

# City of Pequot Lakes, Minnesota

---

Audited Financial Statements

December 31, 2021

**SCHLENNER  
WENNER & Co.**  
CPAs

**CITY OF PEQUOT LAKES, MINNESOTA  
TABLE OF CONTENTS**

**INTRODUCTORY SECTION:**

**CITY COUNCIL AND OFFICIALS** ..... 2

**FINANCIAL SECTION:**

**INDEPENDENT AUDITOR’S REPORT** ..... 4

**REQUIRED SUPPLEMENTARY INFORMATION:**

Management’s Discussion and Analysis ..... 8

**BASIC FINANCIAL STATEMENTS:**

*Government-Wide Financial Statements*

Statement of Net Position ..... 18

Statement of Activities ..... 19

*Fund Financial Statements*

Balance Sheet – Governmental Funds ..... 20

Reconciliation of the Balance Sheet – Governmental Funds  
to the Statement of Net Position ..... 21

Statement of Revenues, Expenditures  
and Changes in Fund Balances – Governmental Funds ..... 22

Reconciliation of Changes in Fund Balances of  
Governmental Funds to the Statement of Activities ..... 23

Statement of Net Position – Proprietary Funds ..... 24

Statement of Revenues, Expenses and  
Changes in Net Position – Proprietary Funds ..... 25

Statement of Cash Flows – Proprietary Funds ..... 26

*Notes to the Basic Financial Statements* ..... 28

**REQUIRED SUPPLEMENTARY INFORMATION:**

Budgetary Comparison Schedule – General Fund ..... 62

Budgetary Comparison Schedule – Fire Department Fund ..... 65

Budgetary Comparison Schedule – Business Park Fund ..... 66

Schedule of City’s Proportionate Share of the Net Pension Liability ..... 67

Schedule of City Pension Contributions ..... 68

Schedule of Changes in Net Pension Liability (Asset) – Fire Relief Association ..... 69

Schedule of Changes in City’s Net OPEB Liability ..... 70

*Notes to the Required Supplementary Information* ..... 71

**SUPPLEMENTARY INFORMATION:**

Combining Balance Sheet – Nonmajor Governmental Funds ..... 79

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances – Nonmajor Governmental Funds ..... 80

Schedule of Indebtedness ..... 81

**OTHER REQUIRED REPORTS:**

Independent Auditor’s Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards* ..... 83

Schedule of Findings and Responses ..... 85

Corrective Action Plans ..... 88

**INTRODUCTORY  
SECTION**

**CITY OF PEQUOT LAKES , MINNESOTA  
CITY COUNCIL AND OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**CITY COUNCIL**

Term Expires

Tyler Gardner	Mayor	December 31, 2022
Pete Clement	Council Member	December 31, 2025
Scott Pederson	Council Member	December 31, 2025
Dan Ronning	Council Member	December 31, 2022
Cheri Seils	Council Member	December 31, 2022

**CITY OFFICIALS**

Richard Spiczka	City Administrator
-----------------	--------------------

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Pequot Lakes, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinions*

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pequot Lakes, Minnesota, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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

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

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

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

## ***Required Supplementary Information***

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

## ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pequot Lakes, Minnesota's basic financial statements. The accompanying combining nonmajor fund financial statements and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

***Other Information***

Management is responsible for the other information. The other information comprises the introductory section, as listed in the table of contents, but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2022 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’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.



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

June 7, 2022



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

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, 2021. Please read it in conjunction with the independent auditor's report on page four and the City's financial statements, which begin on page eighteen.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$919,176 as a result of this year's operations.
- In the City's business-type activities, revenues increased \$71,928 (or 10.80 percent) and program expenses increased \$98,072 (or 23.38 percent). These changes are discussed in greater detail throughout the following pages.
- Total cost of all of the City's programs decreased \$259,355 (or 7.96 percent).
- The City of Pequot Lakes received Federal Coronavirus Relief Funds in the amount of \$125,620.
- The City's General Fund generated more revenue than budgeted by \$334,806. Expenditures were more than budgeted by \$59,030, primarily due to an increased cost in fire public safety expenditures due to the City not budgeting for certain flow-through revenues and expenditures related to the fire relief association. See additional details starting on page sixty-two.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages eighteen and nineteen) 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 twenty. 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 ten. 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.

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.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**USING THIS ANNUAL REPORT** (Continued)

**Reporting the City's Most Significant Funds**

Our analysis of the City's major funds begins on page thirteen. The fund financial statements begin on page twenty 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, 2021**

**THE CITY AS A WHOLE**

The City's combined net position increased \$919,176 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	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 7,330,368	\$7,387,643	\$ 2,817,922	\$2,571,761	\$ 10,148,290	\$ 9,959,404
Net Capital Assets	10,747,900	11,699,637	4,011,492	2,676,879	14,759,392	14,376,516
Total Assets	18,078,268	19,087,280	6,829,414	5,248,640	24,907,682	24,335,920
Deferred Outflows of Resources	719,277	361,451	20,108	6,664	739,385	368,115
Current Liabilities	142,559	550,994	140,149	114,856	282,708	665,850
Noncurrent Liabilities	1,996,056	3,350,432	1,779,112	829,496	3,775,168	4,179,928
Total Liabilities	2,138,615	3,901,426	1,919,261	944,352	4,057,876	4,845,778
Deferred Inflows of Resources	1,420,469	629,709	27,826	6,828	1,448,295	636,537
Net Position:						
Net Investment in						
Capital Assets	9,366,817	9,196,139	2,265,306	1,885,555	11,632,123	11,081,694
Restricted	343,327	95,975	-	-	343,327	95,975
Unrestricted	5,528,317	5,625,482	2,637,129	2,418,569	8,165,446	8,044,051
Total Net Position	<u>\$ 15,238,461</u>	<u>\$ 14,917,596</u>	<u>\$ 4,902,435</u>	<u>\$ 4,304,124</u>	<u>\$ 20,140,896</u>	<u>\$ 19,221,720</u>

The net position of the City's governmental activities increased by \$320,865 (2.15 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) decreased by \$97,165 compared to the prior year.

The net position of the City's business-type activities increased by \$598,311 (13.90 percent) from the prior year. Such increase can be attributed to the results of current year operations, including capital assets and debt transferred to the business-type activities, due to the completion of the Rasmussen Road project.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**THE CITY AS A WHOLE** (Continued)

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2021	2020	2021	2020	2021	2020
<b>REVENUE</b>						
Charges for Services	\$ 310,079	\$ 273,160	\$ 713,792	\$ 608,340	\$ 1,023,871	\$ 881,500
Operating Grants and Contributions	288,008	360,278	-	-	288,008	360,278
Capital Grants and Contributions	169,700	5,000	1	(126)	169,701	4,874
Taxes	1,849,236	1,816,405	-	-	1,849,236	1,816,405
Intergovernmental	139,670	54,720	64	86	139,734	54,806
Franchise Taxes	30,668	11,836	-	-	30,668	11,836
Investment Income	47,110	163,766	20,063	54,519	67,173	218,285
Rental Income	1,601	3,101	1,948	2,115	3,549	5,216
Other	86,940	161,313	1,944	950	88,884	162,263
<b>Total Revenues</b>	<b>2,923,012</b>	<b>2,849,579</b>	<b>737,812</b>	<b>665,884</b>	<b>3,660,824</b>	<b>3,515,463</b>
<b>PROGRAM EXPENSES</b>						
General Government	641,415	741,409	-	-	641,415	741,409
Public Safety	863,011	1,048,746	-	-	863,011	1,048,746
Public Works	817,725	801,284	-	-	817,725	801,284
Parks and Recreation	71,267	79,300	-	-	71,267	79,300
Economic Development	43,263	56,856	-	-	43,263	56,856
Cemetery	3,934	1,595	-	-	3,934	1,595
Debt Service	39,415	108,267	-	-	39,415	108,267
Water	-	-	265,265	217,503	265,265	217,503
Sewer	-	-	252,353	202,043	252,353	202,043
<b>Total Expenses</b>	<b>2,480,030</b>	<b>2,837,457</b>	<b>517,618</b>	<b>419,546</b>	<b>2,997,648</b>	<b>3,257,003</b>
Gain on Disposal of Assets	4,000	245,657	-	-	4,000	245,657
Capital Contributions	252,000	-	-	-	252,000	-
Capital Asset Transfers	(408,656)	3,690	408,656	(3,690)	-	-
Transfers	30,539	-	(30,539)	-	-	-
<b>Change in Net Position</b>	<b>320,865</b>	<b>261,469</b>	<b>598,311</b>	<b>242,648</b>	<b>919,176</b>	<b>504,117</b>
Net Position - Beginning of Year	<u>14,917,596</u>	<u>14,656,127</u>	<u>4,304,124</u>	<u>4,061,476</u>	<u>19,221,720</u>	<u>18,717,603</u>
Net Position - End of Year	<u>\$ 15,238,461</u>	<u>\$ 14,917,596</u>	<u>\$ 4,902,435</u>	<u>\$ 4,304,124</u>	<u>\$ 20,140,896</u>	<u>\$ 19,221,720</u>

The City's total revenues increased by \$145,361 (4.13 percent) from the prior year, largely due to revenues received in the current year for grants and contributions. The total cost of all programs and services decreased by \$259,355 (or 7.96 percent).

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

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**THE CITY AS A WHOLE** (Continued)

**Reclassifications**

Certain amounts from 2020 have been reclassified to conform to the 2021 presentation in the Management's Discussion and Analysis section.

**Governmental Activities**

Revenue for the City's governmental activities increased by \$73,433 (2.58 percent), primarily due to the increase in grant revenues previously discussed. Total expenses decreased \$357,427 (12.60 percent), largely due to decreased expenses for public safety expenses related to pensions, as well as decreased costs incurred in response to the COVID-19 pandemic due to the spending of CARES Act funding in the prior year.

Table 3 presents the cost of each of the City's programs (general government, public safety, public works, parks and recreation, economic development, cemetery 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:

- General Government net cost of services decreased due to prior year expenses incurred in response to the pandemic, as well as American Rescue Plan Act dollars received in the current year.
- Public Safety net cost of services decreased due to a significant decrease in pension expense related to the Pequot Lakes Fire Relief Association.
- Debt Service net cost of services decreased due to the costs incurred in connection with the issuance of debt during the prior year, as well as a decrease in interest expense.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
General Government	\$ 641,415	\$ 741,409	\$ 447,546	\$ 681,520
Public Safety	863,011	1,048,746	469,000	630,685
Public Works	817,725	801,284	652,488	689,028
Parks and Recreation	71,267	79,300	62,197	72,668
Economic Development	43,263	56,856	43,263	16,856
Cemetery	3,934	1,595	(1,666)	(5)
Debt Service	39,415	108,267	39,415	108,267
Totals	<u>\$ 2,480,030</u>	<u>\$ 2,837,457</u>	<u>\$ 1,712,243</u>	<u>\$ 2,199,019</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) increased by \$71,928 (10.80 percent) and program expenses increased by \$98,072 (23.38 percent). The increase in expenses is primarily due to the increase in interest and depreciation expenses in the current year.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**THE CITY'S FUNDS**

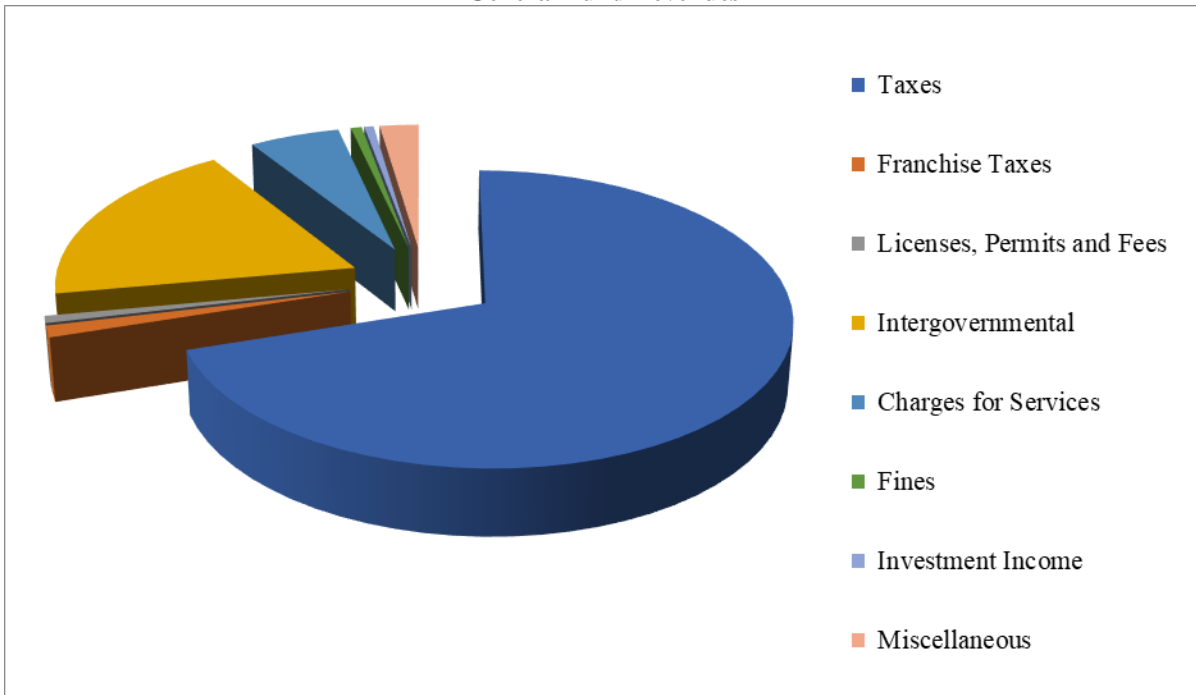
**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page twenty) reported a combined fund balance of \$5,864,258. This is a decrease of \$317,510 from the prior year. Operations were comparable to the prior year, with the exception of a decrease in capital outlay related to capital improvement project expenditures in the prior 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 Funds	Fund Balance December 31,		Increase (Decrease)
	2021	2020	
<b>General Fund</b>	\$ 2,019,653	\$ 1,788,027	\$ 231,626

The fund balance of the General Fund increased by \$231,626 compared to 2020. Overall, operations were generally consistent year-to-year, with the exception of a transfer from the Capital Improvement fund in the prior year to break out this deficit reserve into a separate fund. Details of the General Fund's revenues and expenditures are displayed below:

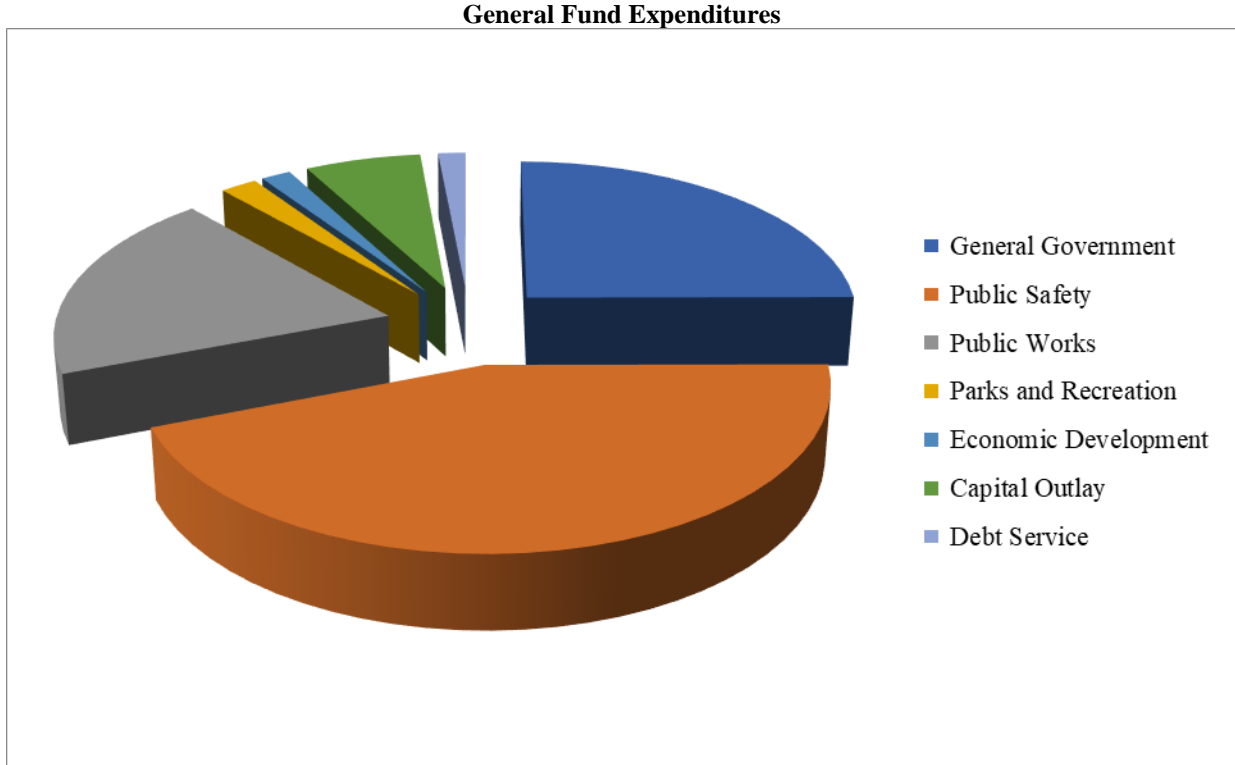
**General Fund Revenues**



The City receives the majority of its funding in the General Fund in the form of taxes (70.03 percent), funding received from other governmental agencies (18.84 percent) and charges for services (5.47 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, 2021**

**THE CITY'S FUNDS** (Continued)



A significant portion of the City's General Fund expenditures were used for public safety (44.20 percent). Remaining expenditures are used primarily for general government operations (24.95 percent), capital outlay (6.38 percent), and public works (19.31 percent). Expenditures are comparable to the prior year.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2021	2020	
<b>Fire Department Fund</b>	\$ 111,705	\$ 195,040	\$ (83,335)

The Fire Department fund balance decreased primarily as a result of training and supplies expenditures incurred in the current year, along with the purchase of a freightliner truck.

<b>Highway 371 Project Fund</b>	\$ 4,473,751	\$ 4,561,665	\$ (87,914)
---------------------------------	--------------	--------------	-------------

The Highway 371 Project fund balance decreased primarily as a result of a decrease in interest income, resulting in expenditures for capital outlay exceeding the operational revenues of the fund.

<b>Capital Improvement Fund</b>	\$ (1,038,610)	\$ (1,014,853)	\$ (23,757)
---------------------------------	----------------	----------------	-------------

The Capital Improvement fund balance decreased primarily as a result of final expenditures incurred in the current year related to the Rasmussen Road Project, along with interest expenditures incurred related to the prior year debt issuance.

<b>Business Park Fund</b>	\$ 115,738	\$ 555,618	\$ (439,880)
---------------------------	------------	------------	--------------

The Business Park fund balance decreased primarily as a result of additional expenditures incurred in the current year related to the Larson Parkway Improvements Project in the current year.



**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**THE CITY'S FUNDS** (Continued)

**General Fund Budgetary Highlights**

The City's General Fund generated more revenue than budgeted by \$334,806. Expenditures were more than budgeted by \$59,030, due to matters previously discussed.

**Proprietary Funds**

As the City completed the year, its business-type activities reported a combined net position of \$4,902,435. This is an increase of \$598,311 from the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2021	2020	
<b>Water Fund</b>	\$ 1,567,080	\$ 1,276,116	\$ 290,964
<b>Sewer Fund</b>	\$ 3,335,355	\$ 3,028,008	\$ 307,347

The Water Fund and Sewer Fund net position increased due to revenues exceeding expenses as a result of current year operations, as well as interfund capital transfers in, resulting from the transfer of capital assets and debt to these funds during the current year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2021, the City had \$14,759,392 net investment in a broad range of capital assets, including machinery and equipment, buildings, improvements and infrastructure. This amount represents a net increase of \$382,876 (2.66 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-nine.

**Table 4  
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Land	\$ 2,105,125	\$ 1,625,088	\$ 156,969	\$ 156,969	\$ 2,262,094	\$ 1,782,057
Construction In Progress	481,698	2,925,274	17,128	-	498,826	2,925,274
Buildings and Improvements	1,802,681	1,884,677	41,220	45,128	1,843,901	1,929,805
Machinery and Equipment	1,503,804	1,574,969	1,143,364	1,236,639	2,647,168	2,811,608
Streets and Infrastructure	4,854,592	3,689,629	2,652,811	1,238,143	7,507,403	4,927,772
<b>Totals</b>	<b>\$ 10,747,900</b>	<b>\$ 11,699,637</b>	<b>\$ 4,011,492</b>	<b>\$ 2,676,879</b>	<b>\$ 14,759,392</b>	<b>\$ 14,376,516</b>

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Debt**

At year-end, the City had \$3,127,269 in gross debt versus \$3,294,822 last year (a decrease of 5.09 percent), as shown in Table 5. More detailed information about the City's outstanding debt is presented in the notes to the financial statements, starting on page forty.

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

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Bonds Payable	\$ 1,058,000	\$2,098,000	\$ 1,746,186	\$791,324	\$ 2,804,186	\$ 2,889,324
Equipment Certificates	32,900	64,800	-	-	32,900	64,800
Loans Payable	208,874	231,174	-	-	208,874	231,174
Capital Leases	81,309	109,524	-	-	81,309	109,524
<b>Totals</b>	<b>\$ 1,381,083</b>	<b>\$ 2,503,498</b>	<b>\$ 1,746,186</b>	<b>\$ 791,324</b>	<b>\$ 3,127,269</b>	<b>\$ 3,294,822</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In 2022, the City will complete the utility and street improvements on Larson Parkway in the Heart of the Good Life Development. The City will be adding a splashpad to Trailside Park in 2022 and is consider adding other amenities in 2023/2024. Also in 2022, the City continues with the planning and design process of the upgrade to the Wastewater Ponds and Lift Stations. The City started the planning process for road improvements to Coleman Drive and also began the process to begin development in Trailside Estates.

**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, 2021**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 5,902,119	\$ 2,685,681	\$ 8,587,800
Debt Reserve Restricted Cash	23,553	-	23,553
Property Taxes Receivable	143,029	-	143,029
Assessments Receivable	19,765	1,866	21,631
Accounts Receivable	10,194	130,375	140,569
Interest Receivable	39	-	39
Due from Other Governments	167,164	-	167,164
Noncurrent Assets:			
Capital Assets Not Being Depreciated	2,586,823	174,097	2,760,920
Capital Assets Being Depreciated (Net)	8,161,077	3,837,395	11,998,472
Net Pension Asset	1,064,505	-	1,064,505
<b>TOTAL ASSETS</b>	<b>18,078,268</b>	<b>6,829,414</b>	<b>24,907,682</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	5,329	316	5,645
Pensions	713,948	19,792	733,740
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>719,277</b>	<b>20,108</b>	<b>739,385</b>
<b>LIABILITIES</b>			
Accounts Payable	110,595	121,686	232,281
Salaries Payable	11,432	962	12,394
Accrued Interest Payable	15,639	17,429	33,068
Due to Other Governments	621	72	693
Other Current Liabilities	4,272	-	4,272
Noncurrent Liabilities:			
Amount Due Within One Year	166,536	123,874	290,410
Amount Due After One Year	1,265,221	1,624,220	2,889,441
Net OPEB Liability	92,757	5,502	98,259
Net Pension Liability	471,542	25,516	497,058
<b>TOTAL LIABILITIES</b>	<b>2,138,615</b>	<b>1,919,261</b>	<b>4,057,876</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	60,884	3,612	64,496
Pensions	1,359,585	24,214	1,383,799
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,420,469</b>	<b>27,826</b>	<b>1,448,295</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,366,817	2,265,306	11,632,123
Restricted	343,327	-	343,327
Unrestricted	5,528,317	2,637,129	8,165,446
<b>TOTAL NET POSITION</b>	<b>\$ 15,238,461</b>	<b>\$ 4,902,435</b>	<b>\$ 20,140,896</b>

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

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	
<b>Governmental Activities:</b>							
General Government	\$ 641,415	\$ 68,249	\$ 125,620	\$ -	\$ (447,546)	\$ -	\$ (447,546)
Public Safety	863,011	231,623	162,388	-	(469,000)	-	(469,000)
Public Works	817,725	537	-	164,700	(652,488)	-	(652,488)
Parks and Recreation	71,267	4,070	-	5,000	(62,197)	-	(62,197)
Economic Development	43,263	-	-	-	(43,263)	-	(43,263)
Cemetery	3,934	5,600	-	-	1,666	-	1,666
Debt Service	39,415	-	-	-	(39,415)	-	(39,415)
<b>Total Governmental Activities</b>	<b>2,480,030</b>	<b>310,079</b>	<b>288,008</b>	<b>169,700</b>	<b>(1,712,243)</b>	<b>-</b>	<b>(1,712,243)</b>
<b>Business-Type Activities:</b>							
Water	265,265	359,321	-	(34)	-	94,022	94,022
Sewer	252,353	354,471	-	35	-	102,153	102,153
<b>Total Business-Type Activities</b>	<b>517,618</b>	<b>713,792</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>196,175</b>	<b>196,175</b>
<b>TOTALS</b>	<b>\$ 2,997,648</b>	<b>\$ 1,023,871</b>	<b>\$ 288,008</b>	<b>\$ 169,701</b>	<b>(1,712,243)</b>	<b>196,175</b>	<b>(1,516,068)</b>
<b>General Revenues:</b>							
Taxes					1,849,236	-	1,849,236
Franchise Taxes					30,668	-	30,668
Intergovernmental					139,670	64	139,734
Investment Income					47,110	20,063	67,173
Rental Income					1,601	1,948	3,549
Gain (Loss) on Sale of Assets					4,000	-	4,000
Miscellaneous					86,940	1,944	88,884
<b>Total General Revenues</b>					<b>2,159,225</b>	<b>24,019</b>	<b>2,183,244</b>
Capital Contributions					252,000	-	252,000
Capital Transfers					(408,656)	408,656	-
Transfers					30,539	(30,539)	-
<b>Total General Revenues, Capital Contributions, and Transfers</b>					<b>2,033,108</b>	<b>402,136</b>	<b>2,435,244</b>
<b>CHANGE IN NET POSITION</b>					<b>320,865</b>	<b>598,311</b>	<b>919,176</b>
<b>NET POSITION - BEGINNING OF YEAR</b>					<b>14,917,596</b>	<b>4,304,124</b>	<b>19,221,720</b>
<b>NET POSITION - END OF YEAR</b>					<b>\$ 15,238,461</b>	<b>\$ 4,902,435</b>	<b>\$ 20,140,896</b>

See accompanying notes.

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

	General Fund	Fire Department Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash, Cash Equivalents, and Investments	\$ 1,791,366	\$ 112,270	\$ 3,693,141	\$ -	\$ 121,905	\$ 183,437	\$ 5,902,119
Debt Reserve Restricted Cash	-	23,553	-	-	-	-	23,553
Property Taxes Receivable	136,532	-	2,191	-	-	4,306	143,029
Assessments Receivable	19,765	-	-	-	-	-	19,765
Accounts Receivable	10,194	-	-	-	-	-	10,194
Interest Receivable	39	-	-	-	-	-	39
Due from Other Funds	263,672	-	-	-	-	-	263,672
Due from Other Governments	2,464	-	-	-	164,700	-	167,164
Deposit on Asset	-	9,175	-	-	-	-	9,175
Advances to Other Funds	-	-	778,419	-	-	-	778,419
<b>TOTAL ASSETS</b>	<b>\$ 2,224,032</b>	<b>\$ 144,998</b>	<b>\$ 4,473,751</b>	<b>\$ -</b>	<b>\$ 286,605</b>	<b>\$ 187,743</b>	<b>\$ 7,317,129</b>
<b>LIABILITIES</b>							
Accounts Payable	\$ 71,135	\$ 33,293	\$ -	\$ -	\$ 6,167	\$ -	\$ 110,595
Salaries Payable	11,432	-	-	-	-	-	11,432
Due to Other Governments	621	-	-	-	-	-	621
Due to Other Funds	-	-	-	260,191	-	3,481	263,672
Other Current Liabilities	4,272	-	-	-	-	-	4,272
Advances from Other Funds	-	-	-	778,419	-	-	778,419
Total Liabilities	87,460	33,293	-	1,038,610	6,167	3,481	1,169,011
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable Revenue:							
Property Taxes	97,154	-	-	-	-	2,241	99,395
Special Assessments	19,765	-	-	-	-	-	19,765
Grants Receivable	-	-	-	-	164,700	-	164,700
Total Deferred Inflows of Resources	116,919	-	-	-	164,700	2,241	283,860
<b>FUND BALANCES</b>							
Nonspendable	-	9,175	778,419	-	-	-	787,594
Restricted	221,199	23,553	-	-	-	111,973	356,725
Committed	303,787	78,977	3,695,332	-	115,738	73,529	4,267,363
Unassigned	1,494,667	-	-	(1,038,610)	-	(3,481)	452,576
Total Fund Balances	2,019,653	111,705	4,473,751	(1,038,610)	115,738	182,021	5,864,258
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 2,224,032</b>	<b>\$ 144,998</b>	<b>\$ 4,473,751</b>	<b>\$ -</b>	<b>\$ 286,605</b>	<b>\$ 187,743</b>	<b>\$ 7,317,129</b>

See accompanying notes.

**CITY OF PEQUOT LAKES, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2021**

Total Fund Balances - Governmental Funds		\$ 5,864,258
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:		
Capital Assets	\$ 17,787,115	
Accumulated Depreciation	<u>(7,039,215)</u>	
Capital Assets (Net)		10,747,900
Deposit on asset recorded in the governmental funds was reallocated to construction in progress within the Statement of Net Position:		
Deposit on Asset		(9,175)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:		
Bond Principal Payable	(1,381,083)	
Compensated Absences	<u>(50,674)</u>	
		(1,431,757)
The net OPEB liability represents 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 governmental funds:		
Net OPEB Liability	(92,757)	
Deferred Outflows - OPEB	5,329	
Deferred Inflows - OPEB	<u>(60,884)</u>	
		(148,312)
The net pension asset/liability and related deferred outflows/inflows represent the allocation of pension obligations to the City. Such balances are not reported in the governmental funds:		
Net Pension Asset	1,064,505	
Net Pension Liability	(471,542)	
Deferred Outflows - Pensions	713,948	
Deferred Inflows - Pensions	<u>(1,359,585)</u>	
		(52,674)
Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:		
		(15,639)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the governmental funds:		
Property Taxes	99,395	
Special Assessments	19,765	
Grants Receivable	<u>164,700</u>	
		<u>283,860</u>
<b>TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b>\$ <u>15,238,461</u></b>

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

	General Fund	Fire Department Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 1,671,428	\$ -	\$ 92,883	\$ -	\$ -	\$ 86,011	\$ 1,850,322
Franchise Taxes	30,668	-	-	-	-	-	30,668
Licenses, Permits, and Fees	18,820	-	-	-	-	-	18,820
Intergovernmental	449,769	8,954	-	-	-	-	458,723
Charges for Services	130,635	216,980	-	-	-	5,600	353,215
Fines	15,940	-	-	-	-	-	15,940
Interest Income	13,517	1,631	29,188	-	2,128	646	47,110
Loan Collections	-	-	19,070	-	-	-	19,070
Miscellaneous	55,954	13,015	-	-	-	2,901	71,870
<b>TOTAL REVENUES</b>	<u>2,386,731</u>	<u>240,580</u>	<u>141,141</u>	<u>-</u>	<u>2,128</u>	<u>95,158</u>	<u>2,865,738</u>
<b>EXPENDITURES</b>							
Current:							
General Government	537,643	-	-	531	-	-	538,174
Public Safety	952,508	162,142	-	-	-	-	1,114,650
Public Works	416,083	-	4,055	-	-	715	420,853
Parks and Recreation	43,646	-	-	-	-	-	43,646
Economic Development	35,465	-	-	-	1,421	6,377	43,263
Cemetery	-	-	-	-	-	3,934	3,934
Capital Outlay	137,455	97,544	225,000	4,156	440,587	-	904,742
Debt Service:							
Principal	28,215	54,200	-	-	-	-	82,415
Interest and Other Charges	4,090	10,029	-	19,070	-	28,921	62,110
<b>TOTAL EXPENDITURES</b>	<u>2,155,105</u>	<u>323,915</u>	<u>229,055</u>	<u>23,757</u>	<u>442,008</u>	<u>39,947</u>	<u>3,213,787</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	231,626	(83,335)	(87,914)	(23,757)	(439,880)	55,211	(348,049)
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers In	-	-	-	-	-	30,539	30,539
<b>NET CHANGE IN FUND BALANCES</b>	231,626	(83,335)	(87,914)	(23,757)	(439,880)	85,750	(317,510)
<b>FUND BALANCES - BEGINNING</b>	<u>1,788,027</u>	<u>195,040</u>	<u>4,561,665</u>	<u>(1,014,853)</u>	<u>555,618</u>	<u>96,271</u>	<u>6,181,768</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 2,019,653</u>	<u>\$ 111,705</u>	<u>\$ 4,473,751</u>	<u>\$ (1,038,610)</u>	<u>\$ 115,738</u>	<u>\$ 182,021</u>	<u>\$ 5,864,258</u>



**CITY OF PEQUOT LAKES, MINNESOTA  
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Total Governmental Funds \$ (317,510)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense:

Capital Outlay Capitalized	\$ 837,902	
Depreciation Expense	(602,158)	
Capital Assets Acquired via Donation	252,000	
Transfer of Capital Assets	<u>(1,448,656)</u>	
		(960,912)

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

Bond Principal Repayments	82,415	
Transfer of Bond Principal	<u>1,040,000</u>	
		1,122,415

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds only when it is due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due: 22,695

Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period:

Property Taxes	(1,086)	
Grants Receivable	<u>164,700</u>	
		163,614

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

Compensated Absences		(5,071)
----------------------	--	---------

Certain liabilities do not represent the impending use of current resources.

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

Net OPEB Liability and Deferred Outflows/Inflows of Resources	(3,291)	
Net Pension Asset/Liability and Deferred Outflows/Inflows of Resources	<u>298,925</u>	
		<u>295,634</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 320,865**

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

	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 1,075,874	\$ 1,609,807	\$ 2,685,681
Assessments Receivable	876	990	1,866
Accounts Receivable	<u>48,799</u>	<u>81,576</u>	<u>130,375</u>
Total Current Assets	1,125,549	1,692,373	2,817,922
Noncurrent Assets			
Capital Assets Not Being Depreciated	-	174,097	174,097
Capital Assets Being Depreciated (Net)	<u>1,751,701</u>	<u>2,085,694</u>	<u>3,837,395</u>
Total Noncurrent Assets	<u>1,751,701</u>	<u>2,259,791</u>	<u>4,011,492</u>
<b>TOTAL ASSETS</b>	2,877,250	3,952,164	6,829,414
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	158	158	316
Pensions	<u>9,896</u>	<u>9,896</u>	<u>19,792</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	10,054	10,054	20,108
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	37,741	83,945	121,686
Salaries Payable	481	481	962
Due to Other Governments	36	36	72
Accrued Interest	12,904	4,525	17,429
Compensated Absences Due Within One Year	437	437	874
Bonds Due Within One Year	<u>94,000</u>	<u>29,000</u>	<u>123,000</u>
Total Current Liabilities	145,599	118,424	264,023
Noncurrent Liabilities			
Compensated Absences Due After One Year	517	517	1,034
Bonds Due After One Year	1,144,686	478,500	1,623,186
Net OPEB Liability	2,751	2,751	5,502
Net Pension Liability	<u>12,758</u>	<u>12,758</u>	<u>25,516</u>
Total Noncurrent Liabilities	<u>1,160,712</u>	<u>494,526</u>	<u>1,655,238</u>
<b>TOTAL LIABILITIES</b>	1,306,311	612,950	1,919,261
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	1,806	1,806	3,612
Pensions	<u>12,107</u>	<u>12,107</u>	<u>24,214</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	13,913	13,913	27,826
<b>NET POSITION</b>			
Net Investment in Capital Assets	513,015	1,752,291	2,265,306
Unrestricted	<u>1,054,065</u>	<u>1,583,064</u>	<u>2,637,129</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,567,080</u>	<u>\$ 3,335,355</u>	<u>\$ 4,902,435</u>

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

	Water Fund	Sewer Fund	Totals
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 346,558	\$ 354,070	\$ 700,628
<b>OPERATING EXPENSES</b>			
Wages and Benefits	29,149	29,147	58,296
Materials and Supplies	8,285	4,081	12,366
Repairs and Maintenance	4,965	34,406	39,371
Professional Services	60,780	58,628	119,408
Insurance	2,018	3,716	5,734
Utilities	18,793	16,801	35,594
Miscellaneous	22,405	9,094	31,499
Depreciation	79,702	77,870	157,572
<b>TOTAL OPERATING EXPENSES</b>	<u>226,097</u>	<u>233,743</u>	<u>459,840</u>
<b>NET OPERATING INCOME</b>	120,461	120,327	240,788
<b>NONOPERATING INCOME (EXPENSE)</b>			
Special Assessments	(34)	35	1
Intergovernmental	32	32	64
Investment Income	7,851	12,212	20,063
Rental Income	-	1,948	1,948
Miscellaneous	12,763	2,345	15,108
Interest and Other Charges	(39,168)	(18,610)	(57,778)
<b>NET NONOPERATING INCOME (EXPENSE)</b>	<u>(18,556)</u>	<u>(2,038)</u>	<u>(20,594)</u>
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	101,905	118,289	220,194
<b>TRANSFERS</b>			
Interfund Capital Transfers	204,328	204,328	408,656
Operating Transfers Out	(15,269)	(15,270)	(30,539)
<b>NET TRANSFERS</b>	<u>189,059</u>	<u>189,058</u>	<u>378,117</u>
<b>CHANGE IN NET POSITION</b>	290,964	307,347	598,311
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>1,276,116</u>	<u>3,028,008</u>	<u>4,304,124</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,567,080</u>	<u>\$ 3,335,355</u>	<u>\$ 4,902,435</u>

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

	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 350,730	\$ 360,332	\$ 711,062
Cash Paid to Suppliers	(115,163)	(115,416)	(230,579)
Cash Paid to Employees	(28,772)	(28,770)	(57,542)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	206,795	216,146	422,941
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Taxes and Intergovernmental	32	32	64
Other Receipts from Customers	12,763	4,293	17,056
Net Operating Subsidies and Transfers from (to) Other Funds	(15,269)	(15,270)	(30,539)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	(2,474)	(10,945)	(13,419)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Special Assessments	(547)	(592)	(1,139)
Purchases of Capital Assets	-	(38,620)	(38,620)
Payments on Bond Principal	(72,500)	(12,500)	(85,000)
Cash Paid for Interest	(35,206)	(14,085)	(49,291)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(108,253)	(65,797)	(174,050)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	7,851	12,212	20,063
Net Change in Cash and Cash Equivalents	103,919	151,616	255,535
Cash and Cash Equivalents - Beginning of Year	971,955	1,458,191	2,430,146
Cash and Cash Equivalents - End of Year	\$ 1,075,874	\$ 1,609,807	\$ 2,685,681

**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF CASH FLOWS (Continued)**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Water Fund	Sewer Fund	Totals
<b>RECONCILIATION OF NET OPERATING INCOME TO</b>			
<b>NET CASH PROVIDED (USED) BY OPERATING</b>			
<b>ACTIVITIES</b>			
Net Operating Income	\$ 120,461	\$ 120,327	\$ 240,788
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	79,702	77,870	157,572
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	4,212	6,302	10,514
Deferred Outflows of Resources - OPEB	(158)	(158)	(316)
Deferred Outflows of Resources - Pensions	(6,564)	(6,564)	(13,128)
Accounts Payable	2,083	11,310	13,393
Salaries Payable	(777)	(777)	(1,554)
Due to Other Governments	(40)	(40)	(80)
Compensated Absences	13	13	26
Net OPEB Liability	516	516	1,032
Net Pension Liability	(3,152)	(3,152)	(6,304)
Deferred Inflows of Resources - OPEB	(260)	(260)	(520)
Deferred Inflows of Resources - Pensions	10,759	10,759	21,518
	<u>206,795</u>	<u>216,146</u>	<u>422,941</u>
<b>NET CASH PROVIDED (USED) BY OPERATING</b>			
<b>ACTIVITIES</b>			
	<u>\$ 206,795</u>	<u>\$ 216,146</u>	<u>\$ 422,941</u>
 <b>SCHEDULE OF NONCASH CAPITAL AND RELATED</b>			
<b>FINANCING ACTIVITIES</b>			
Contribution of capital assets and debt from Governmental Activities	\$ 204,328	\$ 204,328	\$ 408,656
Capital assets purchased on account	\$ -	\$ 4,909	\$ 4,909

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**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. The Board of Directors of the Association 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, 2021**

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

**1.B. BASIS OF PRESENTATION (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 expenditures.

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 *Capital Improvement Fund* is a capital project fund used to account for financial resources to be used for the acquisition or construction of capital projects (other than those financed by proprietary funds).

The *Business Park Fund* is a special revenue fund used to account for funds received by the City for business park expenditures.

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 governmental 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. These funds also account for the activity of any tax increment financing districts within the City.

**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, 2021**

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

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (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 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 resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

All proprietary 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 contingencies related to these balances at the date of the financial statements. Estimates also affect reported amounts of revenues and expenditures/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 Statements of Net Position, “cash and cash equivalents” includes all demand accounts, certificates of deposit, 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 accounts, certificates of deposit, and money market savings accounts.



**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

**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.

**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 to and from 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. Allowances 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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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

Government-wide Statements

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

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

Fund Financial Statements

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

**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 actuarial measurement 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).

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

PERA

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

**Postemployment Benefits Other Than Pensions (OPEB)**

Under the provisions of the various employee and union contracts, the City provides health insurance coverage for varying lengths of time if certain age and minimum years of service requirements are met.

**Deferred Outflows/Inflows of Resources**

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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

Governmental Fund 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, 2021 consist of advances made to other funds and deposits on assets.

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

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

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. The authority to assign fund balance has not been formally delegated by the City Council. There are no assigned fund balances at December 31, 2021.

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 on the previous page.

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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

Delinquent taxes receivable includes 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.

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

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

Proprietary Funds - 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 of resources, equity, revenues, and expenditures/expenses.

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

**Deposits**

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The City complies with such laws.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At December 31, 2021, 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, 2021**

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

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

Investment balances at December 31, 2021 are as follows:

<u>Deposit/Investment</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>S &amp; P's Rating</u>	<u>Moody's Rating</u>	<u>Percent of Total</u>
Money Market Funds - Brokered	0.02	N/A	\$ 368,379	N/R	N/R	18.60
U.S. Treasury Notes	2.50	1 - 5 years	155,156	N/R	AAA	7.83
Federal Home Loan Mortgage Corporation Med Term Notes	2.37	< 1 year	75,049	AA+	AAA	3.79
Certificates of Deposit - Brokered	1.00-1.85	<1 year	318,222	N/R	N/R	16.07
	0.75	1 - 5 years	195,606	N/R	N/R	9.88
Municipal Bonds	3.00-4.03	< 1 year	176,336	N/R - AA3	N/R - A+	8.90
	2.38-3.60	1 - 5 years	497,242	N/R - AA+	N/R - AA2	25.10
	3.47-3.85	6 - 10 years	<u>194,780</u>	AA- - AAA	N/R - AAA	<u>9.83</u>
Totals			<u>\$ 1,980,770</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, 2021, the City does not have a significant concentration of credit risk.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**2.A.    CASH, CASH EQUIVALENTS AND INVESTMENTS (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 ensure 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, 2021:

- Money market funds of \$368,379 are deemed to be level 1 investments and are valued by using quoted market prices.
- U.S. Treasury Notes of \$155,156, Federal Home Loan Mortgage Corporation Med Term Notes of \$75,049, Certificates of Deposits of \$513,828, and Municipal Bonds of \$868,358 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	\$	134,757
Money Market Funds		4,923,655
Certificates of Deposit		1,572,171
Investments (See Investments Section)		1,980,770
Total	\$	8,611,353
Government-wide Cash, Cash Equivalents and Investments	\$	8,587,800
Debt Reserve Restricted Cash		23,553
Total	\$	8,611,353



**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

**2.B.    CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2021 is as follows:

	Balance at 01/01/21	Additions	Disposals	Transfers	Balance at 12/31/21
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 1,625,088	\$ 480,037	\$ -	\$ -	\$ 2,105,125
Construction In Progress	<u>2,925,274</u>	<u>543,153</u>	<u>-</u>	<u>(2,986,729)</u>	<u>481,698</u>
Total Capital Assets not Being Depreciated	4,550,362	1,023,190	-	(2,986,729)	2,586,823
Capital Assets Being Depreciated					
Buildings and Improvements	2,793,578	21,271	-	-	2,814,849
Machinery, Furniture and Equipment	3,552,556	41,101	(28,000)	89,417	3,655,074
Infrastructure	<u>7,268,198</u>	<u>13,515</u>	<u>-</u>	<u>1,448,656</u>	<u>8,730,369</u>
Total Capital Assets Being Depreciated	13,614,332	75,887	(28,000)	1,538,073	15,200,292
Less: Accumulated Depreciation					
Buildings and Improvements	(908,900)	(103,268)	-	-	(1,012,168)
Machinery, Furniture and Equipment	(1,977,588)	(201,682)	28,000	-	(2,151,270)
Infrastructure	<u>(3,578,569)</u>	<u>(297,208)</u>	<u>-</u>	<u>-</u>	<u>(3,875,777)</u>
Total Accumulated Depreciation	<u>(6,465,057)</u>	<u>(602,158)</u>	<u>28,000</u>	<u>-</u>	<u>(7,039,215)</u>
Total Capital Assets Being Depreciated, Net	<u>7,149,275</u>	<u>(526,271)</u>	<u>-</u>	<u>1,538,073</u>	<u>8,161,077</u>
Capital Assets, Net	<u>\$ 11,699,637</u>	<u>\$ 496,919</u>	<u>\$ -</u>	<u>\$ (1,448,656)</u>	<u>\$ 10,747,900</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 113,227
Public Safety	116,051
Public Works	352,599
Parks and Recreation	<u>20,281</u>
Total Depreciation Expense	<u>\$ 602,158</u>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

	Balance at 01/01/21	Additions	Disposals	Transfers	Balance at 12/31/21
<i>Business-Type Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 156,969	\$ -	\$ -	\$ -	\$ 156,969
Construction In Progress	-	17,128	-	-	17,128
Total Capital Assets not Being Depreciated	156,969	17,128	-	-	174,097
Capital Assets Being Depreciated					
Buildings and Improvements	1,125,329	-	-	-	1,125,329
Machinery and Equipment	3,437,267	-	-	-	3,437,267
Infrastructure	1,524,030	26,401	-	1,448,656	2,999,087
Total Capital Assets Being Depreciated	6,086,626	26,401	-	1,448,656	7,561,683
Less: Accumulated Depreciation					
Buildings and Improvements	(1,080,201)	(3,908)	-	-	(1,084,109)
Machinery and Equipment	(2,200,627)	(93,275)	-	-	(2,293,902)
Infrastructure	(285,888)	(60,389)	-	-	(346,277)
Total Accumulated Depreciation	(3,566,716)	(157,572)	-	-	(3,724,288)
Total Capital Assets Being Depreciated, Net	2,519,910	(131,171)	-	1,448,656	3,837,395
Capital Assets, Net	\$ 2,676,879	\$ (114,043)	\$ -	\$ 1,448,656	\$ 4,011,492

**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, 2021, the long-term debt of the financial reporting entity, excluding compensated absences payable and the net pension and OPEB liabilities, 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	\$ 32,900

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
04/20	\$ 1,058,000	\$61,000 - \$81,000	2.14%	02/36	\$ 1,058,000
Capital Leases					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
02/04	\$ 1,097,442	\$26,813 - \$30,763	4.59%	08/24	\$ 81,309
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%	03/29	\$ 208,874
Total Governmental Activities Long-Term Debt					1,381,083
Due Within One Year					146,366
Due After One Year					<u>\$ 1,234,717</u>

**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%	02/31	\$ 730,000
04/20	\$ 1,040,000	\$25,000 - \$78,000	2.14%	02/36	1,015,000
Total Business-Type Long-Term Debt					1,745,000
Due Within One Year					123,000
Due After One Year					<u>\$ 1,622,000</u>

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, 2021**

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

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

**Changes in Noncurrent Liabilities**

The following is a summary of changes in noncurrent liabilities, excluding the net pension and OPEB liabilities, for the year ended December 31, 2021:

Type of Debt	Balance 01/01/21	Additions	Deductions	Balance 12/31/21	Amounts Due Within One Year
<i>Governmental Activities:</i>					
General Obligation Certificates	\$ 64,800	\$ -	\$ (31,900)	\$ 32,900	\$ 32,900
General Obligation Bonds	2,098,000	-	(1,040,000)	1,058,000	61,000
Capital Lease	109,524	-	(28,215)	81,309	29,386
Loan Payable	231,174	-	(22,300)	208,874	23,080
Compensated Absences	<u>45,603</u>	<u>96,620</u>	<u>(91,549)</u>	<u>50,674</u>	<u>20,170</u>
<b>Total</b>	<b><u>\$ 2,549,101</u></b>	<b><u>\$ 96,620</u></b>	<b><u>\$ (1,213,964)</u></b>	<b><u>\$ 1,431,757</u></b>	<b><u>\$ 166,536</u></b>
<i>Business-Type Activities:</i>					
General Obligation Bonds	\$ 790,000	\$ 1,040,000	\$ (85,000)	\$ 1,745,000	\$ 123,000
Unamortized Bond Premium	1,324	-	(138)	1,186	-
Compensated Absences	<u>1,882</u>	<u>3,408</u>	<u>(3,382)</u>	<u>1,908</u>	<u>874</u>
<b>Total</b>	<b><u>\$ 793,206</u></b>	<b><u>\$ 1,043,408</u></b>	<b><u>\$ (88,520)</u></b>	<b><u>\$ 1,748,094</u></b>	<b><u>\$ 123,874</u></b>

Governmental activity debt is typically funded through Debt Service Funds, the General Fund, and the Fire Department Fund. 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, 2021, capital assets acquired with capital leases include the City Hall building with an original cost of \$1,056,200. There was accumulated depreciation of \$660,125 on the City Hall building as of December 31, 2021.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

**Annual Debt Service Requirements**

At December 31, 2021, the estimated annual debt service requirements to maturity, including principal and interest and excluding compensated absences payable and net pension and OPEB liabilities, are as follows:

Years Ending December 31,	Governmental Activities					
	Capital Lease			Loan		
	Principal	Interest	Total	Principal	Interest	Total
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	21,160	368	21,528	24,724	5,667	30,391
2025	-	-	-	25,590	4,801	30,391
2026	-	-	-	26,485	3,906	30,391
2027-2029	-	-	-	85,107	6,023	91,130
Totals	<u>\$ 81,309</u>	<u>\$ 5,242</u>	<u>\$ 86,551</u>	<u>\$ 208,874</u>	<u>\$ 34,211</u>	<u>\$ 243,085</u>

Years Ending December 31,	Governmental Activities					
	General Obligation Certificates			General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 32,900	\$ 983	\$ 33,883	\$ 61,000	\$ 21,989	\$ 82,989
2023	-	-	-	62,000	20,673	82,673
2024	-	-	-	63,000	19,335	82,335
2025	-	-	-	65,000	17,966	82,966
2026	-	-	-	66,000	16,564	82,564
2027-2031	-	-	-	351,000	60,830	411,830
2032-2036	-	-	-	390,000	21,205	411,205
Totals	<u>\$ 32,900</u>	<u>\$ 983</u>	<u>\$ 33,883</u>	<u>\$ 1,058,000</u>	<u>\$ 178,562</u>	<u>\$ 1,236,562</u>

Years Ending December 31,	Business-Type Activities		
	General Obligation Bonds		
	Principal	Interest	Total
2022	\$ 123,000	\$ 40,561	\$ 163,561
2023	124,000	38,009	162,009
2024	126,000	35,295	161,295
2025	132,000	32,359	164,359
2026	133,000	29,131	162,131
2027-2031	732,000	89,783	821,783
2032-2036	375,000	20,403	395,403
Totals	<u>\$ 1,745,000</u>	<u>\$ 285,541</u>	<u>\$ 2,030,541</u>

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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

Interest and other fiscal charges total \$77,623 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest and other fiscal charges total \$43,040 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$57,278 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, 2021:

Major Funds	Transfers Out	Transfers In	
		Nonmajor Funds Governmental	Totals
Water	\$ 15,269	\$ 15,269	\$ 15,269
Sewer	15,270	15,270	15,270
Totals	\$ 30,539	\$ 30,539	\$ 30,539

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		Amount	Reason
Advances To	Advances From		
Capital Improvement	Highway 371 Project	\$ 778,419	Finance capital improvements
Short-Term Balances			
Due From Fund	Due to Fund		
TIF District Fund	General	3,481	Eliminate negative cash
Capital Improvement	General	260,191	Eliminate negative cash
Total Interfund Balances		\$ 1,042,091	

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**2.E.    FUND EQUITY**

At December 31, 2021, governmental fund equity consists of the following:

Major Governmental Funds

General Fund	
Restricted for Parks	\$            49,187
Restricted by Donor - Splash Park	15,000
Restricted for American Rescue Plan Act Expenditures	125,620
Restricted for Police (from Forfeitures)	31,392
Committed for Library	101,390
Committed for Water Tower	2,771
Committed for Capital Outlay	199,626
Unassigned	<u>1,494,667</u>
Total General Fund Balance	<u>\$        2,019,653</u>
Fire Department Fund	
Nonspendable - Deposit on Asset	\$            9,175
Restricted for Debt Reserves	23,553
Committed for Capital Outlay	37,685
Committed for Fire Department	<u>41,292</u>
Total Fire Department Fund Balance	<u>\$        111,705</u>
Highway 371 Project Fund	
Nonspendable - Advance to Other Funds	\$        778,419
Committed for Road Turnback Projects	<u>3,695,332</u>
Total Highway 371 Project Fund Balance	<u>\$        4,473,751</u>
Capital Improvement Fund	
Unassigned	<u>\$        (1,038,610)</u>
Business Park Fund	
Committed for Business Park	<u>\$        115,738</u>
Nonmajor Governmental Funds	
Nonmajor Governmental Funds	
Restricted for Debt Service	\$        111,973
Committed for Cemetery Perpetual Care	73,529
Unassigned	<u>(3,481)</u>
Total Nonmajor Governmental Funds Balance	<u>\$        182,021</u>

**CITY OF PEQUOT LAKES, MINNESOTA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2021**

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

**2.E.    FUND EQUITY (Continued)**

Deficit fund balances in individual funds at December 31, 2021 consist of the following:

Fund	Fund Deficit
Major Fund	
Capital Improvement Fund	\$ (1,038,610)
Nonmajor Fund	
TIF District Fund	\$ (3,481)

Cash fund deficits are expected to be recovered through future assessments, tax levies, tax increment, or transfers.

**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 of Pequot Lakes 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 1.20 percent for each of the first 10 years of service and 1.70 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.70 percent for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.



**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3.00 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1.00 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

**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 2021 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, 2021 were \$33,195. The City's contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021 were \$63,106. 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, 2021, the City reported a liability of \$256,227 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$7,846.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0060 percent at the end of the measurement period and 0.0060 percent for the beginning of the period.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

City’s proportionate share of the net pension liability:	\$256,227
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>7,846</u>
Total	<u>\$264,073</u>

For the year ended December 31, 2021, the City recognized pension expense of \$21,526 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$633 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 1,312	\$ 7,841
Changes in Actuarial Assumption	156,447	5,368
Difference Between Projected and Actual Investment Earnings	-	221,618
Changes in Proportionate Share	27,644	8,322
Contributions Paid to PERA Subsequent to the Measurement Date	<u>17,041</u>	<u>-</u>
Total City Deferred Outflows/Inflows	<u>\$ 202,444</u>	<u>\$ 243,149</u>

The \$17,041 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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	<u>Pension Expense</u>
2022	\$ (5,111)
2023	\$ 9,885
2024	\$ (1,996)
2025	\$ (60,524)

**Police and Fire Fund Pension Costs**

At December 31, 2021, the City reported a liability of \$240,831 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0312 percent at the end of the measurement period and 0.0302 percent for the beginning of the period.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota’s pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2021, the City recognized pension expense of \$14,182 for its proportionate share of the Police and Fire Plan’s pension expense. The City recognized \$1,972 as grant revenue for its proportionate share of the State of Minnesota’s pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$2,808 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

City’s proportionate share of the net pension liability:	\$240,831
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>10,826</u>
<b>Total</b>	<b><u>\$251,657</u></b>

At December 31, 2021, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 46,283	\$ -
Changes in Actuarial Assumption	353,958	135,468
Difference Between Projected and Actual Investment Earnings	-	461,651
Changes in Proportionate Share	25,375	36,289
Contributions Paid to PERA Subsequent to the Measurement Date	<u>33,249</u>	<u>-</u>
<b>Total City Deferred Outflows/Inflows</b>	<b><u>\$ 458,865</u></b>	<b><u>\$ 633,408</u></b>

The \$33,249 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, 2022.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

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

Year ended December 31,	Pension Expense
2022	\$ (173,631)
2023	\$ (31,993)
2024	\$ (30,062)
2025	\$ (51,792)
2026	\$ 79,686

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2021 was negative \$109,968.

**Long-Term Expected Return on Investment**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	<u>25.0%</u>	5.90%
Total	<u>100%</u>	

**Actuarial Methods and Assumptions**

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

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1.00 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 29 years of service and 6.00 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.00 percent after 24 years of service.

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

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

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60.00 percent to 70.00 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Discount Rate**

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Pension Liability Sensitivity**

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

Sensitivity Analysis			
<i>Net Pension Liability (Asset) at Different Discount Rates</i>			
		General Employees Fund	Police and Fire Fund
1% Decrease in Discount Rate	\$	522,572	\$ 764,597
Current Discount Rate	\$	256,227	\$ 240,831
1% Increase in Discount Rate	\$	37,674	\$ (188,528)

**Pension Plan Fiduciary Net Position**

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

**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. 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, 2021**

**NOTE 4    DEFINED CONTRIBUTION PLAN – STATEWIDE (Continued)**

Total contributions made by the City during fiscal year 2021 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$            591	\$            591	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, 2021 total \$72,431, of which \$46,487 was funded via contributions from participating local governments.

**Pension Costs**

At December 31, 2021, the City of Pequot Lakes reported a net pension asset of \$1,064,505 for the Fire Relief Association’s plan. The net pension asset was measured as of December 31, 2020, as determined by an actuarial valuation as of January 1, 2021.

For the year ended December 31, 2021, the City recognized pension expense of negative \$186,908 for the Association. The City also recognized \$54,310 for the year ended December 31, 2021, as pension expense (and grant revenue) for the 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, 2021**

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

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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Beginning Balance 1/1/20	\$ 1,499,508	\$ 2,072,477	\$ (572,969)
Changes for the Year			
Service Cost	66,516	-	66,516
Interest on Pension Liability	62,641	-	62,641
Assumption Changes	(25,157)	-	(25,157)
Projected Investment Earnings	-	85,189	(85,189)
Contributions (Employer)	-	67,766	(67,766)
Contributions (State)	-	54,310	(54,310)
Asset (Gain)/Loss	(144,823)	251,038	(395,861)
Administrative Fee	-	(7,590)	7,590
Net Changes	<u>(40,823)</u>	<u>450,713</u>	<u>(491,536)</u>
Balance End of Year 12/31/20	<u>\$ 1,458,685</u>	<u>\$ 2,523,190</u>	<u>\$ (1,064,505)</u>

At December 31, 2021, the City of Pequot Lakes reported deferred outflows or resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 172,241
Changes in Actuarial Assumptions	-	56,941
Difference Between Projected and Actual Investment Earnings	-	278,060
Contributions Paid Subsequent to the Measurement Date	<u>72,431</u>	<u>-</u>
Total Fire Relief Deferred Outflows/Inflows	<u>\$ 72,431</u>	<u>\$ 507,242</u>

A total of \$72,431 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, 2022. 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
2022	\$ (106,833)
2023	\$ (96,060)
2024	\$ (112,751)
2025	\$ (79,472)
2026	\$ (29,264)
2027-2030	\$ (82,862)



**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Actuarial Assumptions**

The total pension asset at December 31, 2020 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	Rates
Investment Rate of Return (Discount)	4.75%
Expected Long-Term Rate of Return	4.75%
20-Year Municipal Bond Yield	N/A
Salary Increases	2.50%
Interest on Deferred Amounts	0.00%

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions:

- The discount rate was changed from 4.00 percent to 4.75 percent.

Changes in Plan Provisions:

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

**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 one percent lower or one percent higher than the current discount rate:

	1% Decrease in Discount Rate (3.75%)	Discount Rate (4.75%)	1% Increase in Discount Rate (5.75%)
Net Pension Asset	\$ 1,030,857	\$ 1,064,505	\$ 1,097,242

Asset Allocation

The long-term expected rate of return on pension plan investments is 4.75%. 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	24%	1.80%
Fixed Income	21%	3.00%
Equities	55%	6.80%
Other	0%	N/A

Description of significant investment policy changes during the year

The Fire Relief Association made no significant changes to their investment policy during fiscal year 2020.

**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.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**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 15 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, 2021, the City did not contribute to the Plan.

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

At December 31, 2021, the City reported a net OPEB liability of \$98,259 for the City's plan. The net OPEB liability was measured as of January 1, 2021, based on an actuarial valuation as of January 1, 2020.

For the year ended December 31, 2021, the City recognized OPEB expense of \$3,486. At December 31, 2021, 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 Difference Between Projected and Actual Investment Earnings	\$ 5,645	\$ 8,221
	<u>-</u>	<u>56,275</u>
Total City Deferred Outflows/Inflows	<u>\$ 5,645</u>	<u>\$ 64,496</u>

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, 2022.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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
2022	\$ (8,598)
2023	\$ (8,598)
2024	\$ (8,598)
2025	\$ (8,598)
2026-2029	\$ (24,459)

**Changes in Net OPEB Liability**

The following table summarizes changes in the net OPEB liability for the year ended December 31, 2021:

Changes in Total OPEB Liability (TOL)	
Balance at January 1st	\$ 79,825
Service Cost	11,190
Interest Cost	2,615
Changes in Assumptions	6,351
Benefit Payments	(1,722)
Balance at December 31st	\$ 98,259

**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, 2020
Measurement Date	January 01, 2021
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	2.00%
20-Year Municipal Bond Yield	2.00%
Inflation	2.50%
Salary Increases	Service graded table
Medical Trend Rate	6.25% in 2021 grading to 5.00% over 5 years and then to 4.00% over the next 48 years
Dental Trend Rate	N/A

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Mortality rates were based on the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale.

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

- The discount rate was changed from 2.90 percent to 2.00 percent.

**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	3.00%	\$89,636
Current Discount Rate	2.00%	\$98,259
1% Decrease in Discount Rate	1.00%	\$107,412

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	\$116,480
Current Healthcare Trend Rates	\$98,259
1% Decrease in Healthcare Trend Rates	\$83,088

**NOTE 7 OTHER NOTES**

**7.A. RISK MANAGEMENT**

**Claims and Judgements**

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

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 7 OTHER NOTES (Continued)**

**7.A. RISK MANAGEMENT (Continued)**

**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.

**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, 2021, taxes abated by the City under this agreement total \$18,035.

**7.C. OTHER EMPLOYEE BENEFITS**

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

**7.D. COMMITMENTS**

**Equipment Purchases**

During the year, the City entered into a contract for the purchase of a tanker truck. At December 31, 2021, remaining commitments total \$284,670.

**7.E. NEW ACCOUNTING STANDARD**

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. GASB Statement No. 87 (GASB 87) increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. GASB 87 replaces the previous lease accounting methodology and establishes a single model for lease accounting based on the foundational principle that leases are a financing of the right to use an underlying asset. GASB 87 will be effective for the City’s fiscal year ended December 31, 2022. The effect on net position will likely be significant.

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 7    OTHER NOTES (Continued)**

**7.F.    SUBSEQUENT EVENTS**

**Construction Projects**

Subsequent to year end and prior to issuance of these financial statements, the City approved the purchase of a vehicle totaling \$37,956 and a quote for the splash pad project totaling \$130,247.

**Debt Issuance**

Subsequent to year end, but prior to the issuance of these financial statements, the City issued a G.O. Equipment Certificate of Indebtedness in the amount of \$176,000 to finance the purchase of a snowplow truck.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>REVENUES</b>			
<b>Taxes</b>			
Property Taxes	\$ 1,677,575	\$ 1,671,428	\$ (6,147)
Franchise Taxes	20,500	30,668	10,168
<b>Total Taxes</b>	1,698,075	1,702,096	4,021
<b>Licenses and Permits</b>	15,705	18,820	3,115
<b>Intergovernmental Revenue</b>			
Federal Revenue			
Coronavirus Relief Funds	5,000	125,620	120,620
State Revenue			
Local Government Aid	57,160	61,710	4,550
Market Value Credit	-	2,004	2,004
Transportation	-	73,414	73,414
Police and Fire Aid	54,740	102,916	48,176
Other State Grants and Aids	2,300	585	(1,715)
Local Revenue			
Other Local Grants	5,750	83,520	77,770
<b>Total Intergovernmental Revenue</b>	124,950	449,769	324,819
<b>Charges for Services</b>			
General Government	24,220	37,505	13,285
Police and Fire Contracts	85,920	87,508	1,588
Other Public Safety	1,000	1,015	15
Streets and Highways	400	537	137
Libraries	900	1,274	374
Parks and Recreation	-	2,796	2,796
<b>Total Charges for Services</b>	112,440	130,635	18,195
<b>Fines and Forfeitures</b>	18,000	15,940	(2,060)
<b>Miscellaneous Revenue</b>			
Investment Earnings	32,600	13,517	(19,083)
Sale of Assets	25,000	4,000	(21,000)
Refunds and Reimbursements	5,680	22,018	16,338
Contributions and Donations	17,875	27,178	9,303
Other Miscellaneous	1,600	2,758	1,158
<b>Total Miscellaneous Revenue</b>	82,755	69,471	(13,284)
<b>TOTAL REVENUES</b>	2,051,925	2,386,731	334,806



**CITY OF PEQUOT LAKES, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>EXPENDITURES</b>			
<b>General Government</b>			
Mayor and Council	\$ 29,130	\$ 30,295	\$ 1,165
Administration and Finance	251,110	255,305	4,195
Other General Government	281,755	252,043	(29,712)
Capital Outlay	<u>12,290</u>	<u>25,062</u>	<u>12,772</u>
<b>Total General Government</b>	574,285	562,705	(11,580)
<b>Public Safety</b>			
Police			
Current	792,450	823,124	30,674
Capital Outlay	47,235	41,959	(5,276)
Fire			
Current	<u>-</u>	<u>129,384</u>	<u>129,384</u>
<b>Total Public Safety</b>	839,685	994,467	154,782
<b>Public Works</b>			
Street Maintenance and Storm Sewers	350,300	380,056	29,756
Street Engineering	30,000	13,085	(16,915)
Street Lighting	17,200	22,942	5,742
Capital Outlay - Street Construction	<u>119,130</u>	<u>49,580</u>	<u>(69,550)</u>
<b>Total Public Works</b>	516,630	465,663	(50,967)
<b>Culture and Recreation</b>			
Parks and Recreation			
Current	44,630	43,646	(984)
Capital Outlay	<u>43,775</u>	<u>20,854</u>	<u>(22,921)</u>
<b>Total Culture and Recreation</b>	88,405	64,500	(23,905)
<b>Housing and Economic Development</b>			
Economic Development			
Current	44,470	35,465	(9,005)
<b>Debt Service</b>			
Principal Payments on Other Debt	28,100	28,215	115
Interest and Other Fiscal Charges	<u>4,500</u>	<u>4,090</u>	<u>(410)</u>
<b>Total Debt Service</b>	<u>32,600</u>	<u>32,305</u>	<u>(295)</u>
<b>TOTAL EXPENDITURES</b>	<u>2,096,075</u>	<u>2,155,105</u>	<u>59,030</u>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ <u>(44,150)</u>	\$ 231,626	\$ <u>275,776</u>
<b>FUND BALANCE - BEGINNING</b>		<u>1,788,027</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 2,019,653</u>	

**CITY OF PEQUOT LAKES, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE – FIRE DEPARTMENT FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>REVENUES</b>			
<b>Intergovernmental Revenue</b>			
State Revenue			
Other State Grants and Aids	\$ 7,000	\$ 8,954	\$ 1,954
<b>Charges for Services</b>			
Police and Fire Contracts	218,000	216,980	(1,020)
<b>Miscellaneous Revenue</b>			
Investment Earnings	4,940	1,631	(3,309)
Refunds and Reimbursements	-	473	473
Contributions and Donations	-	12,510	12,510
Other Miscellaneous	-	32	32
<b>Total Miscellaneous Revenue</b>	<u>4,940</u>	<u>14,646</u>	<u>9,706</u>
<b>TOTAL REVENUES</b>	229,940	240,580	10,640
<b>EXPENDITURES</b>			
<b>Public Safety</b>			
Fire			
Current	141,550	162,142	20,592
Capital Outlay	18,230	97,544	79,314
<b>Total Public Safety</b>	<u>159,780</u>	<u>259,686</u>	<u>99,906</u>
<b>Debt Service</b>			
Principal Payments on Other Debt	54,200	54,200	-
Interest and Other Fiscal Charges	10,040	10,029	(11)
<b>Total Debt Service</b>	<u>64,240</u>	<u>64,229</u>	<u>(11)</u>
<b>TOTAL EXPENDITURES</b>	<u>224,020</u>	<u>323,915</u>	<u>99,895</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 5,920</u>	<u>(83,335)</u>	<u>\$ (89,255)</u>
<b>FUND BALANCE - BEGINNING</b>		<u>195,040</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 111,705</u>	

**CITY OF PEQUOT LAKES, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE – BUSINESS PARK FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
<b>Intergovernmental Revenue</b>			
Local Revenue			
Other Local Grants	\$ 168,000	\$ -	\$ (168,000)
<b>Miscellaneous Revenue</b>			
Investment Earnings	<u>8,500</u>	<u>2,128</u>	<u>(6,372)</u>
<b>TOTAL REVENUES</b>	176,500	2,128	(174,372)
<b>EXPENDITURES</b>			
<b>Public Works</b>			
Capital Outlay - Street Construction	450,000	440,587	(9,413)
<b>Housing and Economic Development</b>			
Economic Development			
Current	<u>2,000</u>	<u>1,421</u>	<u>(579)</u>
<b>TOTAL EXPENDITURES</b>	<u>452,000</u>	<u>442,008</u>	<u>(9,992)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (275,500)</u>	\$ (439,880)	<u>\$ (164,380)</u>
<b>FUND BALANCE - BEGINNING</b>		<u>555,618</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 115,738</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
<b><i>General Employees Retirement Pension Plan</i></b>							
2021	0.0060%	\$ 256,227	\$ 7,846	\$ 264,073	\$ 430,975	61.27%	87.00%
2020	0.0060%	\$ 359,728	\$ 11,120	\$ 370,848	\$ 422,858	87.70%	79.06%
2019	0.0050%	\$ 276,439	\$ 8,666	\$ 285,105	\$ 355,467	80.21%	80.20%
2018	0.0056%	\$ 310,665	\$ 10,219	\$ 320,884	\$ 373,795	85.84%	79.50%
2017	0.0054%	\$ 344,732	\$ 33,241	\$ 377,973	\$ 348,587	108.43%	75.90%
2016	0.0055%	\$ 446,573	\$ 2,970	\$ 449,543	\$ 342,732	131.16%	68.90%
2015	0.0063%	\$ 326,499	\$ -	\$ 326,499	\$ 369,980	88.25%	78.20%
<b><i>Public Employees Police and Fire Pension Plan</i></b>							
2021	0.0312%	\$ 240,831	\$ 10,826	\$ 251,657	\$ 368,376	68.32%	93.66%
2020	0.0302%	\$ 398,068	\$ 9,374	\$ 407,442	\$ 334,685	121.74%	87.19%
2019	0.0338%	\$ 359,835	\$ -	\$ 359,835	\$ 346,618	103.81%	89.30%
2018	0.0311%	\$ 331,494	\$ -	\$ 331,494	\$ 327,432	101.24%	88.80%
2017	0.0320%	\$ 432,038	\$ -	\$ 432,038	\$ 326,444	132.35%	85.40%
2016	0.0330%	\$ 1,324,347	\$ -	\$ 1,324,347	\$ 318,651	415.61%	63.90%
2015	0.0340%	\$ 386,320	\$ -	\$ 386,320	\$ 311,104	124.18%	86.60%

Note: The schedule is provided prospectively with the City's fiscal year ended December 31, 2015 (June 30, 2015 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 CITY PENSION CONTRIBUTIONS**  
**LAST TEN YEARS (Presented Prospectively)**

For the Fiscal Year Ended December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<b><i>General Employees Retirement Pension Plan</i></b>					
2021	\$ 33,195	\$ 33,195	\$ -	\$ 442,599	7.50%
2020	\$ 32,659	\$ 32,659	\$ -	\$ 435,458	7.50%
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%
<b><i>Public Employees Police and Fire Pension Plan</i></b>					
2021	\$ 63,106	\$ 63,106	\$ -	\$ 356,531	17.70%
2020	\$ 62,561	\$ 62,561	\$ -	\$ 353,453	17.70%
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%
<b><i>Pequot Lakes Firefighters Relief Association Pension Plan</i></b>					
2021	\$ -	\$ -	\$ -	N/A	N/A
2020	\$ -	\$ -	\$ -	N/A	N/A
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)**

	Measurement Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
<b>Changes in Total Pension Liability (TPL)</b>							
Balance at January 1st	\$ 1,499,508	\$ 1,251,367	\$ 1,160,065	\$ 1,117,731	\$ 1,087,207	\$ 1,009,761	\$ 1,002,635
Service Cost	66,516	58,681	56,944	50,980	51,471	52,224	48,196
Interest on the TPL	62,641	52,402	48,680	43,638	45,547	38,947	36,930
Assumption Changes	(25,157)	-	-	-	(62,883)	-	-
Plan Changes	-	137,058	-	103,240	54,111	58,442	-
Actuarial Experience (Gains)/Losses	(144,823)	-	(14,322)	-	(57,722)	-	-
Benefit Payments	-	-	-	(155,524)	-	(72,167)	(78,000)
Balance at December 31st	<u>\$ 1,458,685</u>	<u>\$ 1,499,508</u>	<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>
<b>Plan Fiduciary Net Position (PFNP)</b>							
Balance at January 1st	\$ 2,072,477	\$ 1,731,527	\$ 1,644,018	\$ 1,587,722	\$ 1,423,957	\$ 1,392,053	\$ 1,308,978
Fire State Aid	54,310	51,141	54,376	51,257	49,001	48,895	48,390
Municipal Contributions	67,766	61,486	57,409	54,033	51,310	48,305	46,629
Projected Investment Income	85,189	71,326	67,824	62,311	58,832	12,056	71,726
Gain or Loss	251,038	166,397	(83,457)	53,867	11,247	-	-
Total Additions	<u>458,303</u>	<u>350,350</u>	<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	(7,590)	(9,400)	(8,643)	(9,648)	(6,625)	(5,185)	(5,670)
Total Reductions	<u>(7,590)</u>	<u>(9,400)</u>	<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>\$ 2,523,190</u>	<u>\$ 2,072,477</u>	<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>\$ (1,064,505)</u>	<u>\$ (572,969)</u>	<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 (Asset)	173%	138%	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)**

	Measurement Year Ended December 31,			
	2020	2019	2018	2017
<b>Changes in Total OPEB Liability (TOL)</b>				
Balance at January 1st	\$ 79,825	\$ 142,605	\$ 117,982	\$ 88,055
Service Cost	11,190	9,511	25,548	26,748
Interest on the TPL	2,615	5,780	4,736	3,778
Differences between Expected and Actual Experience	-	(72,354)	-	-
Changes in Actuarial Assumptions	6,351	(5,717)	-	-
Benefit Payments	(1,722)	-	(5,661)	(599)
Balance at December 31st	<u>\$ 98,259</u>	<u>\$ 79,825</u>	<u>\$ 142,605</u>	<u>\$ 117,982</u>
Covered Payroll for Active Members	<u>\$ 801,179</u>	<u>\$ 775,960</u>	<u>\$ 701,038</u>	<u>\$ 680,619</u>
Net OPEB Liability / Covered Payroll	12.26%	10.29%	20.34%	17.33%

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, 2021**

**NOTE 1 BUDGETARY COMPARISON SCHEDULES**

Actual expenditures exceeded total budgeted expenditures for the current year-end as follows:

Fund	Budgeted Expenditures	Actual Expenditures
General Fund	\$ 2,096,075	\$ 2,155,105
Fire Department Fund	\$ 224,020	\$ 323,915

The expenditures in excess of budget in the General Fund are primarily due to the City not budgeting for certain flow-through revenues and expenditures related to the fire relief association. The expenditures in excess of budget were funded by available fund balance. The expenditures in excess of budget in the Fire Department Fund are primarily due to unbudgeted costs for the purchase of a freightliner truck in the current year.

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND**

**2021 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2021**

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)**

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023 and 0.00 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**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 loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2021**

**NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)**

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

**NOTE 3 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND**

**2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60.00 percent to 70.00 percent. Minor changes to form of payment assumptions were applied.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2021**

**NOTE 3 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)**

Changes in Plan Provisions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2021**

**NOTE 3 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)**

**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.

Changes in Plan Provisions

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

**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.

Changes in Plan Provisions

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

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**CITY OF PEQUOT LAKES, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2021**

**NOTE 4    DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION**

**2020 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 4.00 percent to 4.75 percent.

Changes in Plan Provisions

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

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

- There were no changes made to actuarial assumptions during 2017.

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2015 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2021**

**NOTE 5 OTHER POSTEMPLOYMENT BENEFIT PLAN**

**2020 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 2.90 percent to 2.00 percent.

Changes in Plan Provisions

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

**2019 Changes**

Changes in Actuarial Assumptions

- The health care trend rates, mortality tables, and salary increase rates were updated.
- The eligibility for the Law Enforcement Personnel post-employment medical subsidized benefit has been updated to reflect the hire date provision of January 1, 2013.
- The discount rate was changed from 3.80 percent to 2.90 percent.

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2017 Changes**

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 percent to 3.30 percent.

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 85.00 percent of the premium. Also, union employees are now on the same medical plan as other city employees rather than the Teamsters Local 346 plan.

**SUPPLEMENTARY INFORMATION**



**CITY OF PEQUOT LAKES, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	<u>Special Revenue</u>		<u>Debt Service</u>			Total Nonmajor Funds
	Cemetery Perpetual Care Fund	2020 GO Utility Bonds Fund	2014 Equipment Certificates Fund	TIF District Fund		
<b>ASSETS</b>						
Cash, Cash Equivalents, and Investments	\$ 73,529	\$ 103,054	\$ 6,854	\$ -		\$ 183,437
Property Taxes Receivable	-	3,754	552	-		4,306
<b>TOTAL ASSETS</b>	<u>\$ 73,529</u>	<u>\$ 106,808</u>	<u>\$ 7,406</u>	<u>\$ -</u>		<u>\$ 187,743</u>
<b>LIABILITIES</b>						
Due to Other Funds	\$ -	\$ -	\$ -	\$ 3,481		\$ 3,481
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue:						
Property Taxes	-	1,689	552	-		2,241
<b>FUND BALANCES</b>						
Restricted	-	105,119	6,854	-		111,973
Committed	73,529	-	-	-		73,529
Unassigned	-	-	-	(3,481)		(3,481)
Total Fund Balances	<u>73,529</u>	<u>105,119</u>	<u>6,854</u>	<u>(3,481)</u>		<u>182,021</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 73,529</u>	<u>\$ 106,808</u>	<u>\$ 7,406</u>	<u>\$ -</u>		<u>\$ 187,743</u>

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

	Special Revenue		Debt Service			Total Nonmajor Funds
	Cemetery Perpetual Care Fund	2020 GO Utility Bonds Fund	2014		TIF District Fund	
			Equipment Certificates Fund			
<b>REVENUES</b>						
Taxes	\$ -	\$ 85,929	\$ 82	\$ -	\$ -	\$ 86,011
Charges for Services	5,600	-	-	-	-	5,600
Interest Income	570	20	55	1	-	646
Miscellaneous	6	-	-	2,895	-	2,901
<b>TOTAL REVENUES</b>	<u>6,176</u>	<u>85,949</u>	<u>137</u>	<u>2,896</u>	<u>-</u>	<u>95,158</u>
<b>EXPENDITURES</b>						
Current:						
Public Works	-	355	360	-	-	715
Economic Development	-	-	-	6,377	-	6,377
Cemetery	3,934	-	-	-	-	3,934
Debt Service:						
Interest and Other Charges	-	28,921	-	-	-	28,921
<b>TOTAL EXPENDITURES</b>	<u>3,934</u>	<u>29,276</u>	<u>360</u>	<u>6,377</u>	<u>-</u>	<u>39,947</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	2,242	56,673	(223)	(3,481)	-	55,211
<b>OTHER FINANCING SOURCES</b>						
Transfers In	-	30,539	-	-	-	30,539
<b>NET CHANGE IN FUND BALANCES</b>	2,242	87,212	(223)	(3,481)	-	85,750
<b>FUND BALANCES - BEGINNING</b>	<u>71,287</u>	<u>17,907</u>	<u>7,077</u>	<u>-</u>	<u>-</u>	<u>96,271</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 73,529</u>	<u>\$ 105,119</u>	<u>\$ 6,854</u>	<u>\$ (3,481)</u>	<u>\$ -</u>	<u>\$ 182,021</u>

**CITY OF PEQUOT LAKES, MINNESOTA  
SCHEDULE OF INDEBTEDNESS  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/21	Issued	Paid	Transferred	Outstanding Balance 12/31/21	Principal Due Within One Year
<b>GOVERNMENTAL INDEBTEDNESS</b>										
G.O. Utility Revenue and Disposal System Bond, Series 2020A	4/21/2020	2.14%	2/1/2036	\$ 1,058,000	\$ 2,098,000	\$ -	\$ -	\$ (1,040,000)	\$ 1,058,000	\$ 61,000
G.O. Equipment Certificate, Series 2017A	2/15/2017	2.99%	8/1/2022	135,000	64,800	-	31,900	-	32,900	32,900
Community Facility Loan - Fire Truck	2/1/2014	3.50%	3/26/2029	350,000	231,174	-	22,300	-	208,874	23,080
City Hall Building Capital Lease	2/1/2004	4.59%	8/1/2024	1,097,442	109,524	-	28,215	-	81,309	29,386
<b>TOTAL GOVERNMENTAL DEBTS</b>				2,640,442	2,503,498	-	82,415	(1,040,000)	1,381,083	146,366
<b>BUSINESS-TYPE INDEBTEDNESS</b>										
G.O. Utility Revenue and Disposal System Bond, Series 2020A	4/21/2020	2.14%	2/1/2036	1,040,000	-	-	25,000	1,040,000	1,015,000	58,000
G.O. Utility Refunding Bonds, Series 2012A	2/1/2013	0.60-3.10%	2/1/2031	1,270,000	790,000	-	60,000	-	730,000	65,000
<b>TOTAL BUSINESS-TYPE DEBTS</b>				2,310,000	790,000	-	85,000	1,040,000	1,745,000	123,000
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 4,950,442</u>	<u>\$ 3,293,498</u>	<u>\$ -</u>	<u>\$ 167,415</u>	<u>\$ -</u>	<u>\$ 3,126,083</u>	<u>\$ 269,366</u>

## **OTHER REQUIRED REPORTS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council  
City of 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, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Pequot Lakes, Minnesota's basic financial statements and have issued our report thereon dated June 7, 2022.

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

Our consideration of internal control 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 have not been 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as items 2006-001 and 2020-003 to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* as item 2006-002 to be a significant deficiency.

## Report on Compliance and Other Matters

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

### Minnesota Legal Compliance

In connection with our audit, we noted that the City of Pequot Lakes failed to comply with provisions of the public indebtedness section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the *Schedule of Findings and Responses* as item 2021-004. Also, in connection with our audit, nothing came to our attention that caused us to believe that the City of Pequot Lakes failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, contracting bid laws, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

### City's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Pequot Lakes' response to the findings identified in our audit and described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### Purpose of this Report

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



**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

June 7, 2022



**CITY OF PEQUOT LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2021**

**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 but will review the cost/benefit of preparing financial statements internally on an annual basis. See corresponding Corrective Action Plan.

**Finding 2020-003                      Material Audit Adjustments**

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

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

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

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

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

*Views of Responsible  
Officials And Planned  
Corrective Action:*

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

**LEGAL COMPLIANCE FINDING**

**Finding 2021-004                      Report of Outstanding Indebtedness**

*Condition:*                      The City's Report of Outstanding Indebtedness was not filed on or before February 1, 2022 for the year ended December 31, 2021.

*Criteria:*                      The City is required to report to the county auditor, on or before February 1 of each year, the total amount of outstanding obligations and the purpose for which it was issued, as of December 31 of the preceding year, in accordance with Minn. Stat. Section 471.70.

*Cause:*                      The City failed to file their required report timely, by submitting on February 2, 2022.

*Effect:*                      The failure to file such report prior to February 1, 2022 resulted in the City's noncompliance with Minnesota Statutes.

*Recommendation:*                      The City should implement controls to ensure the Report of Outstanding Indebtedness is filed before February 1 each year in order to be in compliance with Minnesota Statutes.



**CITY OF PEQUOT LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2021**

**LEGAL COMPLIANCE FINDING (Continued)**

*Views of Responsible  
Officials And Planned  
Corrective Actions:*

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

**CITY OF PEQUOT LAKES, MINNESOTA  
CORRECTIVE ACTION PLANS  
DECEMBER 31, 2021**

**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  
Richard Spiczka, 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 management will document their annual review of this information. The City will revisit this decision on an annual basis.
3. Official Responsible  
Richard Spiczka, 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.

**CITY OF PEQUOT LAKES, MINNESOTA  
CORRECTIVE ACTION PLANS  
DECEMBER 31, 2021**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2020-003            Material Audit Adjustments**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.
3. Official Responsible  
Richard Spiczka, 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.

**LEGAL COMPLIANCE FINDING**

**Finding 2021-004            Report of Outstanding Indebtedness**

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 implement controls to ensure the Report of Outstanding Indebtedness is filed timely in the future.
3. Official Responsible  
Richard Spiczka, City Administrator, is the official responsible for ensuring corrective action.
4. Planned Completion Date  
December 31, 2022.
5. Plan to Monitor Completion  
The City Council will be monitoring this Corrective Action Plan.