

# City of Pequot Lakes, Minnesota

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Audited Financial Statements

December 31, 2022

**SCHLENNER  
WENNER & Co.**  
CPAs

**CITY OF PEQUOT LAKES, MINNESOTA  
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**INTRODUCTORY  
SECTION**

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

**CITY COUNCIL**

Term Expires

Tyler Gardner	Mayor	December 31, 2024
Pete Clement	Council Member	December 31, 2025
Scott Pederson	Council Member	December 31, 2025
Dan Ronning	Council Member	December 31, 2026
Cheri Seils	Council Member	December 31, 2026

**CITY OFFICIALS**

Richard Spiczka	City Administrator
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**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 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2022, 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*

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

### ***Required Supplementary Information***

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2023 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 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

July 18, 2023



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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, 2022. Please read it in conjunction with the independent auditor's report on page four and the City's financial statements, which begin on page 18.

**FINANCIAL HIGHLIGHTS**

- The City's net position decreased \$376,719 as a result of this year's operations.
- In the City's business-type activities, revenues decreased \$56,426 (or 7.65 percent) and program expenses increased \$118,925 (or 22.98 percent). These changes are discussed in greater detail throughout the following pages.
- Total cost of all of the City's programs increased \$323,629 (or 10.80 percent).
- The City's General Fund generated more revenue than budgeted by \$334,993. Expenditures were more than budgeted by \$125,853, primarily due to unbudgeted capital outlay costs for the purchase of various vehicles and equipment. See additional details starting on page 63.

**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 18 and 19) 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 20. For governmental activities, these statements tell how these 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 10. 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 and deferred outflows of resources, less liabilities and deferred inflows of resources) 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, 2022**

**USING THIS ANNUAL REPORT (Continued)**

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

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 20 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 three kinds of funds (governmental, proprietary, and fiduciary) 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 proprietary 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.
- **Fiduciary Fund** – this fund is used to account for resources held for the benefit of parties outside of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the City-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**THE CITY AS A WHOLE**

The City's combined net position decreased \$376,719 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	
	2022	2021	2022	2021	2022	2021
Current and Other Assets	\$ 6,648,099	\$7,330,368	\$ 2,878,423	\$2,817,922	\$ 9,526,522	\$ 10,148,290
Net Capital Assets	<u>10,538,896</u>	<u>10,747,900</u>	<u>3,859,515</u>	<u>4,011,492</u>	<u>14,398,411</u>	<u>14,759,392</u>
Total Assets	17,186,995	18,078,268	6,737,938	6,829,414	23,924,933	24,907,682
Deferred Outflows of Resources	1,035,489	719,277	25,492	20,108	1,060,981	739,385
Current Liabilities	60,581	142,559	111,972	140,149	172,553	282,708
Noncurrent Liabilities	<u>3,221,452</u>	<u>1,996,056</u>	<u>1,702,488</u>	<u>1,779,112</u>	<u>4,923,940</u>	<u>3,775,168</u>
Total Liabilities	3,282,033	2,138,615	1,814,460	1,919,261	5,096,493	4,057,876
Deferred Inflows of Resources	118,942	1,420,469	6,302	27,826	125,244	1,448,295
Net Position:						
Net Investment in						
Capital Assets	9,128,252	9,366,817	2,236,467	2,265,306	11,364,719	11,632,123
Restricted	198,259	343,327	-	-	198,259	343,327
Unrestricted	<u>5,494,998</u>	<u>5,528,317</u>	<u>2,706,201</u>	<u>2,637,129</u>	<u>8,201,199</u>	<u>8,165,446</u>
Total Net Position	<u>\$ 14,821,509</u>	<u>\$ 15,238,461</u>	<u>\$ 4,942,668</u>	<u>\$ 4,902,435</u>	<u>\$ 19,764,177</u>	<u>\$ 20,140,896</u>

The net position of the City's governmental activities decreased by \$416,952 (2.74 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 \$33,319 compared to the prior year.

The net position of the City's business-type activities increased by \$40,233 (0.82 percent) from the prior year. Operations were comparable to the prior year. Such an increase can be attributed to the results of current year operations.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Government	
	2022	2021	2022	2021	2022	2021
<b>REVENUE</b>						
Charges for Services	\$ 152,007	\$ 310,079	\$ 677,867	\$ 713,792	\$ 829,874	\$ 1,023,871
Operating Grants and Contributions	194,535	288,008	-	-	194,535	288,008
Capital Grants and Contributions	152,988	169,700	1	1	152,989	169,701
Taxes	1,867,123	1,849,236	-	-	1,867,123	1,849,236
Intergovernmental	80,053	139,670	304	64	80,357	139,734
Franchise Taxes	33,974	30,668	-	-	33,974	30,668
Investment Income	(7,306)	47,110	(7,993)	20,063	(15,299)	67,173
Rental Income	13,941	1,601	1,948	1,948	15,889	3,549
Other	120,553	86,940	9,259	1,944	129,812	88,884
<b>Total Revenues</b>	<b>2,607,868</b>	<b>2,923,012</b>	<b>681,386</b>	<b>737,812</b>	<b>3,289,254</b>	<b>3,660,824</b>
<b>PROGRAM EXPENSES</b>						
General Government	721,508	641,415	-	-	721,508	641,415
Public Safety	984,413	863,011	-	-	984,413	863,011
Public Works	782,775	817,725	-	-	782,775	817,725
Parks and Recreation	99,302	71,267	-	-	99,302	71,267
Economic Development	37,593	43,263	-	-	37,593	43,263
Cemetery	1,761	3,934	-	-	1,761	3,934
Debt Service	57,382	39,415	-	-	57,382	39,415
Water	-	-	351,827	265,265	351,827	265,265
Sewer	-	-	284,716	252,353	284,716	252,353
<b>Total Expenses</b>	<b>2,684,734</b>	<b>2,480,030</b>	<b>636,543</b>	<b>517,618</b>	<b>3,321,277</b>	<b>2,997,648</b>
Gain on Disposal of Assets	861	4,000	-	-	861	4,000
Capital Contributions	-	252,000	-	-	-	252,000
Capital Asset Transfers	-	(408,656)	-	408,656	-	-
Capital Appropriation and Change in Equity Interest (Net)	(345,557)	-	-	-	(345,557)	-
Transfers	4,610	30,539	(4,610)	(30,539)	-	-
<b>Change in Net Position</b>	<b>(416,952)</b>	<b>320,865</b>	<b>40,233</b>	<b>598,311</b>	<b>(376,719)</b>	<b>919,176</b>
<b>Net Position - Beginning of Year</b>	<b>15,238,461</b>	<b>14,917,596</b>	<b>4,902,435</b>	<b>4,304,124</b>	<b>20,140,896</b>	<b>19,221,720</b>
<b>Net Position - End of Year</b>	<b>\$ 14,821,509</b>	<b>\$ 15,238,461</b>	<b>\$ 4,942,668</b>	<b>\$ 4,902,435</b>	<b>\$ 19,764,177</b>	<b>\$ 20,140,896</b>

The City's total revenues decreased by \$371,570 (10.15 percent) from the prior year. The total cost of all programs and services increased by \$323,629 (or 10.80 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, 2022**

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

**Governmental Activities**

Revenue for the City's governmental activities decreased by \$315,144 (10.78 percent), largely due to the Pequot Lakes Fire District being established through a joint powers agreement with the City of Breezy Point during the year. This resulted in the fire department's activity being broken out from the City's governmental activities and reported as a fiduciary fund in the City of Pequot Lakes' financial statements for the year ended December 31, 2022. Total expenses for the City's governmental activities increased \$204,704 (8.25 percent), largely due to increased expenses for general government and public safety expenses related to pensions.

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 total and net cost of services increased largely due to increased expenses related to pensions, as noted above, as well as increased costs for property and workers' compensation insurance in the current year.
- Public Safety net cost of services increased due to a significant increase in pension expenses in conjunction with a decrease in charges for services revenues for fire protection services. These changes are the result of the Pequot Lakes Fire District being established and broken out from the City in the current year, as previously discussed.
- Public Works net cost of services increased due to the City receiving a Business Development Public Infrastructure Grant in 2021 that offset prior year road construction costs. No such grant was received in the current year.

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2022	2021	2022	2021
General Government	\$ 721,508	\$ 641,415	\$ 547,045	\$ 447,546
Public Safety	984,413	863,011	754,366	469,000
Public Works	782,775	817,725	789,373	652,488
Parks and Recreation	99,302	71,267	(1,916)	62,197
Economic Development	37,593	43,263	37,593	43,263
Cemetery	1,761	3,934	1,361	(1,666)
Debt Service	57,382	39,415	57,382	39,415
Totals	<u>\$ 2,684,734</u>	<u>\$ 2,480,030</u>	<u>\$ 2,185,204</u>	<u>\$ 1,712,243</u>

**Business-type Activities**

Revenues of the City's business-type activities (see Table 2) decreased by \$56,426 (7.65 percent) and program expenses increased by \$118,925 (22.98 percent). The increase in expenses is primarily due to an increase in wages and repair and maintenance expenses in the current year.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

**THE CITY'S FUNDS**

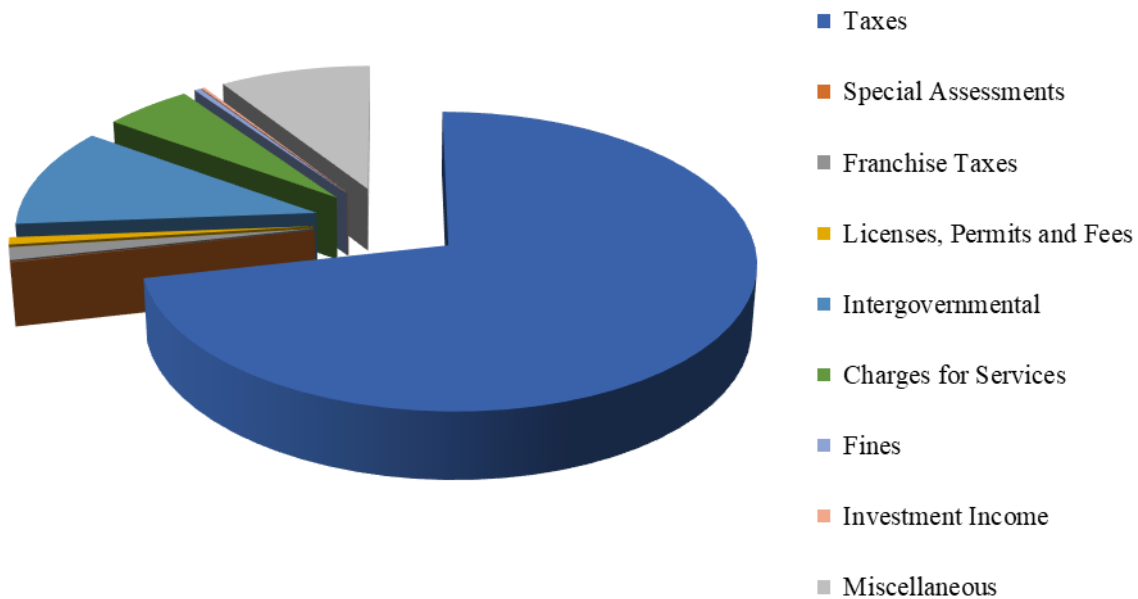
**Governmental Funds**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$6,186,882. This is an increase of \$332,624 from the prior year. Operations were comparable to the prior year, with the exception of the Fire Department Fund activity being transferred to the Pequot Lakes Fire District in the current year, as previously discussed. 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)
	2022	2021	
<b>General Fund</b>	\$ 2,162,348	\$ 2,019,653	\$ 142,695

The fund balance of the General Fund increased by \$142,695 compared to 2021. Overall, operations were generally consistent year-to-year, with the exception of a transfer to the Capital Improvement fund in the current year to assist in financing the City's splashpad project. Details of the General Fund's revenues and expenditures are displayed below:

**General Fund Revenues**

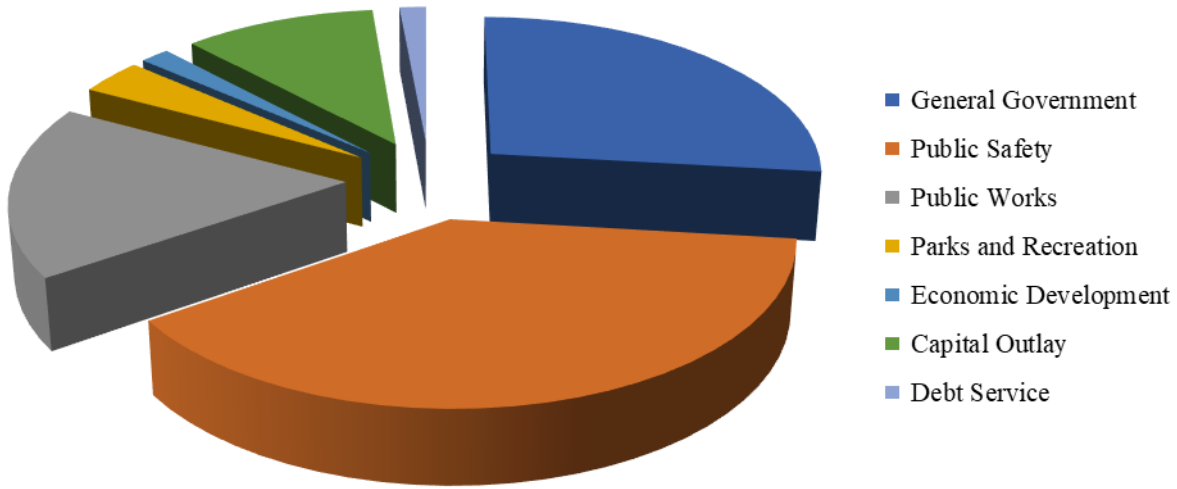


The City receives the majority of its funding in the General Fund in the form of taxes (71.52 percent), funding received from other governmental agencies (11.12 percent), charges for services (5.36 percent), and miscellaneous revenues (9.14 percent). Overall, the City's General Fund revenues were comparable to the prior year.

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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

**General Fund Expenditures**



A significant portion of the City's General Fund expenditures were used for public safety (38.58 percent). Remaining expenditures are used primarily for general government operations (26.82 percent), public works (17.36 percent), and capital outlay (10.59 percent). Expenditures are comparable to the prior year.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2022	2021	
<b>Highway 371 Project Fund</b>	\$ 4,569,082	\$ 4,473,751	\$ 95,331

The Highway 371 Project fund balance increased primarily due to a decrease in capital outlay expenditures as compared to the prior year, resulting in operational revenues exceeding expenditures of the fund.

<b>Capital Improvement Fund</b>	\$ (1,067,935)	\$ (1,038,610)	\$ (29,325)
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The Capital Improvement fund balance decreased primarily as a result of significant capital outlay expenditures in the current year related to the purchase of a plow truck, along with costs incurred for the construction of the City's splashpad project.

<b>Business Park Fund</b>	\$ 278,325	\$ 115,738	\$ 162,587
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The Business Park fund balance increased primarily due to the Larson Parkway Improvements Project being completed in the prior year. The Business Development Public Infrastructure Grant, a reimbursement of 2021 Larson Parkway Improvement costs, was also received in 2022.



**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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

**General Fund Budgetary Highlights**

The City's General Fund generated more revenue than budgeted by \$334,993. Expenditures were more than budgeted by \$125,853, excluding transfers to other funds. Budgeted expenditures in excess of actual amounts were the result of unbudgeted capital outlay costs for the purchase of various vehicles and equipment.

**Proprietary Funds**

As the City completed the year, its business-type activities reported a combined net position of \$4,942,668. This is an increase of \$40,233 from the prior year. The following is a summary of the City's major proprietary funds:

Major Funds	Net Position December 31,		Increase (Decrease)
	2022	2021	
<b>Water Fund</b>	\$ 1,550,076	\$ 1,567,080	\$ (17,004)

The Water Fund net position decreased as a result of a decrease in charges for services revenues in conjunction with an increase in wages and benefits, professional services, and depreciation expenses as compared to the prior year.

<b>Sewer Fund</b>	\$ 3,392,592	\$ 3,335,355	\$ 57,237
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The Sewer Fund net position increased due to revenues exceeding expenses as a result of current year operations.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2022, the City had \$14,398,411 net investment in a broad range of capital assets, including machinery and equipment, buildings, improvements and infrastructure. This amount represents a net decrease of \$360,981 (2.45 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 44.

**Table 4  
Capital Assets Net of Depreciation**

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Land	\$ 2,105,125	\$ 2,105,125	\$ 156,969	\$ 156,969	\$ 2,262,094	\$ 2,262,094
Construction In Progress	628,614	481,698	48,482	17,128	677,096	498,826
Buildings and Improvements	1,710,375	1,802,681	37,312	41,220	1,747,687	1,843,901
Machinery and Equipment	1,560,471	1,503,804	1,054,212	1,143,364	2,614,683	2,647,168
Streets and Infrastructure	4,534,311	4,854,592	2,562,540	2,652,811	7,096,851	7,507,403
<b>Totals</b>	<b>\$ 10,538,896</b>	<b>\$ 10,747,900</b>	<b>\$ 3,859,515</b>	<b>\$ 4,011,492</b>	<b>\$ 14,398,411</b>	<b>\$ 14,759,392</b>

**CITY OF PEQUOT LAKES, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022**

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

**Debt**

At year-end, the City had \$3,033,692 in gross debt versus \$3,127,269 last year (a decrease of 2.99 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 46.

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

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Bonds Payable	\$ 997,000	\$1,058,000	\$ 1,623,048	\$1,746,186	\$ 2,620,048	\$ 2,804,186
Equipment Certificates	176,000	32,900	-	-	176,000	32,900
Loans Payable	185,794	208,874	-	-	185,794	208,874
Financing Arrangements	51,850	81,309	-	-	51,850	81,309
<b>Totals</b>	<b>\$ 1,410,644</b>	<b>\$ 1,381,083</b>	<b>\$ 1,623,048</b>	<b>\$ 1,746,186</b>	<b>\$ 3,033,692</b>	<b>\$ 3,127,269</b>

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

In 2023, the City will complete a chip sealing project on Patriot Avenue. The City is applying for a DNR Grant to build a new picnic shelter and bathroom in Trailside Park. Also in 2023, the City continues with the planning and design process of the upgrade to the Wastewater Ponds and Lift Stations. The City is continuing with the planning process for road improvements to Coleman Drive and the 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, 2022**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash, Cash Equivalents, and Investments	\$ 5,950,060	\$ 2,734,348	\$ 8,684,408
Debt Reserve Restricted Cash	26,086	-	26,086
Property Taxes Receivable	124,857	-	124,857
Assessments Receivable	8,302	2,935	11,237
Accounts Receivable	24,560	141,140	165,700
Interest Receivable	9,759	-	9,759
Due from Other Governments	167,841	-	167,841
Noncurrent Assets:			
Capital Assets Not Being Depreciated	2,733,739	205,451	2,939,190
Capital Assets Being Depreciated (Net)	7,805,157	3,654,064	11,459,221
Investment in Joint Venture	336,634	-	336,634
<b>TOTAL ASSETS</b>	<b>17,186,995</b>	<b>6,737,938</b>	<b>23,924,933</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	6,257	450	6,707
Pensions	1,029,232	25,042	1,054,274
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,035,489</b>	<b>25,492</b>	<b>1,060,981</b>
<b>LIABILITIES</b>			
Accounts Payable	30,609	92,496	123,105
Salaries Payable	12,056	2,884	14,940
Accrued Interest Payable	17,349	16,372	33,721
Due to Other Governments	567	220	787
Noncurrent Liabilities:			
Amount Due Within One Year	156,774	125,730	282,504
Amount Due After One Year	1,311,260	1,500,970	2,812,230
Net OPEB Liability	92,517	6,658	99,175
Net Pension Liability	1,660,901	69,130	1,730,031
<b>TOTAL LIABILITIES</b>	<b>3,282,033</b>	<b>1,814,460</b>	<b>5,096,493</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	59,515	4,284	63,799
Pensions	59,427	2,018	61,445
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>118,942</b>	<b>6,302</b>	<b>125,244</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,128,252	2,236,467	11,364,719
Restricted	198,259	-	198,259
Unrestricted	5,494,998	2,706,201	8,201,199
<b>TOTAL NET POSITION</b>	<b>\$ 14,821,509</b>	<b>\$ 4,942,668</b>	<b>\$ 19,764,177</b>

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 721,508	\$ 48,843	\$ 125,620	\$ -	\$ (547,045)	\$ -	\$ (547,045)
Public Safety	984,413	97,841	68,915	63,291	(754,366)	-	(754,366)
Public Works	782,775	3,667	-	(10,265)	(789,373)	-	(789,373)
Parks and Recreation	99,302	1,256	-	99,962	1,916	-	1,916
Economic Development	37,593	-	-	-	(37,593)	-	(37,593)
Cemetery	1,761	400	-	-	(1,361)	-	(1,361)
Debt Service	57,382	-	-	-	(57,382)	-	(57,382)
<b>Total Governmental Activities</b>	<b>2,684,734</b>	<b>152,007</b>	<b>194,535</b>	<b>152,988</b>	<b>(2,185,204)</b>	<b>-</b>	<b>(2,185,204)</b>
<b>Business-Type Activities:</b>							
Water	351,827	340,096	-	-	-	(11,731)	(11,731)
Sewer	284,716	337,771	-	1	-	53,056	53,056
<b>Total Business-Type Activities</b>	<b>636,543</b>	<b>677,867</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>41,325</b>	<b>41,325</b>
<b>TOTALS</b>	<b>\$ 3,321,277</b>	<b>\$ 829,874</b>	<b>\$ 194,535</b>	<b>\$ 152,989</b>	<b>(2,185,204)</b>	<b>41,325</b>	<b>(2,143,879)</b>
<b>General Revenues:</b>							
Taxes					1,867,123	-	1,867,123
Franchise Taxes					33,974	-	33,974
Intergovernmental					80,053	304	80,357
Investment Earnings (Losses)					(7,306)	(7,993)	(15,299)
Rental Income					13,941	1,948	15,889
Gain (Loss) on Sale of Assets					861	-	861
Miscellaneous					120,553	9,259	129,812
<b>Total General Revenues</b>					<b>2,109,199</b>	<b>3,518</b>	<b>2,112,717</b>
Capital Appropriation and Change in Equity Interest (Net)					(345,557)	-	(345,557)
Transfers					4,610	(4,610)	-
<b>Total General Revenues, Capital Contributions, and Transfers</b>					<b>1,768,252</b>	<b>(1,092)</b>	<b>1,767,160</b>
<b>CHANGE IN NET POSITION</b>					<b>(416,952)</b>	<b>40,233</b>	<b>(376,719)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>					<b>15,238,461</b>	<b>4,902,435</b>	<b>20,140,896</b>
<b>NET POSITION - END OF YEAR</b>					<b>\$ 14,821,509</b>	<b>\$ 4,942,668</b>	<b>\$ 19,764,177</b>

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

	General 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	\$ 1,755,711	\$ 3,859,923	\$ -	\$ 113,625	\$ 220,801	\$ 5,950,060
Debt Reserve Restricted Cash	-	-	-	-	26,086	26,086
Property Taxes Receivable	118,264	1,409	-	-	5,184	124,857
Assessments Receivable	8,302	-	-	-	-	8,302
Accounts Receivable	24,560	-	-	-	-	24,560
Interest Receivable	9,759	-	-	-	-	9,759
Due from Other Funds	359,514	-	-	-	-	359,514
Due from Other Governments	3,141	-	-	164,700	-	167,841
Advances to Other Funds	-	707,750	-	-	-	707,750
<b>TOTAL ASSETS</b>	<b>\$ 2,279,251</b>	<b>\$ 4,569,082</b>	<b>\$ -</b>	<b>\$ 278,325</b>	<b>\$ 252,071</b>	<b>\$ 7,378,729</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 25,442	\$ -	\$ 5,167	\$ -	\$ -	\$ 30,609
Salaries Payable	12,056	-	-	-	-	12,056
Due to Other Governments	567	-	-	-	-	567
Due to Other Funds	-	-	355,018	-	4,496	359,514
Advances from Other Funds	-	-	707,750	-	-	707,750
Total Liabilities	38,065	-	1,067,935	-	4,496	1,110,496
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue:						
Property Taxes	65,536	-	-	-	2,513	68,049
Special Assessments	8,302	-	-	-	-	8,302
Other Receivables	5,000	-	-	-	-	5,000
Total Deferred Inflows of Resources	78,838	-	-	-	2,513	81,351

**CITY OF PEQUOT LAKES, MINNESOTA**  
**BALANCE SHEET (Continued)**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2022**

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>						
Nonspendable	\$ -	\$ 707,750	\$ -	\$ -	\$ -	\$ 707,750
Restricted	35,471	-	-	-	177,624	213,095
Committed	360,943	3,861,332	-	278,325	71,934	4,572,534
Assigned	204,090	-	-	-	-	204,090
Unassigned	1,561,844	-	(1,067,935)	-	(4,496)	489,413
Total Fund Balances	<u>2,162,348</u>	<u>4,569,082</u>	<u>(1,067,935)</u>	<u>278,325</u>	<u>245,062</u>	<u>6,186,882</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 2,279,251</u>	<u>\$ 4,569,082</u>	<u>\$ -</u>	<u>\$ 278,325</u>	<u>\$ 252,071</u>	<u>\$ 7,378,729</u>

**CITY OF PEQUOT LAKES, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds \$ 6,186,882

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:

Capital Assets	\$ 18,081,808	
Accumulated Depreciation	<u>(7,542,912)</u>	
Capital Assets (Net)		10,538,896

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	(1,410,644)	
Compensated Absences	<u>(57,390)</u>	
		(1,468,034)

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	(92,517)	
Deferred Outflows - OPEB	6,257	
Deferred Inflows - OPEB	<u>(59,515)</u>	
		(145,775)

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 Liability	(1,660,901)	
Deferred Outflows - Pensions	1,029,232	
Deferred Inflows - Pensions	<u>(59,427)</u>	
		(691,096)

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:

(17,349)

Joint Venture Investments reported in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

336,634

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	68,049	
Special Assessments	8,302	
Other Receivables	<u>5,000</u>	
		<u>81,351</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 14,821,509**



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

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 1,717,651	\$ 93,472	\$ -	\$ -	\$ 87,346	\$ 1,898,469
Franchise Taxes	33,974	-	-	-	-	33,974
Special Assessments	1,198	-	-	-	-	1,198
Licenses, Permits, and Fees	19,170	-	-	-	-	19,170
Intergovernmental	267,094	-	-	164,700	63,291	495,085
Charges for Services	128,851	-	-	-	400	129,251
Fines	9,244	-	-	-	-	9,244
Interest Earnings (Losses)	5,076	(11,563)	-	(376)	(443)	(7,306)
Loan Collections	-	17,515	-	-	-	17,515
Miscellaneous	219,535	-	94,962	-	3,286	317,783
<b>TOTAL REVENUES</b>	<b>2,401,793</b>	<b>99,424</b>	<b>94,962</b>	<b>164,324</b>	<b>153,880</b>	<b>2,914,383</b>
<b>EXPENDITURES</b>						
Current:						
General Government	592,833	-	630	-	-	593,463
Public Safety	852,698	-	-	-	52,939	905,637
Public Works	383,657	4,093	-	-	4,994	392,744
Parks and Recreation	46,753	-	-	-	-	46,753
Library	31,749	-	-	-	-	31,749
Economic Development	36,194	-	-	1,249	150	37,593
Cemetery	-	-	-	-	1,761	1,761
Capital Outlay	234,033	-	326,037	488	-	560,558
Debt Service:						
Principal	29,459	-	-	-	116,980	146,439
Interest and Other Charges	2,777	-	22,565	-	30,330	55,672
<b>TOTAL EXPENDITURES</b>	<b>2,210,153</b>	<b>4,093</b>	<b>349,232</b>	<b>1,737</b>	<b>207,154</b>	<b>2,772,369</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>191,640</b>	<b>95,331</b>	<b>(254,270)</b>	<b>162,587</b>	<b>(53,274)</b>	<b>142,014</b>

**CITY OF PEQUOT LAKES, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	General Fund	Highway 371 Project Fund	Capital Improvement Fund	Business Park Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond Issuance	\$ -	\$ -	\$ 176,000	\$ -	\$ -	\$ 176,000
Transfers In	-	-	48,945	-	63,818	112,763
Transfers Out	(48,945)	-	-	-	(59,208)	(108,153)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(48,945)</u>	<u>-</u>	<u>224,945</u>	<u>-</u>	<u>4,610</u>	<u>180,610</u>
<b>NET CHANGE IN FUND BALANCES</b>	142,695	95,331	(29,325)	162,587	(48,664)	322,624
<b>FUND BALANCES - BEGINNING</b>	<u>2,019,653</u>	<u>4,473,751</u>	<u>(1,038,610)</u>	<u>115,738</u>	<u>293,726</u>	<u>5,864,258</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 2,162,348</u>	<u>\$ 4,569,082</u>	<u>\$ (1,067,935)</u>	<u>\$ 278,325</u>	<u>\$ 245,062</u>	<u>\$ 6,186,882</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, 2022**

Net Change in Fund Balances - Total Governmental Funds \$ 322,624

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	\$ 553,278	
Depreciation Expense	(637,468)	
Loss on Disposal of Assets	<u>(115,639)</u>	
		(199,829)

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	146,439	
Bond Issuance	<u>(176,000)</u>	
		(29,561)

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:

(1,710)

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	(31,346)	
Special Revenues	(11,463)	
Grants Receivable	(164,700)	
Other Receivables	<u>5,000</u>	
		(202,509)

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		(6,716)
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Joint venture investments reported in governmental activities are not current financial resources. Therefore the change in the value of such investments is not reported in the governmental funds:

Change in Equity Interest & Initial Investment		(293,060)
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Certain liabilities do not represent the impending use of current resources.

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

Net OPEB Liability and Deferred Outflows/Inflows of Resources	2,537	
Net Pension Liability and Deferred Outflows/Inflows of Resources	<u>(8,728)</u>	
		<u>(6,191)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (416,952)**

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

	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 1,053,122	\$ 1,681,226	\$ 2,734,348
Assessments Receivable	1,410	1,525	2,935
Accounts Receivable	<u>52,731</u>	<u>88,409</u>	<u>141,140</u>
Total Current Assets	1,107,263	1,771,160	2,878,423
Noncurrent Assets			
Capital Assets Not Being Depreciated	-	205,451	205,451
Capital Assets Being Depreciated (Net)	<u>1,661,007</u>	<u>1,993,057</u>	<u>3,654,064</u>
Total Noncurrent Assets	<u>1,661,007</u>	<u>2,198,508</u>	<u>3,859,515</u>
<b>TOTAL ASSETS</b>	2,768,270	3,969,668	6,737,938
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB	225	225	450
Pensions	<u>12,521</u>	<u>12,521</u>	<u>25,042</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	12,746	12,746	25,492
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	29,864	62,632	92,496
Salaries Payable	1,442	1,442	2,884
Due to Other Governments	110	110	220
Accrued Interest	12,105	4,267	16,372
Compensated Absences Due Within One Year	865	865	1,730
Bonds Due Within One Year	<u>94,500</u>	<u>29,500</u>	<u>124,000</u>
Total Current Liabilities	138,886	98,816	237,702
Noncurrent Liabilities			
Compensated Absences Due After One Year	961	961	1,922
Bonds Due After One Year	1,050,048	449,000	1,499,048
Net OPEB Liability	3,329	3,329	6,658
Net Pension Liability	<u>34,565</u>	<u>34,565</u>	<u>69,130</u>
Total Noncurrent Liabilities	<u>1,088,903</u>	<u>487,855</u>	<u>1,576,758</u>
<b>TOTAL LIABILITIES</b>	1,227,789	586,671	1,814,460
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB	2,142	2,142	4,284
Pensions	<u>1,009</u>	<u>1,009</u>	<u>2,018</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>3,151</u>	<u>3,151</u>	<u>6,302</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	516,459	1,720,008	2,236,467
Unrestricted	<u>1,033,617</u>	<u>1,672,584</u>	<u>2,706,201</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,550,076</u>	<u>\$ 3,392,592</u>	<u>\$ 4,942,668</u>

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

	Water Fund	Sewer Fund	Totals
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 324,525	\$ 337,372	\$ 661,897
<b>OPERATING EXPENSES</b>			
Wages and Benefits	85,069	84,898	169,967
Materials and Supplies	22,188	10,281	32,469
Repairs and Maintenance	47,915	20,215	68,130
Professional Services	32,369	31,162	63,531
Insurance	3,868	5,180	9,048
Utilities	20,222	21,606	41,828
Miscellaneous	16,849	8,445	25,294
Depreciation	93,724	92,637	186,361
<b>TOTAL OPERATING EXPENSES</b>	<u>322,204</u>	<u>274,424</u>	<u>596,628</u>
<b>NET OPERATING INCOME</b>	2,321	62,948	65,269
<b>NONOPERATING INCOME (EXPENSE)</b>			
Special Assessments	-	1	1
Intergovernmental	152	152	304
Interest Earnings (Losses)	(3,120)	(4,873)	(7,993)
Rental Income	-	1,948	1,948
Miscellaneous	15,571	9,658	25,229
Interest and Other Charges	(29,623)	(10,292)	(39,915)
<b>NET NONOPERATING INCOME (EXPENSE)</b>	<u>(17,020)</u>	<u>(3,406)</u>	<u>(20,426)</u>
<b>CHANGE IN NET POSITION PRIOR TO TRANSFERS</b>	(14,699)	59,542	44,843
<b>TRANSFERS</b>			
Operating Transfers Out	(2,305)	(2,305)	(4,610)
<b>CHANGE IN NET POSITION</b>	(17,004)	57,237	40,233
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>1,567,080</u>	<u>3,335,355</u>	<u>4,902,435</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,550,076</u>	<u>\$ 3,392,592</u>	<u>\$ 4,942,668</u>

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

	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 320,133	\$ 330,079	\$ 650,212
Cash Paid to Suppliers	(151,288)	(118,202)	(269,490)
Cash Paid to Employees	(74,305)	(74,134)	(148,439)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	94,540	137,743	232,283
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Taxes and Intergovernmental	152	152	304
Other Receipts from Customers	15,571	11,606	27,177
Net Operating Subsidies and Transfers from (to) Other Funds	(2,305)	(2,305)	(4,610)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	13,418	9,453	22,871
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of Capital Assets	(3,030)	(31,354)	(34,384)
Payments on Bond Principal	(94,000)	(29,000)	(123,000)
Cash Paid for Interest	(30,560)	(10,550)	(41,110)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(127,590)	(70,904)	(198,494)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Earnings (Losses)	(3,120)	(4,873)	(7,993)
Net Change in Cash and Cash Equivalents	(22,752)	71,419	48,667
Cash and Cash Equivalents - Beginning of Year	1,075,874	1,609,807	2,685,681
Cash and Cash Equivalents - End of Year	<u>\$ 1,053,122</u>	<u>\$ 1,681,226</u>	<u>\$ 2,734,348</u>

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

	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	\$ 2,321	\$ 62,948	\$ 65,269
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	93,724	92,637	186,361
Changes in Assets, Liabilities, and Deferrals:			
Accounts Receivable	(3,932)	(6,833)	(10,765)
Assessments Receivable	(534)	(534)	(1,068)
Deferred Outflows of Resources - OPEB	(67)	(67)	(134)
Deferred Outflows of Resources - Pensions	(2,625)	(2,625)	(5,250)
Accounts Payable	(7,877)	(21,313)	(29,190)
Salaries Payable	961	961	1,922
Due to Other Governments	74	74	148
Compensated Absences (Current)	428	428	856
Net OPEB Liability	578	578	1,156
Net Pension Liability	21,807	21,807	43,614
Deferred Inflows of Resources - OPEB	336	336	672
Deferred Inflows of Resources - Pensions	(11,098)	(11,098)	(22,196)
Compensated Absences	444	444	888
<b>NET CASH PROVIDED (USED) BY OPERATING</b>			
<b>ACTIVITIES</b>	<u>\$ 94,540</u>	<u>\$ 137,743</u>	<u>\$ 232,283</u>

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

	<u>Custodial Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 46,883
Prepays	9,296
Noncurrent Assets:	
Capital Assets Not Being Depreciated	314,115
Capital Assets Being Depreciated (Net)	19,877
Net Pension Asset	848,641
<b>TOTAL ASSETS</b>	<b>1,238,812</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	39,964
<b>LIABILITIES</b>	
Accounts Payable	26,888
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	562,945
<b>FIDUCIARY NET POSITION</b>	
Fiduciary Net Position - Held for Others	\$ 688,943



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

	Custodial Fund
<b>ADDITIONS</b>	
Intergovernmental	\$ 380,302
Charges for Services	312,901
Investment Income (Loss)	(379)
Gain on Reallocation of Fire Relief Pension Balances	629,694
Miscellaneous	4,817
<b>TOTAL ADDITIONS</b>	<b>1,327,335</b>
 <b>DEDUCTIONS</b>	
Salaries and Wages	33,445
Training Costs	22,648
Supplies & Gear	21,523
Utilities	11,216
Insurance	34,756
Professional Services	28,757
Repairs and Maintenance	4,752
Fuel	6,640
Other Expenses	9,593
Depreciation Expense	820
Pension Contributions & Expenses	400,951
Financing Payments to City of Pequot Lakes	63,291
<b>TOTAL DEDUCTIONS</b>	<b>638,392</b>
 <b>CHANGE IN FIDUCIARY NET POSITION</b>	 <b>688,943</b>
 <b>FIDUCIARY NET POSITION - BEGINNING OF YEAR</b>	 <b>-</b>
 <b>FIDUCIARY NET POSITION - END OF YEAR</b>	 <b>\$ 688,943</b>

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Pequot Lakes, Minnesota (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**

Pequot Lakes Fire Relief Association

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.

Housing and Redevelopment Authority

The Housing and Redevelopment Authority (HRA) of Pequot Lakes, Minnesota is accountable to the City because the City Council appoints the HRA's board. However, the HRA is not considered a component unit of the City and is accordingly excluded from these financial statements because the City does not have the ability to impose its will on the HRA, nor is there a specific financial benefit/burden relationship.

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

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

**1.A. FINANCIAL REPORTING ENTITY (Continued)**

**Joint Ventures**

Pequot Lakes Fire District

The Pequot Lakes Fire District was created in 2022 through the execution of a joint powers agreement between the City of Pequot Lakes and the City of Breezy Point. The purpose of the Fire District is to provide fire protection services for the parties within the fire services area. The Fire District is governed by a six-member board, consisting of the Mayor of both Cities, one member from each of the City’s Council, and two members appointed by each City Council who must be a citizen of or property owner within each city. In addition to Federal and State grants and charges for services, the Fire District receives an annual contribution from both the City of Pequot Lakes and the City of Breezy Point. For the year ended December 31, 2022, the City of Pequot Lakes’ contribution to the Fire District totaled \$110,021. Additionally, the City of Pequot Lakes made net equity contributions of \$682,191 to the Fire District at inception. Because the City has an approximately fifty percent ownership share, and explicit measurable equity interest in the joint venture, the dollar amount of this equity interest has been reported in the government-wide financial statements.

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

	2022
Joint Venture Equity Investment at January 1st	\$ -
Change in Equity Investment	336,634
Joint Venture Equity Investment at December 31st	\$ 336,634
Asset Appropriations to Pequot Lakes Fire District:	
Initial Contributions to Fire District	\$ 52,497
Fire Relief Opening Net Pension Balances	629,694
Change in Equity Investment, from 2022 Operations	(336,634)
Net Loss Recognized in Governmental Activities	\$ 345,557

During the year ended December 31, 2022, the Fire District purchased services from the City of Pequot Lakes in the amount of \$5,000, which is included as a receivable and revenue in the City’s General Fund. The Fire District also made contributions to the City of Pequot Lakes in relation to debt held by the City for the financing of Fire District assets, which totaled \$63,291 for 2022. These contributions are included as intergovernmental revenue in the City’s nonmajor debt service funds.

The Fire District has issued separate audited financial statements for the year ended December 31, 2022.

**1.B. BASIS OF PRESENTATION**

**Government-wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

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

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of that individual governmental or 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 *Highway 371 Project Fund* is a capital project fund used to account for financial resources related to 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 related to 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.

The *Custodial Fund* is used to account for financial activity of assets that are being held in a fiduciary capacity on behalf of outside organizations.

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

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

**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 below.

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

- All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available 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, proprietary funds, and fiduciary 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 and fiduciary funds utilize the accrual basis of accounting.

**1.D. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of 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.

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

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

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

**Cash and Cash Equivalents**

For purposes of the 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.

**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 the 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.

**Prepaid Expenditures/Expenses**

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

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

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

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

**Capital Assets**

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

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

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

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

Government-wide Statements

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

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

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 and fiduciary 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.

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

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

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

**Long-Term Debt**

The accounting treatment of long-term debt and other long-term obligations depends on whether the associated 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, loans payable and financing arrangements 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.

**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.

**Net Pension Liability**

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).

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.

**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 property taxes, special assessments, and other receivables as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds and OPEB plan in which City employees participate.

See Notes 3 and 5 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension and OPEB activities.



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

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

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

**Equity Classifications**

Government-Wide Statements

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

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

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

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

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

Governmental Fund Financial Statements

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2022 consist of advances made to other funds.

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

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.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. At the end of each year, it is the City’s policy that up to 50 percent of the following year’s General Fund budgeted expenditures will be set aside in the General Fund’s fund balance for cash flow purposes.

See Note 2.E. for additional disclosures.

Proprietary Fund Financial Statements

Proprietary fund equity is classified the same as in the government-wide statements, as described above.

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

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

**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.

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 related to financing, noncapital financing, or investing activities.

**Expenditures/Expenses**

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

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

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

Proprietary Funds - By Operating and Nonoperating

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

**Interfund Transfers**

Permanent reallocations 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.

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

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

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

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

**Deposits**

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

Authorized collateral in lieu of a corporate surety bond includes:

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

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, 2022, the City’s deposits, including certificates of deposit, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance 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, 2022**

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

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

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, 2022:

- Money market funds of \$291,376 are deemed to be level 1 investments and are valued by using quoted market prices.
- U.S. Treasury Notes of \$146,760, Certificates of Deposits of \$845,039, and Municipal Bonds of \$624,490 are deemed to be level 2 investments.

Investment balances at December 31, 2022 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	3.54	N/A	\$ 291,376	N/R	N/R	15.27
U.S. Treasury Notes	2.50	<1 year	73,963	N/R	AAA	3.88
	2.50	1 - 5 years	72,797	N/R	AAA	3.82
Certificates of Deposit - Brokered	0.85-4.50	<1 year	670,443	N/R	N/R	35.14
	0.75	1 - 5 years	174,596	N/R	N/R	9.15
Municipal Bonds	3.40-3.56	< 1 year	99,113	AA-	N/R	5.20
	2.38-3.73	1 - 5 years	453,950	N/R - AAA	N/R - AAA	23.80
	3.85	6 - 10 years	<u>71,427</u>	N/R	AA-	<u>3.74</u>
Totals			<u>\$ 1,907,665</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.

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

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

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

- Concentration Risk is the risk associated with investing a significant portion of the City’s investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools and mutual funds. The City has no formal policy limiting the amounts that may be invested in any one issuer. At December 31, 2022, the City does not have a significant concentration of credit risk.
  
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment 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.

**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	\$	180,283
Money Market Funds		6,659,429
Certificates of Deposit		10,000
Investments (See Investments Section)		<u>1,907,665</u>
 Total	 \$	 <u><u>8,757,377</u></u>
 <i>City - Government-Wide</i>		
Cash, Cash Equivalents and Investments	\$	8,684,408
Debt Reserve Restricted Cash		26,086
 <i>Fiduciary Fund</i>		
Cash and Cash Equivalents		<u>46,883</u>
 Total	 \$	 <u><u>8,757,377</u></u>

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

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

**2.B.    CAPITAL ASSETS**

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

	Balance at 01/01/22	Additions	Disposals	Transfers	Balance at 12/31/22
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 2,105,125	\$ -	\$ -	\$ -	\$ 2,105,125
Construction In Progress	481,698	146,916	-	-	628,614
Total Capital Assets not Being Depreciated	2,586,823	146,916	-	-	2,733,739
Capital Assets Being Depreciated					
Buildings and Improvements	2,814,849	11,540	-	-	2,826,389
Machinery, Furniture and Equipment	3,655,074	380,104	(249,410)	-	3,785,768
Infrastructure	8,730,369	5,543	-	-	8,735,912
Total Capital Assets Being Depreciated	15,200,292	397,187	(249,410)	-	15,348,069
Less: Accumulated Depreciation					
Buildings and Improvements	(1,012,168)	(103,846)	-	-	(1,116,014)
Machinery, Furniture and Equipment	(2,151,270)	(207,798)	133,771	-	(2,225,297)
Infrastructure	(3,875,777)	(325,824)	-	-	(4,201,601)
Total Accumulated Depreciation	(7,039,215)	(637,468)	133,771	-	(7,542,912)
Total Capital Assets Being Depreciated, Net	8,161,077	(240,281)	(115,639)	-	7,805,157
Capital Assets, Net	<u>\$ 10,747,900</u>	<u>\$ (93,365)</u>	<u>\$ (115,639)</u>	<u>\$ -</u>	<u>\$ 10,538,896</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 113,291
Public Safety	108,834
Public Works	394,650
Parks and Recreation	20,693
Total Depreciation Expense	<u>\$ 637,468</u>

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

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

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

	Balance at 01/01/22	Additions	Disposals	Transfers	Balance at 12/31/22
<i>Business-Type Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 156,969	\$ -	\$ -	\$ -	\$ 156,969
Construction In Progress	17,128	31,354	-	-	48,482
Total Capital Assets not Being Depreciated	174,097	31,354	-	-	205,451
Capital Assets Being Depreciated					
Buildings and Improvements	1,125,329	-	-	-	1,125,329
Machinery and Equipment	3,437,267	3,030	-	-	3,440,297
Infrastructure	2,999,087	-	-	-	2,999,087
Total Capital Assets Being Depreciated	7,561,683	3,030	-	-	7,564,713
Less: Accumulated Depreciation					
Buildings and Improvements	(1,084,109)	(3,908)	-	-	(1,088,017)
Machinery and Equipment	(2,293,902)	(92,182)	-	-	(2,386,084)
Infrastructure	(346,277)	(90,271)	-	-	(436,548)
Total Accumulated Depreciation	(3,724,288)	(186,361)	-	-	(3,910,649)
Total Capital Assets Being Depreciated, Net	3,837,395	(183,331)	-	-	3,654,064
Capital Assets, Net	<u>\$ 4,011,492</u>	<u>\$ (151,977)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,859,515</u>

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

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

**2.C.    NONCURRENT LIABILITIES**

The reporting entity's noncurrent liabilities are 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, 2022, 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
02/22	\$ 176,000	\$20,000 - \$24,000	2.40%	02/30	\$ <u>176,000</u>
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	\$ <u>997,000</u>
Financing Arrangement					
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	\$ <u>51,850</u>
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	\$ <u>185,794</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	\$ 665,000
04/20	1,040,000	\$25,000 - \$78,000	2.14%	02/36	<u>957,000</u>
					<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, 2022**

**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, 2022:

Type of Debt	Balance 01/01/22	Additions	Deductions	Balance 12/31/22	Amounts Due Within One Year
<i>Governmental Activities:</i>					
General Obligation Certificates	\$ 32,900	\$ 176,000	\$ (32,900)	\$ 176,000	\$ 20,000
General Obligation Bonds	1,058,000	-	(61,000)	997,000	62,000
Financing Arrangement	81,309	-	(29,459)	51,850	30,763
Loan Payable	208,874	-	(23,080)	185,794	23,888
Compensated Absences	<u>50,674</u>	<u>118,649</u>	<u>(111,933)</u>	<u>57,390</u>	<u>20,123</u>
<b>Total</b>	<u>\$ 1,431,757</u>	<u>\$ 294,649</u>	<u>\$ (258,372)</u>	<u>\$ 1,468,034</u>	<u>\$ 156,774</u>
<i>Business-Type Activities:</i>					
General Obligation Bonds	\$ 1,745,000	\$ -	\$ (123,000)	\$ 1,622,000	\$ 124,000
Unamortized Bond Premium	1,186	-	(138)	1,048	-
Compensated Absences	<u>1,908</u>	<u>10,348</u>	<u>(8,604)</u>	<u>3,652</u>	<u>1,730</u>
<b>Total</b>	<u>\$ 1,748,094</u>	<u>\$ 10,348</u>	<u>\$ (131,742)</u>	<u>\$ 1,626,700</u>	<u>\$ 125,730</u>

Governmental activity debt is typically funded through Debt Service Funds and the General 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, 2022, capital assets acquired under financing arrangements include the City Hall building with an original cost of \$1,056,200. There was accumulated depreciation of \$697,846 on the City Hall building as of December 31, 2022.

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

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

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

**Annual Debt Service Requirements**

At December 31, 2022, 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					
	Financing Arrangement			Loan Payable		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 30,763	\$ 1,748	\$ 32,511	\$ 23,888	\$ 6,503	\$ 30,391
2024	21,087	368	21,455	24,724	5,667	30,391
2025	-	-	-	25,590	4,801	30,391
2026	-	-	-	26,485	3,906	30,391
2027	-	-	-	27,413	2,978	30,391
2028-2029	-	-	-	57,694	3,045	60,739
<b>Totals</b>	<b>\$ 51,850</b>	<b>\$ 2,116</b>	<b>\$ 53,966</b>	<b>\$ 185,794</b>	<b>\$ 26,900</b>	<b>\$ 212,694</b>

Years Ending December 31,	Governmental Activities					
	General Obligation Certificates			General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 20,000	\$ 5,932	\$ 25,932	\$ 62,000	\$ 20,672	\$ 82,672
2024	21,000	3,492	24,492	63,000	19,335	82,335
2025	21,000	2,988	23,988	65,000	17,965	82,965
2026	22,000	2,472	24,472	66,000	16,563	82,563
2027	22,000	1,944	23,944	67,000	15,140	82,140
2028-2032	70,000	2,544	72,544	359,000	53,234	412,234
2033-2036	-	-	-	315,000	13,664	328,664
<b>Totals</b>	<b>\$ 176,000</b>	<b>\$ 19,372</b>	<b>\$ 195,372</b>	<b>\$ 997,000</b>	<b>\$ 156,573</b>	<b>\$ 1,153,573</b>

Years Ending December 31,	Business-Type Activities		
	General Obligation Bonds		
	Principal	Interest	Total
2023	\$ 124,000	\$ 38,008	\$ 162,008
2024	126,000	35,294	161,294
2025	132,000	32,359	164,359
2026	133,000	29,131	162,131
2027	140,000	25,587	165,587
2028-2032	664,000	71,449	735,449
2033-2036	303,000	13,152	316,152
<b>Totals</b>	<b>\$ 1,622,000</b>	<b>\$ 244,980</b>	<b>\$ 1,866,980</b>

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

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

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

Interest and other fiscal charges total \$74,136 in the Statement of Activities (included in Debt Service, Water, and Sewer lines). Interest and other fiscal charges total \$33,061 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$39,365 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, 2022:

Major Funds	Transfers Out	Transfers In		Totals
		Major Funds Capital Improvement	Nonmajor Funds Governmental	
General	\$ 48,945	\$ 48,945	\$ -	\$ 48,945
Water	2,305	-	2,305	2,305
Sewer	2,305	-	2,305	2,305
	53,555	48,945	4,610	53,555
<u>Nonmajor Funds</u>				
Governmental	59,208	-	59,208	59,208
Totals	\$ 112,763	\$ 48,945	\$ 63,818	\$ 112,763

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.

Interfund balances at year-end are as follows:

Long-Term Advances		Amount	Reason
Advances To	Advances From		
Capital Improvement	Highway 371 Project	\$ 707,750	Finance capital improvements
<u>Short-Term Balances</u>			
Due From Fund	Due to Fund		
Capital Improvement	General	355,018	Eliminate negative cash
Trailside Estates Fund	General	865	Eliminate negative cash
TIF District Fund	General	3,631	Eliminate negative cash
	Short-Term Balances Subtotal	359,514	
Total Interfund Balances		\$ 1,067,264	

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

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

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

**2.E.    FUND EQUITY**

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

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
General Fund					
Restricted for Parks	\$ -	\$ 39	\$ -	\$ -	\$ -
Restricted for Police (from Forfeitures)	-	35,432	-	-	-
Committed for Library	-	-	106,089	-	-
Committed for Water Tower	-	-	1,797	-	-
Committed for Capital Outlay	-	-	253,057	-	-
Assigned for American Rescue Plan Act Expenditures	-	-	-	204,090	-
Unassigned	-	-	-	-	1,561,844
Total General Fund Balance	<u>\$ -</u>	<u>\$ 35,471</u>	<u>\$ 360,943</u>	<u>\$ 204,090</u>	<u>\$ 1,561,844</u>
Highway 371 Project Fund					
Nonspendable - Advances to Other Funds	\$ 707,750	\$ -	\$ -	\$ -	\$ -
Committed for Road Turnback Projects	-	-	3,861,332	-	-
Total Highway 371 Project Fund Balance	<u>\$ 707,750</u>	<u>\$ -</u>	<u>\$ 3,861,332</u>	<u>\$ -</u>	<u>\$ -</u>
Capital Improvement Fund					
Unassigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,067,935)</u>
Business Park Fund					
Committed for Business Park	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,325</u>	<u>\$ -</u>	<u>\$ -</u>
Nonmajor Governmental Funds					
Restricted for Debt Service	\$ -	\$ 177,624	\$ -	\$ -	\$ -
Committed for Cemetery Perpetual Care	-	-	71,934	-	-
Unassigned	-	-	-	-	(4,496)
Total Nonmajor Governmental Funds Balance	<u>\$ -</u>	<u>\$ 177,624</u>	<u>\$ 71,934</u>	<u>\$ -</u>	<u>\$ (4,496)</u>

Deficit fund balances in individual funds at December 31, 2022 consist of the following:

<u>Major Governmental Funds</u>	<u>Fund Deficit</u>
Capital Improvement Fund	<u>\$ (1,067,935)</u>
<u>Nonmajor Governmental Funds</u>	
Trailside Estates Fund	<u>\$ (865)</u>
TIF District Fund	<u>\$ (3,631)</u>

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

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

**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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.50 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 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 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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

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

**Contributions**

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City’s contributions to the General Employees Fund for the year ended December 31, 2022 were \$37,494. 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 2022 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, 2022 were \$70,279. The City’s contributions were equal to the required contributions as set by State Statute.

**Pension Costs**

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$459,362 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 \$13,535.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0058 percent at the end of the measurement period and 0.0060 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$459,362
State of Minnesota’s proportionate share of the net pension liability associated with the City	13,535
Total	\$472,897

For the year ended December 31, 2022, the City recognized pension expense of \$69,006 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$2,022 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.

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

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

At December 31, 2022, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$            3,837	\$            5,076
Changes in Actuarial Assumption	107,439	1,933
Difference Between Projected and Actual Investment Earnings	2,424	-
Changes in Proportionate Share	13,822	6,406
Contributions Paid to PERA Subsequent to the Measurement Date	21,709	-
 Total City Deferred Outflows/Inflows	\$            149,231	\$            13,415

The \$21,709 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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Pension Expense
2023	\$            51,618
2024	\$            39,737
2025	\$            (18,792)
2026	\$            41,544

**Police and Fire Fund Pension Costs**

At December 31, 2022, the City reported a liability of \$1,270,669 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0292 percent at the end of the measurement period and 0.0312 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state aid was paid on October 1, 2021. Thereafter, by October 1 of each year, the State will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

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

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

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota’s pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2022, the City recognized pension expense of \$244,950 for its proportionate share of the Police and Fire Plan’s pension expense. The City recognized \$10,776 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 \$2,628 for the year ended December 31, 2022 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

City’s proportionate share of the net pension liability:	\$1,270,669
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>55,554</u>
Total	<u>\$1,326,223</u>

At December 31, 2022, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 79,770	\$ -
Changes in Actuarial Assumption	766,135	8,203
Difference Between Projected and Actual Investment Earnings	-	5,775
Changes in Proportionate Share	18,380	34,052
Contributions Paid to PERA Subsequent to the Measurement Date	<u>40,758</u>	<u>-</u>
Total City Deferred Outflows/Inflows	<u>\$ 905,043</u>	<u>\$ 48,030</u>

The \$40,758 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	<u>Pension Expense</u>	
2023	\$	154,824
2024	\$	156,755
2025	\$	135,025
2026	\$	266,502
2027	\$	103,149



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

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

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was \$37,694.

**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, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3 percent after 24 years of service.

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

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

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

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

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

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

Police and Fire Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

**Discount Rate**

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 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 position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060, respectively. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.50 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

**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% Increase in Discount Rate	7.50%	\$	241,017	6.40%	\$	743,303
Current Discount Rate	6.50%	\$	459,362	5.40%	\$	1,270,669
1% Decrease in Discount Rate	5.50%	\$	725,586	4.40%	\$	1,922,994

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

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

**Pension Plan Fiduciary Net Position**

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

**NOTE 4    DEFINED CONTRIBUTION PLAN – STATEWIDE**

Three 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.

Total contributions made by the City during fiscal year 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$            598	\$            598	5.0%	5.0%	5.0%

**NOTE 5    POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description**

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

**Benefits Provided**

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

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

**NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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, 2022, the City did not make any direct contributions to the plan.

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

At December 31, 2022, the City reported a net OPEB liability of \$99,175 for the City’s plan. The net OPEB liability was measured as of January 1, 2022, based on an actuarial valuation as of January 1, 2022.

For the year ended December 31, 2022, the City recognized OPEB expense of \$2,865. At December 31, 2022, 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	\$ 6,707 <hr style="width: 100%;"/>	\$ 6,956 <hr style="width: 100%;"/>
Total City Deferred Outflows/Inflows	<u>\$ 6,707</u>	<u>\$ 63,799</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, 2023. 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
2023	\$ (9,575)
2024	\$ (9,575)
2025	\$ (9,575)
2026	\$ (9,575)
2027	\$ (9,575)
2028-2029	\$ (9,217)

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

**NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

**Changes in Net OPEB Liability**

The following table summarizes changes in the net OPEB liability for the year ended December 31, 2022:

Changes in Total OPEB Liability (TOL)	
Balance at January 1st	\$ 98,259
Service Cost	10,307
Interest Cost	2,134
Changes in Assumptions	2,020
Differences between Expected and Actual Experience	(9,836)
Benefit Payments	<u>(3,709)</u>
Balance at December 31st	<u>\$ 99,175</u>

**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, 2022
Measurement Date	January 01, 2022
Actuarial Cost Method	Entry Age, 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	2.00%
Salary Increases	Service graded table
Medical Trend Rate	6.50% as of January 1, 2022 grading to 5.00% over 6 years and then to 4.00% over the next 48 years
Dental Trend Rate	N/A

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Safety) with MP-2021 Generational Improvement Scale.

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

**NOTE 5 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Changes to actuarial assumptions since the prior valuation:

- The health care trend rates, mortality tables, salary increase rates, and retirement and withdrawal rates were updated.
- The inflation rate was changed from 2.50 percent to 2.00 percent.

Changes to plan provisions since the prior valuation:

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

**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%	\$89,842
Current Discount Rate	2.00%	\$99,175
1% Decrease in Discount Rate	1.00%	\$109,112

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	\$117,154
Current Healthcare Trend Rates	\$99,175
1% Decrease in Healthcare Trend Rates	\$84,063

**NOTE 6 OTHER NOTES**

**6.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 not reported claims.

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

**NOTE 6 OTHER NOTES (Continued)**

**6.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, 2022, taxes abated by the City under this agreement total \$19,282.

**6.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.

**6.D. NEW ACCOUNTING STANDARD**

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

**6.E. SUBSEQUENT EVENTS**

Subsequent to year end but prior to the issuance of these financial statements, the City accepted quotes for various construction projects and engineering services in the amount of \$260,034.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



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

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
<b>REVENUES</b>			
<b>Taxes</b>			
Property Taxes	\$ 1,684,040	\$ 1,717,651	\$ 33,611
Franchise Taxes	20,500	33,974	13,474
<b>Total Taxes</b>	<u>1,704,540</u>	<u>1,751,625</u>	47,085
<b>Special Assessments</b>	-	1,198	1,198
<b>Licenses and Permits</b>	16,550	19,170	2,620
<b>Intergovernmental Revenue</b>			
Federal Revenue			
Coronavirus Relief Funds	5,000	125,970	120,970
State Revenue			
Local Government Aid	65,610	65,612	2
Market Value Credit	-	1,947	1,947
Police and Fire Aid	56,700	60,099	3,399
Other State Grants and Aids	2,300	5,449	3,149
Local Revenue			
Other Local Grants	10,750	8,017	(2,733)
<b>Total Intergovernmental Revenue</b>	<u>140,360</u>	<u>267,094</u>	126,734
<b>Charges for Services</b>			
General Government	35,370	34,512	(858)
Police and Fire Contracts	89,500	91,854	2,354
Other Public Safety	1,000	845	(155)
Streets and Highways	400	384	(16)
Libraries	1,000	1,256	256
<b>Total Charges for Services</b>	<u>127,270</u>	<u>128,851</u>	1,581
<b>Fines and Forfeitures</b>	18,000	9,244	(8,756)
<b>Miscellaneous Revenue</b>			
Investment Earnings	27,000	5,076	(21,924)
Sale of Assets	15,000	116,500	101,500
Refunds and Reimbursements	7,180	32,485	25,305
Contributions and Donations	9,500	62,807	53,307
Other Miscellaneous	1,400	7,743	6,343
<b>Total Miscellaneous Revenue</b>	<u>60,080</u>	<u>224,611</u>	164,531
<b>TOTAL REVENUES</b>	2,066,800	2,401,793	334,993
<b>EXPENDITURES</b>			
<b>General Government</b>			
Mayor and Council	41,345	44,350	3,005
Administration and Finance	254,725	256,231	1,506
Other General Government	318,110	292,252	(25,858)
Capital Outlay	-	11,540	11,540
<b>Total General Government</b>	<u>614,180</u>	<u>604,373</u>	(9,807)

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

	Budget Amounts- Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
	<u>Final</u>	<u>Basis</u>	<u>(Under)</u>
<b>Public Safety</b>			
Police			
Current	\$ 867,525	\$ 852,698	\$ (14,827)
Capital Outlay	<u>24,000</u>	<u>52,935</u>	<u>28,935</u>
<b>Total Public Safety</b>	891,525	905,633	14,108
<b>Public Works</b>			
Street Maintenance and Storm Sewers	366,615	348,123	(18,492)
Street Engineering	16,000	9,653	(6,347)
Street Lighting	20,000	25,881	5,881
Capital Outlay - Other	<u>40,000</u>	<u>161,188</u>	<u>121,188</u>
<b>Total Public Works</b>	442,615	544,845	102,230
<b>Culture and Recreation</b>			
Libraries			
Current	30,100	31,749	1,649
Parks and Recreation			
Current	26,430	46,753	20,323
Capital Outlay	<u>-</u>	<u>8,370</u>	<u>8,370</u>
<b>Total Culture and Recreation</b>	56,530	86,872	30,342
<b>Housing and Economic Development</b>			
Economic Development			
Current	46,850	36,194	(10,656)
<b>Debt Service</b>			
Principal Payments on Other Debt	29,400	29,459	59
Interest and Other Fiscal Charges	<u>3,200</u>	<u>2,777</u>	<u>(423)</u>
<b>Total Debt Service</b>	<u>32,600</u>	<u>32,236</u>	<u>(364)</u>
<b>TOTAL EXPENDITURES</b>	<u>2,084,300</u>	<u>2,210,153</u>	<u>125,853</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(17,500)	191,640	209,140
<b>OTHER FINANCING SOURCES (USES)</b>			
To Other Funds	<u>-</u>	<u>(48,945)</u>	<u>(48,945)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (17,500)</u>	<u>\$ 142,695</u>	<u>\$ 160,195</u>
<b>FUND BALANCE - BEGINNING</b>		<u>2,019,653</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 2,162,348</u>	

**CITY OF PEQUOT LAKES, MINNESOTA  
 BUDGETARY COMPARISON SCHEDULE – BUSINESS PARK FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Budget Amounts- Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
<b>REVENUES</b>			
<b>Intergovernmental Revenue</b>			
State Revenue			
Other State Grants and Aids	\$ -	\$ 164,700	\$ 164,700
<b>Miscellaneous Revenue</b>			
Investment Earnings	<u>6,500</u>	<u>(376)</u>	<u>(6,876)</u>
<b>TOTAL REVENUES</b>	6,500	164,324	157,824
<b>EXPENDITURES</b>			
<b>Public Works</b>			
Capital Outlay - Street Construction	-	488	488
<b>Housing and Economic Development</b>			
Economic Development			
Current	<u>2,050</u>	<u>1,249</u>	<u>(801)</u>
<b>TOTAL EXPENDITURES</b>	<u>2,050</u>	<u>1,737</u>	<u>(313)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 4,450</u>	\$ 162,587	<u>\$ 158,137</u>
<b>FUND BALANCE - BEGINNING</b>		<u>115,738</u>	
<b>FUND BALANCE - ENDING</b>		<u>\$ 278,325</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>							
2022	0.0058%	\$ 459,362	\$ 13,535	\$ 472,897	\$ 437,680	108.05%	76.67%
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>							
2022	0.0292%	\$ 1,270,669	\$ 55,554	\$ 1,326,223	\$ 354,633	373.97%	70.53%
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>					
2022	\$ 37,494	\$ 37,494	\$ -	\$ 499,920	7.50%
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>					
2022	\$ 70,279	\$ 70,279	\$ -	\$ 397,056	17.70%
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%

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 CITY'S NET OPEB LIABILITY**  
**LAST TEN YEARS (Presented Prospectively)**

	Measurement Year Ended December 31,				
	2021	2020	2019	2018	2017
<b>Changes in Total OPEB Liability (TOL)</b>					
Balance at January 1st	\$ 98,259	\$ 79,825	\$ 142,605	\$ 117,982	\$ 88,055
Service Cost	10,307	11,190	9,511	25,548	26,748
Interest on the TPL	2,134	2,615	5,780	4,736	3,778
Differences between Expected and Actual Experience	(9,836)	-	(72,354)	-	-
Changes in Actuarial Assumptions	2,020	6,351	(5,717)	-	-
Benefit Payments	(3,709)	(1,722)	-	(5,661)	(599)
Balance at December 31st	<u>\$ 99,175</u>	<u>\$ 98,259</u>	<u>\$ 79,825</u>	<u>\$ 142,605</u>	<u>\$ 117,982</u>
Covered Payroll for Active Members	<u>\$ 840,343</u>	<u>\$ 801,179</u>	<u>\$ 775,960</u>	<u>\$ 701,038</u>	<u>\$ 680,619</u>
Net OPEB Liability / Covered Payroll	11.80%	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, 2022**

**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	<u>\$ 2,084,300</u>	<u>\$ 2,210,153</u>

The expenditures in excess of budget in the General Fund are primarily due to unbudgeted capital outlay costs for the purchase of various vehicles and equipment. The expenditures in excess of budget were funded by available fund balance.

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

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2021 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

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

- 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.

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.



**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

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

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

**2022 Changes**

Changes in Actuarial Assumptions

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

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, 2022**

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

**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.

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.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

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

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

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.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**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.

**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.

**NOTE 4 OTHER POSTEMPLOYMENT BENEFIT PLAN**

**2021 Changes**

Changes in Actuarial Assumptions

- The health care trend rates, mortality tables, salary increase rates, and retirement and withdrawal rates were updated.
- The inflation rate was changed from 2.50 percent to 2.00 percent.

Changes in Plan Provisions

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

**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.

**CITY OF PEQUOT LAKES, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2022**

**NOTE 4 OTHER POSTEMPLOYMENT BENEFIT PLAN (Continued)**

**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, 2022**

	Special Revenue			Debt Service					Total Nonmajor Funds
	Cemetery Perpetual Care Fund	Trailside Estates Fund	Fire Department Fund	2020 GO Utility Bonds Fund	2014 Equipment Certificates Fund	2017 Equipment Certificates Fund	2014 Fire Truck Loan	TIF District Fund	
	<b>ASSETS</b>								
Cash, Cash Equivalents, and Investments	\$ 71,934	\$ -	\$ -	\$ 110,809	\$ 6,497	\$ 31,561	\$ -	\$ -	\$ 220,801
Debt Reserve Restricted Cash	-	-	-	-	-	-	26,086	-	26,086
Property Taxes Receivable	-	-	-	4,926	258	-	-	-	5,184
<b>TOTAL ASSETS</b>	<b>\$ 71,934</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 115,735</b>	<b>\$ 6,755</b>	<b>\$ 31,561</b>	<b>\$ 26,086</b>	<b>\$ -</b>	<b>\$ 252,071</b>
<b>LIABILITIES</b>									
Due to Other Funds	\$ -	\$ 865	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,631	\$ 4,496
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable Revenue:									
Property Taxes	-	-	-	2,257	256	-	-	-	2,513
<b>FUND BALANCES</b>									
Restricted	-	-	-	113,478	6,499	31,561	26,086	-	177,624
Committed	71,934	-	-	-	-	-	-	-	71,934
Unassigned	-	(865)	-	-	-	-	-	(3,631)	(4,496)
Total Fund Balances	71,934	(865)	-	113,478	6,499	31,561	26,086	(3,631)	245,062
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 71,934</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 115,735</b>	<b>\$ 6,755</b>	<b>\$ 31,561</b>	<b>\$ 26,086</b>	<b>\$ -</b>	<b>\$ 252,071</b>

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

	Special Revenue			Debt Service					Total Nonmajor Funds
	Cemetery Perpetual Care Fund	Trailside Estates Fund	Fire Department Fund	2020 GO Utility Bonds Fund	2014 Equipment Certificates Fund	2017 Equipment Certificates Fund	2014 Fire Truck Loan	TIF District Fund	
<b>REVENUES</b>									
Taxes	\$ -	\$ -	\$ -	\$ 87,253	\$ 93	\$ -	\$ -	\$ -	\$ 87,346
Intergovernmental	-	-	-	-	-	32,900	30,391	-	63,291
Charges for Services	400	-	-	-	-	-	-	-	400
Interest Earnings (Losses)	(237)	-	-	(49)	(22)	(135)	-	-	(443)
Miscellaneous	3	3,283	-	-	-	-	-	-	3,286
<b>TOTAL REVENUES</b>	<u>166</u>	<u>3,283</u>	<u>-</u>	<u>87,204</u>	<u>71</u>	<u>32,765</u>	<u>30,391</u>	<u>-</u>	<u>153,880</u>
<b>EXPENDITURES</b>									
Current:									
Public Safety	-	-	52,497	-	-	442	-	-	52,939
Public Works	-	4,148	-	420	426	-	-	-	4,994
Economic Development	-	-	-	-	-	-	-	150	150
Cemetery	1,761	-	-	-	-	-	-	-	1,761
Debt Service:									
Principal	-	-	-	61,000	-	32,900	23,080	-	116,980
Interest and Other Charges	-	-	-	22,035	-	984	7,311	-	30,330
<b>TOTAL EXPENDITURES</b>	<u>1,761</u>	<u>4,148</u>	<u>52,497</u>	<u>83,455</u>	<u>426</u>	<u>34,326</u>	<u>30,391</u>	<u>150</u>	<u>207,154</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(1,595)	(865)	(52,497)	3,749	(355)	(1,561)	-	(150)	(53,274)
<b>OTHER FINANCING SOURCES</b>									
Transfers In	-	-	-	4,610	-	33,122	26,086	-	63,818
Transfers Out	-	-	(59,208)	-	-	-	-	-	(59,208)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>(59,208)</u>	<u>4,610</u>	<u>-</u>	<u>33,122</u>	<u>26,086</u>	<u>-</u>	<u>4,610</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,595)	(865)	(111,705)	8,359	(355)	31,561	26,086	(150)	(48,664)
<b>FUND BALANCES - BEGINNING</b>	<u>73,529</u>	<u>-</u>	<u>111,705</u>	<u>105,119</u>	<u>6,854</u>	<u>-</u>	<u>-</u>	<u>(3,481)</u>	<u>293,726</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 71,934</u>	<u>\$ (865)</u>	<u>\$ -</u>	<u>\$ 113,478</u>	<u>\$ 6,499</u>	<u>\$ 31,561</u>	<u>\$ 26,086</u>	<u>\$ (3,631)</u>	<u>\$ 245,062</u>



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

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/22	Issued	Paid	Transferred	Outstanding Balance 12/31/22	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	\$ 1,058,000	\$ -	\$ 61,000	\$ -	\$ 997,000	\$ 62,000
G.O. Equipment Certificate, Series 2017A	2/15/2017	2.99%	8/1/2022	135,000	32,900	-	32,900	-	-	-
Community Facility Loan - Fire Truck	2/1/2014	3.50%	3/26/2029	350,000	208,874	-	23,080	-	185,794	23,888
City Hall Building Financing Arrangement	2/1/2004	4.59%	8/1/2024	1,097,442	81,309	-	29,459	-	51,850	30,763
G.O. Equipment Certificate, Series 2022A	2/15/2022	2.40%	2/1/2030	176,000	-	176,000	-	-	176,000	20,000
<b>TOTAL GOVERNMENTAL DEBTS</b>				2,816,442	1,381,083	176,000	146,439	-	1,410,644	136,651
<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	1,015,000	-	58,000	-	957,000	59,000
G.O. Utility Refunding Bonds, Series 2012A	2/1/2013	0.60-3.10%	2/1/2031	1,270,000	730,000	-	65,000	-	665,000	65,000
<b>TOTAL BUSINESS-TYPE DEBTS</b>				2,310,000	1,745,000	-	123,000	-	1,622,000	124,000
<b>TOTAL INDEBTEDNESS</b>				<u>\$ 5,126,442</u>	<u>\$ 3,126,083</u>	<u>\$ 176,000</u>	<u>\$ 269,439</u>	<u>\$ -</u>	<u>\$ 3,032,644</u>	<u>\$ 260,651</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, 2022, 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 July 18, 2023.

***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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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, nothing came to our attention that caused us to believe that the City of Pequot Lakes failed to comply with the provisions of the contracting - bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Pequot Lakes' response to the findings identified in our engagement 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

July 18, 2023

**CITY OF PEQUOT LAKES, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2022**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2006-001          Limited Segregation of Duties**

*Condition:*                                  During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the City to have limited segregation of duties over those transaction cycles.

*Criteria:*                                      Internal control that supports the City’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person may have control over two or more of these responsibilities.

*Cause:*    Limited number of staff members.

*Effect:*    The existence of limited segregation of duties could adversely affect the City’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

*Recommendation:*                            Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Council is aware of this condition and monitor all financial information.

*Views of Responsible  
Officials And Planned  
Corrective Action:*                            Management agrees with the recommendation. See corresponding Corrective Action Plan.

**Finding 2006-002          Financial Statement Preparation**

*Condition:*                                      Schlenner Wenner & Co. drafted the annual financial statements and related footnote disclosures for the City. It is management’s responsibility to provide for the preparation of the annual financial statements, and the auditors’ responsibility is to determine the fairness of the presentation. This deficiency could result in a misstatement that could have been prevented or detected by management.

*Criteria:*    Internal controls over financial reporting should be in place to provide for the preparation of the annual financial statements.

*Cause:*    The City relies on Schlenner Wenner & Co. to prepare the annual financial statements and related disclosures. The City has adopted a policy governing year-end financial reporting but has made a cost/benefit decision to leverage the expertise of Schlenner Wenner & Co. in regard to this function. This is not unusual for a City of your size.

*Effect:*    The inability to internally prepare the City’s financial statements can result in undetected errors in financial reporting.

*Recommendation:*                            We recommend management review a draft of the financial statements in detail for accuracy. During review we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree the financial statement numbers to their accounting software. The City may not have the ability to eliminate this finding.

**CITY OF PEQUOT LAKES, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2022**

**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.

**CITY OF PEQUOT LAKES, MINNESOTA  
CORRECTIVE ACTION PLANS  
DECEMBER 31, 2022**

**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, 2022**

**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.