

# City of Milaca, Minnesota

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## Audited Financial Statements

December 31, 2022

**SCHLENNER  
WENNER & CO.**  
CPAs

**CITY OF MILACA, MINNESOTA  
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**INTRODUCTORY  
SECTION**

**CITY OF MILACA, MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**CITY COUNCIL**

Term Expires

Dave Dillan	Mayor	December 31, 2024
Norris Johnson	Council Member	December 31, 2026
Lindsee Larsen	Council Member	December 31, 2024
Ken Muller	Council Member	December 31, 2026

**CITY OFFICIALS**

Tammy Pfaff	Manager
Elizabeth Nealley	Treasurer

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Milaca, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca, Minnesota, (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca, Minnesota, as of December 31, 2022, and their 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 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* (GAS), 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 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 audit opinions.

#### *Emphasis of Matter*

As discussed in Note 1.G. to the financial statements, during the current fiscal year the City adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

City of Milaca's 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 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, 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 budgetary comparison information and pension schedules 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.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinions on the basic financial statements are not affected by this missing information.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milaca, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and supplemental schedules, and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section and schedule of indebtedness have 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 them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2023 on our consideration of the City of Milaca's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Milaca'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 Milaca's internal control over financial reporting and compliance.



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

June 20, 2023



## **BASIC FINANCIAL STATEMENTS**

**CITY OF MILACA, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2022**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 3,208,710	\$ 3,121,184	\$ 6,329,894
Property Taxes Receivable	72,244	-	72,244
Assessments Receivable	13,441	11,630	25,071
Accounts Receivable	45,032	70,021	115,053
Interest Receivable	9,987	-	9,987
Lease Receivable	121,793	315,841	437,634
Internal Balances	889	(889)	-
Due from Other Governments	1,373	973	2,346
Inventory	-	499,299	499,299
Prepays	63,346	13,137	76,483
Property Held for Sale	23,600	-	23,600
Noncurrent Assets:			
Capital Assets Not Being Depreciated	186,526	274,496	461,022
Capital Assets Being Depreciated (Net)	8,227,359	4,267,728	12,495,087
Net Pension Asset	190,041	-	190,041
<b>TOTAL ASSETS</b>	<b>12,164,341</b>	<b>8,573,420</b>	<b>20,737,761</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	1,368,381	189,298	1,557,679
<b>LIABILITIES</b>			
Accounts Payable	172,600	78,299	250,899
Salaries Payable	31,570	23,009	54,579
Accrued Interest Payable	23,077	10,644	33,721
Deposits Payable	-	17,816	17,816
Noncurrent Liabilities:			
Amount Due Within One Year	269,555	167,000	436,555
Amount Due After One Year	2,118,591	905,139	3,023,730
Net Pension Liability	1,922,061	577,793	2,499,854
<b>TOTAL LIABILITIES</b>	<b>4,537,454</b>	<b>1,779,700</b>	<b>6,317,154</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	119,131	24,793	143,924
Leases	119,891	304,949	424,840
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>239,022</b>	<b>329,742</b>	<b>568,764</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	6,068,635	3,489,224	9,557,859
Restricted	1,130,238	-	1,130,238
Unrestricted	1,557,373	3,164,052	4,721,425
<b>TOTAL NET POSITION</b>	<b>\$ 8,756,246</b>	<b>\$ 6,653,276</b>	<b>\$ 15,409,522</b>

**CITY OF MILACA, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 649,642	\$ 61,885	\$ -	\$ -	\$ (587,757)	\$ -	\$ (587,757)
Public Safety	1,437,277	184,920	118,750	122,000	(1,011,607)	-	(1,011,607)
Public Works	485,099	3,150	-	(12,053)	(494,002)	-	(494,002)
Culture and Recreation	490,913	32,468	-	3,600	(454,845)	-	(454,845)
Economic Development	38,691	-	-	-	(38,691)	-	(38,691)
Airport	98,262	30,877	-	212,194	144,809	-	144,809
Debt Service	74,993	-	-	-	(74,993)	-	(74,993)
<b>Total Governmental Activities</b>	<b>3,274,877</b>	<b>313,300</b>	<b>118,750</b>	<b>325,741</b>	<b>(2,517,086)</b>	<b>-</b>	<b>(2,517,086)</b>
<b>Business-Type Activities:</b>							
Water	614,826	558,907	160,717	2,112	-	106,910	106,910
Sewer	419,824	325,574	1,107	-	-	(93,143)	(93,143)
Liquor	2,869,009	2,946,734	1,266	-	-	78,991	78,991
<b>Total Business-Type Activities</b>	<b>3,903,659</b>	<b>3,831,215</b>	<b>163,090</b>	<b>2,112</b>	<b>-</b>	<b>92,758</b>	<b>92,758</b>
<b>TOTALS</b>	<b>\$ 7,178,536</b>	<b>\$ 4,144,515</b>	<b>\$ 281,840</b>	<b>\$ 327,853</b>	<b>(2,517,086)</b>	<b>92,758</b>	<b>(2,424,328)</b>
<b>General Revenues:</b>							
Taxes					957,406	-	957,406
Tax Increment					42,883	-	42,883
Franchise and Other Tax					36,619	-	36,619
Intergovernmental					949,739	-	949,739
Investment Income (Loss)					(225,734)	43,297	(182,437)
Gain (Loss) on Sale of Assets					40,403	-	40,403
Miscellaneous					44,832	21,256	66,088
<b>Total General Revenues</b>					<b>1,846,148</b>	<b>64,553</b>	<b>1,910,701</b>
Transfers					225,000	(225,000)	-
<b>Total General Revenues and Transfers</b>					<b>2,071,148</b>	<b>(160,447)</b>	<b>1,910,701</b>
<b>CHANGE IN NET POSITION</b>					<b>(445,938)</b>	<b>(67,689)</b>	<b>(513,627)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>					<b>9,202,184</b>	<b>6,720,965</b>	<b>15,923,149</b>
<b>NET POSITION - END OF YEAR</b>					<b>\$ 8,756,246</b>	<b>\$ 6,653,276</b>	<b>\$ 15,409,522</b>

**CITY OF MILACA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2022**

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash, Cash Equivalents, and Investments	\$ 1,866,261	\$ 611,647	\$ 208,755	\$ 522,047	\$ 3,208,710
Property Taxes Receivable	41,026	31,218	-	-	72,244
Assessments Receivable	8,780	-	-	4,661	13,441
Accounts Receivable	45,032	-	-	-	45,032
Interest Receivable	9,987	-	-	-	9,987
Lease Receivables	5,787	116,006	-	-	121,793
Due from Other Funds	889	-	-	-	889
Due from Other Governments	1,373	-	-	-	1,373
Prepays	63,346	-	-	-	63,346
Property Held for Sale	-	-	-	23,600	23,600
<b>TOTAL ASSETS</b>	<u>\$ 2,042,481</u>	<u>\$ 758,871</u>	<u>\$ 208,755</u>	<u>\$ 550,308</u>	<u>\$ 3,560,415</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 51,040	\$ -	\$ 101,828	\$ 19,732	\$ 172,600
Salaries Payable	31,570	-	-	-	31,570
Total Liabilities	82,610	-	101,828	19,732	204,170
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue:					
Property Taxes	35,069	19,635	-	-	54,704
Special Assessments	8,780	-	-	4,661	13,441
Leases	5,695	114,196	-	-	119,891
Total Deferred Inflows of Resources	49,544	133,831	-	4,661	188,036
<b>FUND BALANCES</b>					
Nonspendable	63,438	1,810	-	23,600	88,848
Restricted	-	623,230	106,927	403,523	1,133,680
Assigned	-	-	-	205,314	205,314
Unassigned	1,846,889	-	-	(106,522)	1,740,367
Total Fund Balances	<u>1,910,327</u>	<u>625,040</u>	<u>106,927</u>	<u>525,915</u>	<u>3,168,209</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 2,042,481</u>	<u>\$ 758,871</u>	<u>\$ 208,755</u>	<u>\$ 550,308</u>	<u>\$ 3,560,415</u>

**CITY OF MILACA, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds		\$ 3,168,209
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:		
Capital Assets	\$ 18,263,842	
Accumulated Depreciation	<u>(9,849,957)</u>	
Capital Assets (Net)		8,413,885
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:		
Debt Principal Payable	(2,193,555)	
Bond Premium, Net of Accumulated Amortization	(21,883)	
Financing Arrangements Payable	(135,367)	
Compensated Absences	<u>(37,341)</u>	
		(2,388,146)
The net pension liability and related deferred outflows/inflows represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the funds:		
Net Pension Asset	190,041	
Net Pension Liability	(1,922,061)	
Deferred Outflows - Pensions	1,368,381	
Deferred Inflows - Pensions	<u>(119,131)</u>	
		(482,770)
Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:		
		(23,077)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Property Taxes		54,704
Special Assessments		<u>13,441</u>
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 8,756,246</u></b>

**CITY OF MILACA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 608,702	\$ 349,444	\$ -	\$ 25,572	\$ 983,718
Tax Increment	-	-	-	42,883	42,883
Franchise Taxes	10,109	-	-	-	10,109
Special Assessments	17,317	-	-	-	17,317
Licenses, Permits, and Fees	55,352	-	-	-	55,352
Intergovernmental	1,208,239	-	-	-	1,208,239
Charges for Services	216,337	21,752	-	17,394	255,483
Fines	-	-	-	2,465	2,465
Investment Income (Loss)	(241,869)	5,267	-	6,596	(230,006)
Lease Interest	214	4,058	-	-	4,272
Miscellaneous	161,299	-	-	85,046	246,345
<b>TOTAL REVENUES</b>	<b>2,035,700</b>	<b>380,521</b>	<b>-</b>	<b>179,956</b>	<b>2,596,177</b>
<b>EXPENDITURES</b>					
Current:					
General Government	583,127	-	-	-	583,127
Public Safety	1,016,217	-	-	5,886	1,022,103
Public Works	243,424	-	4,359	-	247,783
Parks and Recreation	152,071	-	-	78,700	230,771
Library	25,061	-	-	-	25,061
Economic Development	-	-	-	38,691	38,691
Airport	136,857	-	-	-	136,857
Capital Outlay	395,204	-	593,155	43,128	1,031,487
Debt Service:					
Principal	-	349,137	-	6,667	355,804
Interest and Other Charges	-	47,573	18,922	1,500	67,995
<b>TOTAL EXPENDITURES</b>	<b>2,551,961</b>	<b>396,710</b>	<b>616,436</b>	<b>174,572</b>	<b>3,739,679</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(516,261)</b>	<b>(16,189)</b>	<b>(616,436)</b>	<b>5,384</b>	<b>(1,143,502)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt Issuance	-	-	570,000	-	570,000
Premium on Bond Issuance	-	-	2,210	-	2,210
Transfers In	208,000	31,316	-	137,500	376,816
Transfers Out	(31,316)	-	-	(120,500)	(151,816)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>176,684</b>	<b>31,316</b>	<b>572,210</b>	<b>17,000</b>	<b>797,210</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(339,577)</b>	<b>15,127</b>	<b>(44,226)</b>	<b>22,384</b>	<b>(346,292)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>2,249,904</b>	<b>609,913</b>	<b>151,153</b>	<b>503,531</b>	<b>3,514,501</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 1,910,327</b>	<b>\$ 625,040</b>	<b>\$ 106,927</b>	<b>\$ 525,915</b>	<b>\$ 3,168,209</b>

**CITY OF MILACA, MINNESOTA**  
**RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balances - Total Governmental Funds \$ (346,292)

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

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 Outlay Capitalized	1,014,249	
Depreciation Expense	(621,918)	
Gain (Loss) on Disposal of Assets	<u>(35,510)</u>	
		356,821

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below detail the effects of these differences in the treatment of long term debt and related items:

Debt Principal Repayments	355,804	
Debt Issuance	(570,000)	
Premium on Bond Issuance	(2,210)	
Amortization of Bond Premium	<u>1,933</u>	
		(214,473)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds only when it is due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due:

Accrued Interest Payable	(8,931)
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Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period:

Property Taxes	198	
Special Assessments	(29,370)	
Equity Investment Income (Loss)	<u>(1,226)</u>	
		(30,398)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated Absences	(240)
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Certain liabilities do not represent the impending use of current resources.

Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:

Net Pension Liability and Deferred Outflows/Inflows of Resources	<u>(202,425)</u>
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**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (445,938)**

**CITY OF MILACA, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2022**

	Water Fund	Sewer Fund	Liquor Fund	Totals
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 1,348,405	\$ 1,072,501	\$ 700,278	\$ 3,121,184
Assessments Receivable	11,630	-	-	11,630
Accounts Receivable	44,960	25,061	-	70,021
Due from Other Governments	-	973	-	973
Inventory	-	-	499,299	499,299
Prepays	2,500	4,030	6,607	13,137
Lease Receivable	10,745	-	-	10,745
<b>Total Current Assets</b>	<b>1,418,240</b>	<b>1,102,565</b>	<b>1,206,184</b>	<b>3,726,989</b>
Noncurrent Assets				
Capital Assets Not Being Depreciated	16,003	-	258,493	274,496
Capital Assets Being Depreciated (Net)	2,741,016	962,525	564,187	4,267,728
Lease Receivable	305,096	-	-	305,096
<b>Total Noncurrent Assets</b>	<b>3,062,115</b>	<b>962,525</b>	<b>822,680</b>	<b>4,847,320</b>
<b>TOTAL ASSETS</b>	<b>4,480,355</b>	<b>2,065,090</b>	<b>2,028,864</b>	<b>8,574,309</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions	46,592	47,467	95,239	189,298
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	5,896	1,833	70,570	78,299
Salaries Payable	5,697	5,652	11,660	23,009
Deposits Payable	17,816	-	-	17,816
Due to Other Funds	-	-	889	889
Accrued Interest	10,644	-	-	10,644
Bonds Due Within One Year	167,000	-	-	167,000
<b>Total Current Liabilities</b>	<b>207,053</b>	<b>7,485</b>	<b>83,119</b>	<b>297,657</b>
Noncurrent Liabilities				
Compensated Absences Due After One Year	4,929	4,929	9,281	19,139
Bonds Due After One Year	886,000	-	-	886,000
Net Pension Liability	142,143	144,792	290,858	577,793
<b>Total Noncurrent Liabilities</b>	<b>1,033,072</b>	<b>149,721</b>	<b>300,139</b>	<b>1,482,932</b>
<b>TOTAL LIABILITIES</b>	<b>1,240,125</b>	<b>157,206</b>	<b>383,258</b>	<b>1,780,589</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pensions	6,099	6,213	12,481	24,793
Leases	304,949	-	-	304,949
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>311,048</b>	<b>6,213</b>	<b>12,481</b>	<b>329,742</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	1,704,019	962,525	822,680	3,489,224
Unrestricted	1,271,755	986,613	905,684	3,164,052
<b>TOTAL NET POSITION</b>	<b>\$ 2,975,774</b>	<b>\$ 1,949,138</b>	<b>\$ 1,728,364</b>	<b>\$ 6,653,276</b>

See accompanying notes.



**CITY OF MILACA, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Water Fund	Sewer Fund	Liquor Fund	Totals
<b>SALES AND COST OF SALES</b>				
Sales	\$ -	\$ -	\$ 2,946,734	\$ 2,946,734
Cost of Sales	-	-	(2,235,019)	(2,235,019)
<b>GROSS PROFIT</b>	-	-	711,715	711,715
<b>OPERATING REVENUES</b>				
Charges for Services	539,545	315,574	-	855,119
<b>TOTAL GROSS PROFIT AND OPERATING REVENUES</b>	539,545	315,574	711,715	1,566,834
<b>OPERATING EXPENSES</b>				
Wages and Benefits	210,585	213,846	402,210	826,641
Materials and Supplies	23,744	3,664	6,970	34,378
Repairs and Maintenance	37,544	68,379	42,038	147,961
Professional Services	91,706	41,905	10,092	143,703
Insurance	5,017	6,010	10,166	21,193
Utilities	41,865	10,959	33,407	86,231
Miscellaneous	1,822	63	70,718	72,603
Depreciation	179,782	74,998	58,389	313,169
<b>TOTAL OPERATING EXPENSES</b>	592,065	419,824	633,990	1,645,879
<b>NET OPERATING INCOME (LOSS)</b>	(52,520)	(104,250)	77,725	(79,045)
<b>NONOPERATING INCOME (EXPENSE)</b>				
Special Assessments	2,112	-	-	2,112
Intergovernmental	160,098	-	-	160,098
Connection Fees	-	10,000	-	10,000
Investment Income	12,050	12,578	8,298	32,926
Lease Interest	10,371	-	-	10,371
Miscellaneous	41,237	1,107	1,266	43,610
Interest and Other Charges	(22,761)	-	-	(22,761)
<b>TOTAL NONOPERATING INCOME (EXPENSE)</b>	203,107	23,685	9,564	236,356
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	150,587	(80,565)	87,289	157,311
<b>TRANSFERS</b>				
Operating Transfers Out	-	-	(225,000)	(225,000)
<b>CHANGE IN NET POSITION</b>	150,587	(80,565)	(137,711)	(67,689)
<b>NET POSITION - BEGINNING OF YEAR</b>	2,825,187	2,029,703	1,866,075	6,720,965
<b>NET POSITION - END OF YEAR</b>	<u>\$ 2,975,774</u>	<u>\$ 1,949,138</u>	<u>\$ 1,728,364</u>	<u>\$ 6,653,276</u>

**CITY OF MILACA, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Water Fund	Sewer Fund	Liquor Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers	\$ 539,089	\$ 318,181	\$ 2,946,734	\$ 3,804,004
Cash Paid to Suppliers	(214,058)	(153,590)	(2,511,729)	(2,879,377)
Cash Paid to Employees	(198,477)	(202,087)	(380,624)	(781,188)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>126,554</u>	<u>(37,496)</u>	<u>54,381</u>	<u>143,439</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Taxes and Intergovernmental	159,164	-	-	159,164
Other Receipts from Customers	40,716	11,108	1,267	53,091
Net Operating Subsidies and Transfers from (to) Other Funds	-	-	(225,000)	(225,000)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>199,880</u>	<u>11,108</u>	<u>(223,733)</u>	<u>(12,745)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of Capital Assets	(31,703)	-	(126,666)	(158,369)
Payments on Bond Principal	(166,000)	-	-	(166,000)
Proceeds from Debt Issuance	373,000	-	-	373,000
Cash Paid for Interest	(15,389)	-	-	(15,389)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>159,908</u>	<u>-</u>	<u>(126,666)</u>	<u>33,242</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income	<u>12,050</u>	<u>12,578</u>	<u>8,298</u>	<u>32,926</u>
Net Change in Cash and Cash Equivalents	498,392	(13,810)	(287,720)	196,862
Cash and Cash Equivalents - Beginning of Year	<u>850,013</u>	<u>1,086,311</u>	<u>987,998</u>	<u>2,924,322</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,348,405</u>	<u>\$ 1,072,501</u>	<u>\$ 700,278</u>	<u>\$ 3,121,184</u>

**CITY OF MILACA, MINNESOTA**  
**STATEMENT OF CASH FLOWS (Continued)**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Water Fund	Sewer Fund	Liquor Fund	Totals
<b>RECONCILIATION OF NET OPERATING INCOME</b>				
<b>(LOSS) TO NET CASH PROVIDED (USED) BY</b>				
<b>OPERATING ACTIVITIES</b>				
Net Operating Income (Loss)	\$ (52,520)	\$ (104,250)	\$ 77,725	\$ (79,045)
Adjustments to Reconcile Net Operating Income (Loss)				
to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	179,782	74,998	58,389	313,169
Changes in Assets, Liabilities, and Deferrals:				
Accounts Receivable	(576)	2,607	-	2,031
Inventory	-	-	(24,365)	(24,365)
Prepays	953	(1,374)	663	242
Accounts Payable	(13,313)	(21,236)	(79,617)	(114,166)
Salaries Payable	620	473	2,202	3,295
Deposits Payable	120	-	-	120
Net Pension Liability	71,072	72,116	143,252	286,440
Deferred Outflows or Resources - Pensions	5,068	5,307	11,612	21,987
Deferred Inflows or Resources - Pensions	(64,708)	(66,193)	(134,577)	(265,478)
Compensated Absences	56	56	(903)	(791)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 126,554</u>	<u>\$ (37,496)</u>	<u>\$ 54,381</u>	<u>\$ 143,439</u>

**CITY OF MILACA, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2022**

	<u>Custodial Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 191,027
Accounts Receivable	150
Prepays	109
<b>TOTAL ASSETS</b>	191,286
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	43,664
<b>LIABILITIES</b>	
Accounts Payable	34,494
Accrued Salaries	4,424
Noncurrent Liabilities:	
Compensated Absences	2,681
Net Pension Liability	133,926
<b>TOTAL LIABILITIES</b>	175,525
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	5,747
<b>FIDUCIARY NET POSITION</b>	
Fiduciary Net Position - Held for Others	\$ 53,678

**CITY OF MILACA, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Custodial Funds</u>
<b>ADDITIONS</b>	
Licenses and Permits	\$ 5,755,162
Intergovernmental	583
Interest Earnings	55
Miscellaneous	226
<b>TOTAL ADDITIONS</b>	5,756,026
<b>DEDUCTIONS</b>	
Wages and Benefits	176,132
Materials and Supplies	5,421
State Remittances	5,534,829
Equipment and Rent	7,322
Insurance	262
Utilities	2,503
Other Services and Charges	11,010
<b>TOTAL DEDUCTIONS</b>	5,737,479
<b>CHANGE IN FIDUCIARY NET POSITION</b>	18,547
<b>FIDUCIARY NET POSITION - BEGINNING OF YEAR</b>	35,131
<b>FIDUCIARY NET POSITION - END OF YEAR</b>	\$ 53,678

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Milaca (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, utilities, liquor, recreation, public improvements, public safety, airport, planning and zoning, and general administrative services.

**1.A. FINANCIAL REPORTING ENTITY**

The City's financial reporting entity is comprised of the primary governmental unit of the City of Milaca.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

**Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has the following blended component unit:

Economic Development Authority of the City of Milaca

The Authority was established pursuant to the provisions of Minnesota Statutes Section 469.090 to 469.108 to promote and provide incentives for economic development, and to preserve and create jobs, enhance the City's tax base and promote the general welfare of the people. The EDA is governed by a board of commissioners consisting of five members, all of whom shall be members of the City Council.

The financial activity of the Authority is performed by the City of Milaca and treated as routine City business.

**Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

**Related Organizations**

The Fire Relief Association is organized as a non-profit organization by its members to provide benefits to such members in accordance with Minnesota Statutes. Its Board of Directors is appointed by the membership of the organization. All funding is conducted in accordance with Minnesota Statutes, whereby State aids flow through the City to the Association.

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.B. BASIS OF PRESENTATION (Continued)**

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following major governmental funds:

*General Fund*

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

*Debt Service Fund*

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's indebtedness.

*Capital Projects Fund*

The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The City reports the following major proprietary funds:

*Enterprise Funds*

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains Water, Sewer, and Liquor Enterprise Funds.

The City reports the following nonmajor fund types:

*Capital Project Funds*

The nonmajor Capital Project Funds account for financial resources to be used for the acquisition or construction of various other capital projects (other than those financed by proprietary funds).

*Special Revenue Funds*

The Special Revenue Funds account for funds received by the City with a specific purpose.

*Debt Service Funds*

The nonmajor Debt Service Funds account for the activity of the tax increment financing districts established by the City.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.B. BASIS OF PRESENTATION (Continued)**

Additionally, the City reports custodial funds. These funds are used to account for the financial activity of assets that are being held in a fiduciary capacity.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the “economic resources” measurement focus as defined in the second bullet point below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available financial resources during a given period. These funds use fund balance as their measure of available financial resources at the end of the period.
- The government-wide financial statements and proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the “accrual basis” of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the “modified accrual” basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary and fiduciary funds utilize the accrual basis of accounting.

**1.D. 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, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY**

**Cash and Cash Equivalents**

For purposes of the Statement of Net Position, “cash, cash equivalents, and investments” includes all demand, savings, brokered certificates of deposits, and money market savings accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand, savings, and money market savings accounts.

**Investments**

Investments are stated at their fair value as determined in accordance with the fair value hierarchy. Short-term investments are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair market value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

See Note 2.A. for additional information related to Cash, Cash Equivalents, and Investments.

**Prepays**

Prepays represent expenditures/expenses paid during the current year to be recognized in future periods.

**Inventory**

The Liquor Fund carries inventory that consists of items held for resale. Inventory is recognized on the average cost method.

**Interfund Receivables and Payables**

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities, as well as interfund receivables and payables between funds within business-type activities, are eliminated in the Statement of Net Position. See Note 2.E. for details of interfund transactions, including receivables and payables at year-end.

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and not deemed necessary at year end. Major receivable balances for the governmental activities include taxes, special assessments and charges for services. Business-type activities report utility charges and assessments as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, assessments, other intergovernmental revenues, fines and charges for services since they are usually both measurable and available. Revenues collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and assessments compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Leases Receivable**

Lease receivables are determined based on future lease payments to be received under each corresponding lease agreement over the lease term, discounted using the interest rate applied to the leasing arrangement. If not defined in the lease agreement, implicit interest rates are determined based on the estimated incremental borrowing rate. Collections under the leasing arrangements are recorded as a reduction to the corresponding lease receivable, as well as lease interest revenues.

Upon initial execution of lease, a corresponding deferred inflow of resources balance is recorded. This balance is amortized on a straight-line basis over the term of the lease, resulting in the recognition of lease revenues.

**Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City based on each individual asset's initial cost and must have an estimated useful life in excess of two years. The City's cost thresholds for capitalization of acquisitions within various categories are as follows:

Land and Improvements	\$12,500
Buildings and Improvements	\$25,000
Infrastructure	\$50,000
Vehicles, Machinery, and Equipment	\$5,000

The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	7-40 years
Infrastructure	10-50 years
Vehicles, Machinery, and Equipment	3-20 years

**Government-wide Statements**

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated acquisition value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Compensated Absences**

It is the City's policy to permit employees to accumulate up to 176 hours of vacation leave and be paid out for this leave upon resignation. Additionally, employees may accumulate up to 1,000 hours of sick leave, which is subject to partial payout upon resignation, dependent upon the employee's years of service with the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would typically be used to liquidate the compensated absences.

**Long-Term Debt**

The accounting treatment of long-term debt and other long-term obligations depends on whether the liabilities pertain to governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

**Net Pension Asset/Liability**

The net pension asset represents the Milaca Fire Department Relief Association's net pension asset as of the most recent actuarial valuation date. The net pension liability represents the City's allocation of its pro-rata share of the net pension liabilities of the Statewide pension plans administered by the Public Employees Retirement Administration.

**PERA**

For purposes of measuring the net pension asset and 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.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. As previously discussed, the City reports deferred inflows of resources in both the governmental fund Balance Sheet and both Statements of Net Position in relation to its leasing activities. The City also reports property taxes and special assessments as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds in which City employees participate.

See Notes 3 and 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**Equity Classifications**

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – The portion of net position for which use is constrained by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2022 consist of prepaid expenditures, property held for sale, and leases receivable.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council has formally delegated the authority to assign fund balances to the City Manager.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City has formally adopted a policy under which it strives to maintain a minimum unassigned General Fund balance of five months of budgeted operating expenditures.

See Note 2.F. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described previously.

**1.F. REVENUES, EXPENDITURES, AND EXPENSES**

**Property Tax**

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. Mille Lacs County is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

December 30<sup>th</sup> is the last day the City can certify a tax levy to the County for collection the following year. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.F. REVENUES, EXPENDITURES, AND EXPENSES (Continued)**

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by deferred inflows of resources for taxes not received within 60 days after year end in the fund financial statements.

**Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related to financing, noncapital financing, or investing activities.

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by Function)
	Capital Outlay
	Debt Service

Proprietary Fund - By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 2.E.

**1.G. RECENTLY ISSUED ACCOUNTING STANDARDS**

During the current fiscal year, the City adopted Governmental Accounting Standard Board (GASB) Statement No. 87, *Leases*. This standard changes previous lease accounting methodology and requires the recognition of all lease assets and liabilities on the Statement of Net Position. Because the overall impact of the changes was not significant, no restatements to beginning net position were necessary.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred outflows/inflows of resources, equity, revenues, and expenditures/expenses.

**2.A.   CASH, CASH EQUIVALENTS, AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. 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 (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At December 31, 2022, the City’s deposits, including certificates of deposit, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance and collateral held by the City’s agent in the City’s name.

**Investments**

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members 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. The City does not have any investment policies that would further limit investment choices.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

Investment balances at December 31, 2022 are as follows:

Deposit/Investment	Interest Rate	Maturity	Fair Value	S & P's Credit Rating	Percent of Total
<i>Pooled Investments:</i>					
MN Municipal Money Market Funds	0.02	N/A	\$ 3,040,475	N/A	47.92
<i>Non-Pooled Investments:</i>					
Money Market Funds	0.02	N/A	30,460	N/A	0.48
Certificates of Deposit	1.45-3.15	<1 year	516,111	NR	8.13
Certificates of Deposit	0.45-4.75	1-5 years	2,493,424	NR	39.29
Certificates of Deposit	0.75-2.50	6-10 years	<u>265,388</u>	NR	<u>4.18</u>
Totals			<u>\$ 6,345,858</u>		<u>100.00</u>

The investments of the City are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City's investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- Concentration of Credit Risk is the risk associated with the magnitude of the City's investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. At December 31, 2022, the City is not exposed to a significant concentration of credit risk.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The City has formally adopted an Investment Policy, to ensure compliance with Minnesota Statutes and to address each of the risks above to the extent deemed necessary by the City's Council.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United State of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of December 31, 2022:

- Money market funds of \$3,070,935 are deemed to be level 1 investments and are valued by using quoted market prices.



**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.A.    CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

- Certificates of Deposits of \$3,274,923 are considered to be level 2 investments.

Additionally, the property held for sale totaling \$23,600 has been valued as a level 3 investment. This property is an unlisted security valued at fair market, as valued by the Mille Lacs County Assessor's office at the date of acquisition.

Property held for sale is measured at fair value on a nonrecurring basis. This asset is not measured at fair value on an ongoing basis; however, it is subject to fair value adjustment in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

**Deposits and Investments Summary**

A reconciliation of cash and investments as shown on the Statements of Net Position for the City follows:

Carrying Amount of Deposits	\$	175,063
Investments		6,345,858
Total	\$	6,520,921
Government-wide Cash, Cash Equivalents and Investments	\$	6,329,894
Fiduciary - Custodial Funds Cash and Cash Equivalents		191,027
Total	\$	6,520,921

**2.B.    LEASE RECEIVABLES**

The City has executed various agreements under which the City leases property to external parties. A summary of the pertinent terms for these leasing arrangements, as well as the corresponding lease receivables, is presented below.

*Governmental Activities:*

Description	Original Amount	Total Annual Lease Payment	Interest Rate(s)	Maturity Date	Remaining Amount
Deputy Registrar Office Space	\$ 7,973	\$2,400	3.25%	6/30/2025	\$ 5,787
Ambulance Building Space	135,948	\$24,000	3.25%	3/31/2028	116,006
Total Governmental Activities Lease Receivables					\$ 121,793

*Business-Type Activities:*

Description	Original Amount	Total Annual Lease Payment	Interest Rate(s)	Maturity Date	Remaining Amount
Telecom Site Property	\$ 324,311	\$18,841 - \$31,456	3.25%	9/30/2038	\$ 315,841

During the year ended December 31, 2022, the City recognized revenues from leasing activities under the arrangements above within governmental activities and business-type activities in the amount of \$28,302 and \$29,733, respectively.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.C.    CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2022 is as follows:

	Balance at 1/1/2022	Additions	Disposals	Transfers	Balance at 12/31/2022
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 222,036	\$ -	\$ (35,510)	\$ -	\$ 186,526
Construction In Progress	993,812	766,827	-	(1,760,639)	-
Total Capital Assets not Being Depreciated	1,215,848	766,827	(35,510)	(1,760,639)	186,526
Capital Assets Being Depreciated					
Buildings and Improvements	5,345,106	-	-	-	5,345,106
Infrastructure	7,058,597	241,527	-	1,760,639	9,060,763
Equipment, Machinery and Furnishings	3,692,814	5,895	(27,262)	-	3,671,447
Total Capital Assets Being Depreciated	16,096,517	247,422	(27,262)	1,760,639	18,077,316
Less: Accumulated Depreciation					
Buildings and Improvements	(2,377,119)	(134,192)	-	-	(2,511,311)
Infrastructure	(4,739,908)	(266,969)	-	-	(5,006,877)
Equipment, Machinery and Furnishings	(2,138,274)	(220,757)	27,262	-	(2,331,769)
Total Accumulated Depreciation	(9,255,301)	(621,918)	27,262	-	(9,849,957)
Total Capital Assets Being Depreciated, Net	6,841,216	(374,496)	-	1,760,639	8,227,359
Capital Assets, Net	<u>\$ 8,057,064</u>	<u>\$ 392,331</u>	<u>\$ (35,510)</u>	<u>\$ -</u>	<u>\$ 8,413,885</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 56,566
Public Safety	140,084
Public Works	213,288
Parks and Recreation	<u>211,980</u>
Total Depreciation Expense	<u>\$ 621,918</u>

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.C.    CAPITAL ASSETS (Continued)**

	Balance at 1/1/2022	Additions	Disposals	Transfers	Balance at 12/31/2022
<i>Business-Type Activities:</i>					
Capital Assets not Being					
Depreciated					
Land	\$ 54,788	\$ -	\$ -	\$ -	\$ 54,788
Construction In Progress	77,039	142,669	-	-	219,708
Total Capital Assets not Being					
Depreciated	131,827	142,669	-	-	274,496
Capital Assets Being					
Depreciated					
Buildings and Improvements	4,776,638	-	-	-	4,776,638
Infrastructure	5,424,432	15,700	-	-	5,440,132
Equipment, Machinery and Furnishings	899,577	-	(12,725)	-	886,852
Total Capital Assets Being					
Depreciated	11,100,647	15,700	(12,725)	-	11,103,622
Less: Accumulated Depreciation					
Buildings and Improvements	(2,438,664)	(105,075)	-	-	(2,543,739)
Infrastructure	(3,422,351)	(156,946)	-	-	(3,579,297)
Equipment, Machinery and Furnishings	(674,433)	(51,150)	12,725	-	(712,858)
Total Accumulated Depreciation	(6,535,448)	(313,171)	12,725	-	(6,835,894)
Total Capital Assets Being Depreciated, Net	4,565,199	(297,471)	-	-	4,267,728
Capital Assets, Net	<u>\$ 4,697,026</u>	<u>\$ (154,802)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,542,224</u>

**2.D.    NONCURRENT LIABILITIES**

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. All debt set forth below are direct obligations of the City and pledge the full faith and credit of the City.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.D.    NONCURRENT LIABILITIES (Continued)**

**Debt Detail**

As of December 31, 2022, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
08/12	\$ 845,000	\$20,000 - \$95,000	1.00 - 2.15%	02/24	\$ 125,000
03/15	475,000	\$25,000 - \$40,000	2.00 - 3.40%	12/30	285,000
07/19	545,000	\$45,000 - \$55,000	2.10 - 3.00%	02/31	455,000
08/21	715,000	\$40,000 - \$55,000	0.85 - 2.00%	02/37	715,000
06/22	570,000	\$30,000 - \$50,000	3.35 - 4.00%	02/37	570,000
Total Governmental Activities Bonds Payable					\$ 2,150,000

General Obligation Note					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
03/14	\$ 190,000	\$19,000	1.00%	03/24	\$ 38,000

Promissory Note					
Issue Date	Original Amount	Monthly Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
05/20	\$ 20,000	\$556	0.00%	10/23	\$ 5,555

Financing Arrangement					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
01/20	\$ 223,016	\$15,000 - \$54,001	3.85%	01/27	\$ 135,367

At December 31, 2022, the asset acquired via the financing arrangement above has an original cost of \$266,756 and accumulated depreciation of \$38,902, for a net carry value of \$227,854. This asset serves as collateral under the financing arrangement.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.D.    NONCURRENT LIABILITIES (Continued)**

Business-Type Activities

General Obligation Revenue Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
07/06	\$ 3,060,114	\$70,000 - \$173,000	1.07%	08/26	\$ 680,000
10/22	373,000	\$67,000 - \$80,000	3.25%	02/28	373,000
Total Business-Type Activities Bonds Payable					\$ 1,053,000

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2022:

Type of Debt	Balance 01/01/22	Additions	Deductions	Balance 12/31/22	Amounts Due Within One Year
<i>Governmental Activities:</i>					
G.O. Bonds	\$ 1,885,000	\$ 570,000	\$ (305,000)	\$ 2,150,000	\$ 245,000
Unamortized Bond Premium	21,606	2,210	(1,933)	21,883	-
G.O. Note	57,000	-	(19,000)	38,000	19,000
Promissory Note	12,222	-	(6,667)	5,555	5,555
Financing Arrangement	160,504	-	(25,137)	135,367	-
Compensated Absences	37,101	240	-	37,341	-
Total	<u>\$ 2,173,433</u>	<u>\$ 572,450</u>	<u>\$ (357,737)</u>	<u>\$ 2,388,146</u>	<u>\$ 269,555</u>
<i>Business-Type Activities:</i>					
G.O. Revenues Bonds	\$ 846,000	\$ 373,000	\$ (166,000)	\$ 1,053,000	\$ 167,000
Compensated Absences	19,930	-	(791)	19,139	-
Total	<u>\$ 865,930</u>	<u>\$ 373,000</u>	<u>\$ (166,791)</u>	<u>\$ 1,072,139</u>	<u>\$ 167,000</u>

Governmental activity debt is typically funded through Debt Service Funds, with the exception of the promissory note being financed through the Revolving Loan Fund. Business-Type activity debt is typically funded through the Water Fund. Compensated absences is funded through the funds to which the respective employees' wages are allocated.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.D.    NONCURRENT LIABILITIES (Continued)**

**Annual Debt Service Requirements**

At December 31, 2022, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities					
	General Obligation Bonds			General Obligation Note		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 245,000	\$ 56,758	\$ 301,758	\$ 19,000	380	\$ 19,380
2024	180,000	49,346	229,346	19,000	190	19,190
2025	160,000	45,859	205,859	-	-	-
2026	160,000	42,511	202,511	-	-	-
2027	165,000	38,575	203,575	-	-	-
2028-2032	755,000	122,721	877,721	-	-	-
2033-2037	485,000	36,600	521,600	-	-	-
Totals	<u>\$ 2,150,000</u>	<u>\$ 392,370</u>	<u>\$ 2,542,370</u>	<u>\$ 38,000</u>	<u>\$ 570</u>	<u>\$ 38,570</u>

Years Ending December 31,	Governmental Activities					
	Promissory Note			Financing Arrangement		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 5,555	\$ -	\$ 5,555	\$ -	\$ -	\$ 31,316
2024	-	-	-	26,104	5,212	31,316
2025	-	-	-	27,109	4,207	31,316
2026	-	-	-	28,153	3,163	31,316
2027	-	-	-	54,001	2,079	56,080
Totals	<u>\$ 5,555</u>	<u>\$ -</u>	<u>\$ 5,555</u>	<u>\$ 135,367</u>	<u>\$ 14,661</u>	<u>\$ 181,344</u>

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2023	\$ 167,000	\$ 16,974	\$ 183,974
2024	236,000	16,523	252,523
2025	244,000	12,440	256,440
2026	248,000	8,205	256,205
2027	78,000	3,867	81,867
2028	80,000	1,300	81,300
Totals	<u>\$ 1,053,000</u>	<u>\$ 59,309</u>	<u>\$ 1,112,309</u>

Interest expense totals \$71,295 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest expenditures total \$45,939 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$16,425 in the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds (included in the line Interest and Other Charges).

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**NOTE 2    DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.E.    INTERFUND TRANSACTIONS AND BALANCES**

Operating transfers consist of the following for the year ended December 31, 2022:

Major Funds	Transfers Out	Transfers In			Total
		Major Funds		Nonmajor	
		General	Debt Service	Funds	
General	\$    31,316	\$           -	\$    31,316	\$           -	\$    31,316
Liquor	<u>225,000</u>	<u>200,000</u>	<u>          -</u>	<u>25,000</u>	<u>225,000</u>
	256,316	200,000	31,316	25,000	256,316
Nonmajor Funds					
Governmental	<u>120,500</u>	<u>8,000</u>	<u>          -</u>	<u>112,500</u>	<u>120,500</u>
Total	<u>\$    376,816</u>	<u>\$    208,000</u>	<u>\$    31,316</u>	<u>\$    137,500</u>	<u>\$    376,816</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Short-Term Balances		Purpose	
Due To Fund	Due From Fund		
General	Liquor	<u>\$           889</u>	Liquor Transaction Processed Through General Fund

Interfund balances will be repaid using existing cash reserves in the Liquor Fund.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**2.F. FUND EQUITY**

At December 31, 2022, governmental fund equity consists of the following:

	Nonspendable	Restricted	Committed	Assigned	Unassigned
<b>General Fund</b>					
Nonspendable - Prepays	\$ 63,346	\$ -	\$ -	\$ -	\$ -
Nonspendable - Lease Receivables (Net)	92	-	-	-	-
Unassigned	-	-	-	-	1,846,889
<b>Total General Fund Balance</b>	<u>\$ 63,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,846,889</u>
<b>Debt Service Funds</b>					
Nonspendable - Lease Receivables (Net)	\$ 1,810	\$ -	\$ -	\$ -	\$ -
Restricted for Debt Service	-	623,230	-	-	-
<b>Total Debt Service Funds Balance</b>	<u>\$ 1,810</u>	<u>\$ 623,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Capital Projects Fund</b>					
Restricted for Capital Projects	\$ -	\$ 106,927	\$ -	\$ -	\$ -
<b>Nonmajor Governmental Funds</b>					
Nonspendable - Property Held for Sale	\$ 23,600	\$ -	\$ -	\$ -	\$ -
Restricted for Capital Projects	-	325,000	-	-	-
Restricted for Economic Development Loans	-	65,498	-	-	-
Restricted for Police DWI Enforcement	-	13,025	-	-	-
Assigned for Capital Projects	-	-	-	27,401	-
Assigned for Milaca Economic Development Authority	-	-	-	85,275	-
Assigned for Youth Safety	-	-	-	2,052	-
Assigned for Parks and Rec	-	-	-	90,586	-
Unassigned	-	-	-	-	(106,522)
<b>Total Nonmajor Governmental Funds Balance</b>	<u>\$ 23,600</u>	<u>\$ 403,523</u>	<u>\$ -</u>	<u>\$ 205,314</u>	<u>\$ (106,522)</u>

Additionally, nonmajor funds with deficit fund balances at December 31, 2022 are as follows:

Fund	Fund Deficit
<b>Nonmajor Governmental Funds</b>	
Veterans Memorial Fund	\$ 1,059
TIF District No. 1-10 Fund	<u>\$ 99,315</u>

**NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**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 MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 3    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

General Employees Retirement Plan

All full-time and certain part-time employees of the City of Milaca 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 the 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 the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent 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 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent 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 will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**CITY OF MILACA, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2022**

**NOTE 3    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**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 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the General Employees Fund for the year ended December 31, 2022 were \$77,693. The City’s contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire members were required to contribute 11.8 percent of their annual covered salary in the fiscal year 2022 and the City was required to contribute 17.7 percent for the Police and Fire Plan members. The City’s contributions to the Police and Fire Fund for the year ended December 31, 2022 were \$85,384. The City’s contributions were equal to the required contributions as set by State Statute.

**Pension Costs**

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$1,045,444 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 \$30,453. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022 relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0132 percent at the end of the measurement period and 0.0124 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$1,045,444
State of Minnesota’s proportionate share of the net pension liability associated with the City	30,453
Total	\$1,075,897

For the year ended December 31, 2022, the City recognized pension expense of \$170,449 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized \$4,550 as grant revenue for its proportionate share of the State of Minnesota’s pension expense for the annual \$16 million contribution.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

At December 31, 2022, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,732	\$ 10,567
Changes in actuarial assumptions	222,697	4,316
Difference between projected and actual investment earnings	42,923	-
Changes in proportionate share	28,387	29,978
Contributions paid to PERA subsequent to the measurement date	39,051	-
<b>Total Deferred Outflows/Inflows</b>	<b>\$ 341,790</b>	<b>\$ 44,861</b>

The \$39,051 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2023	\$ 89,325
2024	\$ 90,714
2025	\$ (16,705)
2026	\$ 94,544

Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$1,588,336 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0365 percent at the end of the measurement period and 0.0328 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. 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 direct state was paid on October 1, 2021. 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.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

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, 2022, the City recognized pension expense of \$314,164 for its proportionate share of the Police and Fire Plan’s pension expense. The City recognized \$13,461 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 \$3,285 for the year ended December 31, 2022 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, 2022, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 93,744	\$ -
Changes in actuarial assumptions	901,401	9,384
Difference between projected and actual investment earnings	65,684	-
Changes in proportionate share	39,315	35,015
Contributions paid to PERA subsequent to the measurement date	44,955	-
Total Deferred Outflows/Inflows	\$ 1,145,099	\$ 44,399

The \$44,955 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2023	\$ 212,890
2024	\$ 208,281
2025	\$ 182,389
2026	\$ 315,270
2027	\$ 136,915

The total pension expense for all plans recognized by the City for the year ended December 31, 2022, including amortization of deferral balances, was \$157,453.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**NOTE 3    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**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	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

**Actuarial Methods and Assumptions**

The total pension liability in the June 30, 2022 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 6.5 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 6.5 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 27 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 2020. The assumption changes were adopted by the Board and became effective with the July 1, 2021 actuarial valuation. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020 and were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

**General Employees Fund**

**Changes in Actuarial Assumptions:**

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

**Changes in Plan Provisions**

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

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

Police and Fire Fund

Changes in Actuarial Assumptions:

- The single discount rate changed from 6.50 percent to 5.40 percent.
- The mortality improvement scale was changed from MP-2020 to MN-2021.

Changes in Plan Provisions:

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

**Discount Rate**

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

**Pension Liability Sensitivity**

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

Sensitivity of Net Pension Liability at Current Single Discount Rate					
	General Employees Fund		Police and Fire Fund		
1% Increase in Discount Rate	7.50%	\$ 548,521	6.40%	\$	929,128
Current Discount Rate	6.50%	\$ 1,045,444	5.40%	\$	1,588,336
1% Decrease in Discount Rate	5.50%	\$ 1,651,334	4.40%	\$	2,403,743

**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](http://www.mnpera.org).

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN**

**Plan Description**

The Milaca Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022, the plan covered 22 active firefighters and 11 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

**Benefits Provided**

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

**Contributions**

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$57,530 in fire state aid to the plan for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City of Milaca's statutorily-required contributions to the Volunteer Firefighter Plan for the year ended December 31, 2022 were \$0.

**Pension Costs**

At December 31, 2022, the City of Milaca reported a net pension asset of \$190,041 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/21	\$ 539,080	\$ 1,029,847	\$ (490,767)
Service Cost	43,069	-	43,069
Interest on Pension Liability	34,929	-	34,929
Actuarial Experience (Gains)/Losses	(37,261)	-	(37,261)
Projected Investment Earnings	-	(153,393)	153,393
Contributions (State)	-	57,530	(57,530)
Changes in Benefit Level	163,162	-	163,162
Administrative Fees	-	(964)	964
Net Changes	<u>203,899</u>	<u>(96,827)</u>	<u>300,726</u>
Balance End of Year 12/31/22	<u>\$ 742,979</u>	<u>\$ 933,020</u>	<u>\$ (190,041)</u>

For the year ended December 31, 2022, the City recognized pension expense of \$169,181.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

At December 31, 2022, the City of Milaca reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ -	\$ 60,411
Difference between projected and actual investment earnings	114,454	-
Total Deferred Outflows/Inflows	\$ 114,454	\$ 60,411

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

Year ended December 31:	Pension Expense
2023	\$ (14,648)
2024	\$ 6,469
2025	\$ 26,637
2026	\$ 35,585

**Actuarial Assumptions**

The total pension liability at December 31, 2022, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

There were no changes in actuarial assumptions in 2022.

**Discount Rate**

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

**Pension Liability Sensitivity**

The following presents the City’s net pension asset for the Volunteer Firefighter Fund, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

	<u>1% Decrease in Discount Rate (5.00%)</u>	<u>Discount Rate (6.00%)</u>	<u>1% Increase in Discount Rate (7.00%)</u>
Net Pension Asset	\$ 160,555	\$ 190,041	\$ 217,995

**Plan Investments**

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)**

Description of significant investment policy changes during the year

The SBI made no significant changes to their investment policy during Fiscal Year 2022 for Volunteer Firefighter Fund.

**Pension Plan Fiduciary Net Position**

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of December 31, 2022, 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](http://www.mnpera.org).

**NOTE 5 OTHER NOTES**

**5.A. RISK MANAGEMENT**

**Claims and Judgements**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City's management is not aware of any incurred but unreported claims.

**5.B. TAX INCREMENT FINANCING DISTRICTS**

The City occasionally enters into tax increment financing arrangements with local businesses for the purpose of stimulating economic growth within the City. Eligibility for businesses seeking tax abatements of this nature is determined in accordance the applicable Minnesota Statutes, and such arrangements generally include a commitment by the local business to use the abated funds for financing a development or redevelopment project. Any tax increment generated by the district and not retained by the City for administrative costs is returned to the business to finance the debt incurred for the related improvements.

**CITY OF MILACA, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2022**

**NOTE 5 OTHER NOTES (Continued)**

**5.B. TAX INCREMENT FINANCING DISTRICTS (Continued)**

The following is a summary of the City’s current tax increment financing districts:

	District #4-10
Business Name	RDT Properties, LLC
Purpose	Redevelopment
Authorizing MN Statute:	469.174
Year Established:	2010
Duration of District:	Through 2036
Original Base Net Tax Capacity:	\$ 20,088
Current Net Tax Capacity:	\$ 55,772
Captured Net Tax Capacity:	
Retained by City	\$ 35,684
Amount Abated	\$ 38,595
Shared with Other Taxing Districts	\$ -
Total Bonds Issued:	None

**5.C. COMMITMENTS**

**Construction Contracts**

The City entered into various contracts during the year for construction services. The remaining commitment under these contracts at December 31, 2022 totals \$526,904.

**5.D. DEFINED CONTRIBUTION PLAN**

The City provides eligible employees future retirement benefits through a voluntary retirement savings plan (the Plan) authorized under Section 457 of the internal revenue code. The City has contracted with a private brokerage firm to establish the Plan, and plan assets are not held in a formal trust meeting the criteria defined by GASB No. 73, par 4. The City Council acts as the plan administrator, but the City is not involved with the investment decisions for plan assets. Eligible employees of the City may begin participating in the Plan commencing on the date of their employment by electing to have a percentage of their pay contributed to the Plan. The City does not make employer contributions.

The City is holding assets in a 457 retirement plan trust, on behalf of a retired employee. This 457 retirement plan trust is a different plan than described above, and is no longer offered to City employees. At December 31, 2022, the trust had a balance of approximately \$9,385. The City does not have any form of administrative authority over the trust, nor does it have the ability to access the funds within.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5 OTHER NOTES (Continued)**

**5.E. CONDUIT DEBT OBLIGATIONS**

The City has issued Minnesota Revenue Bonds, Series 2003, 2013, 2016, 2019, and 2020, to provide financial assistance to private-sector entities for the acquisition and construction of commercial facilities deemed to be in the public interest. The bonds are secured by the property of the private-sector entities and are payable solely from the revenues of the private-sector entities. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entities secured by the bond issuances. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2022, such notes are outstanding with an aggregate principal amount payable of approximately \$16,724,788.

**5.F. SUBSEQUENT EVENTS**

Subsequent to year-end and prior to the issuance of these financial statements, the City approved a contract for new alley pavement for \$57,707.

**5.G. NEW ACCOUNTING STANDARD**

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, Subscription-Based Information Technology Arrangements. GASB Statement No. 96 (GASB 96) increases the usefulness of governmental financial statements by requiring recognition of right-to-use assets and liabilities for subscription-based information technology arrangements. GASB 96 will be effective for the City's fiscal year ended December 31, 2023. The effect on net position may be significant.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MILACA, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Budget Amounts Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>REVENUES</b>			
<b>Taxes</b>			
Property Taxes	\$ 628,960	\$ 607,764	\$ (21,196)
Franchise Taxes	12,000	10,109	(1,891)
Hotel/Motel Taxes	1,500	938	(562)
<b>Total Taxes</b>	<b>642,460</b>	<b>618,811</b>	<b>(23,649)</b>
<b>Special Assessments</b>	<b>2,363</b>	<b>17,317</b>	<b>14,954</b>
<b>Licenses and Permits</b>	<b>54,615</b>	<b>55,352</b>	<b>737</b>
<b>Intergovernmental Revenue</b>			
State Revenue			
Local Government Aid	934,351	934,351	-
Market Value Credit	368	474	106
PERA Aid	2,417	-	(2,417)
Transportation	148,000	-	(148,000)
Police and Fire Aid	67,814	61,220	(6,594)
Other State Grants and Aids	12,883	212,194	199,311
<b>Total Intergovernmental Revenue</b>	<b>1,165,833</b>	<b>1,208,239</b>	<b>42,406</b>
<b>Charges for Services</b>			
General Government	7,129	6,533	(596)
Police and Fire Contracts	135,093	157,630	22,537
Streets and Highways	4,200	3,150	(1,050)
Parks and Recreation	12,000	18,147	6,147
Airports	28,150	30,877	2,727
<b>Total Charges for Services</b>	<b>186,572</b>	<b>216,337</b>	<b>29,765</b>
<b>Miscellaneous Revenue</b>			
Investment Earnings	16,250	(241,655)	(257,905)
Sale of Assets	-	6,967	6,967
Refunds and Reimbursements	6,300	15,561	9,261
Contributions and Donations	167,000	130,233	(36,767)
Other Miscellaneous	5,250	8,538	3,288
<b>Total Miscellaneous Revenue</b>	<b>194,800</b>	<b>(80,356)</b>	<b>(275,156)</b>
<b>TOTAL REVENUES</b>	<b>2,246,643</b>	<b>2,035,700</b>	<b>(210,943)</b>

**CITY OF MILACA, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Budget Amounts Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>EXPENDITURES</b>			
<b>General Government</b>			
Mayor and Council	19,375	15,283	(4,092)
Administration and Finance	104,348	115,512	11,164
Other General Government	620,317	452,332	(167,985)
Capital Outlay	2,200	510	(1,690)
<b>Total General Government</b>	<b>746,240</b>	<b>583,637</b>	<b>(162,603)</b>
<b>Public Safety</b>			
Police			
Current	701,979	808,460	106,481
Capital Outlay	-	43	43
Fire			
Current	174,563	173,308	(1,255)
Capital Outlay	99,250	115,966	16,716
Other Public Safety			
Current	45,000	34,449	(10,551)
<b>Total Public Safety</b>	<b>1,020,792</b>	<b>1,132,226</b>	<b>111,434</b>
<b>Public Works</b>			
Street Maintenance and Storm Sewers	193,075	201,807	8,732
Snow and Ice Removal	6,500	5,925	(575)
Street Lighting	42,000	35,692	(6,308)
Capital Outlay - Street Construction	100,000	119,483	19,483
<b>Total Public Works</b>	<b>341,575</b>	<b>362,907</b>	<b>21,332</b>
<b>Culture and Recreation</b>			
Libraries			
Current	25,525	25,061	(464)
Capital Outlay	20,000	15,300	(4,700)
Parks and Recreation			
Current	144,290	152,071	7,781
Capital Outlay	-	5,883	5,883
<b>Total Culture and Recreation</b>	<b>189,815</b>	<b>198,315</b>	<b>8,500</b>
<b>Miscellaneous Expenditures</b>			
Airports			
Current	72,138	136,857	64,719
Capital Outlay	12,700	138,019	125,319
<b>Total Miscellaneous Expenditures</b>	<b>84,838</b>	<b>274,876</b>	<b>190,038</b>
<b>TOTAL EXPENDITURES</b>	<b>2,383,260</b>	<b>2,551,961</b>	<b>168,701</b>

**CITY OF MILACA, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Budget Amounts Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(136,617)	(516,261)	(379,644)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers			
From Other Funds	208,000	208,000	-
To Other Funds	<u>(31,316)</u>	<u>(31,316)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>176,684</u>	<u>176,684</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 40,067</u>	(339,577)	<u>\$ (379,644)</u>
<b>FUND BALANCES - BEGINNING</b>		<u>2,249,904</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 1,910,327</u>	

**NOTES TO THE BUDGETARY COMPARISON SCHEDULE**

Note 1 - Expenditures in Excess of Budget

Actual expenditures in the General Fund of \$2,551,961 exceeded the final budgeted expenditures by \$168,701 for the current year. This is primarily due to unbudgeted capital outlay expenditures for the airport and additional expenditures for employee compensation in the police department.



**CITY OF MILACA, MINNESOTA**  
**SCHEDULE OF CITY'S PROPORTIONATE**  
**SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS (Presented Prospectively)**

For the Measurement Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b><i>General Employees Retirement Pension Plan</i></b>							
2022	0.0132%	\$ 1,045,444	\$ 30,453	\$ 1,075,897	\$ 983,987	109.3%	76.7%
2021	0.0124%	\$ 529,536	\$ 16,198	\$ 545,734	\$ 893,000	61.1%	79.1%
2020	0.0134%	\$ 803,391	\$ 24,750	\$ 828,141	\$ 955,427	86.7%	79.1%
2019	0.0132%	\$ 729,798	\$ 22,666	\$ 752,464	\$ 938,171	80.2%	80.2%
2018	0.0120%	\$ 655,771	\$ -	\$ 655,771	\$ 842,071	77.9%	79.5%
2017	0.0117%	\$ 746,920	\$ -	\$ 746,920	\$ 773,727	96.5%	75.9%
2016	0.0123%	\$ 998,699	\$ -	\$ 998,699	\$ 748,344	133.5%	68.9%
2015	0.0123%	\$ 637,450	\$ -	\$ 637,450	\$ 724,130	88.0%	78.2%
<b><i>Public Employees Police and Fire Pension Plan</i></b>							
2022	0.0365%	\$ 1,588,336	\$ 69,397	\$ 1,657,733	\$ 443,734	373.6%	70.5%
2021	0.0328%	\$ 253,181	\$ 11,391	\$ 264,572	\$ 387,836	68.2%	87.2%
2020	0.0363%	\$ 478,473	\$ 11,286	\$ 489,759	\$ 409,633	119.6%	87.2%
2019	0.0371%	\$ 394,967	\$ -	\$ 394,967	\$ 391,312	100.9%	89.3%
2018	0.0340%	\$ 362,405	\$ -	\$ 362,405	\$ 367,843	98.5%	78.5%
2017	0.0320%	\$ 432,038	\$ -	\$ 432,038	\$ 342,568	126.1%	75.9%
2016	0.0350%	\$ 1,404,611	\$ -	\$ 1,404,611	\$ 334,240	420.2%	63.8%
2015	0.0350%	\$ 397,682	\$ -	\$ 397,682	\$ 311,900	127.5%	78.7%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF MILACA, MINNESOTA**  
**SCHEDULE OF CITY PENSION CONTRIBUTIONS**  
**LAST TEN YEARS (Presented Prospectively)**

For the Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<b><i>General Employees Retirement Pension Plan</i></b>					
2022	\$ 77,693	\$ 77,693	\$ -	\$ 1,035,907	7.50%
2021	\$ 67,181	\$ 67,181	\$ -	\$ 895,747	7.50%
2020	\$ 69,896	\$ 69,896	\$ -	\$ 931,947	7.50%
2019	\$ 75,279	\$ 75,279	\$ -	\$ 1,003,718	7.50%
2018	\$ 63,155	\$ 63,155	\$ -	\$ 842,718	7.49%
2017	\$ 58,030	\$ 58,030	\$ -	\$ 773,727	7.50%
2016	\$ 56,126	\$ 56,126	\$ -	\$ 748,334	7.50%
2015	\$ 53,290	\$ 53,290	\$ -	\$ 724,130	7.36%
<b><i>Public Employees Police and Fire Pension Plan</i></b>					
2022	\$ 85,384	\$ 85,384	\$ -	\$ 482,395	17.70%
2021	\$ 69,066	\$ 69,066	\$ -	\$ 390,203	17.70%
2020	\$ 75,386	\$ 75,386	\$ -	\$ 425,910	17.70%
2019	\$ 67,143	\$ 67,143	\$ -	\$ 396,124	16.95%
2018	\$ 59,591	\$ 59,591	\$ -	\$ 367,843	16.20%
2017	\$ 55,496	\$ 55,496	\$ -	\$ 342,568	16.20%
2016	\$ 54,147	\$ 54,147	\$ -	\$ 334,240	16.20%
2015	\$ 50,474	\$ 50,474	\$ -	\$ 311,900	16.18%
<b><i>Volunteer Fire Relief Association</i></b>					
2022	\$ -	\$ -	\$ -	N/A	N/A
2021	\$ -	\$ -	\$ -	N/A	N/A
2020	\$ -	\$ -	\$ -	N/A	N/A
2019	\$ -	\$ -	\$ -	N/A	N/A

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. The Volunteer Fire Relief Association schedule is provided prospectively with the City's fiscal year ended December 31, 2019. Additional years will be reported as they become available.

**CITY OF MILACA, MINNESOTA**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)**  
**STATEWIDE VOLUNTEER FIREFIGHTER FUND**  
**LAST TEN YEARS (Presented Prospectively)**

	Measurement Year Ended December 31,			
	2022	2021	2020	2019
<b>Changes in Total Pension Liability (TPL)</b>				
Balance at January 1st	\$ 539,080	\$ 490,050	\$ 477,815	\$ 454,108
Service Cost	43,069	33,510	36,404	25,906
Interest on the TPL	34,929	31,262	28,222	28,582
Assumption Changes	(37,261)	(10,682)	(48,721)	(23,521)
Changes in Benefit Level	163,162	-	84,030	-
Benefit Payments	-	(5,060)	(87,700)	(7,260)
Balance at December 31st	<u>\$ 742,979</u>	<u>\$ 539,080</u>	<u>\$ 490,050</u>	<u>\$ 477,815</u>
<b>Plan Fiduciary Net Position (PFNP)</b>				
Balance at January 1st	\$ 1,029,847	\$ 880,539	\$ 816,759	\$ 655,600
Fire State Aid	57,530	54,793	51,210	47,841
Projected Investment Income	(153,393)	86,886	101,126	121,399
Gain or Loss	-	13,700	-	-
Total Additions	<u>(95,863)</u>	<u>155,379</u>	<u>152,336</u>	<u>169,240</u>
Benefit Payments	-	(5,060)	(87,700)	(7,260)
Administrative Expenses	(964)	(1,011)	(856)	(821)
Total Reductions	<u>(964)</u>	<u>(6,071)</u>	<u>(88,556)</u>	<u>(8,081)</u>
Balance at December 31st	<u>\$ 933,020</u>	<u>\$ 1,029,847</u>	<u>\$ 880,539</u>	<u>\$ 816,759</u>
Net Pension Liability (Asset) - December 31st	<u>\$ (190,041)</u>	<u>\$ (490,767)</u>	<u>\$ (390,489)</u>	<u>\$ (338,944)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	126%	191%	180%	171%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2019 and is intended to show a ten year trend. Additional years will be reported as they become available.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND**

**2022 Changes**

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

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

**2021 Changes**

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.

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- 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 percent 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 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0 percent for the period July 1, 2020 through December 31, 2023 and 0.0 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)**

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)**

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

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.

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND**

**2022 Changes**

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.5 percent to 5.40 percent.

Changes in Plan Provisions

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

**2021 Changes**

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 MN-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 Actuarial Assumptions

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

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)**

**2019 Changes**

Changes in Actuarial Assumptions

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

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00 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.

**CITY OF MILACA, MINNESOTA**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)**

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes in 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.

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

**NOTE 3 DEFINED BENEFIT PLAN – FIRE RELIEF ASSOCIATION**

**2022 Changes**

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2022.

**2021 Changes**

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2021.

**2020 Changes**

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2020.

**2019 Changes**

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2019.



**SUPPLEMENTARY INFORMATION**

**CITY OF MILACA, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2022**

	Capital Project Funds			Special Revenue Funds		
	Gorecki Improvements	Gorecki Improvements II	Veterans Memorial	EDA Fund	Youth Safety	Charitable Gambling
<b>ASSETS</b>						
Cash, Cash Equivalents, and Investments	\$ 202,401	\$ 143,852	\$ (1,059)	\$ 85,275	\$ 2,052	\$ 74,603
Assessments Receivable	-	-	-	4,661	-	-
Property Held for Sale	-	-	-	23,600	-	-
<b>TOTAL ASSETS</b>	<u>\$ 202,401</u>	<u>\$ 143,852</u>	<u>\$ (1,059)</u>	<u>\$ 113,536</u>	<u>\$ 2,052</u>	<u>\$ 74,603</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 435
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue: Special Assessments	-	-	-	4,661	-	-
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	23,600	-	-
Restricted	175,000	150,000	-	-	-	-
Assigned	27,401	-	-	85,275	2,052	74,168
Unassigned	-	(6,148)	(1,059)	-	-	-
Total Fund Balances	<u>202,401</u>	<u>143,852</u>	<u>(1,059)</u>	<u>108,875</u>	<u>2,052</u>	<u>74,168</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 202,401</u>	<u>\$ 143,852</u>	<u>\$ (1,059)</u>	<u>\$ 113,536</u>	<u>\$ 2,052</u>	<u>\$ 74,603</u>

**CITY OF MILACA, MINNESOTA**  
**COMBINING BALANCE SHEET (Continued)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2022**

	Special Revenue Funds				Debt Service	Total Nonmajor Funds
	Revolving Loan	DWI Forfeiture	REC Fest	City Event	TIF District No. 1-10	
<b>ASSETS</b>						
Cash, Cash Equivalents, and Investments	\$ 65,498	\$ 13,025	\$ 8,274	\$ 8,144	\$ (80,018)	\$ 522,047
Assessments Receivable	-	-	-	-	-	4,661
Property Held for Sale	-	-	-	-	-	23,600
<b>TOTAL ASSETS</b>	<u>\$ 65,498</u>	<u>\$ 13,025</u>	<u>\$ 8,274</u>	<u>\$ 8,144</u>	<u>\$ (80,018)</u>	<u>\$ 550,308</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 19,297	\$ 19,732
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue: Special Assessments	-	-	-	-	-	4,661
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	-	-	23,600
Restricted	65,498	13,025	-	-	-	403,523
Assigned	-	-	8,274	8,144	-	205,314
Unassigned	-	-	-	-	(99,315)	(106,522)
Total Fund Balances	<u>65,498</u>	<u>13,025</u>	<u>8,274</u>	<u>8,144</u>	<u>(99,315)</u>	<u>525,915</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 65,498</u>	<u>\$ 13,025</u>	<u>\$ 8,274</u>	<u>\$ 8,144</u>	<u>\$ (80,018)</u>	<u>\$ 550,308</u>

**CITY OF MILACA, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BLANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Capital Project Funds			Special Revenue Funds		
	Gorecki Improvements	Gorecki Improvements II	Veterans Memorial	EDA Fund	Youth Safety	Charitable Gambling
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,572
Tax Increment	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-
Fines	-	-	-	-	-	-
Investment Income	2,427	1,756	8	207	24	936
Miscellaneous	300	-	3,300	68,946	-	-
<b>TOTAL REVENUES</b>	<u>2,727</u>	<u>1,756</u>	<u>3,308</u>	<u>69,153</u>	<u>24</u>	<u>26,508</u>
<b>EXPENDITURES</b>						
Current:						
Public Safety	-	-	-	-	-	-
Parks and Recreation	-	-	728	-	-	15,067
Economic Development	-	-	-	-	-	-
Capital Outlay	38,128	-	5,000	-	-	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>38,128</u>	<u>-</u>	<u>5,728</u>	<u>-</u>	<u>-</u>	<u>15,067</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(35,401)	1,756	(2,420)	69,153	24	11,441
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	100,000	-	-	-	-	-
Transfers Out	-	(12,500)	(100,000)	-	-	(8,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>100,000</u>	<u>(12,500)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(8,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	64,599	(10,744)	(102,420)	69,153	24	3,441
<b>FUND BALANCES - BEGINNING</b>	<u>137,802</u>	<u>154,596</u>	<u>101,361</u>	<u>39,722</u>	<u>2,028</u>	<u>70,727</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 202,401</u>	<u>\$ 143,852</u>	<u>\$ (1,059)</u>	<u>\$ 108,875</u>	<u>\$ 2,052</u>	<u>\$ 74,168</u>

**CITY OF MILACA, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BLANCES (Continued)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Special Revenue Funds				Debt Service	Total Nonmajor Funds
	Revolving Loan	DWI Forfeiture	REC Fest	City Event	TIF District No. 1-10	
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,572
Tax Increment	-	-	-	-	42,883	42,883
Charges for Services	-	3,073	11,141	3,180	-	17,394
Fines	-	2,465	-	-	-	2,465
Investment Income	797	164	57	220	-	6,596
Miscellaneous	-	-	5,750	6,750	-	85,046
<b>TOTAL REVENUES</b>	<u>797</u>	<u>5,702</u>	<u>16,948</u>	<u>10,150</u>	<u>42,883</u>	<u>179,956</u>
<b>EXPENDITURES</b>						
Current:						
Public Safety	-	5,886	-	-	-	5,886
Parks and Recreation	-	-	15,336	47,569	-	78,700
Economic Development	-	-	-	-	38,691	38,691
Capital Outlay	-	-	-	-	-	43,128
Debt Service:						
Principal	6,667	-	-	-	-	6,667
Interest and Other Charges	-	-	-	-	1,500	1,500
<b>TOTAL EXPENDITURES</b>	<u>6,667</u>	<u>5,886</u>	<u>15,336</u>	<u>47,569</u>	<u>40,191</u>	<u>174,572</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(5,870)	(184)	1,612	(37,419)	2,692	5,384
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	-	-	1,000	36,500	-	137,500
Transfers Out	-	-	-	-	-	(120,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>36,500</u>	<u>-</u>	<u>17,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	(5,870)	(184)	2,612	(919)	2,692	22,384
<b>FUND BALANCES - BEGINNING</b>	<u>71,368</u>	<u>13,209</u>	<u>5,662</u>	<u>9,063</u>	<u>(102,007)</u>	<u>503,531</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 65,498</u>	<u>\$ 13,025</u>	<u>\$ 8,274</u>	<u>\$ 8,144</u>	<u>\$ (99,315)</u>	<u>\$ 525,915</u>

**CITY OF MILACA, MINNESOTA  
SUPPLEMENTAL COMBINING BALANCE SHEET  
DEBT SERVICE FUND  
DECEMBER 31, 2022**

	2010 GO	2012 GO	2012	2014 Fire Hall	2015 GO Park	2017 Library
	Refunding Debt	Bonds	Equipment Certificate	Improvement	Debt	Lease Refunding
<b>ASSETS</b>						
Cash, Cash Equivalents, and Investments	\$ (35,175)	\$ 288,065	\$ 1,034	\$ 31,431	\$ 22,222	\$ 142,999
Property Taxes Receivable	-	7,801	-	-	3,831	-
Lease Receivables	-	-	-	116,006	-	-
<b>TOTAL ASSETS</b>	<u>\$ (35,175)</u>	<u>\$ 295,866</u>	<u>\$ 1,034</u>	<u>\$ 147,437</u>	<u>\$ 26,053</u>	<u>\$ 142,999</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue:						
Property Taxes	\$ -	\$ 4,808	\$ -	\$ -	\$ 2,361	\$ -
Leases	-	-	-	114,196	-	-
Total Deferred Inflows of Resources	-	4,808	-	114,196	2,361	-
<b>FUND BALANCE</b>						
Nonspendable	-	-	-	1,810	-	-
Restricted	-	291,058	1,034	31,431	23,692	142,999
Unassigned	(35,175)	-	-	-	-	-
Total Fund Balance	<u>(35,175)</u>	<u>291,058</u>	<u>1,034</u>	<u>33,241</u>	<u>23,692</u>	<u>142,999</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ (35,175)</u>	<u>\$ 295,866</u>	<u>\$ 1,034</u>	<u>\$ 147,437</u>	<u>\$ 26,053</u>	<u>\$ 142,999</u>

**CITY OF MILACA, MINNESOTA**  
**SUPPLEMENTAL COMBINING BALANCE SHEET (Continued)**  
**DEBT SERVICE FUND**  
**DECEMBER 31, 2022**

	2019 Improvement Debt	2020 Loader Equipment Lease	2021 GO Street Project Bonds	2022 GO Street Project Bonds	Intrafund Activity	Total Debt Service Fund
<b>ASSETS</b>						
Cash, Cash Equivalents, and Investments	\$ 53,011	\$ (31,316)	\$ 46,027	\$ 93,349	\$ -	\$ 611,647
Property Taxes Receivable	5,586	-	5,367	8,633	-	31,218
Lease Receivables	-	-	-	-	-	116,006
<b>TOTAL ASSETS</b>	<u>\$ 58,597</u>	<u>\$ (31,316)</u>	<u>\$ 51,394</u>	<u>\$ 101,982</u>	<u>\$ -</u>	<u>\$ 758,871</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue:						
Property Taxes	\$ 3,443	\$ -	\$ 3,459	\$ 5,564	\$ -	\$ 19,635
Leases	-	-	-	-	-	114,196
Total Deferred Inflows of Resources	3,443	-	3,459	5,564	-	133,831
<b>FUND BALANCE</b>						
Nonspendable	-	-	-	-	-	1,810
Restricted	55,154	-	47,935	96,418	(66,491)	623,230
Unassigned	-	(31,316)	-	-	66,491	-
Total Fund Balance	<u>55,154</u>	<u>(31,316)</u>	<u>47,935</u>	<u>96,418</u>	<u>-</u>	<u>625,040</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ 58,597</u>	<u>\$ (31,316)</u>	<u>\$ 51,394</u>	<u>\$ 101,982</u>	<u>\$ -</u>	<u>\$ 758,871</u>

**CITY OF MILACA, MINNESOTA**  
**SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	2010 GO	2012 GO	2012	2014 Fire Hall	2015 GO Park	2017 Library
	Refunding Debt	Bonds	Equipment Certificate	Improvement	Debt	Lease Refunding
<b>REVENUES</b>						
Taxes	\$ -	\$ 87,381	\$ -	\$ -	\$ 42,906	\$ -
Charges for Services	-	-	-	21,752	-	-
Investment Income (Loss)	-	2,776	9	254	351	1,818
Lease Interest	-	-	-	4,058	-	-
<b>TOTAL REVENUES</b>	-	90,157	9	26,064	43,257	1,818
<b>EXPENDITURES</b>						
Debt Service:						
Principal	-	95,000	-	19,000	30,000	135,000
Interest and Other Charges	-	4,085	-	1,140	9,710	1,552
<b>TOTAL EXPENDITURES</b>	-	99,085	-	20,140	39,710	136,552
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	(8,928)	9	5,924	3,547	(134,734)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	-	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	-	(8,928)	9	5,924	3,547	(134,734)
<b>FUND BALANCE - BEGINNING</b>	<u>(35,175)</u>	<u>299,986</u>	<u>1,025</u>	<u>27,317</u>	<u>20,145</u>	<u>277,733</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ (35,175)</u>	<u>\$ 291,058</u>	<u>\$ 1,034</u>	<u>\$ 33,241</u>	<u>\$ 23,692</u>	<u>\$ 142,999</u>



**CITY OF MILACA, MINNESOTA**  
**SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (Continued)**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	2019 Improvement Debt	2020 Loader Equipment Lease	2021 GO Street Project Bonds	2022 GO Street Project Bonds	Intrafund Activity	Total Debt Service Fund
<b>REVENUES</b>						
Taxes	\$ 62,654	\$ -	\$ 59,935	\$ 96,568	\$ -	\$ 349,444
Charges for Services	-	-	-	-	-	21,752
Investment Income (Loss)	59	-	-	-	-	5,267
Lease Interest	-	-	-	-	-	4,058
<b>TOTAL REVENUES</b>	<u>62,713</u>	<u>-</u>	<u>59,935</u>	<u>96,568</u>	<u>-</u>	<u>380,521</u>
<b>EXPENDITURES</b>						
Debt Service:						
Principal	45,000	25,137	-	-	-	349,137
Interest and Other Charges	12,907	6,179	11,850	150	-	47,573
<b>TOTAL EXPENDITURES</b>	<u>57,907</u>	<u>31,316</u>	<u>11,850</u>	<u>150</u>	<u>-</u>	<u>396,710</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	4,806	(31,316)	48,085	96,418	-	(16,189)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	-	31,316	-	-	-	31,316
<b>NET CHANGE IN FUND BALANCE</b>	4,806	-	48,085	96,418	-	15,127
<b>FUND BALANCE - BEGINNING</b>	<u>50,348</u>	<u>(31,316)</u>	<u>(150)</u>	<u>-</u>	<u>-</u>	<u>609,913</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 55,154</u>	<u>\$ (31,316)</u>	<u>\$ 47,935</u>	<u>\$ 96,418</u>	<u>\$ -</u>	<u>\$ 625,040</u>

**CITY OF MILACA, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(UNAUDITED)**

	<u>Issue Dates</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Initial Authorized Issue</u>	<u>Outstanding Balance 01/01/22</u>	<u>Issued</u>	<u>Paid</u>	<u>Outstanding Balance 12/31/22</u>	<u>Principal Due Within One Year</u>
<b>GOVERNMENTAL INDEBTEDNESS</b>									
<u>General Obligation Bonds</u>									
G.O. Refunding Bonds, Series 2012A	8/22/2012	1.00-2.15%	2/1/2024	\$ 845,000	\$ 220,000	\$ -	\$ 95,000	\$ 125,000	\$ 95,000
G.O. Park Improvement Bonds, Series 2015A	3/16/2015	2.00-3.40%	12/15/2030	475,000	315,000		30,000	285,000	30,000
G.O. Library Lease Revenue Bonds, Series 2017A	8/1/2017	2.30%	2/1/2022	653,000	135,000		135,000	-	-
G.O. Street Reconstruction Bonds, Series 2019A	7/10/2019	2.10-3.00%	2/1/2031	545,000	500,000	-	45,000	455,000	45,000
G.O. Street Reconstruction Bonds, Series 2021A	8/12/2021	0.85-2.00%	2/1/2037	715,000	715,000	-	-	715,000	40,000
G.O. Street Reconstruction Bonds, Series 2022A	6/12/2022	3.35-4.00%	2/1/2037	570,000	-	570,000	-	570,000	35,000
<u>Notes Payable</u>									
G.O. Note Payable (Ambulance - ECE Loan)	3/3/2014	1.00%	3/3/2024	190,000	57,000	-	19,000	38,000	19,000
RLF Emergency Relief Note	5/22/2020	0.00%	10/1/2023	20,000	12,222	-	6,667	5,555	5,555
<u>Financing Arrangements</u>									
Equipment Financing Arrangement	1/1/2020	3.85%	1/1/2027	223,016	160,504	-	25,137	135,367	-
<b>TOTAL GOVERNMENTAL DEBTS</b>				4,236,016	2,114,726	570,000	355,804	2,328,922	269,555
<b>ENTERPRISE INDEBTEDNESS</b>									
<u>General Obligation Bonds</u>									
G.O. Water Revenue Bonds, Series 2022B	10/13/2022	3.25%	2/1/2028	373,000	-	373,000	-	373,000	-
<u>MN Public Facilities Authority Loan</u>									
G.O. Revenue Bonds, 2006	7/19/2006	1.07%	8/20/2026	3,060,114	846,000	-	166,000	680,000	167,000
<b>TOTAL ENTERPRISE DEBTS</b>				3,433,114	846,000	373,000	166,000	1,053,000	167,000
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 7,669,130</u>	<u>\$ 2,960,726</u>	<u>\$ 943,000</u>	<u>\$ 521,804</u>	<u>\$ 3,381,922</u>	<u>\$ 436,555</u>

## **OTHER REPORTS**

**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**

Honorable Mayor and City Council  
City of Milaca, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Milaca's basic financial statements and have issued our report thereon dated June 20, 2023.

***Report on Internal Control Over Financial Reporting***

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as items 2022-001 and 2022-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* as item 2022-002 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*.

### ***Minnesota Legal Compliance***

In connection with our audit, nothing came to our attention that caused us to believe that the City of Milaca failed to comply with the provisions of the contracting – bid laws, depositories of public funds 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.

### **City's Response to Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the City of Milaca's response to the findings identified in our engagement and described in the accompanying *Schedule of Findings and Responses*. The City of Milaca'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 this Report**

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



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

June 20, 2023



**CITY OF MILACA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2022-003                      Material Audit Adjustments**

*Condition:*                      Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

*Criteria:*                      The City is required to report financial information in accordance with accounting principles generally accepted in the United States of America.

*Cause:*                      The City failed to record certain year-end adjustments for the purpose of properly presenting accrual balances required under generally accepted accounting principles.

*Effect:*                      The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

*Recommendation:*                      We recommend management perform a thorough review of the trial balance prior to the audit and ensure all transactions have been properly recorded.

*Views of Responsible  
Officials And Planned  
Corrective Actions:*

Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF MILACA, MINNESOTA  
CORRECTIVE ACTION PLANS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2022-001            Limited Segregation of Duties**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City currently has the following procedures in place:
  - The City's Department Heads review all invoices received. The City Council also reviews the monthly invoices and approves the expenditures.
  - The City utilizes claim listings which are approved by the City Manager.The City will review current procedures and implement additional controls where possible.
3. Official Responsible  
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.

**Finding 2022-002            Financial Statement Preparation**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The City will revisit this decision on an ongoing, annual basis.
3. Official Responsible  
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.



**CITY OF MILACA, MINNESOTA  
CORRECTIVE ACTION PLANS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2022-003      Material Audit Adjustments**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
  
2. Actions Planned in Response to Finding  
The City will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.
  
3. Official Responsible  
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.
  
4. Planned Completion Date  
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
  
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.