

CITY OF PEQUOT LAKES, MINNESOTA

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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**INTRODUCTORY
SECTION**

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

CITY COUNCIL

Term Expires

James Tayloe	Mayor	December 31, 2020
Pete Clement	Council Member	December 31, 2022
Scott Pederson	Council Member	December 31, 2020
Cheri Seils	Council Member	December 31, 2022
Mimi Swanson	Council Member	December 31, 2020

CITY OFFICIALS

Nancy Malecha	City Administrator
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**FINANCIAL
SECTION**

INDEPENDENT AUDITORS' REPORT

May 22, 2020

Honorable Mayor and City Council
City of Pequot Lakes, 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 Pequot Lakes, Minnesota (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's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of City's Proportionate Share of the Net Pension Liability, Schedule of City Pension Contributions, Schedule of Changes in Net Pension Liability (Asset), and Schedule Changes in Net OPEB Liability 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.

Supplementary 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 and schedule of indebtedness, as listed in the table of contents, 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 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 May 22, 2020 on our consideration of the City of Pequot Lakes' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pequot Lakes' 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 May 22, 2020 on our consideration of the City of Pequot Lakes' 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

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

Our discussion and analysis of the City of Pequot Lakes' financial performance provides an overview of the City's financial activities for the year ended December 31, 2019. Please read it in conjunction with the independent auditor's report on page two and the City's financial statements, which begin on page thirteen.

FINANCIAL HIGHLIGHTS

- The City's net position increased \$482,185 as a result of this year's operations.
- In the City's business-type activities, revenues increased \$48,501 (or 7.74 percent) and program expenses decreased \$46,028 (or 11.13 percent). These changes are discussed in greater detail throughout the following pages.
- Total cost of all of the City's programs decreased \$88,110 (or 3.07 percent).
- The City of Pequot Lakes received local government aid in the amount of \$21,025.
- The City's General Fund generated more revenue than budgeted by \$15,653, excluding transfers in from other funds and anticipated bond proceeds. Expenditures were less than budgeted by \$5,210,035, due to budgeted capital outlay for projects expected to occur during 2019 that did not happen. See additional details starting on page fifty-four.

USING THIS ANNUAL REPORT

This annual report consists of series of financial statements. The Statement of Net Position and the Statement of Activities (on pages thirteen and fourteen) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page fifteen. These statements tell how governmental activity services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page six. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows/inflows of resources, and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. You can think of the City's net position (assets plus deferred outflows, less liabilities plus deferred inflows) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, costs associated with current and future construction projects, and the condition of the City's roads in order to assess the overall health of the City.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

USING THIS ANNUAL REPORT (Continued)

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including the police, fire, public works, parks departments and general administration. Property taxes, special assessments, licenses, permits and fees and state aids finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page nine. The fund financial statements begin on page fifteen and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds (governmental and proprietary) use different accounting approaches.

- **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the governmental fund financial statements.
- **Proprietary Funds** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY AS A WHOLE

The City's combined net position increased \$482,185 from a year ago. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 6,910,797	\$ 6,719,030	\$ 2,264,607	\$ 2,013,722	\$ 9,175,404	\$ 8,732,752
Noncurrent Assets	9,379,684	9,587,286	2,800,001	2,842,892	12,179,685	12,430,178
Total Assets	16,290,481	16,306,316	5,064,608	4,856,614	21,355,089	21,162,930
Deferred Outflows of Resources	490,200	612,929	2,690	5,572	492,890	618,501
Current Liabilities	233,780	277,069	172,387	220,948	406,167	498,017
Noncurrent Liabilities	1,174,789	1,237,109	825,679	888,765	2,000,468	2,125,874
Total Liabilities	1,408,569	1,514,178	998,066	1,109,713	2,406,635	2,623,891
Deferred Inflows of Resources	715,985	913,804	7,756	8,318	723,741	922,122
Net Position:						
Net Investment in						
Capital Assets	8,413,522	8,499,823	1,948,188	1,929,950	10,361,710	10,429,773
Restricted	109,274	126,453	-	-	109,274	126,453
Unrestricted	6,133,331	5,864,987	2,113,288	1,814,205	8,246,619	7,679,192
Total Net Position	<u>\$14,656,127</u>	<u>\$14,491,263</u>	<u>\$ 4,061,476</u>	<u>\$ 3,744,155</u>	<u>\$18,717,603</u>	<u>\$18,235,418</u>

The net position of the City's governmental activities increased by \$164,864 (1.14 percent). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$268,344 compared to the prior year.

The net position of the City's business-type activities increased by \$317,321 (8.48 percent) from the prior year. Such increase can be attributed to the results of current year operations.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY AS A WHOLE (Continued)

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2019	2018	2019	2018	2019	2018
REVENUE						
Charges for Services	\$ 351,097	\$ 329,816	\$ 618,345	\$ 592,784	\$ 969,442	\$ 922,600
Operating Grants and Contributions	142,519	149,284	5,150	-	147,669	149,284
Capital Grants and Contributions	5,000	5,586,322	-	-	5,000	5,586,322
Taxes	1,688,636	1,604,118	-	-	1,688,636	1,604,118
Franchise Fees	5,585	-	-	-	5,585	-
Intergovernmental	27,871	61,995	132	294	28,003	62,289
Unrestricted Investment Income	163,043	78,712	48,406	23,967	211,449	102,679
Other	185,061	199,543	3,255	9,742	188,316	209,285
Total Revenues	2,568,812	8,009,790	675,288	626,787	3,244,100	8,636,577
PROGRAM EXPENSES						
General Government	553,679	538,889	-	-	553,679	538,889
Public Safety	1,009,623	1,016,110	-	-	1,009,623	1,016,110
Public Works	703,577	594,661	-	-	703,577	594,661
Parks and Recreation	72,361	180,722	-	-	72,361	180,722
Economic Development	53,484	100,705	-	-	53,484	100,705
Debt Service	19,146	22,865	-	-	19,146	22,865
Water	-	-	203,115	260,754	203,115	260,754
Sewer	-	-	164,588	152,977	164,588	152,977
Total Expenses	2,411,870	2,453,952	367,703	413,731	2,779,573	2,867,683
Gain (Loss) on Disposal of Assets	7,922	(33,774)	9,736	2,500	17,658	(31,274)
Transfers	-	21,198	-	(21,198)	-	-
Change in Net Position	164,864	5,543,262	317,321	194,358	482,185	5,737,620
Net Position - Beginning of Year	14,491,263	8,842,388	3,744,155	3,543,057	18,235,418	12,385,445
Change in Accounting Principle	-	105,613	-	6,740	-	112,353
Net Position - End of Year	<u>\$14,656,127</u>	<u>\$14,491,263</u>	<u>\$ 4,061,476</u>	<u>\$ 3,744,155</u>	<u>\$18,717,603</u>	<u>\$18,235,418</u>

The City's total revenues decreased by \$5,392,477 (62.44 percent) from the prior year, largely due to revenues received in the prior year from the County and State for accepting the maintenance of three roadways. The total cost of all programs and services decreased by \$88,110 (or 3.07 percent). Our analysis following separately considers the operations of governmental and business-type activities.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY AS A WHOLE (Continued)

The total cost of all programs and services decreased by \$88,110 (3.07 percent). The most significant factor driving this decrease was the decrease in parks and recreation expenditures recognized in the Governmental Funds, along with an decrease in water program expenses.

Our following analysis separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenue for the City's governmental activities decreased by \$5,440,978 (67.93 percent), primarily due to the decrease in capital grants and contributions previously discussed. Total expenses decreased \$42,082 (1.71 percent), largely due to decreased parks and recreation expenditures in the current year.

Table 3 presents the cost of each of the City's programs (general government, public safety, public works, parks and recreation, economic development and debt service)-as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Activities (net of capital outlay which is excluded from Table 3) were generally comparable to the prior year as operations remained fairly consistent with the prior year, with the exception of:

- Public works net cost of services increased due to the State and County contributions previously discussed.
- Parks and recreation net cost of services decreased due to decreased expenses for park improvements in the current year.
- Economic Development net cost of services decreased primarily due to decreased professional service costs in the current year.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost (Revenue) of Services	
	2019	2018	2019	2018
General Government	\$ 553,679	\$ 538,889	\$ 473,119	\$ 467,171
Public Safety	1,009,623	1,016,110	622,371	629,801
Public Works	703,577	594,661	693,245	(5,001,836)
Parks and Recreation	72,361	180,722	51,889	169,824
Economic Development	53,484	100,705	53,484	100,705
Debt Service	19,146	22,865	19,146	22,865
Totals	\$ 2,411,870	\$ 2,453,952	\$ 1,913,254	\$ (3,611,470)

Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$48,501 (7.74 percent) and program expenses decreased by \$46,028 (11.13 percent). The increase in revenues is due primarily to the increase in investment income. The decrease in expenses is due to the decrease in professional services costs in the Water Fund.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY'S FUNDS

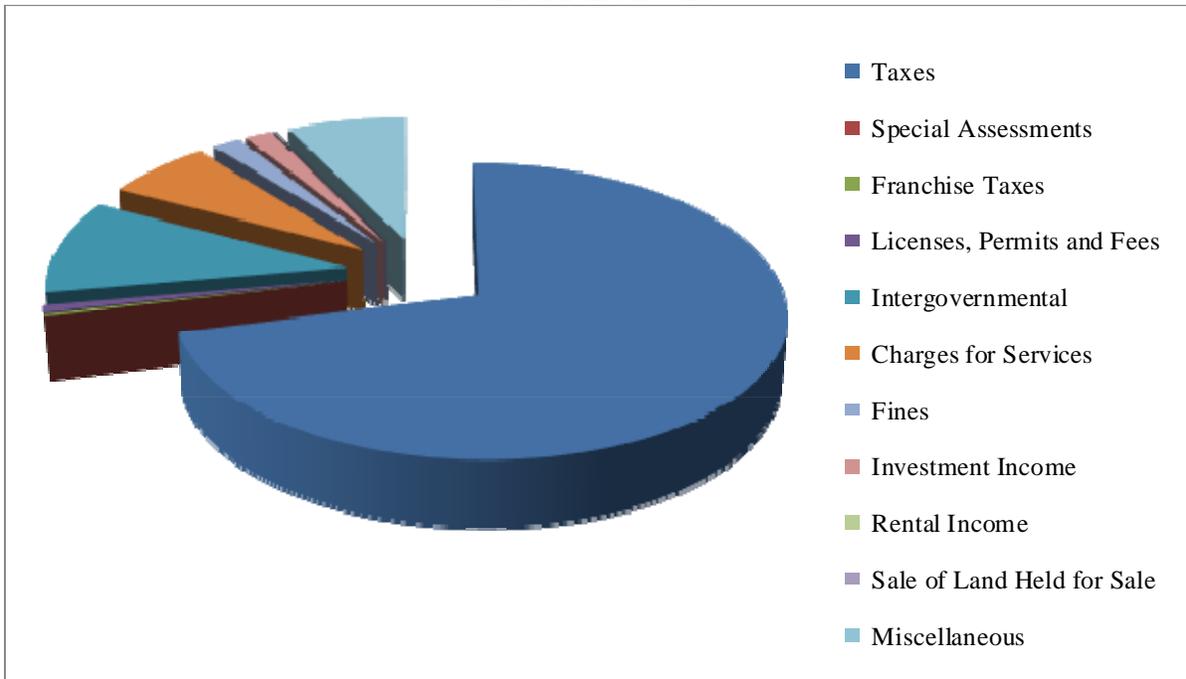
Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page fifteen) reported a combined fund balance of \$6,624,977. This is an increase of \$154,082 from the prior year. Operations were comparable to the prior year, with the exception of an decrease in capital outlay due to fewer capital improvement project expenditures and equipment purchases in the current year. Financial information specific to the governmental funds is detailed in the following pages. Such information was derived from the fund financials. The following is a summary of the City's major governmental funds:

Major Fund	Fund Balance December 31,		Increase
	2019	2018	(Decrease)
General	\$ 563,448	\$ 570,590	\$ (7,142)

The fund balance of the General Fund decreased by \$7,142 compared to 2018. Overall, operations were generally consistent year-to-year, with the exception of an increase in charges for services, an increase in public safety and public works expenditures, along with fewer expenditures incurred for economic development and capital outlay in the current year. Details of the General Fund's revenues and expenditures are displayed below:

General Fund Revenues

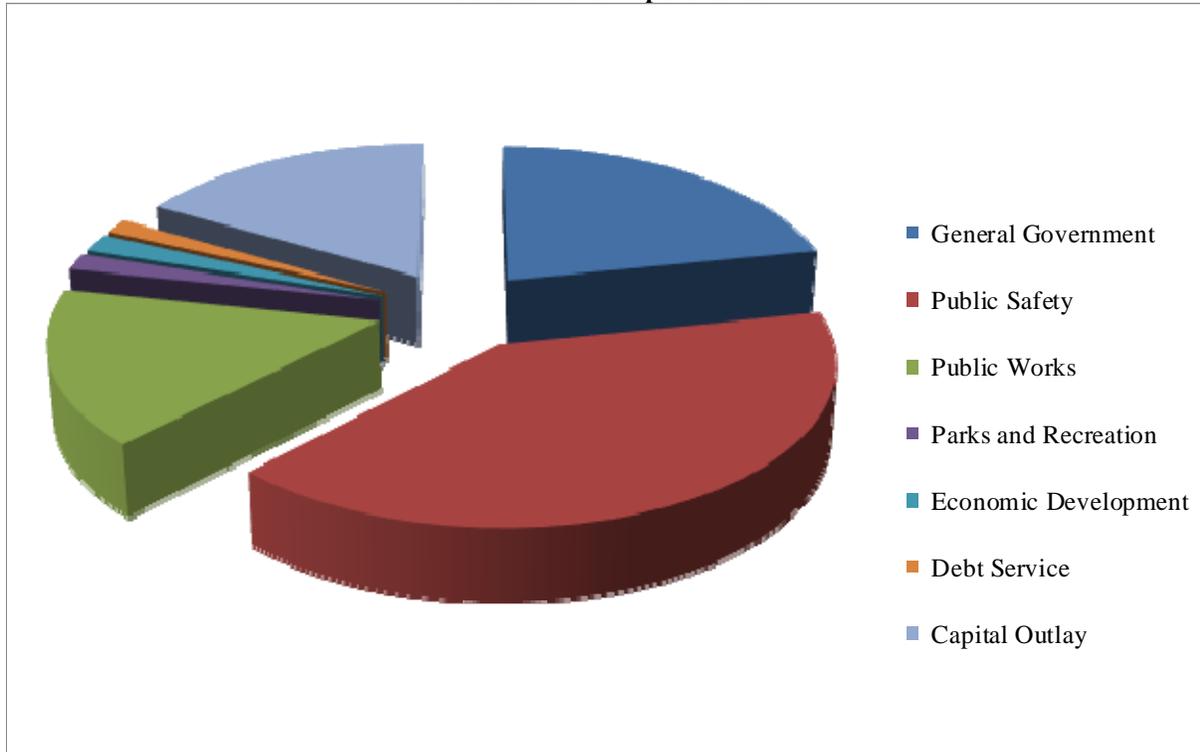


The City receives the majority of its funding in the General Fund in the form of taxes (71.16 percent), funding received from other governmental agencies (10.56 percent) and miscellaneous sources (7.22 percent). Overall, the City's General Fund revenues were comparable to the prior year.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY'S FUNDS (Continued)

General Fund Expenditures



A significant portion of the City's General Fund expenditures were used for public safety (40.41 percent). Remaining expenditures are used primarily for general government operations (21.80 percent), capital outlay (16.66 percent), and public works (16.07 percent). Expenditures are comparable to the prior year, with the exception of expenditures incurred in the prior year for capital projects such as the maintenance department facility.

Major Fund	Fund Balance December 31,		Increase (Decrease)
	2019	2018	
Fire Department Fund	\$ 151,088	\$ 124,244	\$ 26,844

The Fire Department fund balance increased primarily as a result of decreases in capital outlay and other expenditures in the current year.

Highway 371 Project Fund	\$ 5,478,312	\$ 5,311,231	\$ 167,081
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The Highway 371 Project fund balance increased as a result of revenues from property taxes and investment income being in excess of expenditures in the current year.

General Fund Budgetary Highlights

The City's General Fund generated more revenue than budgeted by \$15,653, excluding budgeted transfers in from other funds and anticipated bond proceeds. Expenditures were less than budgeted by \$5,210,035, as a result of significant expenditures budgeted for a capital project that was postponed until 2020.

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

THE CITY'S FUNDS (Continued)

Proprietary Funds

As the City completed the year, its business-type activities reported a combined net position of \$4,061,476. This is an increase of \$317,321 from the prior year. The following is a summary of the City's major proprietary funds:

Major Fund	Net Position December 31,		Increase (Decrease)
	2019	2018	
Water	\$ 1,171,374	\$ 1,041,480	\$ 129,894
Sewer	\$ 2,890,102	\$ 2,702,675	\$ 187,427

The Water Fund and Sewer Fund net position increased due revenues exceeding expenses and the results of current year operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the City had \$11,699,525 net investment in a broad range of capital assets, including machinery and equipment, buildings, improvements and infrastructure. This amount represents a net decrease of \$246,700 (2.07 percent) from last year. More detailed information about the City's capital assets is presented in the notes to the financial statements, starting on page thirty-four.

**Table 4
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,596,318	\$ 1,596,318	\$ 156,969	\$ 156,969	\$ 1,753,287	\$ 1,753,287
Construction In Progress	212,135	956,498	-	24,570	212,135	981,068
Buildings and Improvements	1,792,479	898,221	49,036	52,944	1,841,515	951,165
Machinery, Furniture and Equipment	1,492,494	1,574,926	1,328,203	1,303,657	2,820,697	2,878,583
Infrastructure	3,806,098	4,077,370	1,265,793	1,304,752	5,071,891	5,382,122
Total Capital Assets	\$ 8,899,524	\$ 9,103,333	\$ 2,800,001	\$ 2,842,892	\$ 11,699,525	\$ 11,946,225

**CITY OF PEQUOT LAKES, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt

At year-end, the City had \$1,337,815 in gross debt versus \$1,516,452 last year (a decrease of 11.78 percent), as shown in Table 5. See additional information regarding the current year issuances on page thirty-five of the financial statements.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Bonds Payable	\$ -	\$ -	\$ 851,462	\$ 911,600	\$ 851,462	\$ 911,600
Equipment Certificates	95,800	165,900	-	-	95,800	165,900
Loans Payable	252,720	273,537	-	-	252,720	273,537
Capital Leases	137,482	164,073	351	1,342	137,833	165,415
Totals	\$ 486,002	\$ 603,510	\$ 851,813	\$ 912,942	\$ 1,337,815	\$ 1,516,452

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City continues to consider adding amenities to Trailside Park in 2020. Also in 2020, the City completed the Maintenance Facility and Salt Storage Shed Project, started construction of the Rasmussen Road & South Washington Avenue Improvement Project, and issued a general obligation bond to partially finance this Road Improvement Project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at 4638 Main Street, Pequot Lakes, MN 56472 or by phone at (218) 568-5222.

BASIC FINANCIAL STATEMENTS

CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash, Cash Equivalents, and Investments	\$ 6,680,355	\$ 2,125,964	\$ 8,806,319
Property Taxes Receivable	185,797	-	185,797
Assessments Receivable	19,765	1,850	21,615
Accounts Receivable	6,910	136,793	143,703
Interest Receivable	39	-	39
Due from Other Governments	456	-	456
Debt Reserve Restricted Cash	17,475	-	17,475
Noncurrent Assets:			
Capital Assets not Being Depreciated	1,808,453	156,969	1,965,422
Capital Assets Being Depreciated (Net)	7,091,071	2,643,032	9,734,103
Net Pension Asset	480,160	-	480,160
TOTAL ASSETS	16,290,481	5,064,608	21,355,089
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	490,200	2,690	492,890
LIABILITIES			
Accounts Payable	84,029	100,785	184,814
Accrued Salaries	33,367	1,656	35,023
Due to Other Governments	1,626	126	1,752
Accrued Interest	8,349	9,229	17,578
Other Liabilities	10,085	-	10,085
Noncurrent Liabilities:			
Compensated Absences Due Within One Year	15,820	240	16,060
Compensated Absences Due After One Year	24,351	277	24,628
Long-term Debt, Due Within One Year	80,504	60,351	140,855
Long-term Debt, Due After One Year	405,498	791,462	1,196,960
Net OPEB Liability	134,049	8,556	142,605
Net Pension Liability	610,891	25,384	636,275
TOTAL LIABILITIES	1,408,569	998,066	2,406,635
DEFERRED INFLOWS OF RESOURCES			
OPEB	4,730	302	5,032
Pensions	711,255	7,454	718,709
TOTAL DEFERRED INFLOWS OF RESOURCES	715,985	7,756	723,741
NET POSITION			
Net Investment in Capital Assets	8,413,522	1,948,188	10,361,710
Restricted	109,274	-	109,274
Unrestricted	6,133,331	2,113,288	8,246,619
TOTAL NET POSITION	\$ 14,656,127	\$ 4,061,476	\$ 18,717,603

**CITY OF PEQUOT LAKES, 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	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 553,679	\$ 74,219	\$ 6,341	\$ -	\$ (473,119)	\$ -	\$ (473,119)
Public Safety	1,009,623	261,074	126,178	-	(622,371)	-	(622,371)
Public Works	703,577	332	10,000	-	(693,245)	-	(693,245)
Parks and Recreation	72,361	15,472	-	5,000	(51,889)	-	(51,889)
Economic Development	53,484	-	-	-	(53,484)	-	(53,484)
Debt Service	19,146	-	-	-	(19,146)	-	(19,146)
Total Governmental Activities	2,411,870	351,097	142,519	5,000	(1,913,254)	-	(1,913,254)
Business-Type Activities:							
Water	203,115	303,595	5,150	-	-	105,630	105,630
Sewer	164,588	314,750	-	-	-	150,162	150,162
Total Business-Type Activities	367,703	618,345	5,150	-	-	255,792	255,792
TOTALS	\$ 2,779,573	\$ 969,442	\$ 147,669	\$ 5,000	(1,913,254)	255,792	(1,657,462)
General Revenues:							
Taxes					1,688,636	-	1,688,636
Intergovernmental					27,871	132	28,003
Franchise Fees					5,585	-	5,585
Investment Income					163,043	48,406	211,449
Rental Income					9,551	1,781	11,332
Miscellaneous					175,510	1,474	176,984
Gain on Disposal of Assets					7,922	9,736	17,658
Total General Revenues					2,078,118	61,529	2,139,647
CHANGE IN NET POSITION					164,864	317,321	482,185
NET POSITION - BEGINNING OF YEAR					14,491,263	3,744,155	18,235,418
NET POSITION - END OF YEAR					\$ 14,656,127	\$ 4,061,476	\$ 18,717,603

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

	General Fund	Fire Department	Highway 371 Project	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash, Cash Equivalents, and Investments	\$ 1,504,468	\$ 146,741	\$ 4,597,669	\$ 431,477	\$ 6,680,355
Property Taxes Receivable	180,098	-	4,042	1,657	185,797
Assessments Receivable	19,765	-	-	-	19,765
Accounts Receivable	5,850	1,060	-	-	6,910
Due from Other Governments	456	-	-	-	456
Accrued Interest	39	-	-	-	39
Debt Reserve Restricted Cash	-	17,475	-	-	17,475
Advances to Other Funds	-	-	876,601	-	876,601
	<u>\$ 1,710,676</u>	<u>\$ 165,276</u>	<u>\$ 5,478,312</u>	<u>\$ 433,134</u>	<u>\$ 7,787,398</u>
TOTAL ASSETS					
LIABILITIES					
Accounts Payable	\$ 69,841	\$ 14,188	\$ -	\$ -	\$ 84,029
Accrued Salaries	33,367	-	-	-	33,367
Due to Other Governments	1,626	-	-	-	1,626
Other Liabilities	10,085	-	-	-	10,085
Advances from Other Funds	876,601	-	-	-	876,601
Total Liabilities	<u>991,520</u>	<u>14,188</u>	<u>-</u>	<u>-</u>	<u>1,005,708</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	135,943	-	-	1,005	136,948
Special Assessments	19,765	-	-	-	19,765
Total Deferred Inflows of Resources	<u>155,708</u>	<u>-</u>	<u>-</u>	<u>1,005</u>	<u>156,713</u>
FUND BALANCES					
Nonspendable	-	-	876,601	-	876,601
Restricted	88,644	17,475	-	10,499	116,618
Committed	378,610	133,613	4,601,711	421,630	5,535,564
Unassigned	96,194	-	-	-	96,194
Total Fund Balances	<u>563,448</u>	<u>151,088</u>	<u>5,478,312</u>	<u>432,129</u>	<u>6,624,977</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
	<u>\$ 1,710,676</u>	<u>\$ 165,276</u>	<u>\$ 5,478,312</u>	<u>\$ 433,134</u>	<u>\$ 7,787,398</u>

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

Total Fund Balance for Governmental Funds	\$	6,624,977
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net of accumulated depreciation of \$5,997,199) used in governmental activities are not financial resources and, therefore, are not reported in the funds:		8,899,524
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:		
Taxes Receivable	\$ 136,948	
Special Assessments Receivable	<u>19,765</u>	
		156,713
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:		(8,349)
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	(40,171)	
Long-term Debt Due Within One Year	(80,504)	
Long-term Debt Due In More Than One Year	<u>(405,498)</u>	
		(526,173)
The net OPEB liability and related deferred inflows/outflows of resources represent the present value of projected unfunded future postemployment benefits other than pensions, as determined by an actuary as of the most recent measurement date. Such liability and related balances do not represent the impending use of current financial resources and, therefore, are not reported in the funds:		
Net OPEB Liability	(134,049)	
Deferred Inflows - OPEB	<u>(4,730)</u>	
		(138,779)
The net pension asset/liability and related deferred inflows/outflows of resources represent the allocation of pension obligations to the City. Such balances are not reported in the funds:		
Net Pension Asset	480,160	
Net Pension Liability	(610,891)	
Deferred Outflows - Pensions	490,200	
Deferred Inflows - Pensions	<u>(711,255)</u>	
		<u>(351,786)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>14,656,127</u>

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

	General Fund	Fire Department	Highway 371 Project	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,518,778	\$ -	\$ 129,341	\$ 1,064	\$ 1,649,183
Franchise Taxes	5,585	-	-	-	5,585
Licenses, Permits and Fees	16,180	-	-	-	16,180
Intergovernmental	225,334	3,105	-	-	228,439
Charges for Services	140,615	206,430	-	-	347,045
Fines	37,691	-	-	-	37,691
Investment Income	35,987	4,982	112,273	9,801	163,043
Miscellaneous	154,008	19,501	-	2,001	175,510
TOTAL REVENUES	<u>2,134,178</u>	<u>234,018</u>	<u>241,614</u>	<u>12,866</u>	<u>2,622,676</u>
EXPENDITURES					
Current:					
General Government	475,753	-	-	510	476,263
Public Safety	882,107	127,973	-	49	1,010,129
Public Works	350,716	-	33,133	349	384,198
Parks and Recreation	37,293	-	-	-	37,293
Economic Development	40,807	-	-	12,677	53,484
Debt Service:					
Principal	25,722	50,917	-	40,000	116,639
Interest and Other Charges	6,664	13,338	-	500	20,502
Capital Outlay	363,658	14,946	-	-	378,604
TOTAL EXPENDITURES	<u>2,182,720</u>	<u>207,174</u>	<u>33,133</u>	<u>54,085</u>	<u>2,477,112</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(48,542)	26,844	208,481	(41,219)	145,564
OTHER FINANCING SOURCES (USES)					
Proceeds from the Sale of Assets	-	-	-	8,518	8,518
Operating Transfers In	41,400	-	-	-	41,400
Operating Transfers Out	-	-	(41,400)	-	(41,400)
TOTAL OTHER FINANCING SOURCES (USES)	<u>41,400</u>	<u>-</u>	<u>(41,400)</u>	<u>8,518</u>	<u>8,518</u>
NET CHANGE IN FUND BALANCES	(7,142)	26,844	167,081	(32,701)	154,082
FUND BALANCE - BEGINNING	<u>570,590</u>	<u>124,244</u>	<u>5,311,231</u>	<u>464,830</u>	<u>6,470,895</u>
FUND BALANCE - ENDING	<u>\$ 563,448</u>	<u>\$ 151,088</u>	<u>\$ 5,478,312</u>	<u>\$ 432,129</u>	<u>\$ 6,624,977</u>

**CITY OF PEQUOT LAKES, 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	\$	154,082
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	\$	358,721
Net Loss on the Disposal of Assets		(5,466)
Depreciation Expense		<u>(557,064)</u>
		(203,809)
Revenues in Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in Long-term Receivables		39,453
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:		
Debt Principal Payments		117,508
Net change in accrued interest on bonds is not reported as expenses in the funds:		
		1,356
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		5,922
Certain liabilities do not represent the impending use of current financial resources. Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:		
Net OPEB Liability and Deferred Outflows/Inflows of Resources		(27,875)
Net Pension Liability and Deferred Outflows/Inflows of Resources		<u>78,227</u>
		<u>50,352</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>164,864</u>

CITY OF PEQUOT LAKES, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 860,247	\$ 1,265,717	\$ 2,125,964
Assessments Receivable	925	925	1,850
Accounts Receivable	50,034	86,759	136,793
Total Current Assets	911,206	1,353,401	2,264,607
Noncurrent Assets			
Capital Assets Not Depreciated	-	156,969	156,969
Capital Assets Being Depreciated (Net)	1,178,210	1,464,822	2,643,032
Total Noncurrent Assets	1,178,210	1,621,791	2,800,001
TOTAL ASSETS	2,089,416	2,975,192	5,064,608
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	1,345	1,345	2,690
LIABILITIES			
Current Liabilities			
Accounts Payable	36,543	64,242	100,785
Accrued Salaries	828	828	1,656
Due to Other Governments	63	63	126
Accrued Interest	9,229	-	9,229
Compensated Absences	120	120	240
Capital Lease Payable Due Within One Year	156	195	351
Bonds Due Within One Year	60,000	-	60,000
Total Current Liabilities	106,939	65,448	172,387
Noncurrent Liabilities			
Compensated Absences Due After One Year	138	139	277
Bonds Due After One Year	791,462	-	791,462
Net OPEB Liability	4,278	4,278	8,556
Net Pension Liability	12,692	12,692	25,384
Total Noncurrent Liabilities	808,570	17,109	825,679
TOTAL LIABILITIES	915,509	82,557	998,066
DEFERRED INFLOWS OF RESOURCES			
OPEB	151	151	302
Pensions	3,727	3,727	7,454
Total Deferred Outflows of Resources	3,878	3,878	7,756
NET POSITION			
Net Investment in Capital Assets	326,592	1,621,596	1,948,188
Unrestricted	844,782	1,268,506	2,113,288
TOTAL NET POSITION	\$ 1,171,374	\$ 2,890,102	\$ 4,061,476

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for Services	\$ 294,672	\$ 311,182	\$ 605,854
OPERATING EXPENSES			
Personnel Services	23,195	23,194	46,389
Materials and Supplies	10,966	3,077	14,043
Repairs and Maintenance	15,230	9,605	24,835
Professional Services	34,771	35,964	70,735
Insurance	2,441	4,251	6,692
Utilities	13,006	18,263	31,269
Miscellaneous	12,047	4,531	16,578
Depreciation	<u>68,882</u>	<u>65,703</u>	<u>134,585</u>
TOTAL OPERATING EXPENSES	<u>180,538</u>	<u>164,588</u>	<u>345,126</u>
OPERATING INCOME	114,134	146,594	260,728
NONOPERATING REVENUES (EXPENSES)			
Special Assessments	380	614	994
Intergovernmental	5,216	66	5,282
Gain on Disposal of Capital Assets	4,868	4,868	9,736
Investment Income	19,330	29,076	48,406
Rental Income	-	1,781	1,781
Miscellaneous	8,543	4,428	12,971
Interest and Other Charges	<u>(22,577)</u>	<u>-</u>	<u>(22,577)</u>
NET NONOPERATING REVENUES (EXPENSES)	<u>15,760</u>	<u>40,833</u>	<u>56,593</u>
CHANGE IN NET POSITION	129,894	187,427	317,321
NET POSITION - BEGINNING OF YEAR	<u>1,041,480</u>	<u>2,702,675</u>	<u>3,744,155</u>
NET POSITION - END OF YEAR	<u>\$ 1,171,374</u>	<u>\$ 2,890,102</u>	<u>\$ 4,061,476</u>

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

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 295,932	\$ 312,193	\$ 608,125
Cash Paid to Suppliers	(122,354)	(89,986)	(212,340)
Cash Paid to Employees	(23,047)	(23,045)	(46,092)
	<u>150,531</u>	<u>199,162</u>	<u>349,693</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Special Assessments, Intergovernmental and Other Revenue	14,098	6,847	20,945
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	(68,554)	(23,141)	(91,695)
Proceeds from Sale of Capital Assets	4,868	4,868	9,736
Payments on Debt Principal	(60,515)	(476)	(60,991)
Cash Paid for Interest	(23,040)	-	(23,040)
	<u>(147,241)</u>	<u>(18,749)</u>	<u>(165,990)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES			
CASH FLOW FROM INVESTING ACTIVITIES			
Investment Income	19,330	29,076	48,406
	<u>36,718</u>	<u>216,336</u>	<u>253,054</u>
Net Change in Cash and Cash Equivalents			
	36,718	216,336	253,054
Cash and Cash Equivalents – Beginning of Year	823,529	1,049,381	1,872,910
	<u>823,529</u>	<u>1,049,381</u>	<u>1,872,910</u>
Cash and Cash Equivalents – End of Year	\$ 860,247	\$ 1,265,717	\$ 2,125,964
	<u>\$ 860,247</u>	<u>\$ 1,265,717</u>	<u>\$ 2,125,964</u>

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 114,134	\$ 146,594	\$ 260,728
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	68,882	65,703	134,585
Change in Assets, Liabilities, and Deferrals:			
Accounts Receivable	1,251	1,002	2,253
Accounts Payable	(33,893)	(14,295)	(48,188)
Accrued Salaries	127	127	254
Due to Other Governments	9	9	18
Compensated Absences	(36)	(35)	(71)
Deferred Inflows of Resources - OPEB	151	151	302
Net OPEB Liability	739	739	1,478
Deferred Outflows of Resources - Pensions	1,441	1,441	2,882
Deferred Inflows of Resources - Pensions	(432)	(432)	(864)
Net Pension Liability	(1,842)	(1,842)	(3,684)
	<u>\$ 150,531</u>	<u>\$ 199,162</u>	<u>\$ 349,693</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
SCHEDULE OF NONCASH CAPITAL AND RELATED			
FINANCING ACTIVITIES			
Amortization of Current Year Bond Premium	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ 138</u>

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pequot Lakes (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: water, sewer, public safety (police and fire), public works, parks and recreation, public improvements, 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 Pequot Lakes, Minnesota.

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 no blended component units.

Discretely Presented Component Units

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

Related Organizations

The Pequot Lakes Fire Relief Association is organized as a non-profit organization by its members to provide benefits to such members in accordance with Minnesota Statutes. Its Board of Directors is appointed by the membership of the organization. The City has no significant influence over the management, budget or policies of the association. 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. 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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proprietary 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 proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The City reports the following major governmental funds:

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.

The *Fire Department Fund* is a special revenue fund used to account for funds received by the City for fire department expenses. The City has elected to make this fund major in the current year.

The *Highway 371 Project Fund* is a capital projects fund used to account for financial resources to be used for the acquisition or construction of capital improvements on road turnbacks within the City.

The City reports the following major proprietary funds:

The *Proprietary Funds* are used to account for business-type 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 and Sewer Proprietary Funds.

The City reports the following nonmajor fund types:

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

The *Debt Service Funds* account 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 proprietary funds. Tax Levies and special assessments are used for the payment of principal and interest on the City's indebtedness.

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-type activities are presented using the *economic resources* measurement focus as defined in the second bullet point on the following page.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type 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 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 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Receivables and Payables

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

Receivables

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

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

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, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year.

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

Buildings and Improvements	28-40 years
Infrastructure	10-40 years
Machinery, Furniture and Equipment	5-20 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Accounts Payable

Payables in the governmental and proprietary funds are composed almost entirely of payables to vendors.

Compensated Absences

Per the City's policy, employees earn vacation from 40 to 160 hours per year, depending on length of service to the City. Employees are permitted to carry over a maximum of 140 hours of vacation leave to the following year. Employees also earn sick leave of one day per month, with the maximum accumulation of 960 hours. All accumulated and unused vacation, and a portion of unused sick leave, is paid out upon retirement or resignation. Unused sick leave is paid out at termination for full-time employees as follows: 10 percent of total unused sick leave for five to nine years of service and 25 percent of unused sick leave if more than ten years of service. All paid time off and compensatory pay 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 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, certificates of indebtedness, loans payable and capital leases 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 Pequot Lakes Fire Relief Association's net pension asset as of the most recent valuation date. The net pension liability represents the City's allocation of its pro-rata share of the net pension liabilities of the Statewide pension plans administered by the Public Employees Retirement Administration.

PERA

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods and, therefore, will not be recognized as an inflow of resources (revenue) until that time. The City reports unavailable revenues as deferred inflows of resources. Unavailable revenues consist of property taxes and special assessments. Accordingly, these amounts are deferred and recognized as inflows of resources in the period that they become available, in accordance with the modified accrual basis of accounting. 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 and OPEB plan in which City employees participate.

See Notes 3, 5, and 6 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension and OPEB 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 – Consists of net position with constraints placed on the use either 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 advances made to other funds.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The 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. At the end of each year, it is the City’s policy that up to 50 percent of the following year’s general fund budgeted expenditures will be set aside in the General Fund’s fund balance for cash flow purposes.

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 above.

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. Crow Wing 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 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	

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.

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 if 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). The City complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

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

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

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

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 Council.

At December 31, 2019, the City's deposits, including certificates of deposit, were not exposed to custodial credit risk. The City's deposits were sufficiently covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

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

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

Investment balances at December 31, 2019 are as follows:

<u>Deposit/Investment</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>S & P's Rating</u>	<u>Moody's Rating</u>	<u>Percent of Total</u>
Money Market Funds	0.89	N/A	\$ 7,213	N/R	N/R	0.22
U.S. Treasury Notes	1.63	< 1 year	49,996	N/R	AAA	1.56
	2.25 - 2.50	1 - 5 years	255,559	N/R	AAA	7.96
Federal Home Loan Bank	2.37 - 2.87	6 - 10 years	149,984	AA+	AAA	4.67
Federal Farm Credit Bank	2.00	1 - 5 years	79,620	AA+	AAA	2.48
	2.32	6 - 10 years	50,011	AA+	AAA	1.56
Federal Home Loan Mortgage Corporation Med Term Notes	2.00	< 1 year	40,020	AA+	AAA	1.25
	2.38	1 - 5 years	76,125	AA+	AAA	2.37
Certificates of Deposits	1.85 - 2.85	1 - 5 years	767,150	N/R	N/R	23.90
	2.20 - 3.00	6 - 10 years	621,153	N/R	N/R	19.35
Municipal Bonds	1.70 - 3.48	< 1 year	200,619	N/R - AA-	N/R - AA3	6.25
	3.00 - 4.03	1 - 5 years	439,742	N/R - AA+	N/R - AA3	13.70
	2.38 - 3.85	6 - 10 years	<u>472,885</u>	AA+	N/R	<u>14.73</u>
Totals			<u>\$ 3,210,077</u>			<u>100.00</u>

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

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk as indicated in the table above. 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. The City does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- Concentration Risk is the risk associated with investing a significant portion of the City's investments (considered 5 percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer. At December 31, 2019, the City's concentration of credit risk is shown in the table above.

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

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

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment and is disclosed above by presenting maturity information. The City’s investment policy requires the City to diversify its investment portfolio to insure that capital losses are avoided. The policy also states the City’s investment portfolio will remain sufficiently liquid to meet all operating costs that may be reasonably anticipated.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States 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 \$7,213 are deemed to be level 1 investments and are valued by using quoted market prices.
- U.S. Treasury Notes of \$305,555, Federal Home Loan Bank Notes of \$149,984, Federal Farm Credit Bank Notes of \$129,631, Federal Home Loan Mortgage Corporation Med Term Notes of \$116,145, Certificates of Deposits of \$1,388,303, and Municipal Bonds of \$1,113,246 are deemed to be level 2 investments.

Deposits and Investments Summary

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

Carrying Amount of Deposits	\$ 2,688,179
Money Market Funds	2,925,538
Investments (See Investments Section)	<u>3,210,077</u>
Total	<u>\$ 8,823,794</u>
Government-wide Cash, Cash Equivalents and Investments	\$ 8,806,319
Debt Reserve Restricted Cash	<u>17,475</u>
Total	<u>\$ 8,823,794</u>

CITY OF PEQUOT LAKES, 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	Transfers	Balance at 12/31/19
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 1,596,318	\$ -	\$ -	\$ -	\$ 1,596,318
Construction In Progress	956,498	214,534	-	(958,897)	212,135
Total Capital Assets not Being Depreciated	2,552,816	214,534	-	(958,897)	1,808,453
Capital Assets Being Depreciated					
Buildings and Improvements	1,655,859	-	-	958,897	2,614,756
Machinery, Furniture and Equipment	3,351,427	144,187	(132,681)	-	3,362,933
Infrastructure	7,110,581	-	-	-	7,110,581
Total Capital Assets Being Depreciated	12,117,867	144,187	(132,681)	958,897	13,088,270
Less: Accumulated Depreciation					
Buildings and Improvements	(757,638)	(64,639)	-	-	(822,277)
Machinery, Furniture and Equipment	(1,776,501)	(221,153)	127,215	-	(1,870,439)
Infrastructure	(3,033,211)	(271,272)	-	-	(3,304,483)
Total Accumulated Depreciation	(5,567,350)	(557,064)	127,215	-	(5,997,199)
Total Capital Assets Being Depreciated, Net	6,550,517	(412,877)	(5,466)	958,897	7,091,071
Capital Assets, Net	<u>\$ 9,103,333</u>	<u>\$ (198,343)</u>	<u>\$ (5,466)</u>	<u>\$ -</u>	<u>\$ 8,899,524</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 75,377
Public Safety	143,965
Public Works	319,942
Parks and Recreation	17,780
Total Depreciation Expense	<u>\$ 557,064</u>

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

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

	Balance at 01/01/19	Additions	Disposals	Transfers	Balance at 12/31/19
<i>Business-Type Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 156,969	\$ -	\$ -	\$ -	\$ 156,969
Construction In Progress	24,570	68,553	-	(93,123)	-
Total Capital Assets not Being Depreciated	181,539	68,553	-	(93,123)	156,969
Capital Assets Being Depreciated					
Buildings and Improvements	1,125,329	-	-	-	1,125,329
Machinery and Equipment	3,330,249	23,141	(15,966)	93,123	3,430,547
Infrastructure	1,512,530	-	-	-	1,512,530
Total Capital Assets Being Depreciated	5,968,108	23,141	(15,966)	93,123	6,068,406
Less: Accumulated Depreciation					
Buildings and Improvements	(1,072,385)	(3,908)	-	-	(1,076,293)
Machinery and Equipment	(2,026,592)	(91,718)	15,966	-	(2,102,344)
Infrastructure	(207,778)	(38,959)	-	-	(246,737)
Total Accumulated Depreciation	(3,306,755)	(134,585)	15,966	-	(3,425,374)
Total Capital Assets Being Depreciated, Net	2,661,353	(111,444)	-	93,123	2,643,032
Capital Assets, Net	\$ 2,842,892	\$ (42,891)	\$ -	\$ -	\$ 2,800,001

2.C. NONCURRENT LIABILITIES

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Debt Detail

As of December 31, 2019, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Certificates					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
02/17	\$ 135,000	\$9,100 - \$32,900	2.99%	08/22	\$ 95,800

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

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

Capital Leases					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
02/04	\$ 1,097,442	\$34,583	4.00%	03/24	\$ 136,337
10/15	4,544	\$1,116	10.00%	12/20	1,145
					137,482

Loans Payable					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
02/14	\$ 350,000	\$18,141 - \$29,322	3.50%	02/19	\$ 252,720
		Total Governmental Activities Long-Term Debt			486,002
		Due Within One Year			80,504
		Due After One Year			\$ 405,498

Business-Type Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
02/13	\$ 1,270,000	\$55,000 - \$85,000	0.60 - 3.10%	08/31	\$ 850,000

Capital Leases					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
10/15	\$ 3,029	\$744	10.00%	12/20	\$ 351
		Total Business-Type Long-Term Debt			850,351
		Due Within One Year			60,351
		Due After One Year			\$ 790,000

All bonds are direct obligations of the City and pledge the full faith and credit of the City.

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

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

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
<i>Governmental Activities:</i>					
General Obligation Certificates	\$ 165,900	\$ -	\$ (70,100)	\$ 95,800	\$ 31,000
Capital Leases	164,073	-	(26,591)	137,482	27,958
Loans Payable	273,537	-	(20,817)	252,720	21,546
Compensated Absences	<u>46,093</u>	<u>65,661</u>	<u>(71,583)</u>	<u>40,171</u>	<u>15,820</u>
Total	<u>\$ 649,603</u>	<u>\$ 65,661</u>	<u>\$ (189,091)</u>	<u>\$ 526,173</u>	<u>\$ 96,324</u>
<i>Business-Type Activities:</i>					
General Obligation Bonds	\$ 910,000	\$ -	\$ (60,000)	\$ 850,000	\$ 60,000
Unamortized Bond Premium	1,600	-	(138)	1,462	-
Capital Leases	1,342	-	(991)	351	351
Compensated Absences	<u>588</u>	<u>2,960</u>	<u>(3,031)</u>	<u>517</u>	<u>240</u>
Total	<u>\$ 913,530</u>	<u>\$ 2,960</u>	<u>\$ (64,160)</u>	<u>\$ 852,330</u>	<u>\$ 60,591</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 are funded through the funds to which the respective employees' wages are allocated.

At December 31, 2019, capital assets acquired with capital leases include the City Hall building with an original cost of \$1,056,200 and a postage machine with an original cost of \$7,575. There was accumulated depreciation of \$584,682 on the City Hall building and \$6,438 on the postage machine lease as of December 31, 2019.

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					
	Capital Leases			Loans		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 27,958	\$ 5,789	\$ 33,747	\$ 21,546	\$ 8,845	\$ 30,391
2021	28,070	4,442	32,512	22,300	8,091	30,391
2022	29,386	3,126	32,512	23,080	7,311	30,391
2023	30,763	1,748	32,511	23,888	6,503	30,391
2024	21,305	368	21,673	24,724	5,667	30,391
2025-2029	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,182</u>	<u>14,731</u>	<u>151,913</u>
Totals	<u>\$ 137,482</u>	<u>\$ 15,473</u>	<u>\$ 152,955</u>	<u>\$ 252,720</u>	<u>\$ 51,148</u>	<u>\$ 303,868</u>

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

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

Years Ending December 31,	Governmental Activities		
	General Obligation Certificates		
	Principal	Interest	Total
2020	\$ 31,000	\$ 2,864	\$ 33,864
2021	31,900	1,938	33,838
2022	32,900	984	33,884
Totals	\$ 95,800	\$ 5,786	\$ 101,586

Years Ending December 31,	Business-Type Activities					
	General Obligation Bonds			Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 60,000	\$ 21,640	\$ 81,640	\$ 351	\$ 61	\$ 412
2021	60,000	20,620	80,620	-	-	-
2022	65,000	19,460	84,460	-	-	-
2023	65,000	18,160	83,160	-	-	-
2024	65,000	16,730	81,730	-	-	-
2025-2029	370,000	54,487	424,487	-	-	-
2030-2031	165,000	5,193	170,193	-	-	-
Totals	\$ 850,000	\$ 156,290	\$ 1,006,290	\$ 351	\$ 61	\$ 412

Interest and other fiscal charges total \$41,723 in the Statement of Activities (included in Debt Service and Water lines). Interest and other fiscal charges total \$20,502 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$22,577 in the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (included in the line Interest and Other Charges).

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	
		Major Funds	
		General	Totals
Highway 371	\$ 41,400	\$ 41,400	\$ 41,400

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.

The interfund balances are as follows:

Long-Term Advances			
Advances To	Advances From	Amount	Reason
General	Highway 371 Project	\$ 876,601	Finance capital improvements

Interfund balances are to be repaid as cash flows become available.

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

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

2.E. FUND EQUITY

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

Major Governmental Funds

General Fund	
Restricted for Park Dedication	\$ 44,997
Restricted by Donor - Splash Park	15,000
Restricted for Forfeiture	28,647
Committed for Library	136,265
Committed for Water Tower	3,109
Committed for Capital Outlay	239,236
Unassigned	<u>96,194</u>
Total General Fund Balance	<u>\$ 563,448</u>
Fire Department Fund	
Restricted for Debt Reserves	\$ 17,475
Committed for Fire Department	95,928
Committed for Capital Outlay	<u>37,685</u>
Total Fire Department Fund Balance	<u>\$ 151,088</u>
Highway 371 Project Fund	
Nonspendable - Advance to Other Funds	\$ 876,601
Committed for Road Turnback Projects	<u>4,601,711</u>
Total Highway 371 Project Fund Balance	<u>\$ 5,478,312</u>
Nonmajor Governmental Funds	
Nonmajor Governmental Funds	
Restricted for Debt Service	\$ 10,499
Committed for Business Park	352,081
Committed for Cemetery Perpetual Care	<u>69,549</u>
Total Nonmajor Governmental Funds Balance	<u>\$ 432,129</u>

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

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.

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.

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

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 \$28,526. The City’s contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2019. The City’s contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$60,434. 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 \$276,439 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 \$8,666. 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 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 0.0050 percent which was a decrease of 0.0006 percent from its proportionate share measured as of June 30, 2018.

City’s proportionate share of the net pension liability:	\$276,439
State of Minnesota’s proportionate share of the net pension liability associated with the City	8,666
Total	\$285,105

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

For the year ended December 31, 2019, the City recognized pension expense of \$16,099 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$649 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 7,968	\$ -
Changes in Actuarial Assumption	-	23,368
Difference Between Projected and Actual Investment Earnings	-	30,806
Changes in Proportionate Share	6,384	26,994
Contributions Paid to PERA Subsequent to the Measurement Date	15,224	-
 Total City Deferred Outflows/Inflows	 \$ 29,576	 \$ 81,168

The \$15,224 reported as deferred outflows of resources related to pensions resulting from the 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	\$ (23,172)
2021	\$ (29,540)
2022	\$ (14,550)
2023	\$ 446

Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$359,835 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 0.0338 percent which was an increase of 0.0027 percent from its proportionate share measured as of June 30, 2018. The City also recognized \$4,563 for the year ended December 31, 2019, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the State will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

For the year ended December 31, 2019, the City recognized pension expense of \$64,784 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	\$ 14,552	\$ 53,475
Changes in Actuarial Assumption	291,539	382,512
Difference Between Projected and Actual Investment Earnings	-	68,303
Changes in Proportionate Share	26,219	32,517
Contributions Paid to PERA Subsequent to the Measurement Date	30,769	-
 Total City Deferred Outflows/Inflows	 \$ 363,079	 \$ 536,807

The \$30,769 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, 2019. 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	\$ (22,061)
2021	\$ (50,412)
2022	\$ (139,077)
2023	\$ 2,561
2024	\$ 4,492

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2019, was \$80,883.

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% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

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 occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	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%
	<u>100%</u>	

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

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

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:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
Proportionate share of the General Employees Fund			
Net Pension Liability	\$ 454,451	\$ 276,439	\$ 129,455
Proportionate share of the Police and Fire Fund			
Net Pension Liability	\$ 786,533	\$ 359,835	7

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 CONTRIBUTION PLAN – STATEWIDE

Four elected officials of the City are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

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

NOTE 4 DEFINED CONTRIBUTION PLAN – STATEWIDE (Continued)

Total contributions made by the City during fiscal year 2019 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$ 563	\$ 563	5.0%	5.0%	5.0%

NOTE 5 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION

Plan Description

Firefighters of the City of Pequot Lakes are members of the Pequot Lakes Firefighters Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan operates under the provisions of *Minnesota Statutes* Chapters 69 and 424A, along with the Association’s bylaws.

Benefits Provided

After the age of 50 and upon retirement, each member who has served as an active firefighter in the Association is eligible for varying levels of pension benefits, dependent upon the individual’s years of service. In addition, members or their beneficiaries may qualify for death or disability benefits.

Contributions

Minnesota Statute Chapter 424A.092 specifies minimum contributions required on an annual basis. The minimum support rates from the municipality and state aid are determined in the amount required to meet the normal cost plus amortizing any existing prior year service costs over a 10-year period. The City’s contributions to the Association for the year ended December 31, 2019 total \$61,485, of which \$38,963 was funded via contributions from participating local governments.

Pension Costs

At December 31, 2019, the City of Pequot Lakes reported a net pension asset of \$480,160 for the Fire Relief Association’s plan. The net pension asset was measured as of December 31, 2018, as determined by an actuarial valuation as of that date.

For the year ended December 31, 2019, the City recognized pension expense of \$69,752 for the Association. The City also recognized \$54,376 for the year ended December 31, 2019, as pension expense (and grant revenue) for State of Minnesota’s contributions to the Association during the measurement period.

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

NOTE 5 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

The following table presents the changes in net pension asset during the measurement period.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Beginning Balance 1/1/18	\$ 1,160,065	\$ 1,644,018	\$ (483,953)
Changes for the Year			
Service Cost	56,944	-	56,944
Interest on Pension Liability	48,680	-	48,680
Projected Investment Earnings	-	67,824	(67,824)
Contributions (Employer)	-	57,409	(57,409)
Contributions (State)	-	54,376	(54,376)
Asset (Gain)/Loss	(14,322)	(83,457)	69,135
Administrative Fee	-	(8,643)	8,643
Net Changes	<u>91,302</u>	<u>87,509</u>	<u>3,793</u>
Balance End of Year 12/31/18	<u>\$ 1,251,367</u>	<u>\$ 1,731,527</u>	<u>\$ (480,160)</u>

At December 31, 2019, the City of Pequot Lakes reported deferred outflows or resources and deferred inflows of resources related to the pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 55,000
Changes in Actuarial Assumptions	-	45,733
Difference Between Projected and Actual Investment Earnings	38,751	-
Contributions Paid Subsequent to the Measurement Date	<u>61,485</u>	<u>-</u>
Total Fire Relief Deferred Outflows/Inflows	<u>\$ 100,236</u>	<u>\$ 100,733</u>

A total of \$61,485 reported as deferred outflows of resources related to the pension resulting from City contributions subsequent to the measurement date will be recognized as an addition to the net pension asset in the year ended December 31, 2020.

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

NOTE 5 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Other amounts reported as deferred outflows and inflows of resources related to the pension will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense
2020	\$ 207
2021	\$ (8,597)
2022	\$ (6,348)
2023	\$ 4,425
2024	\$ (12,266)
2025-2029	\$ (39,403)

Actuarial Assumptions

The total pension asset at December 31, 2018, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	Rates
Investment Rate of Return (Discount)	4.00%
Expected Long-Term Rate of Return	4.00%
20-Year Municipal Bond Yield	3.50%
Salary Increases	2.50%
Interest on Deferred Amounts	0.00%

There were no changes to actuarial assumptions during 2018.

Pension Liability Sensitivity

The following presents the City’s net pension asset for the Fire Relief Association’s plan, 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 1 percent lower or 1 percent higher than the current discount rate:

	1% Decrease in Discount Rate (3.0%)	Discount Rate (4.0%)	1% Increase in Discount Rate (5.0%)
Net Pension Asset	\$ 444,712	\$ 480,160	\$ 514,588

Asset Allocation

The long-term expected rate of return on pension plan investments is 4.00%. The target allocation and best estimates of arithmetic real rates of return for each major asset class of the Association’s pension fund investments are summarized in the following table:

Asset Class	Portfolio Weight	Long-Term Expected Real Rate of Return
Cash	49%	2.25%
Fixed Income	22%	3.80%
Equities	29%	7.00%
Other	0%	N/A

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

NOTE 5 DEFINED BENEFIT PENSION PLANS – FIRE RELIEF ASSOCIATION (Continued)

Description of significant investment policy changes during the year

The Fire Relief Association made no significant changes to their investment policy fiscal year 2018.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's net position is available in a separately-issued financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the City Hall at 4638 Main Street, Pequot Lakes, MN 56472.

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City administers a single-employer defined benefit medical plan (the Plan), through which the City provides postemployment benefits to eligible retirees and their spouses. As of the most recent actuarial valuation date, there are 14 active employees electing coverage. The Plan does not issue a publicly available financial report.

Benefits Provided

The City offers continuing group health insurance coverage after retirement for qualifying City employees. Police and certain other City employees who retire from active service may continue their single or family coverage, at their expense, through the City plan if they retire after reaching the age of 50 or 55 with at least 3 to 10 years of uninterrupted service in the City. Additionally, Police and certain other City personnel who retire from active service with 15 years of uninterrupted service in the City are eligible for direct subsidies in varying dollar amounts for up to 3 years or until medicare eligibility. Benefits and eligibility provisions have been established through negotiations between the City and the union representing the City's employees.

The City is legally required to include any retirees for who it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, regardless of whether the premiums are paid by the City or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit arises from the assumption that the retiree is receiving a more favorable premium rate that they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the City's younger and statistically healthier active employees.

Contributions

The City has historically funded these liabilities on a pay-as-you-go basis, in the amounts contractually required to satisfy the benefit terms discussed above. For the year ended December 31, 2019, the City did not contribute to the Plan.

Net OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources

At December 31, 2019, the City reported a net OPEB liability of \$142,605 for the City's plan. The net OPEB liability was measured as of January 1, 2019, based on an actuarial valuation as of January 1, 2018.

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

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

For the year ended December 31, 2019, the City recognized OPEB expense of \$29,655. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumption	\$ -	\$ 5,032

There were no amounts reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date that would be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31,	Pension Expense
2020	\$ (629)
2021	\$ (629)
2022	\$ (629)
2023	\$ (629)
2024	\$ (629)
2025	\$ (629)
2026	\$ (629)
2027	\$ (629)

Changes in Net OPEB Liability

The following table summarizes changes in the net OPEB liability for the year ended December 31, 2019:

Changes in Total OPEB Liability (TOL)	
Balance at January 1st	\$ 117,982
Service Cost	25,548
Interest Cost	4,736
Changes in Assumptions	(5,661)
Balance at December 31st	\$ 142,605

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

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Assumptions

The following is a summary of pertinent actuarial assumptions and methods utilized, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
<u>Actuarial Information:</u>	
Valuation Date	January 01, 2018
Measurement Date	January 01, 2019
Actuarial Cost Method	Entry Age Normal, level percentage of pay
Actuarial Assets	None
Amortization of Deferred Resource Flows	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes
<u>Actuarial Assumptions:</u>	
Discount Rate	3.80%
20-Year Municipal Bond Yield	3.80%
Inflation	2.50%
Salary Increases	3.00%
Medical Trend Rate	6.25% in 2019 grading to 5.00% over 5 years
Dental Trend Rate	N/A

Mortality rates were based on the RP-2014 mortality tables and then projected beyond the valuation date using scale MP-2017.

Significant changes in assumptions, benefit terms, and other inputs since the prior measurement date include:

- The discount was changed from 3.30% to 3.80%.

Net OPEB Liability Sensitivity

The following presents the net OPEB liability, calculated using the discount rate disclosed in the preceding section, as well as what the City's net OPEB 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 OPEB Liability at Current Single Discount Rate		
	Rates	Amounts
1% Increase in Discount Rate	4.80%	\$128,219
Current Discount Rate	3.80%	\$142,605
1% Decrease in Discount Rate	2.80%	\$158,434

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

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The following presents the net OPEB liability, calculated using the healthcare cost trend rates disclosed in the preceding section, as well as what the City’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

Sensitivity of Net OPEB Liability at Current Healthcare Cost Trend Rate	
	Amounts
1% Increase in Healthcare Trend Rates	\$170,739
Current Healthcare Trend Rates	\$142,605
1% Decrease in Healthcare Trend Rates	\$119,532

NOTE 7 OTHER NOTES

7.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 three 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 no reported claims.

7.B. TAX ABATEMENTS

The City executed a tax abatement agreement with a local business during November 2009, as authorized under the provisions of Minnesota Statutes 469.1812 and 469.1815, for the purpose of enhancing the City’s tax base and creating employment opportunities within the City. Under the terms of the agreement, the Developer was required to construct a grocery store, commercial facility, potential gas island, and associated parking. Assuming these and other requirements defined by the abatement agreement are satisfied, all real estate taxes generated by the improvements and collected by the City shall be used to reimburse the Developer for costs incurred. Such reimbursements are scheduled to occur for real estate taxes payable in 2012 through 2024, but shall not exceed the maximum of \$350,000 (plus 4% interest). For the year ended December 31, 2019, taxes abated by the City under this agreement total \$20,474.

7.C. COMMITMENTS

Construction Contracts

During the year, the City entered into various contracts for construction services. At December 31, 2019, remaining commitments total \$89,310.

7.D. SUBSEQUENT EVENTS

Equipment Purchase

Subsequent to year end and prior to issuance of these financial statements, the City approved the purchase of an wheel loader at an estimated cost of \$183,404.

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

NOTE 7 OTHER NOTES (Continued)

Construction Projects

Subsequent to year end and prior to issuance of these financial statements, the City approved a bid of \$2,396,792 for street and utility improvements and the issuance of \$2,098,000 General Obligation Utility Revenue and Disposal System Bonds, Series 2020A to finance these improvements.

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 PEQUOT LAKES, 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	\$ 1,577,955	\$ 1,518,778	\$ (59,177)
Franchise Taxes	-	5,585	5,585
Total Taxes	<u>1,577,955</u>	<u>1,524,363</u>	<u>(53,592)</u>
Licenses and Permits	15,940	16,180	240
Intergovernmental Revenue			
Federal Revenue			
Other Federal Grants	4,500	6,341	1,841
State Grants			
Local Government Aid	20,410	20,739	329
Market Value Credit	-	1,694	1,694
PERA Aid	-	286	286
Police and Fire Aid	46,880	167,320	120,440
Other State Grants and Aids	13,050	18,954	5,904
County Revenue			
Other County Grants	10,000	10,000	-
Total Intergovernmental Revenue	<u>94,840</u>	<u>225,334</u>	<u>130,494</u>
Charges for Services			
General Government	21,100	32,440	11,340
Police and Fire Contracts	79,200	81,422	2,222
Other Public Safety	1,710	1,730	20
Libraries	1,400	1,432	32
Parks and Recreation	-	14,040	14,040
Other Service Charges	9,500	9,551	51
Total Charges for Services	<u>112,910</u>	<u>140,615</u>	<u>27,705</u>
Fines and Forfeitures	22,000	37,691	15,691
Miscellaneous Revenue			
Investment Earnings	15,600	35,987	20,387
Refunds and Reimbursements	10,680	18,829	8,149
Contributions and Donations	267,000	132,808	(134,192)
Other Miscellaneous	1,600	2,371	771
Total Miscellaneous Revenue	<u>294,880</u>	<u>189,995</u>	<u>(104,885)</u>
TOTAL REVENUES	2,118,525	2,134,178	15,653

CITY OF PEQUOT LAKES, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2019

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
EXPENDITURES			
General Government			
Mayor and Council	\$ 27,830	\$ 26,525	\$ (1,305)
Administration and Finance	231,810	208,142	(23,668)
Other General Government	243,440	241,086	(2,354)
Capital Outlay	<u>60,190</u>	<u>49,475</u>	<u>(10,715)</u>
Total General Government	563,270	525,228	(38,042)
Public Safety			
Police			
Current	736,090	769,531	33,441
Capital Outlay	42,320	61,366	19,046
Fire			
Current	<u>-</u>	<u>112,576</u>	<u>112,576</u>
Total Public Safety	778,410	943,473	165,063
Public Works			
Street Maintenance and Storm Sewers	330,930	332,080	1,150
Street Engineering	30,000	1,735	(28,265)
Street Lighting	22,700	16,901	(5,799)
Capital Outlay - Street Construction	<u>3,897,135</u>	<u>123,571</u>	<u>(3,773,564)</u>
Total Public Works	4,280,765	474,287	(3,806,478)
Culture and Recreation			
Parks and Recreation			
Current	69,270	37,293	(31,977)
Capital Outlay	<u>1,623,820</u>	<u>129,246</u>	<u>(1,494,574)</u>
Total Culture and Recreation	<u>1,693,090</u>	<u>166,539</u>	<u>(1,526,551)</u>
Housing and Economic Development			
Economic Development			
Current	45,210	40,807	(4,403)
Debt Service			
Principal Payments	26,000	25,722	(278)
Interest and Other Fiscal Charges	<u>6,010</u>	<u>6,664</u>	<u>654</u>
Total Debt Service	<u>32,010</u>	<u>32,386</u>	<u>376</u>
TOTAL EXPENDITURES	<u>7,392,755</u>	<u>2,182,720</u>	<u>(5,210,035)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,274,230)	(48,542)	5,225,688

CITY OF PEQUOT LAKES, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
OTHER FINANCING SOURCES			
Borrowing			
Bonds Issued, Net	\$ 2,348,820	\$ -	\$ (2,348,820)
Transfers			
From Other Funds	<u>2,810,000</u>	<u>41,400</u>	<u>(2,768,600)</u>
TOTAL OTHER FINANCING SOURCES	<u>5,158,820</u>	<u>41,400</u>	<u>(5,117,420)</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ (115,410)</u>	 (7,142)	 <u>\$ 108,268</u>
 FUND BALANCE - BEGINNING		 <u>570,590</u>	
 FUND BALANCE - ENDING		 <u>\$ 563,448</u>	

**CITY OF PEQUOT LAKES, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – FIRE DEPARTMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Intergovernmental Revenue			
Other State Grants and Aids	\$ 8,000	\$ 3,105	\$ (4,895)
Charges for Services			
Police and Fire Contracts	210,000	206,430	(3,570)
Miscellaneous Revenues			
Investment Earnings	1,500	4,982	3,482
Refunds and Reimbursements	700	7,392	6,692
Contributions and Donations	-	12,090	12,090
Other Miscellaneous	-	19	19
Total Miscellaneous Revenues	<u>2,200</u>	<u>24,483</u>	<u>22,283</u>
TOTAL REVENUES	220,200	234,018	13,818
EXPENDITURES			
Public Safety			
Fire			
Current	150,900	127,973	(22,927)
Capital Outlay	1,235	14,946	13,711
Total Public Safety	<u>152,135</u>	<u>142,919</u>	<u>(9,216)</u>
Debt Service			
Principal Payments	50,920	50,917	(3)
Interest and Other Fiscal Charges	13,350	13,338	(12)
Total Debt Service	<u>64,270</u>	<u>64,255</u>	<u>(15)</u>
TOTAL EXPENDITURES	<u>216,405</u>	<u>207,174</u>	<u>(9,231)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 3,795</u>	<u>26,844</u>	<u>\$ 23,049</u>
FUND BALANCE - BEGINNING		<u>124,244</u>	
FUND BALANCE - ENDING		<u>\$ 151,088</u>	

**CITY OF PEQUOT LAKES, 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 and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Retirement Pension Plan							
2019	0.0050%	\$ 276,439	\$ 8,666	\$ 285,105	\$ 355,467	80.2%	80.2%
2018	0.0056%	\$ 310,665	\$ 10,219	\$ 320,884	\$ 373,795	85.8%	79.5%
2017	0.0054%	\$ 344,732	\$ 33,241	\$ 377,973	\$ 348,587	108.4%	75.9%
2016	0.0055%	\$ 446,573	\$ 2,970	\$ 449,543	\$ 342,732	131.2%	68.9%
2015	0.0063%	\$ 326,499	\$ -	\$ 326,499	\$ 369,980	88.2%	78.2%
Public Employees Police and Fire Pension Plan							
2019	0.0338%	\$ 359,835	\$ -	\$ 359,835	\$ 346,618	103.8%	89.3%
2018	0.0311%	\$ 331,494	\$ -	\$ 331,494	\$ 327,432	101.2%	88.8%
2017	0.0320%	\$ 432,038	\$ -	\$ 432,038	\$ 326,444	132.3%	85.4%
2016	0.0330%	\$ 1,324,347	\$ -	\$ 1,324,347	\$ 318,651	415.6%	63.9%
2015	0.0340%	\$ 386,320	\$ -	\$ 386,320	\$ 311,104	124.2%	86.6%

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 PEQUOT LAKES, 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	\$ 28,526	\$ 28,526	\$ -	\$ 380,347	7.50%
2018	\$ 27,572	\$ 27,572	\$ -	\$ 367,622	7.50%
2017	\$ 27,434	\$ 27,434	\$ -	\$ 365,787	7.50%
2016	\$ 24,792	\$ 24,792	\$ -	\$ 330,560	7.50%
2015	\$ 27,566	\$ 27,566	\$ -	\$ 367,547	7.50%
2014	\$ 25,559	\$ 25,559	\$ -	\$ 352,531	7.25%
<i>Public Employees Police and Fire Pension Plan</i>					
2019	\$ 60,434	\$ 60,434	\$ -	\$ 356,543	16.95%
2018	\$ 54,743	\$ 54,743	\$ -	\$ 337,920	16.20%
2017	\$ 51,998	\$ 51,998	\$ -	\$ 320,975	16.20%
2016	\$ 52,387	\$ 52,387	\$ -	\$ 323,378	16.20%
2015	\$ 50,492	\$ 50,492	\$ -	\$ 311,680	16.20%
2014	\$ 47,017	\$ 47,017	\$ -	\$ 307,297	15.30%
<i>Pequot Lakes Firefighters Relief Association Pension Plan</i>					
2019	\$ -	\$ -	\$ -	N/A	N/A
2018	\$ -	\$ -	\$ -	N/A	N/A
2017	\$ -	\$ -	\$ -	N/A	N/A
2016	\$ -	\$ -	\$ -	N/A	N/A
2015	\$ -	\$ -	\$ -	N/A	N/A
2014	\$ -	\$ -	\$ -	N/A	N/A

Note: The schedule is provided prospectively with the City's fiscal year ended December 31, 2014 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
FIRE RELIEF ASSOCIATION
LAST TEN YEARS (Presented Prospectively)

	2018	2017	2016	2015	2014
Changes in Total Pension Liability (TPL)					
Balance at January 1st	\$ 1,160,065	\$ 1,117,731	\$ 1,087,207	\$ 1,009,761	\$ 1,002,635
Service Cost	56,944	50,980	51,471	52,224	48,196
Interest on the TPL	48,680	43,638	45,547	38,947	36,930
Assumption Changes	-	-	(62,883)	-	-
Plan Changes	-	103,240	54,111	58,442	-
Actuarial Experience (Gains)/Losses	(14,322)	-	(57,722)	-	-
Benefit Payments	-	(155,524)	-	(72,167)	(78,000)
Balance at December 31st	<u>\$ 1,251,367</u>	<u>\$ 1,160,065</u>	<u>\$ 1,117,731</u>	<u>\$ 1,087,207</u>	<u>\$ 1,009,761</u>
Plan Fiduciary Net Position (PFNP)					
Balance at January 1st	\$ 1,644,018	\$ 1,587,722	\$ 1,423,957	\$ 1,392,053	\$ 1,308,978
Fire State Aid	54,376	51,257	49,001	48,895	48,390
Municipal Contributions	57,409	54,033	51,310	48,305	46,629
Projected Investment Income	67,824	62,311	58,832	12,056	71,726
Gain or Loss	(83,457)	53,867	11,247	-	-
Total Additions	<u>96,152</u>	<u>221,468</u>	<u>170,390</u>	<u>109,256</u>	<u>166,745</u>
Benefit Payments	-	(155,524)	-	(72,167)	(78,000)
Administrative Expenses	(8,643)	(9,648)	(6,625)	(5,185)	(5,670)
Total Reductions	<u>(8,643)</u>	<u>(165,172)</u>	<u>(6,625)</u>	<u>(77,352)</u>	<u>(83,670)</u>
Balance at December 31st	<u>\$ 1,731,527</u>	<u>\$ 1,644,018</u>	<u>\$ 1,587,722</u>	<u>\$ 1,423,957</u>	<u>\$ 1,392,053</u>
Net Pension Liability (Asset) - December 31st	<u>\$ (480,160)</u>	<u>\$ (483,953)</u>	<u>\$ (469,991)</u>	<u>\$ (336,750)</u>	<u>\$ (382,292)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	138%	142%	142%	131%	138%

Note: The schedule is provided prospectively with the City's fiscal year ended December 31, 2015 (December 31, 2014 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF PEQUOT LAKES, MINNESOTA
SCHEDULE OF CHANGES IN CITY'S NET OPEB LIABILITY
LAST TEN YEARS (Presented Prospectively)

	2018	2017
Changes in Total OPEB Liability (TOL)		
Balance at January 1st	\$ 117,982	\$ 88,055
Service Cost	25,548	26,748
Interest on the TPL	4,736	3,778
Benefit Payments	(5,661)	(599)
Net OPEB Liability - December 31st	\$ 142,605	\$ 117,982
Covered Payroll	\$ 701,038	\$ 680,619
Net OPEB Liability / Covered Payroll	20.3%	17.3%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2018 (December 30, 2017 measurement period) and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF PEQUOT LAKES, MINNESOTA
NOTES TO 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 PEQUOT LAKES, MINNESOTA
NOTES TO 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.

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 increase 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 PEQUOT LAKES, MINNESOTA
NOTES TO 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 PEQUOT LAKES, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

NOTE 3 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

2018 Changes

Changes in Actuarial Assumptions

- There were no changes made to actuarial assumptions during 2018.

2017 Changes

Changes in Plan Provisions

- The benefit level changed from \$3,900 to \$4,250.

2016 Changes

Changes in Plan Provisions

- The benefit level changed from \$3,700 to \$3,900.

Changes in Actuarial Assumptions

- The retirement age changed from Age 50 to an age-based schedule.

2015 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2015.

NOTE 4 OTHER POSTEMPLOYMENT BENEFIT PLAN

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.30% to 3.80%.

2017 Changes

Changes in Plan Provisions

- The years of service required to be eligible for a benefit (implicit rate subsidy) was increased from three years to five years.
- The city contribution for union employees changed to 85% of the premium. Also, union employees are now on the same medical plan as other city employees rather than the Teamsters Local 346 plan.

Changes in Actuarial Assumptions

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2014 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

**SUPPLEMENTARY
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2019**

	Cemetery Perpetual Care	Business Park	2014 Equipment Certificates	2010 Equipment Certificates	Total Nonmajor Funds
ASSETS					
Cash, Cash Equivalents and Investments	\$ 69,549	\$ 352,081	\$ 9,847	\$ -	\$ 431,477
Property Taxes Receivable	-	-	1,555	102	1,657
TOTAL ASSETS	\$ 69,549	\$ 352,081	\$ 11,402	\$ 102	\$ 433,134
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	\$ -	\$ -	\$ 903	\$ 102	\$ 1,005
FUND BALANCES					
Restricted	-	-	10,499	-	10,499
Committed	69,549	352,081	-	-	421,630
Total Fund Balances	69,549	352,081	10,499	-	432,129
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 69,549	\$ 352,081	\$ 11,402	\$ 102	\$ 433,134

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

	Cemetery Perpetual Care	Business Park	2014 Equipment Certificates	2010 Equipment Certificates	Total Nonmajor Funds
REVENUES					
Taxes	\$ -	\$ -	\$ 1,064	\$ -	\$ 1,064
Investment Income	1,743	7,840	218	-	9,801
Miscellaneous	1	2,000	-	-	2,001
TOTAL REVENUES	<u>1,744</u>	<u>9,840</u>	<u>1,282</u>	<u>-</u>	<u>12,866</u>
EXPENDITURES					
Current:					
General Government	510	-	-	-	510
Public Safety	-	-	-	49	49
Public Works	-	-	349	-	349
Economic Development	-	12,677	-	-	12,677
Debt Service:					
Principal	-	-	40,000	-	40,000
Interest and Other Charges	-	-	500	-	500
TOTAL EXPENDITURES	<u>510</u>	<u>12,677</u>	<u>40,849</u>	<u>49</u>	<u>54,085</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,234	(2,837)	(39,567)	(49)	(41,219)
OTHER FINANCING SOURCES					
Proceeds from the Sale of Assets	-	8,518	-	-	8,518
NET CHANGE IN FUND BALANCES	1,234	5,681	(39,567)	(49)	(32,701)
FUND BALANCES - BEGINNING	<u>68,315</u>	<u>346,400</u>	<u>50,066</u>	<u>49</u>	<u>464,830</u>
FUND BALANCES - ENDING	<u>\$ 69,549</u>	<u>\$ 352,081</u>	<u>\$ 10,499</u>	<u>\$ -</u>	<u>\$ 432,129</u>

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

	Issue Date	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/19	Issued	Paid	Outstanding Balance 12/31/19	Principal Due in 2020
GOVERNMENTAL ACTIVITIES									
G.O. Equipment Certificate, Series 2014A	1/17/2014	2.50%	2/1/2019	\$ 193,000	\$ 40,000	\$ -	\$ 40,000	\$ -	\$ -
G.O. Equipment Certificate, Series 2017A	2/15/2017	2.99%	8/1/2022	135,000	125,900	-	30,100	95,800	31,000
Community Facility Loan - Fire Truck	2/1/2014	3.50%	3/26/2029	350,000	273,537	-	20,817	252,720	21,546
City Hall Building Capital Lease	2/27/2004	4.00%	8/1/2024	1,097,442	162,058	-	25,722	136,336	26,813
Postage Machine Capital Lease	10/6/2015	10.00%	12/31/2020	4,544	2,015	-	869	1,146	1,145
TOTAL GOVERNMENTAL ACTIVITY DEBT				1,779,986	603,510	-	117,508	486,002	80,504
BUSINESS-TYPE ACTIVITIES									
G.O. Utility Refunding Bonds, Series 2012A	2/12/2013	0.60-3.10%	2/1/2031	1,270,000	910,000	-	60,000	850,000	60,000
Postage Machine Capital Lease	10/6/2015	10.00%	12/31/2020	3,029	1,342	-	991	351	351
TOTAL BUSINESS-TYPE ACTIVITY DEBT				1,273,029	911,342	-	60,991	850,351	60,351
TOTAL INDEBTEDNESS				<u>\$ 3,053,015</u>	<u>\$ 1,514,852</u>	<u>\$ -</u>	<u>\$ 178,499</u>	<u>\$ 1,336,353</u>	<u>\$ 140,855</u>

OTHER REQUIRED 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**

May 22, 2020

Honorable Mayor and City Council
City of Pequot Lakes, 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 Pequot Lakes (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 Pequot Lakes' basic financial statements, and have issued our report thereon dated May 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pequot Lakes' 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 deficiency described in the accompanying *Schedule of Findings and Responses* to be a material weakness: 2006-002.

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: 2006-001.

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 Pequot Lakes' 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**

May 22, 2020

Honorable Mayor and City Council
City of Pequot Lakes, 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 Pequot Lakes, 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 May 22, 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, except tax increment financing, since the City has none.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *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 those charged with governance and management of the City of Pequot Lakes 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 PEQUOT LAKES, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS (Continued)

*Views of Responsible
Officials And Planned
Corrective Action:*

The City will continue to have Schlenner Wenner & Co. prepare the financial statements and assist with year-end adjustments as necessary, but will review the cost/benefit of preparing financial statements internally on an annual basis. See corresponding Corrective Action Plan.

**CITY OF PEQUOT LAKES, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2019**

FINANCIAL STATEMENT FINDINGS

Finding 2006-001 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 will review current procedures and implement additional controls where possible.
3. Official Responsible
Nancy Malecha, City Administrator, 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 2006-002 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 will continue to have the auditor prepare the financial statements and assist with certain adjustments, and management will document their annual review of this information. The City will revisit this decision on an annual basis.
3. Official Responsible
Nancy Malecha, City Administrator, 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.