

CITY OF MILACA, MINNESOTA
AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

**CITY OF MILACA, MINNESOTA
TABLE OF CONTENTS**

INTRODUCTORY SECTION:

CITY COUNCIL AND OFFICIALS 1

FINANCIAL SECTION:

INDEPENDENT AUDITORS' REPORT 2

BASIC FINANCIAL STATEMENTS:

Government-wide Financial Statements

Statement of Net Position 5
Statement of Activities 6

Fund Financial Statements

Balance Sheet – Governmental Funds 7
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position 8
Statement of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds 9
Reconciliation of Changes in Fund Balance of Governmental
Funds to the Statement of Activities 10
Statement of Net Position – Proprietary Funds 11
Statement of Revenues, Expenses, and
Changes in Net Position – Proprietary Funds 12
Statement of Cash Flows – Proprietary Funds 13
Statement of Fiduciary Net Position 15
Statement of Changes in Fiduciary Net Position 16
Notes to the Basic Financial Statements 17

REQUIRED SUPPLEMENTARY INFORMATION:

Budgetary Comparison Schedule – General Fund 46
Schedule of City’s Proportionate Share of the Net Pension Liability 48
Schedule of City Pension Contributions 49
Schedule of Changes in Net Pension Liability (Asset) 50
Notes to the Required Supplementary Information 51

SUPPLEMENTARY INFORMATION:

Combining Balance Sheet – Nonmajor Governmental Funds 55
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Nonmajor Governmental Funds 57
Supplemental Combining Balance Sheet – Debt Service Fund 59
Supplemental Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balance – Debt Service Fund 60
Schedule of Indebtedness 61

OTHER REPORTS:

Independent Auditors’ 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 62
Independent Auditors’ Report on Minnesota Legal Compliance 64
Schedule of Findings and Responses 65
Corrective Action Plans 67

**INTRODUCTORY
SECTION**

**CITY OF MILACA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2019**

CITY COUNCIL

Term Expires

Harold Pedersen	Mayor	December 31, 2020
Dave Dillan	Council Member	December 31, 2020
Norris Johnson	Council Member	December 31, 2022
Lindsee Larsen	Council Member	December 31, 2020
Cory Pedersen	Council Member	December 31, 2022

CITY OFFICIALS

Tammy Pfaff	Manager
Tracy Gann	Treasurer

**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

August 26, 2020

Honorable Mayor and City Council
City of Milaca, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Qualified
General Fund	Unmodified
Debt Service Fund	Unmodified
Gorecki Improvements	Unmodified
Gorecki Improvements II	Unmodified
Capital Projects Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Liquor Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on the Liquor Fund and Business-Type Activities

The Liquor Store’s inventory balance is carried at \$467,841 on the Statement of Net Position at December 31,2019, and the Liquor Stores cost of sales of \$1,762,381 is included in the Liquor Store’s change in net position for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Liquor Store’s inventory balance as of December 31, 2019 and cost of sales for the year then ended because the timing of our audit prohibited us from performing a physical inventory observation and adequate alternative audit evidence was not available. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinions

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion on the Liquor Fund and Business-Type Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Liquor Fund and Business-Type Activities of the City of Milaca, Minnesota, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

Emphasis of Matters

Change in Accounting Principle

As discussed in Note 1.G. of the financial statements, the City of Milaca, Minnesota has adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Prior Period Adjustments

As discussed in Note 5.F. to the financial statements, the 2018 financial statements have been restated to correct misstatements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule, Schedule of City's Proportionate Share of the Net Pension Liability, Schedule of City Pension Contributions, and Schedule of Changes in Net Pension Liability (Asset) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is not affected by this missing information.

Other Information

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

The introductory section, combining nonmajor fund financial statements, combining debt service fund schedules, 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 August 26, 2020 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 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.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated August 26, 2020, on our consideration of the City of Milaca's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the City has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash, Cash Equivalents, and Investments	\$ 3,752,047	\$ 3,100,684	\$ 6,852,731
Property Taxes Receivable	49,755	-	49,755
Assessments Receivable	46,482	6,259	52,741
Accounts Receivable	3,447	85,745	89,192
Interest Receivable	17,023	-	17,023
Due from Other Governments	35,604	-	35,604
Inventory	-	467,841	467,841
Prepays	49,760	13,065	62,825
Investments Held For Sale	23,600	-	23,600
Noncurrent Assets:			
Investment in Joint Venture	13,898	-	13,898
Net Pension Asset	338,944	-	338,944
Capital Assets not Being Depreciated	333,183	62,608	395,791
Capital Assets Being Depreciated (Net)	6,334,936	4,602,383	10,937,319
TOTAL ASSETS	10,998,679	8,338,585	19,337,264
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	391,290	47,785	439,075
LIABILITIES			
Accounts Payable	178,525	188,558	367,083
Accrued Salaries	19,143	10,335	29,478
Deposits Payable	-	15,163	15,163
Unearned Revenue	6,175	-	6,175
Accrued Interest	20,273	4,376	24,649
Noncurrent Liabilities:			
Bonds Due Within One Year	410,000	197,000	607,000
Bonds Due After One Year	1,845,467	1,050,000	2,895,467
Compensated Absences Due After One Year	57,647	23,384	81,031
Net Pension Liability	654,296	308,678	962,974
TOTAL LIABILITIES	3,191,526	1,797,494	4,989,020
DEFERRED INFLOWS OF RESOURCES			
Pensions	628,300	48,359	676,659
NET POSITION			
Net Investment in Capital Assets	4,412,652	3,417,991	7,830,643
Restricted	1,030,788	-	1,030,788
Unrestricted	2,126,703	3,122,526	5,249,229
TOTAL NET POSITION	\$ 7,570,143	\$ 6,540,517	\$ 14,110,660

**CITY OF MILACA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Totals
Governmental Activities:							
General Government	\$ 511,346	\$ 125,204	\$ -	\$ -	\$ (386,142)	\$ -	\$ (386,142)
Public Safety	1,079,690	205,182	107,769	115,205	(651,534)	-	(651,534)
Public Works	565,910	3,050	-	3,863	(558,997)	-	(558,997)
Parks and Recreation	407,799	19,392	-	-	(388,407)	-	(388,407)
Economic Development	56,965	-	-	-	(56,965)	-	(56,965)
Airport	126,441	19,607	-	68,779	(38,055)	-	(38,055)
Debt Service	27,977	24,000	-	-	(3,977)	-	(3,977)
Total Governmental Activities	2,776,128	396,435	107,769	187,847	(2,084,077)	-	(2,084,077)
Business-Type Activities:							
Water	422,820	541,235	176	-	-	118,591	118,591
Sewer	326,920	351,600	181	-	-	24,861	24,861
Liquor	2,199,633	2,343,421	362	-	-	144,150	144,150
Total Business-Type Activities	2,949,373	3,236,256	719	-	-	287,602	287,602
TOTALS	\$ 5,725,501	\$ 3,632,691	\$ 108,488	\$ 187,847	(2,084,077)	287,602	(1,796,475)
General Revenues:							
Taxes					991,380	-	991,380
Tax Increment					58,967	-	58,967
Intergovernmental					824,937	-	824,937
Franchise and Other Taxes					48,032	-	48,032
Investment Income					144,825	51,247	196,072
Miscellaneous					1,552,951	25,562	1,578,513
Gain on Disposal of Assets					15,034	-	15,034
Total General Revenues					3,636,126	76,809	3,712,935
Transfers					65,000	(65,000)	-
Total General Revenues and Transfers					3,701,126	11,809	3,712,935
CHANGE IN NET POSITION					1,617,049	299,411	1,916,460
NET POSITION - BEGINNING OF YEAR					5,675,057	6,241,106	11,916,163
PRIOR PERIOD ADJUSTMENT (See Note 5.F.)					278,037	-	278,037
NET POSITION - BEGINNING OF YEAR (As Restated)					5,953,094	6,241,106	12,194,200
NET POSITION - END OF YEAR					\$ 7,570,143	\$ 6,540,517	\$ 14,110,660

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

	General Fund	Debt Service Fund	Gorecki Improvements	Gorecki Improvements II	Capital Projects Fund	Total Nonmajor Funds	Totals
ASSETS							
Cash, Cash Equivalents and Investment	\$ 1,847,713	\$ 752,113	\$ 536,757	\$ 457,461	\$ 20,306	\$ 137,697	\$ 3,752,047
Property Taxes Receivable	28,438	21,317	-	-	-	-	49,755
Assessments Receivable	1,820	21,360	-	-	-	23,302	46,482
Accounts Receivable	3,447	-	-	-	-	-	3,447
Due from Other Governments	35,604	-	-	-	-	-	35,604
Accrued Interest	17,023	-	-	-	-	-	17,023
Prepays	49,760	-	-	-	-	-	49,760
Property Held for Sale	-	-	-	-	-	23,600	23,600
TOTAL ASSETS	\$ 1,983,805	\$ 794,790	\$ 536,757	\$ 457,461	\$ 20,306	\$ 184,599	\$ 3,977,718
LIABILITIES							
Accounts Payable	\$ 56,015	\$ -	\$ 76,401	\$ 7,184	\$ 4,503	\$ 34,422	\$ 178,525
Accrued Salaries	19,143	-	-	-	-	-	19,143
Unearned Revenue	6,175	-	-	-	-	-	6,175
Total Liabilities	81,333	-	76,401	7,184	4,503	34,422	203,843
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue:							
Property Taxes	22,725	16,093	-	-	-	-	38,818
Special Assessments	1,820	21,360	-	-	-	23,302	46,482
Total Deferred Inflows of Resources	24,545	37,453	-	-	-	23,302	85,300
FUND BALANCES							
Nonspendable	49,760	-	-	-	-	23,600	73,360
Restricted	-	757,337	-	150,000	-	106,271	1,013,608
Assigned	-	-	460,356	300,277	15,803	106,050	882,486
Unassigned	1,828,167	-	-	-	-	(109,046)	1,719,121
Total Fund Balances	1,877,927	757,337	460,356	450,277	15,803	126,875	3,688,575
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,983,805	\$ 794,790	\$ 536,757	\$ 457,461	\$ 20,306	\$ 184,599	\$ 3,977,718

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

Total Fund Balances for Governmental Funds	\$	3,688,575
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net of accumulated depreciation of \$8,377,770) used in governmental activities are not financial resources and, therefore, are not reported in the funds:		6,668,119
Joint Venture Investments reported in governmental activities are not current financial resources and, therefore, are not reported in the funds:		13,898
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Taxes Receivable	\$ 38,818	
Special Assessments Receivable	<u>46,482</u>	
		85,300
Interest payable on long-term debt does not require current financial resources and, therefore, is not reported as a liability in the governmental funds Balance Sheet:		(20,273)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds Balance Sheet:		
Compensated Absences	(57,647)	
Unamortized Bond Premium and Discounts	(7,467)	
Bonds Due Within One Year	(410,000)	
Bonds Due In More Than One Year	<u>(1,838,000)</u>	
		(2,313,114)
The net pension asset/liability and related inflows/outflows represent the allocation of pension obligations to the City. Such balances are not reported in the funds:		
Net Pension Asset	338,944	
Net Pension Liability	(654,296)	
Deferred Outflows - Pensions	391,290	
Deferred Inflows - Pensions	<u>(628,300)</u>	
		<u>(552,362)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>7,570,143</u>

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

	General Fund	Debt Service Fund	Gorecki Improvements	Gorecki Improvements II	Capital Projects Fund	Total Nonmajor Funds	Totals
REVENUES							
Taxes	\$ 565,321	\$ 400,211	\$ -	\$ -	\$ -	\$ -	\$ 965,532
Special Assessments	1,254	51,204	-	-	-	-	52,458
Tax Increment	-	-	-	-	-	58,967	58,967
Franchise and Other Taxes	21,144	-	-	-	-	26,888	48,032
Licenses, Permits and Fees	63,309	-	-	-	-	-	63,309
Intergovernmental	948,032	-	-	-	-	-	948,032
Charges for Services	281,287	24,000	-	-	-	13,465	318,752
Fines	14,374	-	-	-	-	-	14,374
Investment Income	104,396	19,988	8,754	7,461	331	3,895	144,825
Contributions and Donations	132,526	-	1,042,721	450,000	50	8,545	1,633,842
Miscellaneous	31,854	-	-	-	-	2,300	34,154
TOTAL REVENUES	2,163,497	495,403	1,051,475	457,461	381	114,060	4,282,277
EXPENDITURES							
Current:							
General Government	479,983	-	-	-	-	-	479,983
Public Safety	805,343	-	-	-	-	378	805,721
Public Works	292,012	-	-	-	22,138	-	314,150
Parks and Recreation	135,916	-	38,618	-	-	34,503	209,037
Economic Development	-	-	-	-	-	56,965	56,965
Airport	126,441	-	-	-	-	-	126,441
Debt Service:							
Principal	-	391,000	-	-	-	-	391,000
Interest and Other Charges	-	55,053	-	-	-	-	55,053
Capital Outlay	453,607	-	508,271	7,184	502,015	-	1,471,077
TOTAL EXPENDITURES	2,293,302	446,053	546,889	7,184	524,153	91,846	3,909,427
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(129,805)	49,350	504,586	450,277	(523,772)	22,214	372,850
OTHER FINANCING SOURCES (USES)							
Proceeds on Sale of Assets	24,040	-	-	-	-	-	24,040
Sale of Bonds	-	-	-	-	545,000	-	545,000
Premium on Bond Issuance	-	-	-	-	8,146	-	8,146
Operating Transfers In	93,830	22,230	-	-	-	-	116,060
Operating Transfers Out	-	-	(44,230)	-	-	(6,830)	(51,060)
TOTAL OTHER FINANCING SOURCES (USES)	117,870	22,230	(44,230)	-	553,146	(6,830)	642,186
NET CHANGE IN FUND BALANCES	(11,935)	71,580	460,356	450,277	29,374	15,384	1,015,036
FUND BALANCES - BEGINNING	1,889,862	685,757	-	-	(13,571)	111,491	2,673,539
FUND BALANCES - ENDING	\$ 1,877,927	\$ 757,337	\$ 460,356	\$ 450,277	\$ 15,803	\$ 126,875	\$ 3,688,575

**CITY OF MILACA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Total Governmental Funds	\$	1,015,036
Amounts reported for governmental activities in the Statement of Activities are different due to the following:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital Outlay Capitalized	\$	1,473,675
Net Loss on the Disposal of Assets		(9,006)
Depreciation Expense		<u>(598,765)</u>
		865,904
Revenues in Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Equity Investment Loss		(21,289)
Change in Long-term Receivables		<u>(22,587)</u>
		(43,876)
Proceeds from the issuance of long-term debt is an other financing source in the governmental funds, while repayment of debt principal is an expenditure in the governmental funds. However, neither transaction has any effect on net position:		
Bond Proceeds		(545,000)
Premium on Bond Issuance		(8,146)
Bond Payments		<u>391,000</u>
		(162,146)
Net change in accrued interest on bonds is not reported as expenses in the funds:		26,397
The effects of bond premiums and discounts are reported in the governmental fund financial statements upon issuance of the debt. These amounts are deferred and amortized in the Statement of Activities:		679
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Change in Accrued Compensated Absences		(19,581)
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>(65,364)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,617,049</u>

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

	Water Fund	Sewer Fund	Liquor Fund	Totals
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 970,536	\$ 1,203,933	\$ 926,215	\$ 3,100,684
Assessments Receivable	6,259	-	-	6,259
Accounts Receivable	45,931	26,424	13,390	85,745
Inventory	-	-	467,841	467,841
Prepays	3,426	3,060	6,579	13,065
Total Current Assets	1,026,152	1,233,417	1,414,025	3,673,594
Noncurrent Assets				
Capital Assets Not Depreciated	-	-	62,608	62,608
Capital Assets Being Depreciated (Net)	3,021,923	972,991	607,469	4,602,383
Total Noncurrent Assets	3,021,923	972,991	670,077	4,664,991
TOTAL ASSETS	4,048,075	2,206,408	2,084,102	8,338,585
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	11,651	11,939	24,195	47,785
LIABILITIES				
Current Liabilities				
Accounts Payable	7,853	5,300	175,405	188,558
Deposits Payable	15,163	-	-	15,163
Accrued Salaries	2,515	2,592	5,228	10,335
Accrued Interest	4,051	325	-	4,376
Bonds Due Within One Year	167,000	30,000	-	197,000
Total Current Liabilities	196,582	38,217	180,633	415,432
Noncurrent Liabilities				
Compensated Absences Due After One Year	6,403	6,403	10,578	23,384
Bonds Due After One Year	1,015,000	35,000	-	1,050,000
Net Pension Liability	75,600	77,655	155,423	308,678
Total Noncurrent Liabilities	1,097,003	119,058	166,001	1,382,062
TOTAL LIABILITIES	1,293,585	157,275	346,634	1,797,494
DEFERRED INFLOWS OF RESOURCES				
Pensions	11,844	12,166	24,349	48,359
NET POSITION				
Net Investment in Capital Assets	1,839,923	907,991	670,077	3,417,991
Unrestricted	914,374	1,140,915	1,067,237	3,122,526
TOTAL NET POSITION	<u>\$ 2,754,297</u>	<u>\$ 2,048,906</u>	<u>\$ 1,737,314</u>	<u>\$ 6,540,517</u>

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

	Water Fund	Sewer Fund	Liquor Fund	Totals
SALES AND COSTS OF SALES				
Sales	\$ -	\$ -	\$ 2,343,421	\$ 2,343,421
Cost of Sales	-	-	(1,762,381)	(1,762,381)
GROSS PROFIT	-	-	581,040	581,040
OPERATING REVENUES				
Charges for Services	541,235	351,600	-	892,835
TOTAL GROSS PROFIT AND OPERATING REVENUES	541,235	351,600	581,040	1,473,875
OPERATING EXPENSES				
Wages and Benefits	126,165	130,301	245,717	502,183
Materials and Supplies	20,218	3,062	8,056	31,336
Repairs and Maintenance	19,332	24,835	6,216	50,383
Professional Services	24,464	50,172	7,543	82,179
Insurance	4,951	3,730	8,433	17,114
Utilities	38,099	13,493	29,103	80,695
Miscellaneous	1,829	-	81,360	83,189
Depreciation	174,462	98,911	50,824	324,197
TOTAL OPERATING EXPENSES	409,520	324,504	437,252	1,171,276
NET OPERATING INCOME	131,715	27,096	143,788	302,599
NONOPERATING INCOME (EXPENSE)				
Intergovernmental	176	181	362	719
Investment Income	15,825	19,636	15,786	51,247
Miscellaneous	25,369	-	193	25,562
Interest and Other Charges	(13,300)	(2,416)	-	(15,716)
TOTAL NONOPERATING INCOME (EXPENSE)	28,070	17,401	16,341	61,812
CHANGE IN NET POSITION PRIOR TO TRANSFERS	159,785	44,497	160,129	364,411
TRANSFERS				
Operating Transfers Out	-	-	(65,000)	(65,000)
CHANGE IN NET POSITION	159,785	44,497	95,129	299,411
NET POSITION - BEGINNING OF YEAR	2,594,512	2,004,409	1,642,185	6,241,106
NET POSITION - END OF YEAR	\$ 2,754,297	\$ 2,048,906	\$ 1,737,314	\$ 6,540,517

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

	Water Fund	Sewer Fund	Liquor Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 536,739	\$ 348,988	\$ 2,345,607	\$ 3,231,334
Cash Paid to Suppliers	(111,659)	(92,510)	(1,836,487)	(2,040,656)
Cash Paid to Employees	(140,722)	(143,306)	(268,645)	(552,673)
NET CASH PROVIDED BY OPERATING ACTIVITIES	284,358	113,172	240,475	638,005
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Special Assessments, Intergovernmental, and Other Revenue	19,534	1,851	555	21,940
Net Operating Subsidies and Transfers to Other Funds	-	-	(65,000)	(65,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	19,534	1,851	(64,445)	(43,060)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of Capital Assets	(90,683)	(21,283)	(6,937)	(118,903)
Payments on Bond Principal	(166,000)	(30,000)	-	(196,000)
Cash Paid for Interest	(14,624)	(2,565)	-	(17,189)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(271,307)	(53,848)	(6,937)	(332,092)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment Income	15,825	19,636	15,786	51,247
Net Change in Cash and Cash Equivalents	48,410	80,811	184,879	314,100
Cash and Cash Equivalents - Beginning of Year	922,126	1,123,122	741,336	2,786,584
Cash and Cash Equivalents - End of Year	<u>\$ 970,536</u>	<u>\$ 1,203,933</u>	<u>\$ 926,215</u>	<u>\$ 3,100,684</u>

CITY OF MILACA, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Water Fund	Sewer Fund	Liquor Fund	Totals
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income	\$ 131,715	\$ 27,096	\$ 143,788	\$ 302,599
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	174,462	98,911	50,824	324,197
Change in Assets, Liabilities, and Deferrals:				
Accounts Receivable	(4,263)	(2,612)	2,186	(4,689)
Inventory	-	-	47,077	47,077
Prepays	(284)	(120)	(177)	(581)
Accounts Payable	(2,482)	2,902	19,706	20,126
Deposits Payable	15	-	-	15
Deferred Revenue	(248)	-	-	(248)
Accrued Salaries	361	371	749	1,481
Deferred Outflows of Resources - Pensions	(8,146)	(8,434)	(17,185)	(33,765)
Net Pension Liability	(6,650)	(4,595)	(9,075)	(20,320)
Deferred Inflows of Resources - Pensions	(450)	(128)	(238)	(816)
Compensated Absences	328	(219)	2,820	2,929
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 284,358</u>	<u>\$ 113,172</u>	<u>\$ 240,475</u>	<u>\$ 638,005</u>

CITY OF MILACA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2019

	Custodial Funds	
	Motor Vehicle	Building Inspector
ASSETS		
Cash and Cash Equivalents	\$ 146,093	\$ 95,021
Prepays	402	-
TOTAL ASSETS	146,495	95,021
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	16,523	8,550
LIABILITIES		
Accounts Payable	499	28
Accrued Salaries	3,462	-
Noncurrent Liabilities		
Compensated Absences	13,527	11,385
Net Pension Liability	106,146	55,645
TOTAL LIABILITIES	123,634	67,058
DEFERRED INFLOWS OF RESOURCES		
Pensions	16,629	8,718
NET POSITION		
Fiduciary Net Position - Held for Others	\$ 22,755	\$ 27,795

**CITY OF MILACA, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Custodial Funds	
	Motor Vehicle	Building Inspector
ADDITIONS		
Licenses and Permits	\$ 4,345,881	\$ -
Intergovernmental	247	129
Charges for Services	-	123,789
Interest Earnings	2,672	1,550
Miscellaneous	44,075	69
TOTAL ADDITIONS	<u>4,392,875</u>	<u>125,537</u>
DEDUCTIONS		
Wages and Benefits	175,278	163,163
Materials and Supplies	6,277	48
State Remittances	4,153,119	2,081
Equipment and Rent	9,620	-
Insurance	-	1,167
Utilities	2,686	-
Other Services and Charges	4,676	1,656
TOTAL DEDUCTIONS	<u>4,351,656</u>	<u>168,115</u>
CHANGE IN NET POSITION	41,219	(42,578)
NET POSITION - BEGINNING	<u>(18,464)</u>	<u>70,373</u>
NET POSITION - ENDING	<u>\$ 22,755</u>	<u>\$ 27,795</u>

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

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.

Joint Ventures

Braham Milaca Building Inspector Board

The Building Inspector Board was created in 2010 through the execution of a joint powers agreement between the City of Milaca and the City of Braham. Such agreement automatically renews on the first day of January. The Building Inspector Board is governed by a four member board, consisting of each City's Administrator and one member from each City Council. In addition to charges for services, the Building Inspector Board receives an equal annual appropriation from both the Cities. For the year ended December 31, 2019, City funding for the Building Inspector Board totaled \$47,632. Because the City has a fifty percent ownership share, and explicit measurable equity interest in the joint venture, the dollar amount of this equity interest has been reported in the government-wide financial statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is the net change in the City’s equity interest during the current year.

	2019
Joint Venture Equity Interest at January 1st	\$ 35,187
Change in Equity Interest	(21,289)
Joint Venture Equity Interest at December 31st	\$ 13,898

Related Organizations

The 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.

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gorecki Improvements

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

Gorecki Improvements II

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

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:

Special Revenue Funds

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

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reasonable 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.

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

Cash and Cash Equivalents

For purposes of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings, 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 depends on whether the assets are used in 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position reports 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the Statements of Net Position and Balance Sheet reports 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. The City 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.

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, 2019 consist of prepaid expenditures and property held for sale.

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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The authority to assign fund balance has not been formally delegated by the City Council.

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 not formally adopted a policy regarding the minimum unassigned fund balance to be maintained for the General Fund.

See Note 2.E. 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.

November 30th 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.

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)
	Debt Service
	Capital Outlay

Proprietary Fund - By Operating and Nonoperating

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.D.

1.G. RECENTLY ISSUED ACCOUNTING STANDARD

Effective for the year ended December 31, 2019, the City adopted GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities and guidance on reporting those activities. Under this standard, the City now reports a full Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Under previous accounting standards followed in prior years, only year-end cash balances and a corresponding liability were reported for these funds. The City's Fiduciary Fund statements, now presented in accordance with GASB Statement No. 84, can be found on pages 15 and 16 of this report.

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;

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

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

- 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, 2019, the City’s deposits were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance or by collateral held by the government’s agent in the government’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.

Investment balances at December 31, 2019 are as follows:

Deposit/Investment	Interest Rate	Maturity	Fair Value	S & P's Credit Rating	Percent of Total
Pooled Investments:					
Money Market Funds	1.38	N/A	\$ 2,579,197	N/A	41.32
Non-Pooled Investments:					
Money Market Funds	N/A	N/A	29,550	N/A	0.47
Certificates of Deposit	1.70-2.25	<1 year	565,698	NR	9.06
Certificates of Deposit	1.80-3.40	1-5 years	2,752,237	NR	44.11
Municipal Bonds	1.75	1-5 years	<u>314,714</u>	AA+	<u>5.04</u>
Totals			<u>\$ 6,241,396</u>		<u>100.00</u>

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

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

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, 2019, 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, 2019:

- Money market funds of \$2,608,747 are deemed to be level 1 investments and are valued by using quoted market prices.
- Certificates of Deposits of \$3,317,935 and municipal bonds or \$314,714 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 of 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	\$	852,449
Investments		6,241,396
Total	\$	7,093,845
Government-wide Cash, Cash Equivalents and Investments	\$	6,852,731
Fiduciary - Custodial Funds		241,114
Total	\$	7,093,845

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

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

2.B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 is as follows:

	Balance at 01/01/19	Additions	Disposals	Balance at 12/31/19
Governmental Activities:				
Capital Assets not Being Depreciated				
Land	\$ 146,856	\$ -	\$ -	\$ 146,856
Construction In Progress	13,443	172,884	-	186,327
Total Capital Assets not Being Depreciated	160,299	172,884	-	333,183
Capital Assets Being Depreciated				
Buildings and Improvements	5,047,946	34,154	-	5,082,100
Infrastructure	5,729,088	570,070	-	6,299,158
Equipment, Machinery and Furnishings	2,740,399	696,567	(105,518)	3,331,448
Total Capital Assets Being Depreciated	13,517,433	1,300,791	(105,518)	14,712,706
Less: Accumulated Depreciation				
Buildings and Improvements	(1,994,104)	(127,301)	-	(2,121,405)
Infrastructure	(3,920,553)	(273,237)	-	(4,193,790)
Equipment, Machinery and Furnishings	(1,960,860)	(198,227)	96,512	(2,062,575)
Total Accumulated Depreciation	(7,875,517)	(598,765)	96,512	(8,377,770)
Total Capital Assets Being Depreciated, Net	5,641,916	702,026	(9,006)	6,334,936
Capital Assets, Net	<u>\$ 5,802,215</u>	<u>\$ 874,910</u>	<u>\$ (9,006)</u>	<u>\$ 6,668,119</u>

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

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

Depreciation is charged to governmental activities as follows:

General Government	\$ 42,962
Public Safety	99,335
Public Works	283,211
Parks and Recreation	<u>173,257</u>

Total Depreciation Expense \$ 598,765

	Balance at 01/01/19	Additions	Disposals	Balance at 12/31/19
Business-Type Activities:				
Capital Assets not Being Depreciated				
Land	\$ 54,788	\$ -	\$ -	\$ 54,788
Construction In Progress	<u>-</u>	<u>7,820</u>	<u>-</u>	<u>7,820</u>
Total Capital Assets not Being Depreciated	54,788	7,820	-	62,608
Capital Assets Being Depreciated				
Buildings and Improvements	4,770,954	-	-	4,770,954
Infrastructure	4,864,074	69,400	-	4,933,474
Equipment, Machinery and Furnishings	<u>779,383</u>	<u>49,502</u>	<u>-</u>	<u>828,885</u>
Total Capital Assets Being Depreciated	10,414,411	118,902	-	10,533,313
Less: Accumulated Depreciation				
Buildings and Improvements	(2,097,178)	(131,744)	-	(2,228,922)
Infrastructure	(2,968,201)	(148,760)	-	(3,116,961)
Equipment, Machinery and Furnishings	<u>(541,355)</u>	<u>(43,692)</u>	<u>-</u>	<u>(585,047)</u>
Total Accumulated Depreciation	<u>(5,606,734)</u>	<u>(324,196)</u>	<u>-</u>	<u>(5,930,930)</u>
Total Capital Assets Being Depreciated, Net	<u>4,807,677</u>	<u>(205,294)</u>	<u>-</u>	<u>4,602,383</u>
Capital Assets, Net	<u>\$ 4,862,465</u>	<u>\$ (197,474)</u>	<u>\$ -</u>	<u>\$ 4,664,991</u>

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

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

2.C. 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.

Debt Detail

As of December 31, 2019, 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
12/10	\$ 1,250,000	\$35,000 - \$125,000	2.00 - 3.25%	02/23	\$ 410,000
08/12	845,000	\$20,000 - \$95,000	1.00 - 2.15%	02/24	405,000
03/15	475,000	\$25,000 - \$40,000	2.00 - 3.40%	12/30	375,000
08/17	653,000	\$126,000 - \$135,000	2.30%	02/22	396,000
07/19	545,000	\$45,000 - \$55,000	2.10 - 3.00%	02/31	545,000
Total Governmental Activities Bonds Payable					2,131,000
Bonds Due Within One Year					369,000
Bonds Due After One Year					\$ 1,762,000

General Obligation Notes					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
03/14	\$ 190,000	\$19,000	1.00%	03/24	\$ 95,000
Notes Due Within One Year					19,000
Notes Due After One Year					\$ 76,000

General Obligation Certificates					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
08/12	\$ 138,800	\$16,800 - \$22,000	2.60%	02/20	\$ 22,000
Certificates Due Within One Year					22,000
Certificates Due After One Year					\$ -

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

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (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	\$ 1,172,000
12/10	40,000	\$5,000	2.00 - 3.00%	02/21	10,000
12/10	295,000	\$25,000 - \$35,000	2.00 - 3.00%	02/21	65,000
Total Business-Type Activities Bonds Payable					1,247,000
Bonds Due Within One Year					197,000
Bonds Due After One Year					<u>\$ 1,050,000</u>

Changes in Noncurrent Liabilities

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

Type of Debt	Balance 01/01/19	Additions	Deductions	Balance 12/31/19	Amounts Due Within One Year
Governmental Activities:					
G.O. Bonds	\$ 1,937,000	\$ 545,000	\$ (351,000)	\$ 2,131,000	\$ 369,000
Unamortized Bond Premium	-	8,146	(679)	7,467	-
G.O. Notes	114,000	-	(19,000)	95,000	19,000
G.O. Certificates	43,000	-	(21,000)	22,000	22,000
Compensated Absences	38,066	45,864	(26,283)	57,647	-
Total	<u>\$ 2,132,066</u>	<u>\$ 599,010</u>	<u>\$ (417,962)</u>	<u>\$ 2,313,114</u>	<u>\$ 410,000</u>
Business-Type Activities:					
G.O. Revenues Bonds	\$ 1,443,000	\$ -	\$ (196,000)	\$ 1,247,000	\$ 197,000
Compensated Absences	20,454	18,603	(15,673)	23,384	-
Total	<u>\$ 1,463,454</u>	<u>\$ 18,603</u>	<u>\$ (211,673)</u>	<u>\$ 1,270,384</u>	<u>\$ 197,000</u>

Governmental activity debt is typically funded through Debt Service Funds. Business-Type activity debt is typically funded through the Water and Sewer Funds. 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, 2019

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

Annual Debt Service Requirements

At December 31, 2019, 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 Notes		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 369,000	\$ 51,191	\$ 420,191	\$ 19,000	\$ 950	\$ 19,950
2021	417,000	41,181	458,181	19,000	760	19,760
2022	430,000	30,859	460,859	19,000	570	19,570
2023	220,000	22,876	242,876	19,000	380	19,380
2024	105,000	18,995	123,995	19,000	190	19,190
2025-2029	440,000	60,925	500,925	-	-	-
2030-2031	150,000	4,660	154,660	-	-	-
Totals	<u>\$ 2,131,000</u>	<u>\$ 230,687</u>	<u>\$ 2,361,687</u>	<u>\$ 95,000</u>	<u>\$ 2,850</u>	<u>\$ 97,850</u>

Years Ending December 31,	Governmental Activities		
	General Obligation Certificates		
	Principal	Interest	Total
2020	<u>\$ 22,000</u>	<u>\$ 286</u>	<u>\$ 22,286</u>

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
2020	\$ 197,000	\$ 14,248	\$ 211,248
2021	204,000	11,407	215,407
2022	166,000	8,512	174,512
2023	167,000	7,276	174,276
2024	169,000	5,489	174,489
2025-2026	344,000	5,532	349,532
Totals	<u>\$ 1,247,000</u>	<u>\$ 52,464</u>	<u>\$ 1,299,464</u>

Interest expense totals \$73,823 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest expenditures total \$55,053 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$15,716 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, 2019**

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

2.D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2019:

Major Funds	Transfers Out	Transfers In		Total
		General	Debt Service	
Gorecki Improvements	\$ 44,230	\$ 22,000	\$ 22,230	\$ 44,230
Liquor	65,000	65,000	-	65,000
	109,230	87,000	22,230	109,230
Nomajor Funds				
Governmental	6,830	6,830	-	6,830
Total	\$ 116,060	\$ 93,830	\$ 22,230	\$ 116,060

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.

2.E. FUND EQUITY

At December 31, 2019, governmental fund equity consists of the following:

General Fund	
Nonspendable - Prepays	\$ 49,760
Unassigned	1,828,167
Total General Fund Balance	\$ 1,877,927
Debt Service	
Restricted for Debt Service	\$ 757,337
Gorecki Improvements	
Assigned for Capital Projects	\$ 460,356
Gorecki Improvements II	
Restricted for Capital Projects	\$ 150,000
Assigned for Capital Projects	300,277
Total Gorecki Improvements II	\$ 450,277
Capital Projects	
Assigned for Capital Projects	\$ 15,803

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

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

Nonmajor Governmental Funds	
Nonspendable - Property Held for Sale	\$ 23,600
Restricted for Economic Development Loans	57,537
Restricted for Police DWI Enforcement	689
Restricted for TIF 2-6	48,045
Assigned for Milaca Economic Development Authority	53,932
Assigned for Youth Safety	1,490
Assigned for Parks and Rec	50,628
Unassigned	<u>(109,046)</u>
Total Nonmajor Governmental Funds Balance	<u>\$ 126,875</u>

Additionally, nonmajor funds with deficit fund balances at December 31, 2019 are as follows:

Fund	Deficit
Nonmajor Governmental Funds	
City Event	<u>\$ 1,779</u>
TIF District No. 1-10	<u>\$ 107,267</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.

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

Benefits Provided

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

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

General Employees Plan Benefits

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

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

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

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

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 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, 2019, were \$75,279. The City's contributions were equal to the required contributions as set by State Statute.

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Police and Fire Fund Contributions

Police and Fire member’s contribution rates increased from 10.80 percent of pay to 11.30 percent and employer rates increased from 16.20 percent to 16.95 percent on January 1, 2019. The City’s contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$67,143. 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, 2019, the City reported a liability of \$729,798 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$22,666. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019 relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2019 the City’s proportionate share was 0.0132 percent which was an increase of 0.0012 percent from its proportion measured as of June 30, 2018

City’s proportionate share of the net pension liability:	\$729,798
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>22,666</u>
Total	<u>\$752,464</u>

For the year ended December 31, 2019, the City recognized pension expense of \$81,112 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$1,697 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 17,070	\$ -
Changes in actuarial assumptions	-	46,350
Difference between projected and actual investment earnings	-	58,848
Changes in proportionate share	59,504	9,135
Contributions paid to PERA subsequent to the measurement date	<u>36,712</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 113,286</u>	<u>\$ 114,333</u>

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

The \$36,712 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, 2020. 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
2020	\$ (17,598)
2021	\$ (24,758)
2022	\$ 3,422
2023	\$ 1,175

Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$394,967 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2019, the City’s proportionate share was 0.0371 percent which was an increase of 0.0031 percent from its proportionate share measured as of June 30, 2018. The City also recognized \$5,008 for the year ended December 31, 2019, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the State will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$71,351 for its proportionate share of the Police and Fire Plan’s pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 14,376	\$ 47,263
Changes in actuarial assumptions	257,673	322,548
Difference between projected and actual investment earnings	-	63,920
Changes in proportionate share	45,537	51,665
Contributions paid to PERA subsequent to the measurement date	33,276	-
Total Deferred Outflows/Inflows	\$ 350,862	\$ 485,396

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

The \$33,276 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2020	\$ (19,715)
2021	\$ (39,944)
2022	\$ (123,104)
2023	\$ 9,781
2024	\$ 5,172

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2019, was \$152,463.

Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.00 percent for the Police and Fire Plan.

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

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	<u>2.0%</u>	0.00%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 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.

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	8.50%	\$	341,761	8.50%	\$ 8
Current Discount Rate	7.50%	\$	729,798	7.50%	\$ 394,967
1% Decrease in Discount Rate	6.50%	\$	1,199,749	6.50%	\$ 863,324

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Pension Plan Fiduciary Net Position

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

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, 2019, the plan covered 20 active firefighters and 9 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 \$47,841 in fire state aid to the plan for the year ended December 31, 2019. Required employer contributions are calculated annually based on statutory provisions. The City of Milaca’ statutorily-required contributions to the Volunteer Firefighter Plan for the year ended December 31, 2019 were \$0.

Pension Costs

At December 31, 2019, the City reported a net pension asset of \$338,944 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2019. 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.

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 12/31/19	\$ 454,108	\$ 655,600	\$ (201,492)
Service Cost	25,906	-	25,906
Interest on Pension Liability	28,582	-	28,582
Projected Investment Earnings	(23,521)	39,336	(62,857)
Contributions (State)	-	47,841	(47,841)
Asset (Gain)/Loss	-	82,063	(82,063)
Benefit Payouts	(7,260)	(7,260)	-
Administrative Fee	-	(821)	821
Net Changes	<u>23,707</u>	<u>161,159</u>	<u>(137,452)</u>
Balance End of Year 12/31/19	<u>\$ 477,815</u>	<u>\$ 816,759</u>	<u>\$ (338,944)</u>

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to the fire relief association pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions	\$ -	\$ 58,332
Difference between projected and actual investment earnings	<u>-</u>	<u>43,946</u>
Total Deferred Outflows/Inflows	<u>\$ -</u>	<u>\$ 102,278</u>

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

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2020	\$ 31,770
2021	\$ 31,770
2022	\$ 17,622
2023	\$ 21,116

For the year ended December 31, 2019, the City recognized pension expense of negative \$15,797.

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Actuarial Assumptions

The total pension liability at December 31, 2019, 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 2019.

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.

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	\$ 323,116	\$ 338,944	\$ 353,783

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.

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

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.

Description of significant investment policy changes during the year

The SBI made no significant changes to their investment policy during Fiscal Year 2019 for the Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund’s fiduciary net position as of December 31, 2019, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 5 OTHER NOTES

5.A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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.

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

NOTE 5 OTHER NOTES (Continued)

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.

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

	District #2-6	District #4-10
Business Name	Lake Associates	RDT Properties, LLC
Purpose	Housing	Redevelopment
Authorizing MN Statute:	469.174	469.174
Year Established:	1997	2010
Duration of District:	Through 2022	Through 2036
Original Base Net Tax Capacity:	<u>\$ 131</u>	<u>\$ 20,088</u>
Current Net Tax Capacity:	<u>\$ 9,898</u>	<u>\$ 51,386</u>
Captured Net Tax Capacity:		
Retained by City	<u>\$ 9,767</u>	<u>\$ 31,298</u>
Amount Abated	<u>\$ 14,871</u>	<u>\$ 38,192</u>
Shared with Other Taxing Districts	<u>\$ -</u>	<u>\$ -</u>
Total Bonds Issued:	None	None

5.C. COMMITMENTS

Construction Contracts

The City entered into various contracts during the year for construction services. Remaining commitment under these contracts at December 31, 2019 totals \$273,845, not including retainage which has been accrued in these financial statements.

5.D. DEFINED CONTRIBUTION PLAN

The City is holding assets in a 457 retirement plan trust, on behalf of a retired employee. At December 31, 2019 the trust had a balance of approximately \$46,000.

5.E. CONDUIT DEBT OBLIGATIONS

The City has issued Minnesota Revenue Bonds, Series 2003, 2016, and 2019, 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, 2019, such notes are outstanding with an aggregate principal amount payable of approximately \$17,627,417.

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

NOTE 5 OTHER NOTES (Continued)

5.F. PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2019, the City determined adjustments to beginning government-wide net position were necessary to restate balances in the City’s prior year financial statements. Adjustments were recorded to correct misstatements identified in the 2018 financial statements related to:

- The net pension asset and related balances associated with the Milaca Fire Relief Association, as is required under GASB 68,
- The City’s joint venture equity investment in the Braham Milaca Building Inspector Board,
- Compensated absences,
- Deferrals for delinquent taxes and special assessments, and
- A special assessment receivable balance.

The following table shows the impact of the prior period adjustments to the December 31, 2018 financial statements:

	Governmental Activities
December 31, 2018 Net Position, as Previously Stated	\$ 5,675,057
Fire Relief Net Pension Asset and Related Deferrals	173,029
Investment in Joint Venture	35,187
Unrecorded Compensated Absences	(38,066)
Eliminate Revenue Deferral	84,585
Unrecorded Assessment Receivable	23,302
December 31, 2018 Net Position, as Restated	\$ 5,953,094

The impact of such adjustments on the City’s change in net position for the year ended December 31, 2018 could not be feasibly determined.

5.G. SUBSEQUENT EVENTS

Capital Lease

Subsequent to year end and prior to issuance of these financial statements, the City entered into a capital lease for the purchase of a snow plow. Total payments under the lease agreement total approximately \$261,055 over the next seven years.

Public Health Emergency

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the City operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the City, to date, the City has not experienced any significant negative effects on its operations.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MILACA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 578,200	\$ 565,321	\$ (12,879)
Franchise Taxes	23,000	19,750	(3,250)
Hotel/Motel Taxes	600	1,394	794
Total Taxes	601,800	586,465	(15,335)
Special Assessments	2,000	1,254	(746)
Licenses and Permits	37,250	63,309	26,059
Intergovernmental Revenue			
State Grants			
Local Government Aid	816,450	816,450	-
Market Value Credit	350	573	223
PERA Aid	2,302	2,302	-
Police and Fire Aid	37,000	59,928	22,928
Other State Grants and Aids	5,945	68,779	62,834
Total Intergovernmental Revenue	862,047	948,032	85,985
Charges for Services			
General Government	74,250	82,397	8,147
Police and Fire Contracts	187,995	171,454	(16,541)
Streets and Highways	4,500	3,050	(1,450)
Parks and Recreation	7,500	5,927	(1,573)
Airports	14,600	18,459	3,859
Total Charges for Services	288,845	281,287	(7,558)
Fines and Forfeitures	10,850	14,374	3,524
Miscellaneous Revenue			
Investment Earnings	16,000	104,396	88,396
Contributions and Donations	57,660	132,526	74,866
Other Miscellaneous	19,600	31,854	12,254
Total Miscellaneous Revenue	93,260	268,776	175,516
TOTAL REVENUES	1,896,052	2,163,497	267,445
EXPENDITURES			
General Government			
Mayor and Council	19,200	19,821	621
Administration and Finance	60,520	58,098	(2,422)
Other General Government	476,540	402,064	(74,476)
Capital Outlay	-	54,011	54,011
Total General Government	556,260	533,994	(22,266)
Public Safety			
Police			
Current	590,135	573,025	(17,110)
Capital Outlay	40,000	39,271	(729)
Fire			
Current	136,070	184,406	48,336
Capital Outlay	260,000	302,450	42,450
Other Public Safety			
Current	48,960	47,912	(1,048)
Total Public Safety	1,075,165	1,147,064	71,899

**CITY OF MILACA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
Public Works			
Street Maintenance and Storm Sewers	\$ 262,735	\$ 244,774	\$ (17,961)
Snow and Ice Removal	4,500	8,431	3,931
Street Engineering	5,000	2,029	(2,971)
Street Lighting	37,000	36,778	(222)
Capital Outlay - Other	<u>10,000</u>	<u>25,777</u>	<u>15,777</u>
Total Public Works	319,235	317,789	(1,446)
Culture and Recreation			
Libraries			
Current	26,810	26,977	167
Parks and Recreation			
Current	130,130	108,939	(21,191)
Capital Outlay	<u>34,000</u>	<u>32,098</u>	<u>(1,902)</u>
Total Culture and Recreation	190,940	168,014	(22,926)
Miscellaneous Expenditures			
Airports			
Current	108,015	126,441	18,426
Capital Outlay	<u>21,100</u>	<u>-</u>	<u>(21,100)</u>
Total Miscellaneous Expenditures	<u>129,115</u>	<u>126,441</u>	<u>(2,674)</u>
TOTAL EXPENDITURES	<u>2,270,715</u>	<u>2,293,302</u>	<u>22,587</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(374,663)	(129,805)	244,858
OTHER FINANCING SOURCES			
Sale of Assets	-	24,040	24,040
Transfers			
From Other Funds	<u>143,830</u>	<u>93,830</u>	<u>(50,000)</u>
TOTAL OTHER FINANCING SOURCES	<u>143,830</u>	<u>117,870</u>	<u>(25,960)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (230,833)</u>	<u>(11,935)</u>	<u>\$ 218,898</u>
FUND BALANCES - BEGINNING		<u>1,889,862</u>	
FUND BALANCE - ENDING		<u>\$ 1,877,927</u>	

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

Note 1 - Expenditures in Excess of Budget

Actual expenditures in the General Fund of \$2,293,302 exceeded the final budget expenditures by \$22,587 for the current year. This is primarily due to City expenditures for capital outlay, and such expenditures were covered by available fund balance.

CITY OF MILACA, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF THE 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 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
<i>General Employees Retirement Pension Plan</i>							
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%
<i>Public Employees Police and Fire Pension Plan</i>							
2019	0.0371%	\$ 394,967	\$ -	\$ 394,967	\$ 391,312	100.9%	89.3%
2018	0.0340%	\$ 362,405	\$ -	\$ 362,405	\$ 367,843	98.5%	79.5%
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 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 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
<i>General Employees Retirement Pension Plan</i>					
2019	\$ 75,279	\$ 75,279	\$ -	\$ 1,003,718	7.50%
2018	\$ 63,155	\$ 63,155	\$ -	\$ 842,071	7.50%
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%
<i>Public Employees Police and Fire Pension Plan</i>					
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%
<i>Volunteer Fire Relief Association</i>					
2019	\$ -	\$ -	\$ -	N/A	N/A

Note: The schedule is provided prospectively 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)
FIRE RELIEF ASSOCIATION
LAST TEN YEARS (Presented Prospectively)

	2019
Changes in Total Pension Liability (TPL)	
Balance at January 1st	\$ 454,108
Service Cost	25,906
Interest on the TPL	28,582
Assumption Changes	(23,521)
Benefit Payments	(7,260)
Balance at December 31st	\$ 477,815
Plan Fiduciary Net Position (PFNP)	
Balance at January 1st	\$ 655,600
Fire State Aid	47,841
Projected Investment Income	121,399
Total Additions	169,240
Benefit Payments	(7,260)
Administrative Expenses	(821)
Total Reductions	(8,081)
Balance at December 31st	\$ 816,759
Net Pension Liability (Asset) - December 31st	\$ (338,944)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	171%

Note: The schedule is provided prospectively beginning with the measurement period 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, 2019

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load 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 postretirement benefit increase rate was changed for 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.

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

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

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement 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 changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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 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 \$6.0 million, which meets the special funding situation definition, was due September 2015.

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND

2019 Changes

Changes in Actuarial Assumptions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.

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

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

- 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.

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Plan Provisions

- The post-retirement benefit 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.

Changes in Actuarial Assumptions

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

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

NOTE 3 DEFINED BENEFIT PLAN – FIRE RELIEF ASSOCIATION

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, 2019**

	EDA Fund	Youth Safety	Charitable Gambling	Initiative Foundation	Revolving Loan	Subtotal
ASSETS						
Cash and Cash Equivalents	\$ 53,932	\$ 1,490	\$ 49,847	\$ -	\$ 57,537	\$ 162,806
Assessments Receivable	23,302	-	-	-	-	23,302
Property Held for Sale	23,600	-	-	-	-	23,600
TOTAL ASSETS	\$ 100,834	\$ 1,490	\$ 49,847	\$ -	\$ 57,537	\$ 209,708
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ 454	\$ -	\$ -	\$ 454
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue:						
Special Assessments	23,302	-	-	-	-	23,302
FUND BALANCES						
Nonspendable	23,600	-	-	-	-	23,600
Restricted	-	-	-	-	57,537	57,537
Assigned	53,932	1,490	49,393	-	-	104,815
Unassigned	-	-	-	-	-	-
Total Fund Balances	77,532	1,490	49,393	-	57,537	185,952
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 100,834	\$ 1,490	\$ 49,847	\$ -	\$ 57,537	\$ 209,708

CITY OF MILACA, MINNESOTA
COMBINING BALANCE SHEET (Continued)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	DWI Forfeiture	REC Fest	City Event	TIF District No. 1-10	TIF District No. 2-6	Total Nonmajor Funds
ASSETS						
Cash and Cash Equivalents	\$ 689	\$ 1,235	\$ (1,779)	\$ (88,171)	\$ 62,917	\$ 137,697
Assessments Receivable	-	-	-	-	-	23,302
Property Held for Sale	-	-	-	-	-	23,600
TOTAL ASSETS	\$ 689	\$ 1,235	\$ (1,779)	\$ (88,171)	\$ 62,917	\$ 184,599
 LIABILITIES						
Accounts Payable	-	-	-	19,096	14,872	34,422
 DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue: Special Assessments	-	-	-	-	-	23,302
 FUND BALANCES						
Nonspendable	-	-	-	-	-	23,600
Restricted	689	-	-	-	48,045	106,271
Assigned	-	1,235	-	-	-	106,050
Unassigned	-	-	(1,779)	(107,267)	-	(109,046)
Total Fund Balances	<u>689</u>	<u>1,235</u>	<u>(1,779)</u>	<u>(107,267)</u>	<u>48,045</u>	<u>126,875</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 689	\$ 1,235	\$ (1,779)	\$ (88,171)	\$ 62,917	\$ 184,599

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

	EDA Fund	Youth Safety	Charitable Gambling	Initiative Foundation	Revolving Loan	Subtotal
REVENUES						
Tax Increment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise and Other Taxes	-	-	26,888	-	-	26,888
Charges for Services	-	-	-	-	-	-
Fines	-	-	-	-	-	-
Investment Income	880	24	813	-	1,121	2,838
Contributions and Donations	-	-	-	-	-	-
Miscellaneous	1,500	-	-	-	-	1,500
TOTAL REVENUES	<u>2,380</u>	<u>24</u>	<u>27,701</u>	<u>-</u>	<u>1,121</u>	<u>31,226</u>
EXPENDITURES						
Current:						
Public Safety	-	378	-	-	-	378
Parks and Recreation	-	-	9,861	-	-	9,861
Economic Development	1,995	-	-	373	-	2,368
TOTAL EXPENDITURES	<u>1,995</u>	<u>378</u>	<u>9,861</u>	<u>373</u>	<u>-</u>	<u>12,607</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	385	(354)	17,840	(373)	1,121	18,619
OTHER FINANCING USES						
Operating Transfers Out	-	-	(6,830)	-	-	(6,830)
NET CHANGE IN FUND BALANCES	385	(354)	11,010	(373)	1,121	11,789
FUND BALANCES - BEGINNING	<u>77,147</u>	<u>1,844</u>	<u>38,383</u>	<u>373</u>	<u>56,416</u>	<u>174,163</u>
FUND BALANCES - ENDING	<u>\$ 77,532</u>	<u>\$ 1,490</u>	<u>\$ 49,393</u>	<u>\$ -</u>	<u>\$ 57,537</u>	<u>\$ 185,952</u>

CITY OF MILACA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	DWI Forfeiture	REC Fest	City Event	TIF District No. 1-10	TIF District No. 2-6	Total Nonmajor Funds
REVENUES						
Tax Increment	\$ -	\$ -	\$ -	\$ 42,436	\$ 16,531	\$ 58,967
Franchise and Other Taxes	-	-	-	-	-	26,888
Charges for Services	-	10,284	3,181	-	-	13,465
Investment Income	11	20	-	-	1,026	3,895
Contributions and Donations	-	4,400	4,145	-	-	8,545
Miscellaneous	-	800	-	-	-	2,300
TOTAL REVENUES	<u>11</u>	<u>15,504</u>	<u>7,326</u>	<u>42,436</u>	<u>17,557</u>	<u>114,060</u>
EXPENDITURES						
Current:						
Public Safety	-	-	-	-	-	378
Parks and Recreation	-	15,537	9,105	-	-	34,503
Economic Development	-	-	-	39,678	14,919	56,965
TOTAL EXPENDITURES	<u>-</u>	<u>15,537</u>	<u>9,105</u>	<u>39,678</u>	<u>14,919</u>	<u>91,846</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	11	(33)	(1,779)	2,758	2,638	22,214
OTHER FINANCING USES						
Operating Transfers Out	-	-	-	-	-	(6,830)
NET CHANGE IN FUND BALANCES	11	(33)	(1,779)	2,758	2,638	15,384
FUND BALANCES - BEGINNING	<u>678</u>	<u>1,268</u>	<u>-</u>	<u>(110,025)</u>	<u>45,407</u>	<u>111,491</u>
FUND BALANCES - ENDING	<u>\$ 689</u>	<u>\$ 1,235</u>	<u>\$ (1,779)</u>	<u>\$ (107,267)</u>	<u>\$ 48,045</u>	<u>\$ 126,875</u>

**CITY OF MILACA, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2019**

	2010 G.O Refunding Debt	2012 G.O. Bonds	2012 Equipment Certificate	2014 Fire Hall Improvement	2015 GO Park Debt	2017 Library Lease Refunding	2019 Improvement Debt	Total Debt Service Fund
ASSETS								
Cash and Cash Equivalents	\$ 172,684	\$ 299,959	\$ 23,288	\$ 20,472	\$ 17,663	\$ 216,805	\$ 1,242	\$ 752,113
Property Taxes Receivable	5,797	5,439	-	-	2,016	8,065	-	21,317
Assessments Receivable	-	21,360	-	-	-	-	-	21,360
TOTAL ASSETS	\$ 178,481	\$ 326,758	\$ 23,288	\$ 20,472	\$ 19,679	\$ 224,870	\$ 1,242	\$ 794,790
DEFERRED INFLOWS OF RESOURCES								
Unavailable Revenue:								
Property Taxes	\$ 4,644	\$ 3,373	\$ -	\$ -	\$ 1,615	\$ 6,461	\$ -	\$ 16,093
Special Assessments	-	21,360	-	-	-	-	-	21,360
Total Deferred Inflows of Resources	4,644	24,733	-	-	1,615	6,461	-	37,453
FUND BALANCE								
Restricted	173,837	302,025	23,288	20,472	18,064	218,409	1,242	757,337
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 178,481	\$ 326,758	\$ 23,288	\$ 20,472	\$ 19,679	\$ 224,870	\$ 1,242	\$ 794,790

CITY OF MILACA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	2010 G.O Refunding Debt	2012 G.O. Bonds	2012 Equipment Certificate	2014 Fire Hall Improvement	2015 GO Park Debt	2017 Library Lease Refunding	2019 Improvement Debt	Total Debt Service Fund
REVENUES								
Taxes	\$ 115,610	\$ 83,832	\$ -	\$ -	\$ 40,154	\$ 160,615	\$ -	\$ 400,211
Special Assessments	-	51,204	-	-	-	-	-	51,204
Charges for Services	-	-	-	24,000	-	-	-	24,000
Investment Income	2,816	4,892	380	334	288	3,536	7,742	19,988
TOTAL REVENUES	<u>118,426</u>	<u>139,928</u>	<u>380</u>	<u>24,334</u>	<u>40,442</u>	<u>164,151</u>	<u>7,742</u>	<u>495,403</u>
EXPENDITURES								
Debt Service:								
Principal	110,000	90,000	21,000	19,000	25,000	126,000	-	391,000
Interest and Other Charges	14,202	9,079	845	2,280	11,590	10,557	6,500	55,053
TOTAL EXPENDITURES	<u>124,202</u>	<u>99,079</u>	<u>21,845</u>	<u>21,280</u>	<u>36,590</u>	<u>136,557</u>	<u>6,500</u>	<u>446,053</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,776)	40,849	(21,465)	3,054	3,852	27,594	1,242	49,350
OTHER FINANCING SOURCES								
Operating Transfers In	-	-	22,230	-	-	-	-	22,230
NET CHANGE IN FUND BALANCE	(5,776)	40,849	765	3,054	3,852	27,594	1,242	71,580
FUND BALANCE - BEGINNING	<u>179,613</u>	<u>261,176</u>	<u>22,523</u>	<u>17,418</u>	<u>14,212</u>	<u>190,815</u>	<u>-</u>	<u>685,757</u>
FUND BALANCE - ENDING	<u>\$ 173,837</u>	<u>\$ 302,025</u>	<u>\$ 23,288</u>	<u>\$ 20,472</u>	<u>\$ 18,064</u>	<u>\$ 218,409</u>	<u>\$ 1,242</u>	<u>\$ 757,337</u>

**CITY OF MILACA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/19	Issued	Paid	Outstanding Balance 12/31/19	Principal Due in 2020
GOVERNMENTAL INDEBTEDNESS									
G.O. Bonds, Series 2010A	12/16/2010	2.00-3.25%	2/1/2023	\$ 1,250,000	\$ 520,000	\$ -	\$ 110,000	\$ 410,000	\$ 115,000
G.O. Refunding Bonds, Series 2012A	8/22/2012	1.00-2.15%	2/1/2024	845,000	495,000	-	90,000	405,000	95,000
G.O. Equipment Certificate, Series 2012A	8/1/2012	2.60%	2/1/2020	138,800	43,000	-	21,000	22,000	22,000
G.O. Note Payable (Ambulance - ECE Loan)	3/3/2014	1.00%	3/3/2024	190,000	114,000	-	19,000	95,000	19,000
G.O. Park Improvement Bonds, Series 2015A	3/16/2015	2.00-3.40%	12/15/2030	475,000	400,000	-	25,000	375,000	30,000
G.O. Library Lease Revenue Refunding Bonds, Series 2017A	8/1/2017	2.30%	2/1/2022	653,000	522,000	-	126,000	396,000	129,000
G.O. Street Reconstruction Bonds, Series 2019A	7/10/2019	2.10-3.00%	2/1/2031	545,000	-	545,000	-	545,000	-
TOTAL GOVERNMENTAL DEBTS				4,096,800	2,094,000	545,000	391,000	2,248,000	410,000
ENTERPRISE INDEBTEDNESS									
<u>MN Public Facilities Authority Loan</u>									
G.O. Revenue Bonds, 2006	7/19/2006	1.07%	8/20/2026	3,060,114	1,333,000	-	161,000	1,172,000	162,000
G.O. Revenue Bonds, 2010	12/16/2010	2.00-3.00%	2/1/2021	335,000	110,000	-	35,000	75,000	35,000
TOTAL ENTERPRISE DEBTS				3,395,114	1,443,000	-	196,000	1,247,000	197,000
TOTAL INDEBTEDNESS				\$ 7,491,914	\$ 3,537,000	\$ 545,000	\$ 587,000	\$ 3,495,000	\$ 607,000

OTHER REPORTS

**INDEPENDENT AUDITORS' 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**

August 26, 2020

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 (the City), as of and for the year ended December 31, 2019, 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 August 26, 2020.

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

Our consideration of internal control 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 following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2019-001, 2019-003, and 2019-004.

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 following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2019-002.

Compliance and Other Matters

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

City's Response to Findings

The City of Milaca's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of 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

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

August 26, 2020

Honorable Mayor and City Council
City of Milaca, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca, Minnesota (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2020.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provision of the *Minnesota Legal Compliance Audit Guide for Cities*. 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.

This report is intended solely for the information and use of the City Council and management of the City of Milaca and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.



SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**CITY OF MILACA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-003 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.

Finding 2019-004 Prior Period Adjustments

Condition: The City's prior year financial statements contained material misstatements.

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's prior year government wide financial statements included various errors, primarily in relation to accrual balances adjusted annually during year-end procedures and an equity investment in a Joint Venture. See additional detail in Note 5.F. to the basic financial statements.

Effect: The misstatements in the prior year's audited financial statements resulted in the need to restate beginning net position of the current year.

Recommendation: We recommend management perform a thorough review of the audited financial statements and year-end adjustments to ensure their accuracy and completeness.

*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, 2019**

FINANCIAL STATEMENT FINDINGS

Finding 2019-001 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:
 - o The City's Department Heads review all invoices received. The City Council also reviews the monthly invoices and approves the expenditures.
 - o 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 2019-002 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, 2019**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2019-003 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.

Finding 2019-004 Prior Period 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 perform a thorough review of the audited financial statements and year-end adjustments to ensure their accuracy and completeness.
3. Official Responsible
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2020.
5. Plan to Monitor Completion
The City Council will monitor the Corrective Action Plan.