electric	3,611,781	4,072,436				460,655	460,655	
Sewer Service	459,424	391,515				(67,909)	(67,909)	
Roseau Court Townhomes	199,967	227,206				27,239	27,239	
Garbage	426,146	468,796				42,650	42,650	
Total Business-type Activities	7,104,284	7,719,019		287,373		902,108	902,108	
Total Government	\$ 12,606,816	\$ 8,084,088	\$ 1,405,867	\$ 558,723	(3,460,246)	902,108	(2,558,138)	
Component Unit:								
Economic Development	\$ 83,943	\$ 3,660	\$	\$				(80,283)
Housing	40,201			1,115,856				1,075,655
Total Component Unit	\$ 124,144	\$ 3,660	\$	\$ 1,115,856				995,372
General Revenues:								
Property Taxes					1,145,570		1,145,570	
Hotel / Motel Taxes					68,681		68,681	
Franchise Fee					30,946		30,946	
Unrestricted State Aid					744,920		744,920	
Unrestricted Investment Earnings					39,479	1,728	41,207	107
Other General Revenue					205,588	63,999	269,587	32,706
Sale of Capital Asset					119,762		119,762	129,709
Transfers					482,020	(482,020)		
Total General Revenues and Transfers					2,836,966	(416,293)	2,420,673	162,522
Change in Net Position					(623,280)	485,815	(137,465)	1,157,894
Net Position - January 1					47,282,526	12,028,986	59,311,512	
Restatement - See Note 2					(1,176,871)		(1,176,871)	1,176,871
Net Position - January 1, as restated					46,105,655	12,028,986	58,134,641	1,176,871
Net Position - December 31					\$ 45,482,375	\$ 12,514,801	\$ 57,997,176	\$ 2,334,765

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

Exhibit A-3

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Investments	\$ 664,264	\$	\$ 266,751	\$ 931,015
Receivables				
Accounts	213		3,952	4,165
Tax Receivable - Delinquent	52,000			52,000
Special Assessments				
Delinquent	52,300			52,300
Noncurrent	523,300			523,300
Notes Receivable	674,521		66,100	740,621
Due From Other Funds	8,537		22,635	31,172
Due From Component Unit	272,004			272,004
Due From Other Governments		318,771	17,684	336,455
TOTAL ASSETS	<u>\$ 2,247,139</u>	<u>\$ 318,771</u>	<u>\$ 377,122</u>	<u>\$ 2,943,032</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 33,843	\$ 32,209	\$ 35,825	\$ 101,877
Due To Other Funds		1,139,043	31,172	1,170,215
Total Liabilities	<u>33,843</u>	<u>1,171,252</u>	<u>66,997</u>	<u>1,272,092</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	52,000			52,000
Unavailable Revenue - Notes Receivable	674,521		66,100	740,621
Unavailable Revenue - Due From Component Unit	272,004			272,004
Unavailable Revenue - Special Assessments	575,600			575,600
Total Deferred Inflows of Resources	<u>1,574,125</u>		<u>66,100</u>	<u>1,640,225</u>
FUND BALANCES				
Restricted for:				
Economic Development			165,332	165,332
Committed for:				
Economic Development			12,014	12,014
Birding Trail			6,668	6,668
Roseau P.D.			17,878	17,878
Assigned for Economic Development			42,133	42,133
Unassigned	639,171	(852,481)		(213,310)
Total Fund Balances	<u>639,171</u>	<u>(852,481)</u>	<u>244,025</u>	<u>30,715</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,247,139</u>	<u>\$ 318,771</u>	<u>\$ 377,122</u>	<u>\$ 2,943,032</u>

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, 2021**

Exhibit A-4

Total fund balances - governmental funds	\$ 30,715
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	63,949,865
Less: accumulated depreciation	(18,084,127)
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.	
	787,984
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	(617,679)
Capital Lease	(57,251)
Loans Payable	(467,623)
Compensated absences	(230,758)
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.	
	(1,063,976)
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>1,640,225</u>
Net position - governmental activities	<u>\$ 45,482,375</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, 2021**

Exhibit A-5

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 1,106,964	\$	\$ 119,971	\$ 1,226,935
Hotel / Motel Tax			68,681	68,681
Franchise Fee	30,946			30,946
Special Assessments	87,001			87,001
Licenses and Permits	52,875			52,875
Intergovernmental				
Federal		4,063	92,036	96,099
State	1,986,284	69,386	21,581	2,077,251
Charges for Services	272,643			272,643
Fines and Forfeitures	9,215			9,215
Interest on Investments	21,779			21,779
Miscellaneous	140,613	5,928	107,156	253,697
Total Revenues	<u>3,708,320</u>	<u>79,377</u>	<u>409,425</u>	<u>4,197,122</u>
EXPENDITURES				
Current				
General Government	452,132	1,638		453,770
Public Safety	1,168,117			1,168,117
Public Works	365,408			365,408
Culture and Recreation	848,222		40,009	888,231
Economic Development	1,055,979		378,344	1,434,323
Airport	105,970			105,970
Capital Outlay				
General Government	2,557			2,557
Public Safety	155,739			155,739
Public Works	71,573	573,022		644,595
Culture and Recreation	102,923			102,923
Economic Development	104,847	85,569		190,416
Airport	21,315	105,890		127,205
Debt Service				
Principal	113,233			113,233
Interest	3,731			3,731
Total Expenditures	<u>4,571,746</u>	<u>766,119</u>	<u>418,353</u>	<u>5,756,218</u>
REVENUES UNDER EXPENDITURES	<u>(863,426)</u>	<u>(686,742)</u>	<u>(8,928)</u>	<u>(1,559,096)</u>
OTHER FINANCING SOURCES				
Transfers In	763,071			763,071
Sale of Capital Asset	53,747	66,015		119,762
Loan Proceeds		525,000		525,000
Total Other Financing Sources	<u>816,818</u>	<u>591,015</u>		<u>1,407,833</u>
NET CHANGE IN FUND BALANCES	(46,608)	(95,727)	(8,928)	(151,263)
FUND BALANCE, JANUARY 1	685,779	(756,754)	644,139	573,164
RESTATEMENT - SEE NOTE 2			(391,186)	(391,186)
FUND BALANCE, JANUARY 1, AS RESTATED	<u>685,779</u>	<u>(756,754)</u>	<u>252,953</u>	<u>181,978</u>
FUND BALANCE, DECEMBER 31	<u>\$ 639,171</u>	<u>\$ (852,481)</u>	<u>\$ 244,025</u>	<u>\$ 30,715</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, 2021**

Exhibit A-6

Total net change in fund balances - governmental funds.	\$ (151,263)
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	928,065
Depreciation expense	(1,480,369)
Donation of capital asset	32,900
Proceeds from long-term debt provide current financial resources to governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(525,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	113,233
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	319,453
Change in net pension liability	336,859
Change in deferred outflows and inflows of resources related to net pension liability	(191,258)
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>(5,900)</u>
Change in net position - governmental activities	<u>\$ (623,280)</u>

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2021**

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	\$ 727,326	\$ 164,999	\$ 4,240,616	\$ 627,078	\$ 77,124	\$ 563,305	\$ 6,400,448
Accounts Receivable (Net of Allowance)	8,260	35,134	394,705	36,162	2,068	51,721	528,050
Due From Other Funds			1,139,043				1,139,043
Due From Other Governments		141,372					141,372
Inventory	224,262		68,789				293,051
Total Current Assets	959,848	341,505	5,843,153	663,240	79,192	615,026	8,501,964
NONCURRENT ASSETS							
Restricted: Funded Reserves					379,687		379,687
Restricted: Tenant Security Deposits, Cash					19,244		19,244
Capital Assets							
Land	20,000	16,250	61,885	119,478	75,000		292,613
Improvements Other than Buildings					112,475		112,475
Buildings	684,697				2,424,823		3,109,520
Plant and Equipment		7,684,701	2,694,153	7,333,987			17,712,841
Machinery and Equipment	290,462				49,373	384,408	724,243
Less: accumulated depreciation	(346,379)	(5,541,337)	(2,627,424)	(4,879,019)	(1,213,877)	(171,768)	(14,779,804)
Total Capital Assets	648,780	2,159,614	128,614	2,574,446	1,447,794	212,640	7,171,888
Total Noncurrent Assets	648,780	2,159,614	128,614	2,574,446	1,846,725	212,640	7,570,819
Total Assets	1,608,628	2,501,119	5,971,767	3,237,686	1,925,917	827,666	16,072,783
DEFERRED OUTFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	61,344	42,468	25,951	42,468		68,420	240,651
Total Deferred Outflows of Resources	61,344	42,468	25,951	42,468		68,420	240,651

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF NET POSITION - Continued
PROPRIETARY FUNDS
DECEMBER 31, 2021

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	52,466	7,345	324,423	67,420	3,144	12,584	467,382
Accrued Expenses			551				551
Due to Other Governments	19,619	786	32,303			9,404	62,112
Consumer Deposits			33,350		19,168		52,518
Interest Payable					1,616		1,616
Prepaid Rent					454		454
Unearned Revenue	1,134		18,864				19,998
Current Portion - Long Term Liabilities	1,225	4,675	3,775	4,675	13,482	3,975	31,807
Total Current Liabilities	<u>74,444</u>	<u>12,806</u>	<u>413,266</u>	<u>72,095</u>	<u>37,864</u>	<u>25,963</u>	<u>636,438</u>
NONCURRENT LIABILITIES							
Loans Payable					2,501,605		2,501,605
Compensated Absences	4,900	18,700	15,100	18,700		15,900	73,300
Net Pension Liability	82,163	56,883	34,762	56,883		91,644	322,335
Less: Current Portion of Long Term Liabilities	(1,225)	(4,675)	(3,775)	(4,675)	(13,482)	(3,975)	(31,807)
Total Noncurrent Liabilities	<u>85,838</u>	<u>70,908</u>	<u>46,087</u>	<u>70,908</u>	<u>2,488,123</u>	<u>103,569</u>	<u>2,865,433</u>
Total Liabilities	<u>160,282</u>	<u>83,714</u>	<u>459,353</u>	<u>143,003</u>	<u>2,525,987</u>	<u>129,532</u>	<u>3,501,871</u>
DEFERRED INFLOWS OF RESOURCES							
Cost Sharing Defined Benefit Pension Plan	75,645	52,370	32,002	52,370		84,375	296,762
Total Deferred Inflows of Resources	<u>75,645</u>	<u>52,370</u>	<u>32,002</u>	<u>52,370</u>		<u>84,375</u>	<u>296,762</u>
NET POSITION							
Net Investment in Capital Assets	648,780	2,159,614	128,614	2,574,446	(1,053,811)	212,640	4,670,283
Restricted for Funded Reserves					379,687		379,687
Restricted for MHFA - Residual Receipts					35,836		35,836
Unrestricted	785,265	247,889	5,377,749	510,335	38,218	469,539	7,428,995
Total Net Position	<u>\$ 1,434,045</u>	<u>\$ 2,407,503</u>	<u>\$ 5,506,363</u>	<u>\$ 3,084,781</u>	<u>\$ (600,070)</u>	<u>\$ 682,179</u>	<u>\$ 12,514,801</u>

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

Exhibit A-8

	Major Funds					Nonmajor Fund	Totals
	Municipal Liquor Store	Water	Electric	Sewer Service	Roseau Court Townhomes	Garbage Collection	
OPERATING REVENUES							
Sales	\$ 2,155,511	\$	\$	\$	\$	\$	\$ 2,155,511
Cost of Sales	1,583,657						1,583,657
Gross Profit	571,854						571,854
Charges for Services		402,386	4,053,599	366,335		468,796	5,291,116
Other Services		1,169	18,836	1,638	227,206		248,849
Total Operating Revenues	571,854	403,555	4,072,435	367,973	227,206	468,796	6,111,819
OPERATING EXPENSES							
Production Expense		83,356	3,031,773				3,115,129
Distribution Expense		19,558	323,598				343,156
General Expense	282,930	160,461	234,997	188,882	119,070	396,163	1,382,503
Depreciation	13,706	263,299	21,413	270,543	65,926	29,983	664,870
Total Operating Expenses	296,636	526,674	3,611,781	459,425	184,996	426,146	5,505,658
Operating Income (Loss)	275,218	(123,119)	460,654	(91,452)	42,210	42,650	606,161
NONOPERATING REVENUE (EXPENSE)							
Interest on Investments					1,728		1,728
Intergovernmental Revenue		287,373					287,373
Gain on Sale of Asset						30,551	30,551
Other Income	533	17,803	8,435	25,182	2,086	2,954	56,993
Interest Expense					(14,971)		(14,971)
Total Nonoperating Revenue (Expense)	533	305,176	8,435	25,182	(11,157)	33,505	361,674
Net Income (Loss) before Transfers and Capital Contributions	275,751	182,057	469,089	(66,270)	31,053	76,155	967,835
CAPITAL CONTRIBUTIONS		160,254		120,797			281,051
TRANSFERS OUT	(200,000)	(37,000)	(410,000)	(35,000)	(36,071)	(45,000)	(763,071)
Change in Net Position	75,751	305,311	59,089	19,527	(5,018)	31,155	485,815
TOTAL NET POSITION, JANUARY 1	1,358,294	2,102,192	5,447,274	3,065,254	(595,052)	651,024	12,028,986
TOTAL NET POSITION, DECEMBER 31	\$ 1,434,045	\$ 2,407,503	\$ 5,506,363	\$ 3,084,781	\$ (600,070)	\$ 682,179	\$ 12,514,801

See Notes to the Financial Statements

**CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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	\$ 2,165,678	\$ 403,521	\$ 4,061,214	\$ 367,636	\$ 223,429	\$ 470,330	\$ 7,691,808
Payments to Suppliers	(1,676,291)	(122,108)	(3,427,482)	(49,146)	(119,277)	(186,952)	(5,581,256)
Payments to Employees	(219,236)	(146,310)	(123,310)	(146,312)		(224,558)	(859,726)
Net Cash Provided by Operating Activities	<u>270,151</u>	<u>135,103</u>	<u>510,422</u>	<u>172,178</u>	<u>104,152</u>	<u>58,820</u>	<u>1,250,826</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Nonoperating Revenue	532	17,803	8,437	25,182		2,956	54,910
Transfers to Other Funds	(200,000)	(37,000)	(410,000)	(35,000)	(36,071)	(45,000)	(763,071)
Due From Other Funds			7,992				7,992
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(199,468)</u>	<u>(19,197)</u>	<u>(393,571)</u>	<u>(9,818)</u>	<u>(36,071)</u>	<u>(42,044)</u>	<u>(700,169)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchase of Capital Asset		(484,532)	(4,891)	(4,891)	(8,500)	(164,779)	(667,593)
Gain on Sale of Capital Asset						30,551	30,551
Intergovernmental Revenue		146,000					146,000
Payment of Long-Term Debt					(12,734)		(12,734)
Interest on Long-Term Debt					(14,971)		(14,971)
Net Cash Used by Capital and Related Financing Activities		<u>(338,532)</u>	<u>(4,891)</u>	<u>(4,891)</u>	<u>(36,205)</u>	<u>(134,228)</u>	<u>(518,747)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Tax and Insurance Escrow, Net - MN Housing					(2,090)		(2,090)
Deposits into Reserve Accounts - MN Housing					(50,497)		(50,497)
Withdrawals from Reserves - MN Housing					8,500		8,500
Interest Earnings					104		104
Net Cash Used by Investing Activities					<u>(43,983)</u>		<u>(43,983)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,683	(222,626)	111,960	157,469	(12,107)	(117,452)	(12,073)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>656,643</u>	<u>387,625</u>	<u>4,128,656</u>	<u>469,609</u>	<u>108,475</u>	<u>680,757</u>	<u>6,431,765</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 727,326</u>	<u>\$ 164,999</u>	<u>\$ 4,240,616</u>	<u>\$ 627,078</u>	<u>\$ 96,368</u>	<u>\$ 563,305</u>	<u>\$ 6,419,692</u>
Reconciliation of Cash, Cash Equivalents, and Restricted Cash							
Cash and Investments	\$ 727,326	\$ 164,999	\$ 4,240,616	\$ 627,078	\$ 77,124	\$ 563,305	\$ 6,400,448
Restricted Cash - Tenant Security Deposits					19,244		19,244
Total Cash, Cash Equivalents, and Restricted Cash	<u>\$ 727,326</u>	<u>\$ 164,999</u>	<u>\$ 4,240,616</u>	<u>\$ 627,078</u>	<u>\$ 96,368</u>	<u>\$ 563,305</u>	<u>\$ 6,419,692</u>

cont.

See Notes to the Financial Statements

CITY OF ROSEAU, MINNESOTA
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

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)	\$ 275,218	\$ (123,119)	\$ 460,654	\$ (91,452)	\$ 42,210	\$ 42,650	\$ 606,161
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities							
Depreciation	13,706	263,299	21,413	270,543	65,926	29,983	664,870
Bad Debt Expense							
Change in:							
Accounts Receivable	10,019	(33)	(27,414)	(337)	(438)	1,534	(16,669)
Inventory	(36,769)		(8,379)				(45,148)
Deferred Outflows	(47,161)	(32,649)	(19,953)	(32,649)		(52,602)	(185,014)
Accounts Payable	33,735	1,865	51,811	269	(207)	(250)	87,223
Accrued Expenses	(234)						(234)
Prepaid Rent					(1,032)		(1,032)
Due to Other Governments	(1,503)	425	861			335	118
Other Current Liabilities		(1,625)	(1,272)	(1,136)	(2,307)	(679)	(7,019)
Unearned Revenue	148		16,193				16,341
Compensated Absences	(16,500)	(400)	(200)	(400)		(6,200)	(23,700)
Net Pension Liability	(30,851)	(21,358)	(13,052)	(21,358)		(34,411)	(121,030)
Deferred Inflows	70,343	48,698	29,760	48,698		78,460	275,959
Total Adjustments	<u>(5,067)</u>	<u>258,222</u>	<u>49,768</u>	<u>263,630</u>	<u>61,942</u>	<u>16,170</u>	<u>644,665</u>
Net Cash Provided by Operating Activities	<u>\$ 270,151</u>	<u>\$ 135,103</u>	<u>\$ 510,422</u>	<u>\$ 172,178</u>	<u>\$ 104,152</u>	<u>\$ 58,820</u>	<u>\$ 1,250,826</u>
NONCASH CAPITAL ACTIVITIES							
Contributions of Capital Assets from Government	\$	\$ 160,254	\$	\$ 120,797	\$	\$	\$ 281,051
Acquisition of Capital Assets through Accounts Payable				65,734			65,734

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.

DISCRETELY PRESENTED COMPONENT UNITS – 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

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 expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 *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.

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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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.

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 \$505,000.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021, and is expected to be taken by December 31, 2021, is considered a current liability and is accrued in the December 31, 2021 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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. 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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.

NOTE 2. RESTATEMENT

The Economic Development Authority was previously reported as a blended component unit and a governmental fund using the modified basis of accounting. The City reevaluated and is now reporting the Economic Development Authority as a discretely presented component unit using the full accrual basis of accounting. As a result, beginning fund balance for the Community and Economic Development fund was decreased by \$391,186 and beginning net position for the Economic Development Authority was increased by \$391,186. In addition, the Economic Development Authority's net position increased \$785,685 for the notes receivable.

NOTE 3. DEFICIT FUND BALANCE/NET POSITION

Deficit fund balance/net position of individual funds at December 31, 2021, is as follows:

Capital Projects Fund	\$852,481
Roseau Court Townhomes	600,070

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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 4. 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, 2021, 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. The City was not exposed to custodial credit risk as of December 31, 2021.

NOTE 5. NOTES RECEIVABLE

Primary Government

At December 31, 2021, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$740,621. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$405,000.

Discretely Presented Component Unit – EDA

At December 31, 2021, the notes receivable consisted of promissory notes from various businesses and individuals and totaled \$853,270. The promissory notes have various maturity dates and interest rates. The provision for uncollectible notes on the statement of net position was \$70,000.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 6. CAPITAL ASSETS

Primary Government

Capital assets activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 12,506,912	\$ 106,590	\$	\$ 12,613,502
Construction In Process	991,343	363,207	929,480	425,070
Total Capital Assets, Not Being Depreciated	<u>13,498,255</u>	<u>469,797</u>	<u>929,480</u>	<u>13,038,572</u>
Capital Assets, Being Depreciated:				
Buildings	17,913,432	184,068		18,097,500
Improvements Other Than Buildings	27,948,537	1,082,645		29,031,182
Machinery and Equipment	3,698,274	153,935	69,598	3,782,611
Total Capital Assets, Being Depreciated	<u>49,560,243</u>	<u>1,420,648</u>	<u>69,598</u>	<u>50,911,293</u>
Less: Accumulated Depreciation For:				
Buildings	4,878,298	447,620		5,325,918
Improvements Other Than Buildings	9,437,022	826,774		10,263,796
Machinery and Equipment	2,358,036	205,975	69,598	2,494,413
Total Accumulated Depreciation	<u>16,673,356</u>	<u>1,480,369</u>	<u>69,598</u>	<u>18,084,127</u>
Total Capital Assets, Being Depreciated, Net	<u>32,886,887</u>	<u>(59,721)</u>		<u>32,827,166</u>
Governmental Activities Capital Assets, Net	<u>\$ 46,385,142</u>	<u>\$ 410,076</u>	<u>\$ 929,480</u>	<u>\$ 45,865,738</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	8,500		112,475
Buildings	3,109,520			3,109,520
Plant and Equipment	16,871,743	841,098		17,712,841
Machinery and Equipment	709,727	164,778	150,262	724,243
Total Capital Assets, Being Depreciated	<u>20,794,965</u>	<u>1,014,376</u>	<u>150,262</u>	<u>21,659,079</u>
Less: Accumulated Depreciation For:				
Improvements Other Than Buildings	75,605	5,305		80,910
Buildings	1,077,952	74,327		1,152,279
Plant and Equipment	12,492,527	555,254		13,047,781
Machinery and Equipment	619,112	29,984	150,262	498,834
Total Accumulated Depreciation	<u>14,265,196</u>	<u>664,870</u>	<u>150,262</u>	<u>14,779,804</u>
Total Capital Assets, Being Depreciated, Net	<u>6,529,769</u>	<u>349,506</u>		<u>6,879,275</u>
Business-type Activities Capital Assets, Net	<u>\$ 6,822,382</u>	<u>\$ 349,506</u>	<u>\$</u>	<u>\$ 7,171,888</u>

**CITY OF ROSEAU, MINNESOTA
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 53,966
Public Safety	105,051
Public Works, including depreciation of general infrastructure assets	744,499
Culture and Recreation	369,201
Economic Development	9,350
Airport	198,302
Total Depreciation Expenses - Governmental Activities	<u>\$ 1,480,369</u>
Business-type Activities:	
Municipal Liquor Store	\$ 13,706
Water	263,299
Electric	21,413
Sewer Service	270,543
Roseau Court Townhomes	65,926
Garbage Collections	29,983
Total Depreciation Expense - Business-type Activities	<u>\$ 664,870</u>

Discretely Presented Component Unit – EDA

Changes in capital assets for the discretely presented component unit for the year ended December 31, 2021, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Discretely Presented Component Unit</u>				
Capital Assets, Not Being Depreciated:				
Construction In Process	\$	\$ 3,015,932	\$	\$ 3,015,932
Component Unit Capital Assets, Net	<u>\$</u>	<u>\$ 3,015,932</u>	<u>\$</u>	<u>\$ 3,015,932</u>

NOTE 7. 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, 2021, 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 8. 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.

**CITY OF ROSEAU, MINNESOTA
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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 local relief associations that elected to merge with and transfer assets and administration to PERA.

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is 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 June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of 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. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of 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 2021, 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, 2021, were \$80,080. The City's contributions were equal to the required contributions as set by state statute.

CITY OF ROSEAU, MINNESOTA
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Police and Fire Fund Contributions

Police and Fire member's were required to contribute 11.8 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.7 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$87,698. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs – At December 31, 2021, the City reported a liability of \$632,026 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State 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 \$19,362. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0148% at the end of the measurement period and 0.0145% for the beginning of the period.

City's proportionate share of net pension liability	\$	632,026
State of Minnesota's proportionate share of the net pension liability associated with the City		19,362
Total	\$	<u><u>651,388</u></u>

For the year ended December 31, 2021, the City recognized pension expense of \$20,937 for its proportionate share of General Employee Plan's pension expense. In addition, the City recognized an additional \$1,562 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, 2021, 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	\$ 3,568	\$ 19,296
Difference between projected and actual investment earnings		547,605
Changes in actuarial assumptions	385,902	13,427
Changes in proportion	42,353	1,557
Contributions paid to PERA subsequent to the measurement date	40,040	
Total	<u><u>\$ 471,863</u></u>	<u><u>\$ 581,885</u></u>

\$40,040 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF ROSEAU, MINNESOTA
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Year Ending December 31	Pension Expense Amount
2022	\$ (8,953)
2023	8,981
2024	(797)
2025	(149,293)

At December 31, 2021, the City reported a liability of \$307,986 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0399% at the end of the measurement period and 0.0401% for the beginning of the period.

The State of Minnesota also contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million in direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2021, the City recognized pension expense of (\$27,817) for its proportionate share of the Police and Fire Plan's pension expense. The City recognized pension expense of \$2,522 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$3,591 for the year ended December 31, 2021 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.

At December 31, 2021, 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	\$ 59,411	\$
Difference between projected and actual investment earnings		588,520
Changes in actuarial assumptions	452,660	173,722
Changes in proportion	852	16,611
Contributions paid to PERA subsequent to the measurement date	43,849	
Total	\$ 556,772	\$ 778,853

CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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\$43,849 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, 2022. 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>
2022	\$ (217,803)
2023	(41,490)
2024	(41,184)
2025	(63,989)
2026	98,536

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
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The following changes in actuarial assumptions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Discount Rate – The discount rate used to measure the total pension liability in 2021 was 6.50%. 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.

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 (5.5%)	Current (6.5%)	1% Increase (7.5%)
	\$	\$	\$
General Employees Plan	1,289,011	632,026	92,930
Police and Fire Fund	977,803	307,986	(241,098)

**CITY OF ROSEAU, MINNESOTA
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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 9. 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, 2021, 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, 2021, is as follows:

<u>Year Ending December 31,</u>	<u>Governmental Fund</u>
2022	\$ 58,683
Less: amount representing interest	(1,432)
Present value of minimum lease payments	<u>\$ 57,251</u>

NOTE 10. LONG-TERM DEBT

Primary Government

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

The City has the following loans:

<u>Governmental Activities</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
Loans Payable	2.23%	2022/30	\$ 467,623
<u>Business-type Activities</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Amount</u>
MN Housing Finance Agency	5.72%	2022/35	\$ 254,781
MN Housing Finance Agency (*)		2023	2,246,824
			<u>\$ 2,501,605</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.

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 47,488	\$ 10,442	\$ 13,482	\$ 14,224
2023	48,548	9,382	14,273	13,432
2024	49,632	8,298	15,112	12,594
2025	50,741	7,189	15,999	11,706
2026	51,874	6,056	16,939	10,767
2027-2031	219,340	12,380	100,833	37,693
2032-2035			78,143	7,283
	<u>\$ 467,623</u>	<u>\$ 53,747</u>	<u>\$ 254,781</u>	<u>\$ 107,699</u>

CITY OF ROSEAU, MINNESOTA
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Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Capital Lease	\$ 113,107	\$	\$ 55,856	\$ 57,251	\$ 57,251
Other Long-term Obligations					
Loans Payable		525,000	57,377	467,623	47,488
Compensated Absences	224,858	93,548	87,648	230,758	57,700
Governmental Activity					
Long-term Liabilities	<u>\$ 337,965</u>	<u>\$ 618,548</u>	<u>\$ 200,881</u>	<u>\$ 755,632</u>	<u>\$ 162,439</u>
<u>Business-type Activities</u>					
Other Long-term Obligations					
Loans Payable	\$ 2,514,339	\$	\$ 12,734	\$ 2,501,605	\$ 13,482
Compensated Absences	97,000	26,584	50,284	73,300	18,325
Business-type Activity					
Long-term Liabilities	<u>\$ 2,611,339</u>	<u>\$ 26,584</u>	<u>\$ 63,018</u>	<u>\$ 2,574,905</u>	<u>\$ 31,807</u>

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

Discretely Presented Component Unit – EDA

Changes in Long-Term Liabilities. Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Component Unit Activities</u>					
Revenue Bonds Payable	\$	\$ 1,039,664	\$	\$ 1,039,664	\$
Loan Payable		272,004		272,004	
Total Component Unit Activities	<u>\$</u>	<u>\$ 1,311,668</u>	<u>\$</u>	<u>\$ 1,311,668</u>	<u>\$</u>

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

Year Ending December 31	Component Unit	
	Principal	Interest
2022	\$	\$
2023		
2024		
2025	3,298	2,256
2026	10,058	6,603
2027-2031	54,242	29,066
2032-2036	61,457	21,802
2037-2041	69,629	13,678
2042-2046	73,320	4,434
	<u>\$ 272,004</u>	<u>\$ 77,839</u>

The EDA authorized issuance of \$4,200,000 in revenue bonds to finance construction of a 37 unit apartment building. The EDA is drawing on the bonds as eligible expenses are incurred. As of December 31, 2021, the EDA had drawn \$1,039,664. Once all funds have been drawn an amortization schedule will be developed.

**CITY OF ROSEAU, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11. 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, 2021, the aggregate principal amount payable of the Series 2006 was \$1,876,928.

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, 2021, the aggregate principal amount payable of the one series issued was \$1,397,958.

NOTE 12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2021, is as follows:

Due from / to other funds:

Receivable	Payable	Amount
Electric	Capital Projects	\$ 1,139,043
General	Nonmajor	8,537
Nonmajor	Nonmajor	22,635
		<u>\$ 1,170,215</u>

The amount payable is to cover cash deficits on December 31, 2021.

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	Electric	\$ 410,000
General	Sewer	35,000
General	Liquor Store	200,000
General	Nonmajor	45,000
General	Water	37,000
General	Roseau Court Townhomes	36,071
		<u>\$ 763,071</u>

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

NOTE 13. DUE FROM COMPONENT UNIT TO PRIMARY GOVERNMENT

The City loaned \$272,004 to the Economic Development Authority. The City will be repaid once the revenue bond and loan payable is repaid.

NOTE 14. 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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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 15. 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 2021.

NOTE 16. SIGNIFICANT CUSTOMER

The City has a significant customer, which represents about 15% of the water utility billings.

NOTE 17. 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 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 18. COMMITTED CONSTRUCTION

At December 31, 2021, there was approximately \$52,209 in committed construction for street development project and \$3,430,027 in committed construction for apartment project.

NOTE 19. 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 June 15, 2021. 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, 2021. Earlier application is encouraged.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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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 June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Property Taxes	\$ 1,049,242	\$ 1,106,964	\$ 57,722
Franchise Fee	45,000	30,946	(14,054)
Special Assessments	60,000	87,001	27,001
Licenses and Permits	31,100	52,875	21,775
Intergovernmental			
State			
Local Government Aid	744,780	744,780	
Market Value Credit		140	140
Police Aid	45,000	55,155	10,155
Fire Aid	40,000	45,009	5,009
PERA Rate Increase Aid	4,820		(4,820)
Aviation Maintenance Aid	35,758	36,061	303
Other State Aid		1,105,139	1,105,139
	<u>870,358</u>	<u>1,986,284</u>	<u>1,115,926</u>
Charges for Services			
General Government	33,200	36,612	3,412
Public Safety	69,107	63,977	(5,130)
Culture and Recreation	59,500	100,551	41,051
Airport	30,500	71,503	41,003
	<u>192,307</u>	<u>272,643</u>	<u>80,336</u>
Fines and Forfeitures	15,500	9,215	(6,285)
Miscellaneous			
Interest on Investments	40,000	21,779	(18,221)
Contributions	2,500	51,512	49,012
Reimbursements	50,000	68,734	18,734
Other Receipts	52,000	20,367	(31,633)
	<u>144,500</u>	<u>162,392</u>	<u>17,892</u>
Total Revenues	<u>2,408,007</u>	<u>3,708,320</u>	<u>1,300,313</u>
EXPENDITURES			
General Government			
Mayor and Council	35,476	33,143	2,333
Finance / Administration	101,656	95,733	5,923
Independent Auditors	12,000	12,225	(225)
Assessor	16,546	16,546	
Legal Services	71,968	69,329	2,639
Planning, Zoning, Economic Development	122,602	113,316	9,286
Municipal Building	71,948	58,507	13,441
Miscellaneous	44,500	53,333	(8,833)
Capital Outlay	5,000	2,557	2,443
	<u>481,696</u>	<u>454,689</u>	<u>27,007</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, 2021

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES - Continued			
Public Safety			
Police	906,717	910,818	(4,101)
Fire	223,131	186,274	36,857
Building Inspector	36,350	62,169	(25,819)
Emergency Services	9,150	8,856	294
Capital Outlay	141,000	155,739	(14,739)
	<u>1,316,348</u>	<u>1,323,856</u>	<u>(7,508)</u>
Public Works			
Streets and Highways	436,248	320,697	115,551
Snow and Ice Removal	37,000	22,736	14,264
Street Lighting and Signals	30,000	21,975	8,025
Capital Outlay	134,500	71,573	62,927
	<u>637,748</u>	<u>436,981</u>	<u>200,767</u>
Culture and Recreation			
Library and Museum	102,399	86,990	15,409
Parks and Recreation	462,483	761,232	(298,749)
Capital Outlay - Parks and Recreation	92,000	102,923	(10,923)
	<u>656,882</u>	<u>951,145</u>	<u>(294,263)</u>
Economic Development			
Current Expenditures	38,045	1,055,979	(1,017,934)
Capital Outlay		104,847	(104,847)
	<u>38,045</u>	<u>1,160,826</u>	<u>(1,122,781)</u>
Airport			
Current Expenditures	82,368	105,970	(23,602)
Capital Outlay	1,000	21,315	(20,315)
	<u>83,368</u>	<u>127,285</u>	<u>(43,917)</u>
Debt Service			
Principal	55,856	113,233	(57,377)
Interest	2,828	3,731	(903)
	<u>58,684</u>	<u>116,964</u>	<u>(58,280)</u>
Total Expenditures	<u>3,272,771</u>	<u>4,571,746</u>	<u>(1,298,975)</u>
REVENUES UNDER EXPENDITURES	<u>(864,764)</u>	<u>(863,426)</u>	<u>1,338</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	36,000	763,071	727,071
Sale of Capital Asset	1,000	53,747	52,747
Transfers Out	(48,000)		48,000
Total Other Financing Sources (Uses)	<u>(11,000)</u>	<u>816,818</u>	<u>827,818</u>
NET CHANGE IN FUND BALANCE	<u>(875,764)</u>	<u>(46,608)</u>	<u>829,156</u>
FUND BALANCE, JANUARY 1	<u>685,779</u>	<u>685,779</u>	
FUND BALANCE, DECEMBER 31	<u>\$ (189,985)</u>	<u>\$ 639,171</u>	<u>\$ 829,156</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
	2020	80,790	80,790		1,077,195	7.50
	2021	80,080	80,080		1,067,735	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
	2020	83,426	83,426		471,332	17.70
	2021	87,698	87,698		495,468	17.70

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

**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
	2020	0.0145	869,341	26,902	896,243	1,021,177	87.77	79.06
	2021	0.0148	632,026	19,362	651,388	1,072,465	60.74	87.00
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
	2020	0.0401	528,561		528,561	450,349	117.37	87.19
	2021	0.0399	307,986	13,848	321,834	483,400	66.58	93.66

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.

**CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021**

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 2021.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2021, expenditures exceeded appropriations by \$1,298,975 in the general fund.

NOTE 3. DEFINED BENEFIT PLANS

PERA

General Employees Fund

2021 Changes

Changes in Plan Provisions: There were no changes in plan provisions since the previous valuation.

Changes in Actuarial Assumptions: The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 Changes

Changes in Plan Provisions: Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Changes in Actuarial Assumptions: The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed

CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED
DECEMBER 31, 2021

number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 Changes

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.

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

2018 Changes

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.

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.

2017 Changes

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.

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.

2016 Changes

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

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; the State's contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED
DECEMBER 31, 2021

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

Police and Fire Fund

2021 Changes

Changes in Plan Provisions: There were no changes in plan provisions since the previous valuation.

Changes in Actuarial Assumptions: The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The inflation assumption was changed from 2.50 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.00 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MP-2020. The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020). Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates. Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements. Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations. Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities. Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020 Changes

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

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

2019 Changes

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

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

2018 Changes

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.

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

2017 Changes

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

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

CITY OF ROSEAU, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION – CONTINUED
DECEMBER 31, 2021

rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 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 3.00 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 65.00 percent to 60.00 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 postretirement 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 Plan Provisions: There have been no changes since the prior valuation.

Changes in Actuarial Assumptions: The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year 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 postretirement benefit increases to be paid after the attainment of the 90.00 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 postretirement 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, 2021**

Exhibit B-1

	Special Revenue						Total Nonmajor Governmental Funds Exhibit A-3
	Community and Economic Development	Lodging Tax	T.I.F.	EDA Building	Pine To Prairie Birding Trail	Roseau P.D.	
ASSETS							
Cash and Investments	\$ 48,649	\$ 78,291	\$ 95,609	\$ 19,656	\$ 6,668	\$ 17,878	\$ 266,751
Accounts Receivable	3,952						3,952
Notes Receivable	66,100						66,100
Due From Other Funds				22,635			22,635
Due From Other Governments	17,684						17,684
TOTAL ASSETS	\$ 136,385	\$ 78,291	\$ 95,609	\$ 42,291	\$ 6,668	\$ 17,878	\$ 377,122
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 35,636	\$ 31	\$	\$ 158	\$	\$	\$ 35,825
Due To Other Funds	22,635		8,537				31,172
Total Liabilities	58,271	31	8,537	158			66,997
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue - Notes Receivable	66,100						66,100
Total Deferred Inflows of Resources	66,100						66,100
Fund Balances							
Restricted for							
Economic Development		78,260	87,072				165,332
Committed for							
Economic Development	12,014						12,014
Birding Trail					6,668		6,668
Public Safety						17,878	17,878
Assigned for Economic Development				42,133			42,133
Total Fund Balances	12,014	78,260	87,072	42,133	6,668	17,878	244,025
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 136,385	\$ 78,291	\$ 95,609	\$ 42,291	\$ 6,668	\$ 17,878	\$ 377,122

**CITY OF ROSEAU, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Exhibit B-2

	Special Revenue						Total Nonmajor Governmental Funds Exhibit A-5
	Community and Economic Development	Lodging Tax	T.I.F.	EDA Building	Pine To Prairie Birding Trail	Roseau P.D.	
REVENUES							
Property Taxes	\$	\$	\$ 119,971	\$	\$	\$	\$ 119,971
Hotel / Motel Tax		68,681					68,681
Intergovernmental - Federal	92,036						92,036
Intergovernmental - State	7,950	13,631					21,581
Miscellaneous							
Contributions	6,266				7,000		13,266
Rents				30,786			30,786
Miscellaneous	58,104					5,000	63,104
Total Revenues	<u>164,356</u>	<u>82,312</u>	<u>119,971</u>	<u>30,786</u>	<u>7,000</u>	<u>5,000</u>	<u>409,425</u>
EXPENDITURES							
Current							
Culture and Recreation	31,920				8,089		40,009
Economic Development	133,704	112,908	110,430	21,302			378,344
Total Expenditures	<u>165,624</u>	<u>112,908</u>	<u>110,430</u>	<u>21,302</u>	<u>8,089</u>		<u>418,353</u>
NET CHANGE IN FUND BALANCES	(1,268)	(30,596)	9,541	9,484	(1,089)	5,000	(8,928)
FUND BALANCE, JANUARY 1	404,468	108,856	77,531	32,649	7,757	12,878	644,139
RESTATEMENT - SEE NOTE 2	(391,186)						(391,186)
FUND BALANCE, JANUARY 1, AS RESTATED	<u>13,282</u>	<u>108,856</u>	<u>77,531</u>	<u>32,649</u>	<u>7,757</u>	<u>12,878</u>	<u>252,953</u>
FUND BALANCE, DECEMBER 31	<u>\$ 12,014</u>	<u>\$ 78,260</u>	<u>\$ 87,072</u>	<u>\$ 42,133</u>	<u>\$ 6,668</u>	<u>\$ 17,878</u>	<u>\$ 244,025</u>

**CITY OF ROSEAU, MINNESOTA
 COMBINING STATEMENT OF NET POSITION
 DISCRETELY PRESENTED COMPONENT UNIT – BY FOCUS
 DECEMBER 31, 2021**

Exhibit B-3

	<u>Economic Development</u>	<u>Apartments</u>	<u>Totals</u>
ASSETS			
Cash and Cash Equivalents	\$ 203,840	\$ 527,523	\$ 731,363
Notes Receivable (Net of Allowance)	783,270		783,270
Capital Assets			
Construction in Process		3,015,932	3,015,932
Total Capital Assets		3,015,932	3,015,932
TOTAL ASSETS	<u>987,110</u>	<u>3,543,455</u>	<u>4,530,565</u>
LIABILITIES			
Current Liabilities			
Accounts Payable		612,128	612,128
Total Current Liabilities		<u>612,128</u>	<u>612,128</u>
Noncurrent Liabilities			
Due to Primary Government		272,004	272,004
Loan Payable - HRA		272,004	272,004
Revenue Bond Payable		1,039,664	1,039,664
Total Noncurrent Liabilities		<u>1,583,672</u>	<u>1,583,672</u>
TOTAL LIABILITIES		<u>2,195,800</u>	<u>2,195,800</u>
NET POSITION			
Net Investment in Capital Assets		820,132	820,132
Restricted for Construction		527,523	527,523
Unrestricted	987,110		987,110
TOTAL NET POSITION	<u>\$ 987,110</u>	<u>\$ 1,347,655</u>	<u>\$ 2,334,765</u>

**CITY OF ROSEAU, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT – BY FOCUS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Exhibit B-4

	<u>Economic Development</u>	<u>Apartments</u>	<u>Totals</u>
OPERATING REVENUES			
Tenant Rent and Other Charges	\$ 3,660	\$	\$ 3,660
Other	32,706		32,706
Total Operating Revenues	<u>36,366</u>		<u>36,366</u>
OPERATING EXPENSES			
Economic Development	83,943		83,943
Housing		40,201	40,201
Total Operating Expenses	<u>83,943</u>	<u>40,201</u>	<u>124,144</u>
Operating Loss	(47,577)	(40,201)	(87,778)
NONOPERATING REVENUES			
Interest Earnings	107		107
Contributions		108,000	108,000
Local Grant		1,007,856	1,007,856
Gain on Sale of Asset	129,709		129,709
Total Nonoperating Revenues	<u>129,816</u>	<u>1,115,856</u>	<u>1,245,672</u>
Net Income (Loss) before Transfer	82,239	1,075,655	1,157,894
Transfer In		272,000	272,000
Transfer Out	(272,000)		(272,000)
Change in Net Position	(189,761)	1,347,655	1,157,894
Net Position, Beginning			
Restatement - See Note 2	1,176,871		1,176,871
Net Position, Beginning, as restated	<u>1,176,871</u>		<u>1,176,871</u>
Net Position, Ending	<u>\$ 987,110</u>	<u>\$ 1,347,655</u>	<u>\$ 2,334,765</u>

CITY OF ROSEAU, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES AND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Beginning Balance, as restated	Revenues	Expenditures	Transfer In	Transfer Out	Loan Proceeds	Sale of Capital Asset	Ending Balance
Governmental Funds								
General	\$ 685,779	\$ 3,708,320	\$ 4,571,746	\$ 763,071	\$	\$	\$ 53,747	\$ 639,171
Special Revenue								
Community and Economic Development	13,282	164,356	165,624					12,014
Lodging Tax	108,856	82,312	112,908					78,260
T.I.F.	77,531	119,971	110,430					87,072
EDA Building	32,649	30,786	21,302					42,133
Pine To Prairie Birding Trail	7,757	7,000	8,089					6,668
Roseau PD	12,878	5,000						17,878
Capital Projects	(756,754)	79,377	766,119			525,000	66,015	(852,481)
Total Governmental Funds	<u>181,978</u>	<u>4,197,122</u>	<u>5,756,218</u>	<u>763,071</u>		<u>525,000</u>	<u>119,762</u>	<u>30,715</u>
Proprietary Funds								
Municipal Liquor Store	1,358,294	2,156,044	1,880,293		200,000			1,434,045
Water	2,102,192	708,731	526,674		37,000			2,247,249
Electric	5,447,274	4,080,870	3,611,781		410,000			5,506,363
Sewer Service	3,065,254	393,155	459,425		35,000			2,963,984
Roseau Court Townhomes	(595,052)	231,020	199,967		36,071			(600,070)
Garbage Collection	651,024	502,301	426,146		45,000		30,551	712,730
Total Proprietary Funds	<u>12,028,986</u>	<u>8,072,121</u>	<u>7,104,286</u>		<u>763,071</u>		<u>30,551</u>	<u>12,264,301</u>
Total Primary Government	<u>\$ 12,210,964</u>	<u>\$ 12,269,243</u>	<u>\$ 12,860,504</u>	<u>\$ 763,071</u>	<u>\$ 763,071</u>	<u>\$ 525,000</u>	<u>\$ 150,313</u>	<u>\$ 12,295,016</u>
Component Unit								
Economic Development Authority								
Economic Development	\$ 1,176,871	\$ 36,473	\$ 83,943	\$	\$ 272,000	\$	\$ 129,709	\$ 987,110
Apartments		1,115,856	40,201	272,000				1,347,655
Total Component Unit	<u>\$ 1,176,871</u>	<u>\$ 1,152,329</u>	<u>\$ 124,144</u>	<u>\$ 272,000</u>	<u>\$ 272,000</u>	<u>\$</u>	<u>\$ 129,709</u>	<u>\$ 2,334,765</u>

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2021**

	Interest Rate	Date of Issue	Maturity Date	Amount of Issue	Balance 12/31/2020	Issued 2021	Retired 2021	Balance 12/31/2021	Principal 2022	Interest 2022
Primary Government										
Capital Lease		1/8/2018	6/1/2022	\$ 402,646	\$ 113,107	\$	\$ 55,856	\$ 57,251	\$ 57,251	\$ 1,432
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	267,515		12,734	254,781	13,482	14,224
Kinetic Loan	2.23%	5/3/2021	6/1/2030	525,000		525,000	57,377	467,623	47,488	10,442
Total					<u>2,514,339</u>	<u>525,000</u>	<u>70,111</u>	<u>2,969,228</u>	<u>60,970</u>	<u>24,666</u>
Total Indebtedness					\$ <u>2,627,446</u>	\$ <u>525,000</u>	\$ <u>125,967</u>	\$ <u>3,026,479</u>	\$ <u>118,221</u>	\$ <u>26,098</u>
Discretely Presented Component Unit										
Revenue Bonds Payable				\$ 1,039,664	\$	\$ 1,039,664	\$	\$ 1,039,664	\$	\$
HRA Loan	0.25%	8/11/2021	8/1/2046	272,004		272,004		272,004		
Total Indebtedness					\$ <u>1,039,664</u>	\$ <u>272,004</u>	\$	\$ <u>1,311,668</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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2021, 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 11, 2022. The governmental activities have 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

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



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

April 11, 2022

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseau, Minnesota, as of and for the year ended December 31, 2021, 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 11, 2022. 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.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 as item 2021-001 that we consider to be a significant deficiency.

Report on 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 financial statements. 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*.

The City's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and described in the accompanying schedule of findings. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 11, 2022

**CITY OF ROSEAU, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2021**

2021-001 FINDING

Criteria

An appropriate system of internal controls requires the City to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City currently does not prepare the financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to not allocate the resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and schedules 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.

2021-001 FINDING

Contact Person – Todd Peterson, Community Development Coordinator

Corrective Action Plan - Will establish a policy to document review of financial statements and notes.

Completion Date - Ongoing